
The Handbook of Economic Sociology

S E C O N D E D I T I O N

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2 Comparative and Historical Approaches to Economic Sociology

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INTRODUCTION

Students of economic behavior have long subscribed to the commonsense view that natural laws govern economic life. In the discipline of economics, the prevailing view is that economic behavior is determined exogenously, by a force outside of society, rather than endogenously, by forces within. Self-interest is that force, and it is exogenous to society because it is inborn—part of human nature. Self-interest guides human behavior toward the most efficient means to particular ends. If economic behavior is instinctual, the reasoning goes, we need to know little about society to predict behavior.

Sociologists have always found this approach appealing, not least because it supports the Enlightenment view that the universe is knowable—that it can be understood by science. There is something inherently attractive about cogent mathematical formulas that can explain the velocity of light, or the price people pay for coffee.

However, sociologists have always made comparisons across societies and over time, and they invariably come to the conclusion that the lion's share of economic behavior can only be explained by society itself—by context. Whether you are running a farm in Croatia or in Sicily matters quite a bit for how you will behave. We cannot predict much about how you will run a railroad in Cleveland without knowing whether the year is 1880 or 1980. Historical and comparative studies illuminate the role of society in shaping economic behavior like nothing else can.

The discipline of sociology was launched by men who sought to understand modernity. How did societies come to be organized around progress, rationality, and science, when for so long they had been organized around tradition, myth, and ritual? Sociologists grappled with this question by making comparisons across societies and over time. These comparisons were driven by the observation that

social context shapes economic behavior—that modern rational behavior is learned, not innate.

The comparative and historical method is one of sociology's comparative advantages. Sociologists more frequently use this method than do economists, and the method itself tends to highlight contextual differences in economic behavior. This difference between the disciplines emerged only gradually, for the two disciplines began as one. As economics moved toward highly stylized rational-actor models and away from comparative and historical studies, early analysts who emphasized the role of social institutions in shaping economic behavior, including Karl Marx and Max Weber, were rejected by economists and embraced by sociologists.

Marx, Weber, and Émile Durkheim sought to understand the rise of modern economic behavior by comparing precapitalist societies to capitalism. Marx explored the transition from feudalism to capitalism; Weber the capitalist impulse that arose with Protestantism; and Durkheim the rise of capitalism's division of labor. As capitalism was in its infancy, none was certain that modern industrial capitalism would take widely different forms, though Weber described a number of different forms, including booty, political, imperialist, colonial, adventure, and fiscal capitalism (1978, 164–67; see also Swedberg 1998, 47). The comparative and historical methods these men developed were designed to explain why human behavior varied over time and across contexts.

Historical analysts often build directly on the problematic that Marx, Durkheim, and Weber sketched—how did modern economic practices come about? Comparative analysts often take another tack, trying to understand the social forces that cause modern economic systems to differ so dramatically. If human nature drives the evolution of economic systems and if human nature is universal, why do economic systems take such differ-

ent forms? Historical and comparative works in economic sociology point to society itself, suggesting that societies develop along different trajectories for reasons having to do with history and happenstance.

In this chapter I review historical and comparative works in economic sociology that seek to explain the substantial variation found in economic behavior across time and space. While most sociologists share the view that economic behavior patterns are driven by social processes rather than by instinct alone, they have argued that different sorts of social processes are primary. Some focus on power relations, others on institutions and social conventions, and still others on social networks and roles. Comparative and historical sociologists once treated these perspectives as alternatives, but they increasingly treat them as complementary.

Next I review the theoretical underpinnings of power, institutional, and network approaches. Then I sketch the analytic methods used by historical and comparative sociologists before turning to a review of empirical studies.

How Power, Institutions, and Networks Shape Economic Behavior

Most economic sociologists proceed inductively, looking at how economic behavior varies over time or across countries and tracing that variation to something about social context. This is quite different from the approach of most neoclassical economists, who proceed deductively from the premise that individual self-interest explains economic behavior. Studies of investment among early Protestants, management of new enterprises in China's market-oriented sector, and business strategy among Argentine wine producers have produced myriad insights about the forces that shape economic behavior. But one of three different social processes is usually at the heart of the matter, and these processes have been spelled out in power, institutional, and network theories.

Power

Power relations shape economic behavior, both directly, as when a powerful firm dictates to a weak supplier, and indirectly, as when a powerful industry group shapes regulation to its own advantage. The structural theory of power is the direct inheritor of Marx's ideas, even if not all of its practitioners would call themselves Marxists. They include Neil Fligstein (1990), William Roy (1997), Beth Mintz and Michael Schwartz (1985), Michael

Useem (1996), and Charles Perrow (2002). Their concern is with how powerful groups succeed in promoting practices and public policies that are *in their interest* as being *in the common interest*. Marx described the capitalist state as a tool of the capitalist class, which justified its existence under the guise of political liberalism. His idea was that modern states serve one group while claiming to embody principles that benefit everyone. Structural theorists of power explore the role that power plays in determining the state policies, corporate strategies, and individual behaviors that we take to be transparently rational. When a particular group succeeds in promoting its favorite public policy or business strategy—in making that approach the new convention—that group can reinforce its own power or wealth without having to exercise constant coercion.

Institutions

Social institutions—conventions and the meanings they have for people—shape economic action. Weber (1978) argued that social conventions must be understood in terms of their subjective meaning to individuals because we behave in ways that are meaningful to us—that we understand (see Swedberg 1998). Sociological institutionalists understand economic behavior to be regular and predictable not because it follows universal economic laws, but because it follows meaningful institutionalized scripts (Meyer and Rowan 1977; Scott 1995; Powell and DiMaggio 1991). The meaning underlying modern behavior patterns is highly rationalized. We know what the decision to downsize the workforce might mean—that the workforce is larger than need be, or that the stock market expects higher returns from the firm. Economic customs thus carry meaning, and economic customs often spread as fads spread. The fad of downsizing appeared on the horizon, and suddenly firms were doing it whether they needed to or not (Budros 1997). Since the time of Weber, institutionalists have also pointed to the ways in which wider social institutions—religious, educational, labor market—constrain and shape economic behavior.

Social Networks

Your social network—what sociologists used to call your peer group and role models—influences your behavior by providing concrete examples of how to behave and by enforcing sanctions for misbehavior. Network theory builds on Simmel's and Durkheim's ideas about how the individual's position in a social milieu shapes both his behavior and

his underlying identity. For Durkheim, social networks shape the actions of individuals not merely in a negative sense, of undermining antisocial behavior, but in a positive sense, of establishing accepted behavior patterns. Mark Granovetter (1985) spells out the implications of the network approach in an article challenging transaction-cost economists' understanding of price gouging, in which gouging occurs when a supplier finds that she is the sole seller of a needed good. Granovetter argues that the norm against price gouging is enforced informally by members of an industry network; a seller who price gouges in times of scarcity will find that buyers turn elsewhere in times of plenty. Interpersonal networks thus enforce norms by sanctioning members who do not follow them. Development theorists find that societies with strong social networks have an advantage in development, in part because they can effectively carry out both positive and negative sanctioning.

These three camps are in the process of developing an integrated approach to historical and comparative economic sociology, as people in each camp employ ideas from the others. The camps agree on much. Economic practices—behavior patterns such as pricing strategies and firm structures—emerge in networks of actors, via the institutionalization of scripts for how to behave in order to achieve particular ends. Powerful actors try to shape the scripts that are constructed, and to shape the rules of the game that become institutionalized in public policy. The economic practices, or scripts, that emerge shape individual cognition, and determine how individuals will respond to situations in the future. In other words, economic practices emerge through distinctly social processes in which social networks and power resources play roles in the definition of certain practices as rational. Many of the studies reviewed below synthesize ideas from two or all three of these approaches.

The Comparative Method in Economic Sociology

If you begin with the assumption that "history is efficient," the (economic) world is your oyster. Economies develop in a single direction, toward some optimal form; any change is a change for the better; and any change reveals the character of natural economic laws. Present practices are by definition more efficient than past practices. Advanced societies are closer to the ideal than less advanced societies, and in consequence, the problem of modernization is just a problem of how you get

from Warsaw to New York—how Poland becomes more like the United States.

If you begin with the assumption that history is not always efficient, as historical and comparative economic sociologists do, you are left with a lot to explain. You have to explain not only why countries vary today in their economic practices, but why they have varied in so many different ways in the past. If we cannot assume that the conglomerate replaced the single-industry firm because it was more efficient, then we have to go back to the drawing board.

What kind of scientific method does this approach imply? Three points are important. First, sociologists of science suggest that we should reserve judgment about the efficiency of practices whose practitioners make efficiency claims. Second, Max Weber suggests that we should try to understand the meaning of behavior to the actor. This seems a trivial point, but the deductive method favored by many economists suggests that people's understandings of their own actions are irrelevant. Third, Emile Durkheim and John Stuart Mill counsel that we should use analytic comparisons to single out the causal factors underlying human behavior.

Economic sociologists have built on some of the ideas of sociologists of science. They reserve judgment about whether a new scientific claim, or economic practice, is superior to that which it replaced. Bloor (1976) argued that sociological explanations of science should be *causal*, in that they should analyze the origins of knowledge; *impartial vis-à-vis* the truth of scientific claims; and *symmetrical*, in that they should use the same approach to analyze both "true" and "false" knowledge claims. The idea is that scientific claims, and economic claims, emerge and are institutionalized through a social process, whether they are eventually proven "right" or "wrong."

Max Weber insisted that we seek to understand what Clifford Geertz would later call the "native's point of view." For most economists, people can behave in ways that are rational without knowing they are doing so. They can believe they are doing something for religious reasons, for instance, while behaving perfectly rationally from the perspective of economists. Weber, like Marx, believed that the consequences of an individual's actions often occurred "behind the back" of the actor—were obscure to her. But he insisted that it was important to understand the subjective meaning of behavior to the individual (Weber 1978, 4). People only follow an economic convention because of their un-

derstanding of that convention, and so to grasp why economic conventions persist, we have to grasp what they mean to people.

John Stuart Mill (1974) and Émile Durkheim ([1938] 1982) argued that the comparative method is the only valid method in the social sciences. They followed the earliest precept of the scientific method, which suggested that to establish causality one must at least show that a causal condition is present where its purported effect is found and absent where its purported effect is not found. This requires a comparison of two cases. In large-scale statistical studies, we sort out the causes of social phenomena by looking for correlation across many cases. In laboratory studies, we identify causal relations through randomization, comparing subjects exposed to a particular stimulus with those not exposed. As Smelser (1976) has pointed out, however, we seldom have such laboratory-like conditions in comparative analysis. Countries typically vary on many dimensions of relevance. Most analysts try, at the minimum, to show that a cause and its consequence coexist in one situation (one country, or one time frame) and that neither exists in another. Skocpol and Somers (1980) advise comparing countries that are alike on most dimensions. Charles Ragin (1987) advises drawing multiple countries into an analysis to try to control for possible alternative causes.

Many studies make comparisons both across countries and over time, to rule in certain explanations and rule out others. For instance, to understand the new industrial policies that the United States, Britain, and France adopted during the Great Depression, I compared industrial policies before and during the depression across the three countries, to find that in each case, the downturn caused nations to try to reverse the decline by reversing their industrial policies (Dobbin 1993). Roosevelt tried to build cartels. The depression was a common shock, and each country could be compared with its predepression self as well as with the others. All of the studies reviewed here use comparisons over time and/or space to demonstrate causality.

The Behavior of Firms and Nations

Most of the comparative studies I review address differences in the behavior of firms, national institutions, or nations. This institutional focus distinguishes economic sociology from economics, where the focus is more often on the behavior of institutions. I review studies in three groups, which vari-

ously emphasize the causal role of power, of institutions, and of networks and roles. Many of the studies could be grouped differently, because many emphasize more than one of these processes. It is a huge field, and rather than touching on every important work in a word or two, I have chosen to cover works that exemplify important approaches, while trying to avoid duplication with the other chapters in this volume. Thus I have sacrificed breadth for depth.

POWER: THE LEGACY OF MARX

Karl Marx pioneered the historical approach to economic sociology in his studies of the rise of capitalism. Marx reacted against Hegel's view that human history, including economic history, was driven by the dialectical evolution of ideas. For Hegel, ideas were translated into ways of living and of organizing the economy. Marx saw the world in quite the opposite way, believing that economic relations shape the ideas of the day.

While Marx's prophecy that communism would triumph over capitalism died with the breakup of the Soviet Union, his method and core insights are very much alive in economic sociology. His method of tracing the factors that lead to changes in economic behavior patterns over time has shaped all brands of historical economic sociology. His main insight was that it is not merely abstract ideas that drive economic history, but production processes and social relations. Like neoclassical economists, Marx argued that self-interest shapes economic behavior. But for Marx, individual self-interest leads people to try to shape the world to their advantage rather than to simply achieve the best price in every transaction, as neoclassical economic theory suggests. Marx's focus on power is reflected in a number of recent historical studies of the evolution of business practices.

Marx produced reams of material about economic life. Economic sociologists focusing on labor-management relations, such as Burawoy (1979) and Biernacki (1995), often build on his final work and magnum opus, *Das Kapital* (1994). But Marx's early writings on the transition from feudalism to capitalism have been more widely influential, including *The German Ideology* (1974), *The Eighteenth Brumaire of Louis Bonaparte* (1963), *The Communist Manifesto* (Marx and Engels [1872] 1972), and the wide-ranging notes for *Das Kapital*, *The Grundrisse* (1971).

How did changes in production alter the relative

power of the aristocracy and the bourgeoisie, giving the latter the upper hand in shaping the economy and the capacity to promote capitalism? In *The German Ideology*, Marx chronicles the history of class conflict in Europe. Under feudalism a nascent class of craftspeople and manufacturers grew by actively selling their wares and building their production capacity. They challenged the traditional political rights and privileges of feudal lords, encouraging policies that favored industry, such as free labor and free elections. As they gained resources, they gained the capacity to shape the political and economic realm to their own advantage.

Both feudalism and capitalism were designed to suit the classes that controlled the means of production—the aristocracy and the bourgeoisie, respectively—and the interesting question for Marx was how these classes managed to legitimate economic institutions that favored themselves. Marx argued that the modern state imposed capitalist rules of economic behavior on a society in which the vast majority were not capitalists, and it did so under the rhetoric of political liberalism rather than under that of capitalist domination. In so doing, modern states made capitalism itself seem natural and inevitable, and Marx did not see it as either. Recent power theorists have taken from this analysis the idea that modern states impose a particular set of rules, regulations, and institutions shaping economic life. Citizens of any state tend to see state policies that create the ground rules for economic competition as neutral and as conforming to economic laws rather than as the consequence of a series of power struggles. Modern power theorists point to the role of conflict and power in creating these ground rules, and in forming conventional business practices.

Power and Change in the Corporate Form in America

Next I review the arguments of historical sociologists about four important changes in the organization of American firms since the mid-nineteenth century. In each case, sociologists have shown that a change that others explain in terms of efficiency can be traced to power dynamics among different groups. Why did the huge manufacturing firm arise in the early textile industry, and later become dominant? Why were so many manufacturing industries consolidated in short order at the beginning of the twentieth century? Why did the diversified conglomerate become the dominant large corporate form after World War II? Why did

the conglomerate give way to the single-industry behemoth by the end of the 1990s?

In each case, a particular group (textile mill owners, Wall Street financiers, finance-trained executives, and institutional investors respectively) changed the strategies of American firms, and the structure of American industry, because they saw it as in their own interest to do so. In each case, the group institutionalized a new model of how to run a business that would soon become taken for granted, and that would be backed up by a powerful rhetoric of efficiency.

Charles Perrow: The Rise of Giant Firms

Charles Perrow (2002) traces the early rise of huge textile mills and gigantic railroads in America not to their greater efficiency but to the fact that the Constitution gave state officials little power to regulate industry. The American state, designed as the antithesis of tyrannical European states, had meager administrative capacities and was deliberately opened to influence by the very groups it might have sought to control. This invited the powerful to reshape property rights—the laws that govern trade and corporate form—to their own taste. The American business elite changed property rights to the advantage of big corporations early in the nineteenth century. Wealthy industrialists won court and legislative decisions giving big corporations all kinds of new advantages over small ones. In Europe, states protected small firms and regulated large ones. The result in textiles was that American mill owners preferred to use capital-intensive rather than labor-intensive production methods, even when returns were the same, because capital-intensive methods made them less dependent on workers—made them more powerful. In moving to capital-intensive methods, textile mills became larger and more powerful, but in the process they obliterated a vibrant alternative source of efficiency—entrepreneurialism. Efficiency arguments thus do not explain the rise of America's first big businesses.

William Roy: Financiers and the Rise of Manufacturing Oligopoly circa 1900

How did the oligopolistic manufacturing firm become the dominant model after the beginning of the twentieth century? William Roy, in *Socializing Capital: The Rise of the Large Industrial Corporation in America* (1997), argues that power was key. The initial enforcement of antitrust in 1897 had an unanticipated effect on the balance of power between small and large firms. While

antitrust was designed to prevent the concentration of economic power, by preventing collusion among firms, it gave big firms an advantage over small ones. Under antitrust a group of small firms could not set prices together, but if they merged, the resulting large firm could set a single price. Roy argues that the advantage big firms had over small firms was not one of scale economies, *pace* America's preeminent business historian, Alfred Chandler (1977), who contends that firms combined around the turn of the century because it was cheaper to produce things in large numbers. Roy shows that the merger wave also swept across industries that could not have benefited from scale economies. When antitrust prevented firms from joining cartels to set prices, large firms demanded that smaller competitors sell out or face certain death in price wars. The ensuing mergers had little to do with manufacturing efficiency, and much to do with the fact that antitrust law put an end to the refuge of small firms, the cartel. The huge concentrated firm was born, then, of an unanticipated coincidence of public policy and private power.

Timothy Dowd and I (Dobbin and Dowd 2000) found that antitrust enforcement and a power play also stimulated a merger wave in railroading. By 1880, American railroads had organized themselves into cartels that forestalled destabilizing price wars. When the Supreme Court enforced antitrust law in 1897, financiers, who typically held stock in many different railroads, decried price wars and heralded amicable mergers that would sustain the value of the railroads they held. J. P. Morgan led financiers in threatening to withhold future financing from firms that engaged in price wars. Thus, powerful financiers made amicable mergers customary, and quashed price wars.

Neil Fligstein: Finance-Trained Executives and the Rise of the Diversified Conglomerate

Why did the large single-industry companies that resulted from the processes Perrow and Roy outline transform themselves into diversified conglomerates between 1950 and 1975? Neil Fligstein's *The Transformation of Corporate Control* (1990) traces competition between three different management factions for the leadership of American corporations: production, marketing, and finance managers. Fligstein's story of competing elite factions is reminiscent of Marx's arguments about struggles among French elite groups in *The Eighteenth Brumaire of Louis Bonaparte* (1963). In *The Visible Hand* (1977), Chandler had argued that management naturally became focused on finance

and on conglomeration, once they had solved the problems of marketing.

Fligstein shows instead that a power play by finance managers was at the heart of the matter. After the Celler-Kefauver amendments to antitrust in 1950, which made it more difficult for firms to expand into related businesses, finance experts sketched a new theory of the firm in which large firms should act like investors with diversified portfolios. Portfolio theory in economics reinforced the idea that firms should spread their risk and should invest profits in industries with high growth potential. Finance managers succeeded largely by force of argument—by convincing boards and investors that the diversified conglomerate was the way of the future and that they, finance managers, were uniquely qualified to pursue this model of growth. This group came to hold most CEO positions. What makes Fligstein's argument about power and propaganda compelling, in the context of Chandler's pure efficiency arguments, is that the diversification model has since given way to the core-competence model. New groups have succeeded in promoting a corporate form that looks suspiciously like the preconglomerate form.

Davis, Fligstein, and Colleagues: Institutional Investors and the Rise of the Focused Firm

Why did the diversified conglomerate firm give way to the focused firm, operating under the theory of core competence, sometime after 1975? By 1990, the pattern of corporate mergers and acquisitions had changed radically from that which Fligstein described. In 1970, big firms were buying firms in other industries to diversify their assets. General Electric bought NBC, and R. J. Reynolds bought Nabisco. By 1990, big firms were buying others in the same industry to take advantage of their own core competence—of their core managerial abilities. Now Daimler bought Chrysler. What happened? As Davis, Diekmann, and Tinsley (1994) and Fligstein and Markowitz (1993) have argued, this new model arose because institutional investors and securities analysts found the diversified conglomerate difficult to place a value on, and assigned higher values to single-industry firms. As institutional securities holdings rose, institutional investors and analysts had increasing influence over how firms behaved, through their power to determine the value of stock. At the same time, firms were compensating executives based on stock performance rather than profits, and this gave executives an incentive to cater to investors and analysts. Meanwhile the invention of the hostile takeover

gave a new group—takeover specialists—the power to break up diversified firms that investors and analysts assigned low values to. The result was a change in corporate strategy, as diversified firms struggled to please the market—meaning these analysts and investors. This explanation emphasizes the power of some actors to shape the behavior of others and particularly the power to define what rational behavior is.

From the muckraking stories of the abuse of power among early railway barons and oil magnates to the stories of the accounting scandals at the dawn of the twenty-first century, most stories of power in economic relations are stories of abuse—of individuals who subvert the rules for their own purposes. Marx, Perrow, Roy, Fligstein, and Davis, by contrast, show that power shapes the rules of the game and prescriptions for how firms should behave. Power is endemic in these accounts. Powerful industries often shape their own regulations (Useem 1984), and it is often power struggles among management factions that determine what is defined as rational firm behavior. The studies of Perrow, Roy, Fligstein, and Davis also use ideas from the institutional and network camps in economic sociology. In each account, changes in public policy are important. In each account, a network of managers, institutional investors, or financiers plays a big role in defining what is rational.

Power and the Labor Process

Marx was concerned with how power operated in the modern factory, in no small part because he thought that the downfall of capitalism would come as workers recognized that power and exploitation were at the center of the factory production system. For Marx, physical coercion and the threat of dismissal gave capitalists the power to dictate to workers and prevent insurgency. Burawoy, Biernacki, Kimeldorf, and Shenhav are interested in why workers resist capitalist class power, and why they fail to resist.

Michael Burawoy: How Factory Production Absorbs Class Conflict

Burawoy's *Manufacturing Consent* (1979) is an ethnography of factory production, but it is a work of historical sociology because Burawoy compares his experiences with those of Donald Roy, who conducted a similar study in the same factory 30 years earlier. In both cases, workers were drawn into the game of increasing production by the character of the labor process. This machine shop operated on a

piece rate system, and “making out” under this system was a game that workers played eagerly. What changed over this period, and what appeared to Burawoy to have dampened class conflict and undermined worker resistance and activism, was the way in which work was directed. When Roy was there, time-and-motion men walked the floor of the factory, and dissent was political in nature and was directed directly at these management surrogates. By the time Burawoy arrived, engineering studies were done by men in faraway offices, and in consequence the workers were less likely to develop politically motivated complaints against management. When the shop seemed to operate as an agent-less abstract game, the class conflict that Marx had predicted evaporated.

Richard Biernacki: The Cultural Construction of Labor

In *The Fabrication of Labor* (1995), Biernacki tries to understand why German unions developed a more Marxian critique of capitalism than did British unions, which focused on negotiating a good deal for workers rather than on changing the capitalist system. Biernacki traces these differences to different labor institutions and views of the role of labor in the production process. In Britain, textile workers were paid for their output and generally treated as independent contractors. In Germany, workers thought they were being paid for the labor itself—for each pass of the shuttle through the loom—and they were held under the close tutelage of managers. British workers thus came to see themselves as independents who contracted with capitalists, whereas German workers saw themselves as the servants of the capitalist class. Biernacki traces differences in working conditions to the timing of the rise of markets for commodities and for labor. In Britain, the market for commodities arose first, and when a free labor market emerged, workers saw themselves as producers of commodities. In Germany, the two markets arose at the same time, and workers came to view the labor market as a place to sell their labor power rather than as a place to sell the products of their labor. In Biernacki's account, the capitalist class gained power in the British case from a happenstance of history as it shaped collective understandings of the factory.

Howard Kimeldorf: When Does the Working Class Act as a Class?

In *Reds or Rackets?* (1989), Kimeldorf takes a comparative tack on what was in some ways Marx's

central question: what would cause the working class to see that they are being exploited and to act as a class? Kimeldorf compares the postdepression West Coast longshoremen's union, which became radicalized, with its East Coast counterpart, which did not. On the West Coast, longshoremen had been recruited from autonomous occupations—seamen and foresters—made up of liberal northern European immigrants. On the East Coast, longshoremen had been recruited from among new, conservative Catholic, Irish, and then Italian immigrants with no tradition of independent work. Shipping was also organized more monopolistically on the West Coast, facilitating concerted labor action. For Kimeldorf, class interest resulted from a convergence of the past experience of workers and the structure of the labor market.

Yehouda Shenhav: Engineers and the Depoliticization of Management

Yehouda Shenhav's *Manufacturing Rationality: The Engineering Foundations of the Managerial Revolution* (2000) explores how between 1875 and 1925, American managers came to define their role not as the suppression of labor but as the technical coordination of workers and work processes. They did this in a quest for legitimacy, given the political activism of the working class. Engineers translated their expertise in systematization and rationalization into a management rhetoric, and in the process they won an increasing share of major management positions. They spread the word through their journals that the engineering function could be extended from the design of machines to the design and rationalization of the work process itself and that management would thus come to be based in science rather than in politics. Shenhav carries on the tradition of Marx, in *Das Kapital*, by exploring the ideological underpinnings of the labor process. By basing management in abstract engineering science, engineers made it seem less of a political enterprise to managers and workers alike.

Burawoy, Bjernacki, and Kimeldorf find that in the modern factory it is not capitalists' coercive power that caused workers to reject radical unionism, but something about the organization of the factory floor, the timing of industrialization, or the origins of the working class. In all three cases, it is not power per se that shapes the economic behavior of the working class. Shenhav traces the decline of working-class activism to an active engineering movement to depoliticize management. From studies focusing on how power shapes economic

behavior, we now turn to studies focusing on how social institutions shape behavior.

INSTITUTIONS: THE LEGACY OF WEBER

Marx's work inspired many of the historical studies of how power and politics shape economic behavior. Weber's work inspired many comparative studies of how social institutions, customs, and conventions determine economic behavior. In *The Protestant Ethic*, in his various studies of the world religions ([1916] 1951, [1917] 1952, [1916] 1958, 1963), and in his opus on capitalism, *Economy and Society* (1978), Weber tried to understand the actual customs of different societies, the thinking behind those customs, and the forces that lead to changes in customs. For Weber, it is the beliefs underlying customs that sustain them. Thus he argued for the importance of understanding the meaning of an action to the actor. Rationality is not in the eye of the beholder, but in the mind of the actor. Institutions are carried forward by the shared meaning they embody. Weber also argued for a broad view of the causes of economic behavior. In his comparative studies of the world religions, Weber argued that economic behavior is influenced by social institutions in different realms—law and the state, the religious system, the class system (Swedberg 1998). In those studies, a society's different institutional realms are integrated—under Hinduism as under Protestantism, these systems operate in conjunction. They reinforce one another and follow a common logic, of tradition or of progress, for instance.

Weber's work inspired studies that look beyond the focal economic interaction to understand the institutional framework within which it occurs. These studies explore the character of societal institutions, and the meanings that underlie and uphold social conventions.

National Economic Institutions

Max Weber: Protestantism, Catholicism, and the Rise of Capitalism

Max Weber was a professor of economics in Germany, but with the publication of *The Protestant Ethic and the Spirit of Capitalism* ([1905] 2002) he became one of the founders of economic sociology. Weber traces modern ("rational") capitalist customs to the rise of a particular brand of early Protestantism. By contrast to Marx, who

always saw class relations behind economic conventions, Weber thought that economic customs could be shaped by class, tradition, or ideology. In this case, religious sects with a new ethic gave capitalism an unexpected boost (on Weber, see also chapter 1 by Smelser and Swedberg, and chapter 26 by Wuthnow). A decade after writing *The Protestant Ethic*, Weber began work on three thick volumes on the world religions and economies. In *The Religion of China* ([1916] 1951), *The Religion of India* ([1916] 1958), and *Ancient Judaism* ([1917] 1952) Weber traced economic systems to religious ethics and to social institutions more broadly.

Weber saw in Protestantism a religious ideology that was compatible with capitalism, and wondered why such an ethic had appeared under Protestantism alone among the world religions. Early Calvinism taught predestination, or the idea that one's destiny in the afterlife was fixed at birth. While one could not earn a place in heaven, God gave everyone an earthly calling, and for the anxious, working hard and achieving success in business might at least signal divine approval. Calvin's God also demanded self-denial and asceticism. The idea of God's calling led Protestants to devote themselves to their work, and the idea of asceticism led them to save. Some argue that Catholicism promoted the same kinds of behavior (e.g., Novak 1993), and others argue that Protestantism's main effect was to promote bureaucratization of the state (Gorski 1993), but what is novel about Weber is not so much this particular argument as his vision of how economy and society were intertwined.

In comparing the world's religions, Weber found that others were oriented to salvation but that they preached very different routes (Swedberg 1998, 138). In Protestantism salvation was signaled (if not earned) through piety, asceticism, and devotion to one's calling. In Chinese Confucianism and Indian Hinduism alike, salvation was achieved by accepting one's given station and withdrawing from the world in prayer. These religious ethics fostered traditionalism and complacency rather than activism and entrepreneurialism. Ancient Judaism discouraged rational capitalism by favoring the life of religious scholarship over that of entrepreneurialism. What Weber demonstrated in these comparative studies, and what he argued in *Economy and Society*, was that economic customs were related to wider social institutions—the law and the state, religion, class—and that to un-

derstand economic conventions one must understand their links to these other institutions.

Richard Whitley: Parsing National Business Systems

Richard Whitley's national business systems approach does for the varieties of capitalism what Max Weber did for the world religions, sketching the logic underlying each form of capitalism to grasp the meaning of conventions for actors and linking economic conventions to the wider institutional milieu. Weber had shown that different religious ideas about salvation correspond to different prescriptions for how to behave in this world. Whitley finds that different national ideas about efficiency, as institutionalized in national business systems, correspond with different prescriptions for economic behavior. Whitley finds that a number of different economic systems appear to be about equally effective. Weber did not judge the efficacy of the different roads to salvation.

Whitley begins with national economic and political institutions, which offer a particular understanding of the relationships between state and industry, buyer and supplier, finance and industry. Institutions arise for reasons of history and happenstance, but over time ancillary customs and conventions emerge that hold them in place—a process that Brian Arthur (1988) terms “lock-in.” In a famous illustration, Paul David (1985) shows that while the typewriter keyboard layout was designed to slow typists to the speed of the early typewriter, once people learned the arrangement of the keys it became impossible to introduce a new arrangement of keys. Once in place, the original system was difficult to displace because typists learned it and found that it proved effective enough. Whitley and other comparativists argue that economic conventions become similarly institutionalized, as people come to take them for granted and learn how to operate with them.

Whitley (1992a) first set his sights on East Asian business systems. In Japan, the large corporation, or *kaisha*, dominates; the bank-dominated business group, the descendent of the prewar *zaibatsu*, brings together large diverse firms; the state actively promotes exports and plans industry expansion. In Korea, the family-controlled conglomerate, or *chaebol*, dominates; symbiotic relationships among conglomerate members characterize inter-firm relations; and the state actively promotes the rise and expansion of huge and stable empires. In Taiwan and Hong Kong, smaller Chinese family

businesses dominate; interfirm relations are relatively unstructured, with a few medium-sized family business groups (*jítuanqíyè*); and the state leaves firms largely to their own devices. These different systems influence all kinds of economic behavior. For instance, they influence market entry in new export sectors, with new firms sponsored by business groups in Japan; new firms sponsored by families that own small businesses in Taiwan and Hong Kong; and new firms subsidized by the central state under the auspices of existing *chaebol* in Korea. What is rational under one system—starting up a company with family backing—would be folly in another. Whitley argues that the Asian Miracle is built on at least three different systems (see Johnson 1982; Cumings 1987; Westney 1987), and in subsequent studies has found just as much diversity in European business systems (Whitley 1992b; Whitley and Kristensen 1996).

Frank Dobbin: How the Economy Came to Resemble the Polity

Weber shows that across different societies, early religious institutions shaped economic practices. In *Forging Industrial Policy: The United States, Britain, and France in the Railway Age* (1994), I show that across different societies, early political institutions shaped government industrial strategies, and industry itself. Modern industrial strategies were based on the logic of state-private sector relations. In the United States, the polity was organized around self-governing communities with a federal state in the role of umpire. Americans applied the same principles to railroading, and so the federal government became referee in a free market of self-governing enterprises. In France, the polity was organized through a strong central state designed to dominate intermediate groups that could threaten its sovereignty—theirs was a form of democracy antithetical to the American form. The French applied the principle of central coordination to railroading, with the state becoming the ultimate planner and ruler of the system of private railroads. Britain's polity produced yet a third form of democracy, based on the idea of affording maximum autonomy to the citizen. When the British considered the railroads, they could not imagine that the state would regulate markets as the American state did or plan routes as the French state did. The British state left railroaders to their own devices, and to protect them from other railroads, they created cartels that would quell cutthroat competition.

In each country, the structure of the polity had shaped the understanding of social order, and thereby shaped the ideas that emerged for organizing industry. The economy thus came to reflect the polity, with the federal state as market umpire in the United States, the central government as the guardian and planner of key industries in France, and a state committed to maximizing individual initiative in Britain.

Agency and Economic Institutions

Many neo-Weberian institutional analyses neglect interest and agency in the formation of institutions, and that is certainly true of the studies reviewed above (Swedberg 2001). Others emphasize that the agency of individuals shapes, or is shaped by, economic institutions. Hamilton and Biggart argue that in the years after World War II, political leaders in Japan, South Korea, and Taiwan chose industrial strategies that built on traditional authority systems—but they emphasize that these leaders did *choose*, and could have chosen other alternatives. Guillén shows that politicians, entrepreneurs, and managers make use of idiosyncratic industrial patterns, building strategies based on their comparative advantages and thereby reinforcing idiosyncrasies. Kiser and Schneider use agency theory to explain the particular efficiency of the Prussian tax system. Carruthers shows how early British stockholders used trading to further their political aims.

Hamilton and Biggart: Asian Business and Precapitalist Social Relations

Gary Hamilton and Nicole Biggart (1988; Orrù, Biggart, and Hamilton 1991) explain the origins of different Asian economic systems in terms of tradition and agency. They trace these systems to the actions of postwar politicians, who pursued strategies of legitimation that built on certain aspects of traditional authority structures. For Hamilton and Biggart, postwar state-industry relations arose by design, but history provided the alternatives from which designers chose.

Japan has powerful intermarket industry groups under a state that helps them to plan and coordinate. After the American occupying regime dissolved the prewar *zaibatsu*, politicians built directly on the Tokugawa and Meiji authority system, in which the shogun, or emperor, was “above politics” and provided a weak center surrounded by strong but loyal independent powers (Hamilton

and Biggart 1988, S81). The postwar Taiwanese and South Korean states built on two different legitimating aspects of the Confucian political system. When Korea was embroiled in a civil war, the state directed industrial growth, and presidential cronies became leaders of huge empires. The Rhee and Park regimes drew on the imagery of the strong, centralized Confucian state, with weak intermediate groups. The result was large family-dominated business groups beholden to the state. In Taiwan, Chiang Kai-shek modeled the state on the late imperial Confucian state's principle of fair treatment of the population. The postwar Taiwanese state allowed private parties to pursue their own projects. The resulting system mirrored late imperial China, with small family-run firms that had direct contacts with suppliers and buyers. In each case, politicians who were determined to build new economic institutions that would have some legitimacy in terms of tradition deliberately employed aspects of traditional authority structures that suited their own goals. Old political institutions shaped new economic institutions, but only through the agency of calculating politicians.

Mauro Guillén: Constructing Advantages from National Differences

Mauro Guillén's (2001) *The Limits of Convergence* explores the very different firm and industry strategies found in the emerging economies of Argentina, South Korea, and Spain. Guillén challenges the conventional wisdom about convergence, which is that countries will converge on one set of "best practices" for making each and every product. Instead, Guillén finds politicians, entrepreneurs, and managers relishing and building on their industrial idiosyncrasies as a means to distinguish themselves and to develop unique market niches. Far from converging, these economies build on their perceived strengths—trying to remain different.

What is striking about these countries is that across industries—wine making, banking, automobiles—broad public policy strategies have advantaged different sorts of industry structures and owners. But each of these public policy strategies has proven highly profitable under the right conditions. South Korea's ardently nationalistic and centralized growth policies have favored huge integrated business groups over multinationals and smaller firms. Spain's pragmatic and flexible approach to regulation has resulted in a large presence of multinationals, a wide range of smaller

domestic firms, and huge domestic firms in traditionally oligopolistic sectors. Argentina's populist policy orientation has discouraged foreign multinational penetration in some sectors, but has promoted business groups that can provide stability and the economic basis for wider competition. Across these countries, parallel industries are organized quite differently. To be sure, there is more than one effective way to organize these industries. Once established, a particular system becomes self-reinforcing, as individuals develop economic strategies that build up its strengths. In these cases, states and legal institutions shape economic behavior as Weber anticipated they would, but individuals built on the idiosyncrasies that state policies produced.

Kiser and Schneider: Agency and Efficiency in Early Prussian Taxation

Edgar Kiser and Joachim Schneider (1995) take a very different tack on Weber, and a very different tack on agency. Weber had much to say about the efficiency of the bureaucratic form, and he distilled an ideal type of modern bureaucracy from the nation-states of the early twentieth century. He was interested in what made formal bureaucracy efficient, and he argued that the early Prussian state was particularly efficient at collecting taxes because it was so bureaucratic. Kiser and Schneider show that the Prussian state was an efficient tax collector even before it became bureaucratic, and they use agency theory to show that it was efficient because it diverged from the bureaucratic ideal in ways that were particularly effective given the situation. Agency theory suggests that rulers seek to maximize tax revenues, their agents (tax collectors) seek to maximize their own take from taxes collected, and taxpayers seek to minimize payments. Prussia developed a system that aligned interests to maximize the take of the ruler, by, for instance, establishing long-term conditional contracts for tax farming that could minimize the cost of rent collection. Kiser and Schneider are part of a small group of economic sociologists who apply rational choice principles from agency theory.

Bruce Carruthers: How Politics Shapes Stock Trades

Bruce Carruthers's analysis of early British stock trading exemplifies a related tradition in historical economic sociology, by showing that politics, and not narrow self-interest alone, drives economic behavior. Weber had argued that political institutions often shape economic behavior. Carruthers finds

that stock trades were driven by politics as well as by price. *City of Capital: Politics and Markets in the English Financial Revolution* (1996) questions a central tenet of price theory in economics, namely that sellers choose the buyer offering the highest price. There were strong political battle lines in place in the early 1700s, and large companies exercised significant influence over political decision-making. Who controlled the East India Trading Company was of some importance, and major stockholders were aware of this. In consequence Carruthers finds that, in the case of important companies, stockholders with clear political leanings were significantly more likely to sell to members of their own political party. This did not go for professional traders so much as for private stockholders. Sellers might lose money by constraining their sales to members of their own party, but they were more likely to sell to party members nonetheless. Carruthers shows that purely political ideals can influence economic behavior, even in such seemingly pristine economic realms as stock trading.

Change in National Economic Institutions

The institutional studies reviewed up to this point echo two of Weber's points: economic institutions follow logics that are meaningful to the participants who enact them; and economic institutions are shaped by surrounding institutions, particularly political institutions. Others take up Weber's task of explaining change in economic institutions, which is exemplified in *The Protestant Ethic*. Bai Gao looks at how economic thought influenced the development of Japan's modern industrial strategy. Gao's books build on the Weberian insight that new ideals can alter economic institutions. John Campbell and colleagues look at how changes in one part of an institutional configuration led to new governance regimes in American industries. Their study builds on Weber's insight that economic institutions are integrated with surrounding institutions.

Bai Gao: The Rise of Japan's Modern Industrial Policy

In *Economic Ideology and Japanese Industrial Policy* (1997) and *Japan's Economic Dilemma* (2001), Bai Gao asks how Japan's unique industrial strategy emerged in the years after 1930. That strategy emphasized strategic planning of the economy, the restraint of competition through the

governance of markets, and the suppression of short-term profit orientation in favor of long-term orientation. The approach was influenced by economic thought from Europe: Marx's ideas about the downside of unbridled competition, Schumpeter's ideas about innovation, and Keynes's ideas about state management of economic cycles. Japanese policymakers and capitalists who favored economic stability and industry self-governance (as opposed to cutthroat competition) used these ideas to formulate Japan's unique industrial policy stance.

In *Japan's Economic Dilemma* Gao traces the consequences of this system in the 1990s. Industry self-governance had worked well when the economy was booming, but in an economic downturn firms were free to engage in cutthroat competition and to make ill-conceived investments to counter declining profits. If *Economic Ideology* supports the Weberian notion that ideas can shape economic institutions, *Japan's Economic Dilemma* supports the Weberian notion that institutions become resilient to change. Japan found it hard to change its industrial policy midstream, even when the old policy had clearly gone awry.

Campbell, Hollingsworth, and Lindberg: Changes in Industry Structure

John Campbell, Rogers Hollingsworth, and Leon Lindberg's *Governance of the American Economy* (1991) shows the diversity of industry governance structures found in the United States, and develops a Weberian approach to explaining change in governance. In studies of eight industries, contributors identify a series of different industry configurations—markets, mergers, monitoring systems, obligational networks, promotional networks, and associations. Historical change in industry governance follows a common pattern. Governance institutions tend to be stable when surrounding institutions (state regulation, economic theory, supplier institutions, the practices of consumers) are stable. But external shocks can destabilize the existing structure, whether it is a cartel or a competitive market, leading different groups to vie to define a new structure. Power is key at critical moments of change. Campbell et al. challenge the prevailing view from transaction cost economics (Williamson 1985), which suggests that firms change governance forms when it is efficient to do so. Campbell and colleagues show that poor profitability may stimulate a search for new governance mechanisms, but many other kinds of shocks can

stimulate change as well. And it is typically power that determines which alternative will prevail.

National Management Institutions

Now I turn to comparative studies of internal management systems. These systems are subordinate to the broad economic systems discussed above. Weber's arguments suggest that differences in internal management systems will be related to differences in wider institutions, and this is what many studies find.

Reinhard Bendix: Social Structure and Management Ideology

Reinhard Bendix's sweeping *Work and Authority in Industry: Ideologies of Management in the Course of Industrialization* (1956) traces the roots of management practice and ideology in four settings. Why does management vary across countries? Bendix looked at countries that differed on two dimensions, early versus mature industry, and independent versus state-subordinated management. His two-by-two table includes early English industry (independent management), early czarist Russian industry (state-subordinated management), mature American industry (independent management), and mature East German industry (state-subordinated management).

Successful management practices emerged where industry was autonomous, not where it was merely mature. It was in the two settings where management was autonomous, mature America and early Britain, rather than in the two where management was mature, America and East Germany, that managers developed ideologies that co-opted workers by suggesting to them that they too could benefit from social mobility, as current managers had. In czarist Russia and Communist East Germany, where managers were not autonomous, they did not succeed in countering the idea that managers' positions were undeserved and that management was a function of state oppression. In all four settings, the legacy of old ideas about class relations, and the reality of present class-state relations, shaped management patterns. For instance, in early England, the aristocracy's power vis-à-vis the state, and its antipathy toward industry, meant that the state left capitalist enterprises alone. In czarist Russia, by contrast, the state fostered early entrepreneurial activities and held early capitalists in its grasp, just as it held agricultural aristocrats in its grasp. In the wake of the collapse of Communism, an important punch line is that where the

state subordinates entrepreneurs and industry to rule workers directly, the chances for the development of a successful managerial ideology are weak.

Like Weber, Bendix was interested in the articulation between ideas and economic practices. He found that broadly similar economic practices could attain legitimacy in one setting, but not in another, largely on the basis of how effective the ideology of management was.

Wolfgang Streeck: Industrial Relations in Developed Countries

Wolfgang Streeck's comparative studies of industrial relations systems build on Weber's insight that economic conventions are embedded in a broad set of societal institutions. *Social Institutions and Economic Performance* (1992) compares industrial relations systems across countries and links those systems to success in the global economy. For Streeck, history has produced different sorts of institutional configurations—labor markets, public employment policies, educational institutions—in each country, and these institutional configurations shape the industrial relations system. But what are the comparative advantages of different industrial relations systems? Nations with strong institutions (Germany and Japan) can make choices about how industry and training will be configured, and those choices can give them a comparative advantage over more marketized nations (Britain and the United States) where decisions are left to individuals—where the collective is the sum of individual decisions.

Germany's strong labor unions and rich educational system have allowed it to choose to produce high-value-added products that require skilled employees. Britain and the United States simply do not have the institutional capacity to make the same decision. The German and Japanese cases suggest that competitiveness in the modern economy depends on social institutions that permit countries to pursue collective goals through their industrial relations systems, educational systems, and corporations.

Geert Hofstede: Culture and Work Values

Geert Hofstede (1980) has taken the Weberian task of characterizing the work orientation of individuals to its logical conclusion, developing a scheme for understanding values in 40 different countries. His study is based on a survey of employees of a single multinational corporation with offices in 40 countries. In describing authority relations and work values across countries, he identi-

fies four dimensions: power distance (acceptable degree of supervisory control), uncertainty avoidance (degree to which people avoid the unknown to manage stress), individualism (importance of the individual versus the group), and masculinity (relative importance of earning and achievement versus cooperation and atmosphere). Hofstede correlates cultural types with societal institutions, arguing that the psyche is shaped by those institutions. One implication is that rational action takes very different forms across contexts, depending on whether close supervision is seen as improper, whether uncertainty elicits stress, whether individuals are valued over and above the group, and whether achievement is valued over cooperation. Hofstede thus fleshes out dimensions of the work ethic that Weber describes in *The Protestant Ethic*, and like Weber he identifies societal institutions as the ultimate cause of differences.

Japanese Management Institutions

Since the postwar Japanese miracle caught the attention of economic sociologists, many have sought to bring Weber's comparisons of East and West up to date, to understand the characteristics of Japanese society and workplace that produced unparalleled growth rates after World War II.

Ronald Dore: Factory Organization in Japan and Britain

Ronald Dore's *British Factory—Japanese Factory* (1973) pioneered factory comparisons in the two hemispheres, showing dramatic differences between Britain's market-oriented management system and Japan's welfare corporatism. In Britain, Dore found high labor mobility between firms, wages set by the external market, weak employee loyalty, paltry fringe benefits, and poor integration of unions. In Japan he found low external labor mobility but an elaborate internal labor market with extensive training; wages set under the internal career system; high employee loyalty; elaborate fringe benefits; and enterprise unions that play an integral role in the workplace.

Dore rejected the idea that culture explains these differences, tracing them instead to the timing of industrialization and to the conditions under which industrialization occurred. Japan's industrial form was forged in the postwar period, with the most advanced management thinking available at the time—ideas about worker involvement and long-term incentives to orient employees' goals to the firm's goals. In addition the

American occupying forces encouraged a collaborative relationship between management and labor. Britain's factory conditions were forged in a much earlier era, before modern ideas about employee motivation were developed and before the idea that union-management collaboration could be effective was popular. Dore was one of the first sociologists to argue that countries would sustain their unique organizational characteristics, and his recent work (Dore 2000) suggests that countries have converged little. William Ouchi (1981) brought the case of Japanese management practices to a much wider audience, showing that the same practices that worked well in Japan could have a positive effect on American firms.

Lincoln and Kalleberg: Comparing Work Systems in the United States and Japan

Weber suggested that the spirit of capitalism was fueled by Calvinism, but is work ethic also shaped by concrete workplace conventions? James Lincoln and Arne Kalleberg's (1985) study of some 8,000 workers in the United States and Japan suggests that work practices are important. While corporatist practices are more common in Japan, they increase worker commitment in both countries. The Japanese wage system presumes the absence of an external labor market—wages are shaped by tenure in the firm's career system. In the United States, the wage system presumes competition across firms, and thus wages reflect job characteristics, position in the hierarchy, and union representation (Kalleberg and Lincoln 1988; Lincoln et al. 1990). The received wisdom about differences between Japan and the United States was that they were cultural—that both worker commitment and employer commitment (to the worker) were part of a broader cultural system. Lincoln and Kalleberg's findings show that work practices themselves shape commitment. They build on Weber's foundation to suggest that local conventions are as important as broader cultural systems in shaping work ethic.

The Diffusion of Management Institutions

While Weber was most interested in how customs differ among societies, recent works in economic sociology have focused on the factors that facilitate diffusion across organizations or across societies (Meyer and Rowan 1977; Powell and DiMaggio 1991). How do social institutions mediate the successful diffusion of an economic convention from one society to another?

Mauro Guillén: The Spread of Management Paradigms

Mauro Guillén's *Models of Management: Work, Authority, and Organization in a Comparative Perspective* (1994) charts the spread of three important management paradigms in the United States, Britain, West Germany, and Spain. Guillén stands on Bendix's and Weber's shoulders, exploring the social structural and ideological factors that shape ideas about management. What determines the successful spread of scientific management, with its time-and-motion studies and focus on the engineering of work; the human relations school, with its emphasis on treating workers humanely; and structural analysis, with its focus on the link between technical demands and the human factor? What matters most is the institutionalization of large, bureaucratized firms that can put a new management technique into practice when they truly want to.

Religion plays an interesting role that is typically neglected. In Spain, the Catholic Church supported the human relations school for its humane treatment of workers. In Germany, Protestants supported the scientific management movement for its emphasis on individualism and self-reliance. New practices do not diffuse universally; rather, they diffuse where existing social institutions are compatible with them and where systems have the capacity to effect change. This finding supports Weber's notion that societal institutions reinforce one another when they share an "elective affinity."

Marie-Laure Djelic: Copying the American Model of Capitalism

Marie-Laure Djelic's *Exporting the American Model: The Postwar Transformation of European Business* (1998) explores why France and Germany succeeded in importing American-style capitalism after World War II and why Italy failed. What mattered most was the character of institutions, both international institutions and national political institutions. France and Germany adopted the corporate structure (rather than independent ownership), the multidivisional form (rather than the simple unitary form), and enforced price competition (rather than cartels). Support from international institutions, in the form of the Marshall Plan; from the local political system; and from the business community mattered. In the case of Italy, industry resistance to change, the emphasis of Marshall Plan administrators on infrastructure over

industry, and the disarticulation of the recovery plan worked against the American model.

Weberian comparative and historical studies share a focus on the meanings of social conventions to actors and on the articulation of different social institutions. Economic conventions are only replicated to the extent that those who enact them understand them, so understanding is key to the persistence of conventions. Diverse social institutions must reinforce economic conventions, and where they do not, conventions tend to change. These insights were not Weber's alone, but his work brought them to the forefront of economic sociology more than the work of any other single author.

NETWORKS AND ROLES: THE LEGACY OF DURKHEIM

Changes in Networks and Roles

Economic behavior is fundamentally role-oriented behavior, in the view of most economic sociologists. Whereas neoclassical economists tend to see economic behavior as driven by individual calculations, economic sociologists tend to view it as driven by norms about social roles. Émile Durkheim explored how social networks and social roles varied across different societies, and much of the comparative and historical work in economic sociology builds on his insights. The network approach in economic sociology also carries forward his insights about the role of concrete social connections in shaping economic behavior.

Émile Durkheim: The Division of Labor

Durkheim tried to understand the emergence of industrial capitalism through the concrete social networks that gave rise to an increasing division of labor. For Durkheim, social networks gave to individuals the roles and scripts they followed in economic life. Interpersonal networks varied dramatically among the societies Durkheim studied, from the totemic, tribal societies of the South Pacific to the complex industrial societies of early-twentieth-century Europe.

The division of labor, where the tasks of sustaining life were divided up, set modern societies apart. Durkheim's *The Division of Labor in Society* (1933) explores how social attachment was restructured with industrialization, as individuals developed primary attachments to their occupational

or professional groups rather than simply to their local communities. In Durkheim's view, economic behavior was shaped by social role, and in modern societies role identity was formed increasingly by occupation. People identify with those in their occupations, behaving according to occupational scripts and norms. One implication is that executives, physicians, accountants, and janitors follow economic customs rather than making rational calculations about how to behave in every situation they face. Occupational conventions may be based on rational ideas, but day-to-day behavior is guided by tradition rather than by active rational choice.

Viviana Zelizer: The Changing Role of Children in Industry

How do social roles change in modern society? Viviana Zelizer (1987) shows how a network of social reformers altered the role of children under capitalism, redefining rationalized roles and changing behavior. With the advent of the custom of selling labor by the hour under early industrial capitalism, the labor of children was bought and sold just like the labor of adults. In realms ranging from factory production to life insurance to foster care to litigation, children were treated as laborers. Life insurance for children was designed to replace children's income. Foster parents favored older boys because of their earning potential. The courts awarded the parents of children killed in accidents remuneration based on the child's lost wages.

A network of social reformers sought to protect children from the industrial labor market by changing society's understanding of their role. They described childhood as a sacred category and defined children's value to parents as primarily emotional rather than economic. Their successes could be counted in institutional changes. Most forms of child labor were outlawed. Life insurance for children was transformed to provide parents with compensation for their grief over the loss of a child. Adoptive parents came to favor baby girls, who were inferior workers but superior objects of emotional attachment. The courts awarded grieving parents compensation for their emotional loss. Between 1870 and 1930, new norms about the role of children in capitalism were institutionalized. Employers themselves came to argue that children's time was better spent in schooling that would prepare them for the workforce. This change was the result of a social movement that promoted a new theory of the role of children—a

new rationalization of childhood centered around education rather than labor.

Julia Adams: The Principal-Agent Problem in Dutch Colonial Networks

Like Kiser and Schneider, Julia Adams (1996) is interested in the problem of agency and revenue collection among early European states. She combines network and agency approaches, arguing with Durkheim that identity often causes individuals to conform to economic norms. But identity, in this case as honorable members of the Dutch colonial empire, was not always enough. The Dutch East India trading network brought revenues back to Holland, and in its early stages it did so quite successfully. Adams shows that this was the case largely because Dutch agents abroad had no alternative network through which to move goods and receive payments. With the growth of Britain's parallel East India trading network, Dutch agents found an alternative trading route, and many of them became free agents, acting for their own enrichment rather than for the good of their principal, the empire. The weak incentives to stick with the Dutch network were to blame. The British Empire reduced disincentives to leave the network, and its agents were less likely to defect. The structure of the social network, and its efficacy at binding individuals, were key to predicting whether agents would stick with their empires.

Networks and Economic Development

Network position also shapes the roles that different nations play in the international order. Marx recognized this, and so especially did Lenin ([1916] 1976) in his work on imperialism. Neo-Durkheimian studies (Purnam 1993) that emphasize the positive effects of strong social networks on development have come to play an important role in recent studies, and hence I discuss networks and development under the heading of Durkheim.

Immanuel Wallerstein: The World System

Immanuel Wallerstein's (1976–80) sweeping historical studies of the evolution of the world system suggest that late developers will follow a different pattern than early developers, in part because their profits will be drawn toward early developing countries rather than remaining at home. Core countries, in Wallerstein's model, will buy raw materials and agricultural goods from peripheral countries at low prices. Power, in terms of core

countries' capacity to make war and control technology, keeps peripheral countries in subordinate positions. Wallerstein's studies built directly on the work of Paul Baran (1957; Baran and Sweezy 1966), who similarly contended that differences in a country's location in the global trade network would shape the pattern of development, and that power was the key factor that permitted developed nations to extract value from underdeveloped nations.

Cardoso and Faletto: Economic Dependence and Industrialization

Cardoso and Faletto's *Dependency and Development in Latin America* (1979) took on the problem of the economic dependency of underdeveloped nations on developed nations. Cardoso is best known for his stint as Brazil's president from 1994 to 2002, but he was also arguably the most important scholar of development in the 1980s. Baran (1957) had argued that development would be stalled in underdeveloped nations by the fact that developed nations extract value from them—by the fact that they pay little for raw materials—farm products, wood, oil, minerals. But Baran's argument was something of a blunt instrument.

Cardoso and Faletto refine the idea, arguing that class characteristics of developing countries shape their relations of dependency with core countries, thereby influencing industry structure. The power of different domestic elite groups is key. Cardoso and Faletto describe different patterns of local class incorporation in the international economy, representing typical phases in the evolution of dependency. At first commercial groups are involved in the transfer of raw materials. Later the urban middle classes and the industrial bourgeoisie play roles, as countries begin to trade in manufactured goods. When a country starts to substitute local products for imports, a wider range of social groups becomes involved in manufacturing. At each stage, the collaboration of local elites helps to shape the kind of relationship a dependent country will have with the core, with export platform manufacturing requiring a very different pattern of cross-national class relations than, say, mining and lumbering. Here, international cross-class networks shape the pattern of development.

Gary Gereffi: Multinational Strategy and Dependent Development

Whereas Cardoso and Faletto find that the international network shapes how export industries will be structured in developing countries, Gary

Gereffi's (1983) systematic analysis of a single industry in 14 countries shows a similar pattern based on the strength of multinationals. Using J. S. Mill's comparative method, Gereffi shows that powerful multinationals producing steroids suppress the development of domestically owned competitors in all of these settings—multinational power trumps all kinds of domestic configurations. It is their market power and their willingness to bend the rules, rather than their efficiency, that keep multinationals in charge of this industry.

Gereffi and colleagues (Gereffi and Korzeniewicz 1994) have refocused comparative studies of development, turning away from the dependent nation to the production network, or the "commodity chain." They trace goods from the extraction of raw materials to the consumer. As transnational corporations made the production process truly global in many industries, commodity chains became increasingly complex, wending through many countries. Case studies of different industries reveal that transnational corporations make use of unregulated extractive industries in one location, low wages in another, and advanced manufacturing techniques in a third. They practice the concept of comparative advantage, shopping for the best wages, environmental regulations, and so on for each stage in the production process.

Peter Evans: State Strategies and Elite Networks in Development

Whereas comparative studies of developed economic systems suggest that there are many ways to skin a cat—that different configurations of state and industry can produce growth—comparative studies of developing countries typically focus on the forces that spur development. Peter Evans has focused on how networks of bureaucrats, multinationals, and local capitalists can foster development. Conventional wisdom suggests that laissez-faire state policies produce growth. In two books, one principally on Brazil (*Dependent Development* [1979]) and one comparing Brazil with South Korea and India (*Embedded Autonomy* [1995]) Evans amends this wisdom. First, he finds that in virtually all successful cases of development, the state takes an active role in the promotion of industry. Comparisons across industries in Brazil make this clear. Second, he suggests that states need to be *autonomous*—they need to have bureaucratic insulation from the military and from other societal groups—to develop successful growth strategies. Weberian norms of rationality make states effective managers of the economy. Where capitalists

hold state bureaucrats in their pockets, dynamic growth rarely ensues. Third, in successful cases of development, states need to be embedded in societal networks in order to gain information on industry and to be able to influence industry. A comparison of the information technology industries in Brazil, South Korea, and India provides evidence: South Korea best exemplified embedded autonomy and had the greatest success, but in Brazil and India, segments of the sector where the state got it right saw significant successes. For successful development, bureaucratic rules must contain the power of societal groups over the state, but the state must play an active role in development, and to do so effectively, state elites must be involved in networks of entrepreneurs and financiers.

Development studies have increasingly emphasized the importance of strong social networks to the successful pursuit of economic growth. Societies without adequate "social capital" are disadvantaged compared to their peers with rich and dense networks (Woolcock 1998).

Roles and Institutions in the Transition to Capitalism

The transition to capitalism has provided a sort of natural laboratory for analyzing rapid shifts in economic practices in Eastern Europe, in the former Soviet Republics, and in China. In the short run, the plans for transition via "shock therapy" sketched by economists such as Jeffrey Sachs (1989) appeared to have failed, and this brought greater interest in sociological analyses of the transition. Followers of shock therapy believed that by destroying socialist economic forms, such as collective ownership, they would unleash the power of markets. Sociological analyses suggest that no one particular system fills the void—not American-style neoliberalism, but certainly not Japanese-style state-industry collaboration either. As Weber would predict, institutions do not change so easily. As Durkheim would suggest, social roles and social networks often explain how systems change. Here I review only a handful of studies, as the lion's share are reviewed by King and Széleányi in chapter 10.

Iván Széleányi: The Rise of a Bourgeoisie under Communism

Iván Széleányi documented the emergence of protocapitalist enterprises even before socialism fell, abruptly, in Eastern Europe in 1989. In *The Intellectuals on the Road to Class Power*, Konrád and Széleányi (1979) showed that intellectuals were

becoming the ruling class under modern socialism. Yet by the late 1980s, Széleányi and colleagues (1988) found that a new bourgeois elite was rising in Hungary, contrary to all expectations. It was a farming elite, producing agricultural goods for sale in private markets. Széleányi found that the participants were typically from families that had been entrepreneurial even before the advent of Communism in Hungary. Some 40 years later the entrepreneurial inclination survived in these families, and some developed active and quite successful businesses targeting unmet demand for agricultural goods in private, unregulated, markets. Széleányi proposes an argument about the continuity of social roles at the level of the family. In Hungary, those whose families were on the path to embourgeoisement in 1944 put their ambitions on hold, but revived those ambitions as a private, secondary economy emerged that allowed them to behave as entrepreneurs.

David Stark: Path Dependence in Postsocialism

David Stark's (1992a, 1992b; Stark and Bruszt 1998) laboratory is Eastern Europe after the fall of Communism. His comparative studies of the transition to capitalism lend support to the idea that economic institutions are built on the foundation of previous institutions. Stark finds that the transition to capitalism is mediated by the economic and political institutions of Communism. Tradition matters even when nations are deliberately trying to shed the old. In the final analysis, societies with strong social networks that encourage political participation have the greatest potential for growth.

Stark's study of post-1989 privatization strategies challenges the idea of "cookbook capitalism"—the idea that one can use a single recipe to create identical capitalist systems everywhere. Countries pursuing the recipe for privatization built very different systems, based on pre-1989 institutions and assumptions (1992b). States chose either corporations or individuals to acquire stock in state-owned firms, and they distributed stock either to those who could buy it or to those who, they deemed, had a right to it. Czechoslovakia and Poland chose citizens to acquire stock, the former selling it in a voucher auction and the latter distributing it through citizen grants. East Germany and Hungary both chose corporations to acquire stock, the former selling it and the latter reorganizing enterprises that would own themselves. The form of public ownership of corporations under Communism, and the structure of elite networks, account for these differences.

Which kinds of transitions produce growth? Stark and Bruszt's *Postsocialist Pathways* (1998) shows that the structure of social ties matters more than the extent to which nations have approximated the neoliberal model of the market. Consistency in the property rights regime is a precondition to success, and consistency is a consequence of a society's network structure. Where there is a "deliberative association" of producers that generates a market that is open and participatory, policy continuity and growth ensue. The Czech Republic's consistent policies are one result, and they contrast starkly with Hungary's policy vacillations.

Victor Nee: Social Roles and Economic Incentives in the Chinese Market Transition

Victor Nee (1989, 1991, 1992, 1996) studies the ways in which policy institutions have shaped the interests of elites in the Chinese transition to capitalism, and the implications for the transition. The implicit story is that economic practices and structures persist because they produce a sort of equilibrium of interests, but that change in policy can alter interests and economic patterns. When public policy encouraged entrepreneurialism, government officials were the first out of the gate because they had the requisite knowledge and access to resources (Nee 1991). Yet when state cadres used privileges of position to build enterprises, they created a crisis of legitimacy in party socialism that further hastened the move toward capitalism (Nee 1996). Here a change in the incentives created by public policy brought about a new set of economic behaviors that fed back into the political system. Policy incentives can also shape the form of enterprises that emerge under capitalism. In "Organizational Dynamics of Market Transition" (1992) Nee shows that China's transformation did not spawn a single enterprise form, because public policy continued to support hybrid forms such as cooperatives and enterprises owned by local governments. These forms were not inherently uncompetitive when they came head-to-head with private enterprises organized on the Western model. Their competitiveness depended on whether public policy encouraged efficiency in the particular form. Nee's rich analyses point to the importance of long-standing social networks among elite cadres for the transition to capitalism.

Douglas Guthrie: American Management Practices Spread to China

Douglas Guthrie's *Dragon in a Three-Piece Suit: The Emergence of Capitalism in China* (1999)

charts changes in Chinese management practices during the 1990s, as a growing number of enterprises adopted Western management conventions. The need to reform is not what determines which enterprises move toward the Western conventions of bureaucratic wage and promotion systems, market pricing, diversification into the profitable service sector, and adoption of company law as a governance form. Two other factors determine which enterprises reform. Networks matter, and specifically links to Western ideas, through the training of managers or through joint contracts with Western firms. And enterprises that had received significant public subsidies in the past change quickly after being cut off from the public trough. Guthrie thus finds that institutional theory, with its emphasis on crises catalyzing change and its emphasis on the spread of new strategies through networks, better explains new corporate strategies in China than does efficiency theory.

Comparative and historical studies of the transition to capitalism may best exemplify the promise of economic sociology, because they tend to draw on all of its best ideas, bringing insights from the Marxist, Weberian, and Durkheimian traditions to bear.

CONCLUSION

Karl Marx, Max Weber, and Émile Durkheim observed that economic institutions and customs vary significantly across time and space. All three were intrigued by what set modernity apart—by what made modern societies different from traditional societies. Thus all three compared modern societies to traditional societies, seeking clues about what made rational economic behavior patterns emerge. Historical economic sociology was born of this search for what made modernity different. Although they arrived at very different conclusions about where modern economic customs came from—from class struggle under feudalism, from the norms of Protestantism, or from population density and the division of labor—they began with a common insight, that economic behavior must be explained by social context. Given the same set of economic options, people from different societies will make very different choices, for society conditions economic choices.

Economic sociologists have moved from the question of what produced modern economic behavior patterns to that of why people exhibit such different sorts of economic behavior across mod-

ern societies. Whereas Marx, Weber, and Durkheim could not be certain that modern societies would take as many different forms as ancient societies, time has shown that nations develop a wide range of economic behavior patterns. Not only are Japan, Taiwan, and South Korea quite different from the West, they are different from one another. And the West is not of a piece when it comes to economic institutions, customs, and behaviors. Germany, France, Britain, Sweden, the United States—in these countries we find fundamentally different labor management systems, corporate strategies, intraindustry firm relations, supplier-buyer relations, interindustry relations, and state-industry relations. Modern common sense suggests that there must be “one best way” to organize each of these domains. Comparative economic sociologists demonstrate that there are many different ways of organizing these domains—and many that appear to be about equally efficient. If these countries do not represent different steps on the stairway to heaven, or to perfect rationality, then what explains their differences?

Economic sociologists address this question in studies that are inductive and comparative. Their method is inductive because they start out with a tool-kit of theoretical ideas, but with no firm conviction that a single process shapes economic behavior. Many of the studies reviewed here are thus hard to categorize because they use insights from more than one tradition. Their method is comparative, because only through comparisons can they discern what it is about a society that produces one pattern of economic behavior or another—that produces intermarket business groups, cartels, or vertically integrated firms. The comparisons can be over time, with an eye to identifying the factors that precede changes in economic behavior, or across space, with an eye to identifying the factors that covary with different economic behavior patterns.

It is worth noting that as a group, economic sociologists do not reject the idea that efficiency plays a role in shaping economic behavior. But the empirical fact of the matter is that many different kinds of economic systems operate effectively today, and so for economic sociologists the problem is to explain this diversity. The question of what kinds of economic behavior patterns are actually extinguished by their inefficiency is an important one, but it is remarkable how many different behavior patterns are not extinguished, or have not yet been.

For well over a century, economic sociologists have undertaken these inductive and comparative studies, and they have identified three broad mech-

anisms that shape economic behavior. First, power shapes economic institutions and conventions. Marx found that the emerging bourgeoisie under late feudalism used their newfound economic resources to move public policy in their direction, so that policy favored capitalist activities. The modern state professes neutrality in matters economic, but Marx found that it pursues policies that favor particular groups in the name of the collective good. Under democratic regimes, the powerful often win the right to establish the rules by which firms play, but the state and corporations depict those rules as oriented to efficiency and progress rather than as oriented to the interests of particular groups. By analogy, Fligstein shows that as finance-trained managers sought to win control of American corporations, they did so with the claim that their particular form of expertise was uniquely well suited to the problems of modern firms. And Roy shows that the legal rules that made the corporation the most profitable governance structure were backed by a particular group of capitalists, who succeeded in convincing society at large that limited liability and kindred legal forms were good not only for the owners of corporations but for society. Power often influences the evolution of economic institutions and customs, and what makes power effective is the capacity to frame its exercise as an exercise in pursuing the good of the nation or firm.

Second, existing economic institutions and customs shape the new institutions and customs that emerge. This happens in part because existing institutions provide models of how the world should be organized and resources for organizing new fields of activity in the way that old fields were organized. Historical studies find dramatic shifts in economic behavior and institutions over time, but they also find that countries build on past experience. Hamilton and Biggart trace the modern industrial strategies of Japan, South Korea, and Taiwan not to postwar innovations in industrial policy, but to the strategic use of traditional forms of state-private sector relations. Cardoso and Faletto find that the pattern of export-sector development in emerging markets depends on the character of preexisting class relations. And I find that the logics of state-society relations in the preindustrial polities of the United States, Britain, and France informed later state-industry relations.

Finally, networks are the conduits through which new economic customs diffuse, and through which power is exercised. Social networks take very different forms, and concrete networks determine what

is possible in economic life and what is not. Thus as Davis and colleagues have shown, a network of institutional investors changed the rules of the corporate game sometime after 1970, making it difficult for diversified firms to maintain high stock prices and thereby encouraging their breakup. For Nee, the network of state cadres (officials) shaped the transition to capitalism in China by jumping into the fray as entrepreneurs. For Gao, the close ties between state officials and corporations in Japan, and the resulting absence of formal controls over corporate activity, played a role in the economic collapse of the 1990s. Networks also define social roles for their members, and many studies have shown that individuals follow social norms unthinkingly in economic life rather than making rational calculations at every crossroad they meet.

Comparative and historical economic sociologists may emphasize one process or another when they are trying to explain new business practices or public coordination of industry, but increasingly they find all three of these processes at work (Fligstein 2001). Once a national economic institution or a business practice is put into place, and becomes taken for granted as the most efficient way to organize a particular domain, some kind of shock is usually required to displace it. The shock typically sets off a contest among different groups, with different ideas about what the new policy or practice should look like. At this point power comes into the equation, as groups try to use rhetoric and resources to ensure that their favored solution is adopted. Networks often provide the conduits through which new practices are tested out, and through which the word is spread. As powerful agents use their networks to try to convince others of the efficacy of the economic policy or business practice they favor, a new policy or practice becomes institutionalized, often eliminating competitors in the process. Thus begins a new cycle, in which taken-for-granted policies and practices are eventually undermined by challenges, and in which groups vie to define what will replace them.

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