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Market share

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Economists have long used their tools to analyze social phenomena. Now sociologists are learning to stop worrying and love -- or at least study -- the market.

By Virginia Postrel | July 24, 2005

ECONOMISTS HAVE LONG been famous (or notorious) for plunging into such seemingly non-economic topics as crime or marriage. Beginning in the 1960s, University of Chicago economist Gary S. Becker brought economic theory to bear on family life, discrimination, education, and addiction, arguing that incentives, rational choices, and competitive pressures shape all sorts of behavior. He got a Nobel Prize for his efforts.

More recently, "Freakonomics" coauthor Steven D. Levitt, another University of Chicago economist, has earned a place on the best-seller list by popularizing his more empirical work on such sociological topics as the structure of crack gangs and the spread of popular baby names. Levitt says he's "enthralled by the tools of economics, but never by the questions."

While economists continue to probe into social life, a growing academic subfield known as economic sociology is doing just the opposite--bringing tools and concepts from sociology to bear on the economy. We cannot understand how people earn, spend, and invest their money, economic sociologists argue, unless we understand social relations. If, as economists contend, incentives and choice are everywhere, so are social conventions and personal connections.

"The economy *is* social. It's a set of social relations. The economy is as social as a family or religion," says Viviana A. Zelizer, a Princeton University sociologist who studies how cultural attitudes and consumption patterns influence each other.

A leading figure in economic sociology, Zelizer is sharply critical of the dichotomy she calls "hostile worlds," which juxtaposes "a world of rationality, efficiency, and impersonality, on one side" with "a world of self-expression, cultural richness, and intimacy on the other--with contact between the two worlds inevitably corrupting both of them." Real human beings, she argues, don't divide their rational and emotional, or personal and commercial, lives that way.

So, contrary to both the simplified models of some economists and the anti-commercial zeal of many social critics, she and other economic sociologists argue that the marketplace and social relations aren't separate spheres. They're completely entangled.

Consider the homeowner who is remodeling his kitchen and hires his secretary's nephew as a contractor, or the startup company in a major city that gets a loan from a tiny bank hundreds of miles away in the founder's rural hometown. From hiring to investment, our economic decisions are shaped not just by financial interests but by relationships, history, and emotional bonds.

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In some ways, economic sociology is as old as sociology itself, dating back to Max Weber, Karl Marx, and Emile Durkheim. Until recently, however, modern sociologists who ventured into economic topics usually stuck to peripheral areas like work and family life or non-financial motivations for work.

Over the past decade, economic sociologists have instead gone to "the heart of the capitalist enterprise--firms and markets," says Richard Swedberg, a Cornell sociologist and the coeditor of "The Handbook of Economic Sociology," first published in 1994. (A significantly revised second edition, with articles on topics ranging from the sociology of money and credit to the ethnic economy, was recently published by Princeton University Press.)

Most sociology departments now offer courses in economic sociology, which were nearly unheard of 10 or 15 years ago. Business schools are snapping up Ph.D.s, offering salaries twice those of sociology departments.

Adventurous economists are starting to pay attention. The Winter 2005 issue of *Journal of Economic Perspectives* led with a special section of four articles on economic sociology. In the introduction, Robert Gibbons, an economist at MIT's Sloan School of Management, argues that economic sociology offers new variables for economists to include in their own models of organizations and markets. In predicting wages, for instance, economists might include not only individual characteristics like education or experience but social relations. A well-connected person might expect higher pay than someone with similar skills but a narrower range of contacts.

Sociologists still tend to think economists' rational-choice models are too simplistic, while economists tend to regard sociology as an unrigorous hodgepodge. But, says Peter Dougherty, director of Princeton University Press, "The current state of relations is much warmer and more engaged and interactive than it's ever been."

Not that the frontier between the two disciplines has become an entirely friendly one. In his introduction, Gibbons acknowledges that "some economists (and some sociologists!) perceive economic sociology as an attack." The field has grown in part by offering an often vehement critique of neoclassical economics. Many sociologists like the idea of an intellectual insurgency against a discipline that enjoys significantly higher status. "Within sociology, you can get a lot of mileage from making effective critiques of economics," notes Ezra Zuckerman, an economic sociologist at MIT's Sloan School.

Economic sociology isn't just the latest form of economist bashing, however. Its rapid growth represents a significant intellectual shift in the field, away from the idea that modern economic exchange is a sort of social pollution that destroys social relations, and toward a more neutral stance.

Sociologists have "commonly portrayed the market ... not as a created set of social relations but as a pervasive, corrosive, disembodied Presence, spreading like carbon monoxide," wrote sociologist Charles Tilly of The New School for Social Research in a 1988 introduction to one of Zelizer's articles.

Economic sociology is now normalizing relations between sociologists and the modern marketplace. Its scholars, like those in any field, come in all varieties, of course, and none are cheerleading for any and all market behavior. But leading-edge economic sociologists generally accept contemporary commerce as a complex human endeavor worthy of analysis without condemnation.

These researchers are "trying to understand what is driving economic behavior, what is driving the structure of markets, where the system comes from," says Mark Granovetter, chair of the Stanford sociology department and one of economic sociology's most influential researchers.

Many scholars date the contemporary origins of economic sociology to Granovetter's 1985 article, "Economic Action and Social Structure: The Problem of Embeddedness." There, he argued that economic behavior and economic institutions are always "embedded" in social relations. This argument took on not only economics but the dominant sociological view: that the modern economy has become "an increasingly separate, differentiated sphere," as the calculating pursuit of gain replaces social connections.

As Granovetter and the scholars who have followed in his wake have pointed out, people are quite comfortable mingling the social and the commercial. And without social ties, they argue, the modern economy would not only be less humane but often less efficient.

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So what do economic sociologists actually study?

Granovetter made his name, and got his doctorate at Harvard, with research on how people found jobs. He assumed they used social connections. But when he asked survey respondents whether a friend had told them about their current job, he repeatedly got a surprising response. No, respondents would say, "not a friend, an acquaintance"--an old college friend, a former colleague, someone they saw only

occasionally.

"It is remarkable that people receive crucial information from individuals whose very existence they have forgotten," Granovetter wrote in a 1973 article, "The Strength of Weak Ties." New information, about jobs or anything else, rarely comes from your close friends, he argued, because they tend to know the same things, and the same people, you know. Your friends may *want* to help you find a job, but your acquaintances *can* help you, because they're the people with information about openings you haven't already heard of.

"Weak ties" are your connections to people who don't know each other and who do know other people you don't know. These are "the channels through which ideas, influences, or information socially distant from [someone] may reach him."

Today, studying social connections, or "social networks," is the hottest field in economic sociology. Focusing on a particular network--the connections between venture capital firms in Silicon Valley, say, or between directors and producers in Hollywood--lets researchers examine the social context of economic decisions.

Unlike economists, who tend to see networks as substitutes for firms or markets when legal institutions aren't working, sociologists emphasize how pervasive, powerful, and normal these informal ties are. "Networks are the relational structure of social and economic life," write Laurel Smith-Doerr of Boston University and Walter W. Powell of Stanford in the "Handbook"'s chapter on the subject.

Economic success often depends on striking the right balance between weak and strong ties. Smith-Doerr and Powell cite research that "found that having a personal network characterized mainly by kinship and other homogeneous ties was more detrimental to entrepreneurs starting a small business than being female," even though gender is a more obvious "outsider" status.

A close network may sound warm and supportive, but it can become dangerously insular, cutting off a person or an organization from important ideas or resources. At the same time, close ties build trust, reducing the cost of doing business and improving communication, especially on matters that can be awfully hard to explain.

Take style, for instance. Dress designers can rely on long-standing vendors to understand when a skirt doesn't fall right, even when the dress has followed the pattern. "If we have a factory that is used to making our stuff, they know how it's supposed to look," a designer told Brian Uzzi, an economic sociologist at Northwestern's Kellogg School of Management.

Uzzi finds that businesses do best when they find a "bliss point," combining just the right mix of arm's-length and "embedded" relationships. Strictly economic relations bring in new information, while more personal connections are better at solving specific problems. In looking for bank loans, small businesses find out about interest rates and new loan structures by shopping the market, but they get customized deals from the aptly named "relationship managers" at their existing banks.

"What my work showed was that really neither approach, in its purest form really works best," says Uzzi "If people are purely rational and atomistic, they underproduce. If people care entirely about community and ignore what market signals are giving out, they don't do well. Those that do best are those that find a balance."

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Balance is also the challenge for economic sociologists. Some younger scholars want the field to lose its "excessively confrontational posture towards neoclassical economics," as MIT's Zuckerman put it in a journal article last year. There are plenty of interesting questions to keep both disciplines busy, and neither economics nor sociology alone can explain how real human beings manage their economic and social lives.

"Most people are trying to maximize economic goals and social goals at the same time. It's not like on Monday they try to maximize their wealth and on Wednesday they try to maximize their social status. It's all mixed up together," says Granovetter.

"We need theories that will actually give us some closure on how people do all these things together," he says. "I think that's the big challenge in social science for the 21st century--to understand how those things all fit together."

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