Economic Sociology

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Abstract

Economic sociology is the study of how the material conditions of life are produced and reproduced through social processes. The field of economic sociology can be separated into the sociology of markets and the sociology of consumption. The sociology of markets views markets as socially constructed arenas where repeated exchanges occur between buyers and sellers under a set of formal and informal rules governing relations between competitors, suppliers, and customers. Markets are dependent on governments, laws, and cultural understandings that support market activity. There are four bodies of work that provide different views on the mechanisms by which markets are organized: networks, institutions, political economy, and the study of market devices and the performativity of economic ideas. The sociology of consumption situates consumption in the problem of what consuming things means to people. One core idea is that consumption is about how people constitute their lifestyles. Lifestyles can be constructed in emulation of other groups or instead by competition between social groups for status. Another aspect of consumption is how morals and meanings affect what goods can be bought and sold. Scholars have explored why some products can and cannot be commoditized and how that has evolved over time.

Introduction

Over the past 30 years, economic sociology has erupted into a vibrant and visible subfield as sociologists increasingly apply social theories to study the economy. Scholars have challenged the separation of economy and society to show how social arrangements constrain, enable, complement, and constitute economic phenomena. Building upon Granovetter’s (1985) admonition that economic life is embedded in social life, economic sociologists have identified social mechanisms – such as networks, institutions, and morality – that provide the contexts, conduits, and categories integral to economic action. This article offers a definition of the field, suggests its main branches, and gives a flavor to how sociologists have tried to explain various economic phenomena.

Economic sociology is the study of how the production and consumption that define material life depends on social processes for their structure and dynamics. Practically, the field can be divided into two parts: the sociology of markets and the sociology of consumption. The sociology of markets is concerned with how market participants and stakeholders solve the problems of production and exchange. We consider four of economic sociology’s most generative approaches to the sociology of markets – network analysis, institutionalism, political economy, and creation of market devices including scholarship that focuses on how economic theory is performed to create markets. The sociology of consumption focuses on what goods and services mean to consumers and how they use them as a means to distinguish themselves from others by constituting lifestyles. The authors discuss how scholars have used culture, meaning, status, and morality as analytic tools to distinguish the ways in which consumers accept or reject new products.

Sociology of Markets

Sociologists define markets as socially constructed arenas where repeated exchanges occur between buyers and sellers under a set of formal rules and informal understandings that govern relations among competitors, suppliers, and customers. These rules and understandings guide interactions, facilitate trade, define what products are produced, sometimes constitute the products themselves, and provide stability for buyers, sellers, and producers. In modern capitalism, markets also depend on governments, laws, and larger cultural understandings to operate (Fligstein, 2001).

One way to conceive of this is that participants in a market form reproducible role structures – that is, sets of recognizable participants who occupy certain positions (such as incumbent market leader or upstart challenger) and interact routinely over time (White, 2002). This view opens up the questions at the crux of the sociology of markets. What general problems must be solved for markets to emerge? How do role structures stabilize? How do markets evolve? How do they die or transform into other markets? What is the role of states in the construction and maintenance of markets? The various sociological theories the authors discuss propose alternative ways to think about how to answer these questions.

Markets qua self-reproducing role structures can emerge without state intervention. Before the modern era, extensive relationships between market actors made this possible – relationships that often depended on common kinship, ethnicity, or religion (White, 2002). These commonalities created trust, allowed actors to monitor one another, and offered ways to settle grievances (Granovetter, 1985). Informal rules and local cultures emerge within industries regarding the legitimate way to organize a firm, compete with other firms, and buy and sell products.

While neoclassical economics claims that price is an ever-emergent phenomena guided by the ‘invisible’ hand of the market, economic sociologists argue that price is the result of social relationships and shared understandings among market participants. Producers will pursue a number of social strategies such as product differentiation, collusion, and co-optation rather than take part in destabilizing price competition (Fligstein, 2001; White, 2002). Producers will mimic the
organizational forms and business models of legitimate firms in the field in attempts to win the support of customers and resource providers (DiMaggio and Powell, 1983). These mimetic pressures will often lead to the widespread acceptance of certain heuristics and models for economic behavior. Performativity theory suggests that market participants, often trained in the world's best business schools, import formal economic theories and models into their local market cultures (Callon, 1998). In industries where these models have gained widespread support market activists perform theory, turning the discipline of economics into 'an engine, not a camera' (Mackenzie, 2006).

For stable markets to emerge and distribute goods successfully, market actors must solve a range of problems. Their solutions produce the conditions that make a particular product market, industry, national economy, or regional economy distinctive. For example, in the early stage of a market’s development, a product’s qualities need to be defined. Governments, firms, and customers have input into the question of what count as safe food products, useful telecommunications standards, or tradable financial securities. Firms must also develop the competency and capacity to produce these goods. They need to be able to trust their suppliers, employees, and customers in order to secure inputs, labor, and capital. Thus, networks of social relationships help firms stabilize their environments and guarantee access to scarce resources. Firms must be able to forecast the activities and responses of their competitors in order to position themselves in the ongoing struggle for market share, and therefore need access to information on their competitors. Finally, by responding to directives from the government and trying to co-opt government agencies, firms can also secure their futures.

**Theoretical Approaches: Network Analysis, Institutional Theory, Political Economy, and Market Devices and Performativity**

The sociology of markets draws heavily on four theoretical approaches to offer concrete guidance about how to study market processes: network analysis, institutional theory in organizational studies, political economy and the literature on market devices, and ideas about the performativity of economic ideas drawn from the social studies of science. These four schools of thought offer different conceptual tools to make sense of what happens in markets. At the same time, there are overlaps in what each school stresses. For example, institutional theory and political economy both emphasize the state’s role in constructing markets. Network analysis and institutional theory explore how the networks that constitute social relationships transmit market information, define standard operating procedures, and generate trust. Market devices and the use of economics as a way to structure markets dovetail nicely with institutional theory’s emphasis on the social constructedness of markets. Finally, governments frequently provide legitimation and even law and regulation for particularly market devices to evolve and be implemented.

Network analysis is a metaphor, a set of techniques to display data, and a way of studying the social mechanisms by which key market problems get resolved. If the sociology of markets’ key insight is that market actors are embedded in social relationships that define who they are and what they do, then network analysis is the starting point for mapping those relationships (Powell and Smith-Doerr, 2005). Formal network-analysis techniques have demonstrated how the relationships among actors help explain what they will do: whom they will hire, and with whom they will trade goods and exchange capital. Networks also serve as conduits for information, operate to mitigate problems of trust, and control resource dependencies (Podolny, 2001). It is now firmly established that the connections among actors can affect prices, increase the probability that well-connected firms will survive, and help market participants compete and find customers and suppliers (Uzzi, 1996, 1997).

Institutional theory emphasizes informal understandings and cognitive frames that shape the social structure of markets. Institutional theorists often conceptualize markets as fields where firms watch one another, imitate one another, and build niches to reproduce their positions (DiMaggio and Powell, 1983). The observant and reflexive character of firm behavior can often mitigate competition and stabilize markets. Yet institutions are rarely fully settled or taken for granted. Even stable institutions are under ongoing contestation as various stakeholders such as firms, trade associations, unions, academic or professional experts, and community organizations construct resonant frames and mobilize resources to change state laws, reconstruct product categories, and shape industry ‘best practices.’

Institutional theory also stresses how the formal laws, regulations, and actions of states and courts have profound effects on market structure (Dobbin, 1994). From this perspective, states and markets are joined at the hip. Moreover, firms can appeal to states for help. When incumbent firms successfully shape the rules governing their industry, they can reproduce their leading positions over time. Institutional theory stresses not only how states set rules and enforce sanctions, but also how they define what types of products are appropriate for exchange. Scholars with an institutionalist perspective also examine how the internal dynamics of states affect the way they intervene in markets. The structure of courts, ministries, and regulatory agencies, as well as struggles among parties and political factions, all affect state intervention.

Economic sociologists recognize the important role that the state plays in supporting and sanctioning market institutions (Crouch and Streeck, 1997; Hall and Soskice, 2001). States grant property rights, enforce contracts, regulate collaboration and competition, and establish standardized rules of exchange. Scholars have shown how state building and market building are coevolutionary processes and that political stability is a precondition for market growth (Crouch and Streeck, 1997). State prohibition of certain goods such as drugs, sex, and human cadavers relegate buyers and sellers of these products to the unstable and resource-poor black market (Fourcade and Healy, 2007; Beckert and Wehinger, 2015).

The state has the ability to use policy to shape both the competitive landscapes of industries and organizational forms of firms. Fligstein (1990) shows how in the late nineteenth century the American government used antitrust laws to foster competition and break up cartels. Similarly,
Dobbin (1994) shows how government policy in the early twentieth century played a critical role in shaping the organizational forms of railroad companies.

Political economy has pioneered thinking about the linkages between states, law, and markets and the historical emergence of systems of governance. The political economy literature on ‘comparative capitalism’ – the comparative study of capitalist arrangements and their effects on various outcomes, including economic development – is a fundamental part of the sociology of markets (Hall and Soskice, 2001). This literature has revealed that the relationships among governments, workers, and capitalists have varied dramatically over time and geography, and that economic trajectories are often culturally and nationally specific. Markets are social and political constructions reflecting a country’s culture, its history of class relations, and the various interventions its governments have carried out through history (Fligstein, 2001). In this view, each national system of capitalism forms an integrated whole: an enmeshed set of institutions such as systems of labor relations, modes of capital allocation and corporate control via securities markets and bank lending, systems of education and training, tax systems, and state involvement and ownership in key industries.

The political economy literature has been the most forthright about trying to understand which systems produce the most sustained economic growth. Scholars have documented that different national systems of capitalism exist and have debated how to fit them into categories, such as on the basis of national protectionism, levels of state intervention, and modes of capital allocation to firms (Crouch and Streeck, 1997). Yet, beginning with the collapse of communism in the late 1980s, a whole series of studies began to appear asserting that differences among national capitalist systems would soon disappear. These studies predicted that as global capitalism spread and barriers to international trade and capital investments crumbled, production and consumption would shift to those countries with the most efficient market institutions, bringing governments to their knees and forcing rapid convergence to a generic liberal model of capitalism (Strange, 1998). However, this prediction proved false. Research suggests that national systems of capitalism are resilient, even in the face of political and economic crises. This has led other scholars to conclude that key features of these systems must enable firms, states, and workers to adapt efficiently to new challenges (Hall and Soskice, 2001).

Scholars have also sought to understand economic transformation in the postsocialist world and other developing economies. They have documented the collapse of institutions in Eastern Europe and Russia and have analyzed the features of the systems that have taken their place. China has also been the focus of sustained study (Nee and Opper, 2012). The main issues in this literature involve the role of the state in the market. Research shows that states with disorganized bureaucracies and poorly paid, incompetent bureaucrats are more prone to rent-seeking than those with educated and better paid staff. Scholars also agree that defining property rights clearly and assuring the rule of law are important to development. But establishing such institutions is difficult to do from above; they usually arise dynamically from the demands of firms and citizens. Also controversial is the relationship between economic development and state investment in particular firms and industries. States have done this successfully in some cases, but failed miserably and wasted scarce resources in others (Evans, 1995).

The literature on market devices focuses on a problem that neither network analysis nor political economy is very good at treating. For markets actually to work, products need to be created, evaluated, and priced. The institutions that do this are ‘market devices,’ widely accepted rules of thumb, tools, technologies, and theories that help actors value goods, weigh options, and follow corresponding strategies in the marketplace (Biggart and Beamish, 2003). The literature includes at least two approaches to thinking about market devices. One originates with the idea that we need conventions to make judgments of property, size, quality, and other quantitative indices. Over time, ratings agencies have developed different quantitative yardsticks that allow banks to judge the riskiness of loans. In commercial lending, these ratings involve putting letters from AAA to D on corporate bonds (Carruthers and Stinchcombe, 1999).

The problem of price setting is a very general one with far-reaching implications for firm behavior. Deciding how much to pay someone, whether or not a bottle of wine is worth $50, and how to make such judgments require a whole social infrastructure (Karpik, 2010). Many of these comparisons involve rankings and other quantitative indices. Once in place, such market devices can take on a life of their own. Actors in markets use them not just to decide what to buy or sell, but to measure themselves and their performance against others. Rankings can push firms to reevaluate their strategies and tactics in order to improve their standing.

This brings us to a second way in which market devices get constructed: via the performativity of economics (Callon, 1998). One area of work that has been particularly productive has examined how principles and quantitative models from economics can structure financial markets. For example, there is a body of theory in economics that discusses how different types of auctions work. Not surprisingly, sellers deploy this knowledge to auction hard-to-value objects. Thus, the science of economics actually makes the market for such objects possible. In the case of futures contracts traded on exchanges, derivatives traders’ use of the Black–Scholes–Merton (BSM) theory for pricing derivatives actually caused prices to approach the values that BSM predicted (MacKenzie and Millo, 2003). Scholars term the implementation of economic ideas to structure markets ‘performativity.’ This label implies that one self-consciously takes an idea and puts it into practice: literally, one performs it.

### Financialization and Globalization

One empirical arena to view the analytic power of the perspectives that make up the sociology of markets is the study of financialization and globalization. Financialization is a set of related phenomena that reveal "the increasing role of financial motives, financial markets, financial instruments, financial actors, and financial institutions in the operations of domestic and international economies" (Epstein, 2005; p. 3). It
comprises the growing dominance of finance tools in the management of firms, the ability of financial markets to dictate what firms and governments do, and the growth and importance of the international financial system in the distribution of capital around the world (Krippner, 2011; Davis, 2009). As such, making sense of it requires the use of all the perspectives just discussed.

The growing dominance of finance tools corresponds with the rise since the 1980s of the shareholder-value view of the firm, particularly in the United States (Useem, 1993). These tools allow managers who view the firm through the lens of the balance sheet, such as chief financial officers (CFOs), to maximize shareholder value (Zorn, 2004). The basic idea of the shareholder-value view is that firms exist to provide returns to shareholders. Shareholders of publicly held corporations care primarily about two metrics: (1) share price and (2) the ratio of profits to assets. With this in mind, managers use a range of tools to increase these metrics, including financial engineering of balance sheets, outsourcing, downsizing, investing in technology, cutting salaries and benefits, and increasing the working hours of the employees who remain. Upper level managers frequently receive shares and bonuses for meeting financial targets.

The rise of the shareholder-value view, and the concomitant ascendance in power of finance-oriented managers (such as CFOs) originated in firms’ changing relationship with the financial markets. Scholars have documented that during the 1980s’ merger movement, institutional investors pushed management teams to increase their profitability. When managers resisted, their firms became takeover targets. Since then, the relationship between the financial markets and the largest corporations has been symbiotic (Useem, 1993; Davis, 2009).

Corporations’ reorientation toward shareholder value and the financial markets is not the only manifestation of financialization, however. Financial markets themselves have grown enormously and become integrated globally (Knorr Cetina and Bruegger, 2002; Leyshon and Thrift, 2007). Net transnational flows of bonds, bank capital, investment capital, and derivatives each dwarf the revenues of major corporations and even many states. The creation of complex financial products and the globalization of finance have produced an important new literature in economic sociology. Scholars focusing on instruments tend to be grounded theoretically in science and technology studies and the social studies of science in general, in actor–network theory, and in a strong appreciation for the technical details of the machines that make markets work (MacKenzie, 2006; Knorr Cetina and Bruegger, 2002; Callon, 1998).

Scholars have struggled for years to understand how national systems of governance respond to the pressures produced by financialization and globalization. Many consider it inevitable that global economic pressures, including the whim of sovereign-bond markets, will limit national governments’ degrees of freedom. This will force governments not only to deregulate product markets but to cut back on welfare expenditures and labor protections. However, evidence for this ‘race-to-the-bottom’ proposition is mixed at best (Strange, 1998). While there have been some changes in the way that governments regulate, tax, and spend in the past two decades, there is no consistent trajectory across countries. Many of the national capitalisms have changed in response to these pressures, but mostly by modifying their existing national models (Hall and Soskice, 2001).

## Sociology of Consumption

The sociology of consumption is focused on what goods and services mean to people (Zukin and Maguire, 2004). Consumption is most frequently studied by focusing on how what one consumes is a statement about lifestyle. Studies focus on how baskets of goods are expressions of who one is and how one wants others to think of him or her (Bourdieu, 1984). Most scholars emphasize that lifestyle is an ongoing construction, one that can turn into an escalating arms’ war as people compete over important high-status goods (Schor, 1999). One important strand of this work focuses on how advertisers push this race along by promoting the consumption of goods and services to people in order to get them to consume more and thus, obtain more social status (Slater, 1997). A second focus in research is how goods are constructed by cultural categories, categories that often imply something about societal conceptions of morality. So, for example, the boundaries between things one can sell and cannot sell imply the moral edge of society. One focus of such studies is how some products, which were previously immoral, come to be seen as moral.

Consumption is often an attempt to secure social status and produce a lifestyle (Bourdieu, 1984; Elias, 2000). Historical sociologists have documented how this process occurred in early modern Europe, when the newly rich bourgeoisie tried to mimic the nobility. This led the nobility to shift the markers of high social status continuously in order to retain their edge over the rising bourgeoisie. Elias (2000) shows that this lifestyle competition eventually came to include both the middle and working classes. More recent work has tried to view lifestyle as not just competition whereby those at each level of society try to emulate those above them but one where lifestyle can be oppositional. The strongest proponent of this view is Bourdieu (1984), who shows that those lower down the income and education hierarchy find themselves as losers in a process where money can buy status, and as such, decide to consume and value different things.

In the past 20 years, scholars have emphasized how such status hierarchies remain dynamic and continuously shifting. One important place to observe such processes is in the race for positional goods like cars, good schools, fashion, and houses. As income inequality has increased in America, the price of positional goods has increased. In order to keep up, working-class Americans have taken on debt to finance their consumption and ‘keep up.’ Going into debt to keep up with the Joneses, or leveraging home equity to finance one’s children’s education, is viewed as a reasonable life decision (Schor, 1999).

The question of how consumers think about goods and services has produced much interesting work on household budgeting, gifts, and the line between which products are considered moral to consume and which things should not be
for sale. Zelizer (1997) has shown that households do not view their income as fungible (i.e., a dollar spent on one thing can be just as easily spent on another) but instead view income as pots of money dedicated to particular categories of consumption. So, frequently things like inheritances are kept as a lump sum of money put to a family need like a house or an education.

The study of the line between which products are morally acceptable to buy and sell in markets and which ones are not has been a productive field of study (Fourcade, 2011; Fourcade and Healy, 2007). One important question is how do such boundaries change over time as new problems come up to be solved and therefore change the moral calculus applied to a particular ‘thing.’ Life insurance offers examples of the marketization of new goods. When life insurance was first introduced, people found it morally repugnant. The idea of paying for such insurance seemed like a macabre commoditization of death that verged on gambling. But over the course of the nineteenth century, life insurance became viewed by middle class families as a prudent way to provide for one’s kin in the event the main bread winner passed away (Zelizer, 1979).

More recently, during the 1980s and 1990s, selling one’s life insurance policy to a third party went from being widely considered morally abhorrent – because it gave someone else an incentive to wish for one’s early death – to being the basis for a new market in ‘viaticals.’ The AIDS epidemic moved forward this transformation in markets: as AIDS patients faced rising health care bills and poverty, they sought to sell their own life insurance policies. Here, the moral discourse in favor of a dignified death came to trump the moral discourse against betting on death, producing a new market (Quinn, 2008).

Conclusions

This panoramic review of economic sociology has touched on many of the major themes in this growing literature. Economic sociology has laid down a tapestry of compelling theoretical perspectives and empirical work. They have been used productively to understand the formation of new markets and the role of states in creating markets. They have pushed scholars to consider the social structuring of markets and the meanings that have come to organize and constitute the existence of new markets. The sociology of consumption has provided a theoretical and empirical basis to consider why people consume. It has pushed scholars to think about how culture and morality frame such decisions and structure the existence of new markets. Economic sociology has added richness to the ability to understand the behavior of individuals, households, firms, markets, and national systems of capitalism. At the micro-level, it shows how ongoing interpersonal relationships play an important role structuring various economic processes. At the meso-level, it describes how established industries rely on institutional architecture, formal and informal rule systems, to make life more predictable and mediate problems related to production, competition, valuation, and exchange. At the macro-level, it reveals how historical differences in state laws and national cultures foster different forms of capitalism with varying conceptions of efficiency.

See also: Capitalism; Global; Consumption, Sociology of; Exchange: Social; Institutions; New Institutionalism in the Analysis of Complex Organizations; Organizations, Sociology of; Social Networks.

Bibliography


