





**Economic Sociology**

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THE PEOPLE'S  
UNIVERSITY

**School of Social Sciences**  
**Indira Gandhi National Open University**  
**New Delhi**

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# INTRODUCTION

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Economic Sociology as a subfield of Sociology Discipline provides an understanding of the social and cultural bases of economic activity.

Its aim is to explain to the students of Sociology the sociological significance and analyses of the economic processes taking place in society; both at the local and the global levels.

Several scholars believe that as a designated field of inquiry it is not more than a century old in spite of the fact that its intellectual roots can be seen in the older traditions of philosophical and social thought. Economic Sociology has in the past quarter century experienced an explosive growth. It stands as a conspicuous and vital sub-field of Sociology.

Broadly economic sociology may be defined as sociological perspective which may be extended to understand and explain economic phenomena that engages with complex activities concerned with the production, distribution, exchange, and consumption of goods and services.

While economics as a discipline has focused its analysis based on assumptions of risk and uncertainty and rational behavior of human individuals. Economic sociology in contrast, incorporates norms and institutions of society (Smelser, N.J. & Swedberg, 2005)

In the First Block we have introduced you to the sub-field of **Economic Sociology**. We discussed in the first unit the relationship between society, culture and economy. The second unit on “Formalism and Substantivism” describes the two schools of thought that exists in economic sociology. One based on formal, rational, profit making capitalist societies and the other school of thought highlights the socio-cultural foundation of economic activity found at empirical level in different societies and cultures.

The second Block, **Forms of Exchange** has two units. It focuses on different forms of socio-economic exchange that exist in society. It explains the different names of gift-giving and receiving as exchange. Also, the unit on exchange and money describes the evolution of money and its different forms.

The third Block, **Systems of Production, Circulation and Consumption** explains to you different types of economic activities found in different societies. Thus, it describes the nature of economic activity found in different societies and their related social activities.

The fourth and the last Block of this course is **Some Contemporary Issues in Economic Sociology**. It sheds light on the issues of social development which is the root of economic development and growth of all societies. Last unit highlights the fact of globalisation and the processes of globalisation is explained. Its merits and demerits have been discussed.



The logo of Indira Gandhi National Open University (IGNOU) is a large, light gray watermark on the left side of the page. It consists of a stylized 'U' shape with a circular emblem inside, containing a smaller 'U' and a 'G'.

**Block 1**

**Introduction to Economic Sociology**

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# UNIT 1 SOCIETY, CULTURE AND ECONOMY\*

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## Structure

- 1.0 Objectives
- 1.1 Introduction
- 1.2 Economics and Sociology
- 1.3 Understanding the Relationship between Society, Culture and Economy
- 1.4 Classical Writings of Marx, Weber, Durkheim, Simmel, Veblen and few others
  - 1.4.1 Karl Marx (1818-1883)
  - 1.4.2 Marx Weber (1864-1920)
  - 1.4.3 Émile Durkheim (1858-1917)
  - 1.4.4 Georg Simmel (1858-1918)
  - 1.4.5 Thorstein Veblen (1857-1929)
  - 1.4.6 Talcott Parsons (1902-1979) and Neil Smelser (1930-.....)
- 1.5 Economic Development: Issues and Contradictions
- 1.6 The Washington Consensus
- 1.7 Let Us Sum Up
- 1.8 References
- 1.9 Specimen Answers to Check Your Progress

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## 1.0 OBJECTIVES

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After studying this unit you will be able to:

- explain the relationship between Economics and Sociology;
- discuss the links between society, culture and economy
- describe the core ideas of classical thinkers like; Marx, Weber, Durkheim, Simmel, Veblen, Parsons and Smelser
- discuss economic development in terms of its issues and their contradictions and finally;
- explain the idea referred to as the ‘Washington Consensus’ in the context of economic sociology.

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## 1.1 INTRODUCTION

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The first unit of the course **Economic Sociology** begins with the description and explanation of the relationship between society, culture and economy. How these three significant aspects of life-both cultural and social are linked together and how social sciences and sociology as a discipline specifically throws a light on the intricacies of economic behavior found in different societies.

In this unit 1 **Society, Culture and Economy** we begin by introducing you to these three aspects of social, cultural and economic phenomena and helping you to understand social changes and the insights of classical thinkers and other sociologists.

How economic development is taking place in societies and what are the issues concerned? We have discussed the continuities in the process of economic as well as the development changes. In this unit the nature of social change occurring in society from the times described by the classical thinkers to the period in the nineteen nineties (1990's) when a shift took place called the Washington Consensus in economic development.

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## 1.2 ECONOMICS AND SOCIOLOGY

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The relationship between Economics and Sociology involves cooperation and complementarity, rather than competition and substitution, as many scholars of social sciences assume. Often purely economic analyses need to be supplemented by a sociological perspective on economic phenomena. Even some neoclassical economists (such as Pareto) warn that analysis of many economic phenomena remains incomplete without using sociological insights. Many of the classic sociologists of early nineteenth century were concerned about the changing economic and social worlds around them. Even though sociology did not have proper specializations then but their concerns and questions were focused. Capitalism, industrialization, urbanization, and rapid technical development along with different forms of collective actions were major aspects of the changing order and sociologists' worries. For instance, Karl Marx argues that the economy is an important aspect of social change and reproduction. More clearly, society is fundamentally organized around the economy (i.e. the 'base' to use the term used by Karl Marx) and structure of the social classes depends upon the specific mode of production. While Max Weber also studied the relationship between economic structures and social actions, he preferred to analyze the role that cultural factors play in shaping the nature of our economies. It led him to stress the relevance of 'protestant ethic' in the emergence of 'spirit of capitalism' in the modern western world. Similarly, Emile Durkheim also ventured to study the relationship between social facts and collective conscience of the society. Durkheim was also interested to understand the specific dynamics of division of labour in modern societies and how does the division of labour explain the formation of groups and solidarities. He notes that with the growth of modern technology, societies become further differentiated and different forms of social cohesion emerge. These classic analyses of economy and society are the foundations for economic sociology. Social theorists invented several categories like tradition-modern, status-contract etc. to capture the social upheaval with the coming of industrial and commercial revolutions. Classical political economy and economic sociology combines the Marxian approach of political economy and class analysis with Weber's institutional emphasis to explain the development of specific mode of the economy. Similarly, Durkheim's concept of structure helps to develop a structural approach to study the market behavior and strategies of firms etc. The later day writers like Parsons and Polanyi have been instrumental in laying the field of economic sociology as a proper specialized field of inquiry. In the nineteenth century, economists were primarily concerned with developing

mathematical models, quantitative analysis of the fundamental assumptions of market and its functioning. Sociologists on the other hand were more interested in explaining the market behavior and practices as a form of social action and influenced by several structural factors. With the social transformations, many of the assumptions of classical political economy as well as modernization theory have been challenged and it has led to the reformation in the theories of economy and society. As this is the first unit of this course, it would also flag the broad outlines of the economic sociology. Many of these issues and debates would be discussed in the following units. Let us begin with the basic concepts related with relation between society, culture, and economy.

### Check Your Progress 1

- 1) What is the relation between economics and sociology? Use about five lines.

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- 2) Discuss the ideas of one of the classical sociologists briefly on economics. Use about five lines.

3) .....

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## 1.3 UNDERSTANDING THE RELATION BETWEEN SOCIETY, CULTURE AND ECONOMY

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Economic sociology as we know is not only a specialized paradigm to understand human actor situated in his/her social context but also to critically respond to the taken for granted assumptions of neoclassical economic theory. Economic sociology involves a body of study and research aimed at establishing the links between economic and social phenomena. Classical economic theory inspired by Adam Smith, worked on assumptions considered as given i.e. *stability* of human nature and behavior. Similarly, it also assumed that individuals are *rational* actors and what they buy in the market is based on the utility functions of that product. Sociologists then respond to these assumptions by arguing that there are social and cultural contexts within which individuals act and therefore their actions constitute a social action which can differ in different cultures. But, it does not mean that individual actions cannot be compared. Max Weber for instance says that any social action can be influenced by primarily three social ways: *tradition*, *affect*, and *rational-legal* (Weber, 1978). Pierre Bourdieu would argue by saying

that individual taste is not just a reflection of moral aesthetics as Kant predicts rather the taste is grounded substantially in the locations of social class (Bourdieu, 1984).

### **Box 1.0 TRADITIONAL URBAN ECONOMY**

#### **Ancient Period**

Urban economy has been an integral part of Indian economy since ages. The earliest Indian civilisation i.e. the Indus Valley Civilisation (c.2600-1500 BC) is known as a well-developed urban civilisation which had a broad rural agrarian base. Archaeological excavations have revealed that many cities and towns flourished in the Indus valley, e.g. Harappa and Mohenjodaro (now in Pakistan), Lothal, Kalibangan, Banwali (in India).

But the onset of the Rigvedic phase (c. 1500-1000 BC) marks a complete break with the earlier urban civilisation. The Rigvedic people lived a semi-nomadic and pastoral life. Gradually, they settled in villages and agriculture became their main occupation during the later Vedic-Period (c. 1000-600 BC). We hear of sixty towns in the contemporary literature, including the famous ones such as Rajagriha, Pataliputra, Sravasti, Kausambi, Varanasi etc. Towns and cities continued to prosper during the Maurya and post-Maurya phase and even under the Gupta dynasty. But the country had to undergo a process of urban decay in the post-Gupta period. This trend got reversed only from the ninth century onwards. Let us now look at certain aspects of the urban economy during this period, relating to trade and commerce, arts and crafts, guild system and social classes.

#### **i) Trade and Commerce**

As we know non-agricultural occupations are the predominant feature of urban economy. Trade and commerce are important activities. Evidences of both external and internal trade in the ancient period are found in the contemporary literature and archaeological remains. Trade and commerce witnessed both the periods of prosperity and decline.

Same was the case with regard to towns and cities in ancient India. Internal trade was carried on by merchants in urban manufactures and food-grains. The use of metallic coins since the age of Buddha promoted economic transactions. India's network of external trade covered distant lands, e.g., Rome, Arabia, Persia, China and south-east Asia. Luxury goods were the main items of foreign trade. They comprised the products of crafts such as fine handicraft **Urban Economy** goods, ivory objects, pots etc. Foreign trade was in favour of India. The Roman writer Pliny was forced to lament that Rome was being drained of gold on account of her trade with India (Sharma 1983: 144).

#### **ii) Arts and Crafts**

Another important aspect of the ancient urban economy was the practice of various arts and crafts in which a large number of people were engaged. This included woodworkers, smiths, leather-workers, potters, ivory workers, weavers, painters etc. These craftsmen were socially organised into various castes. Elders trained the younger members in hereditary caste occupations.

### iii) Guild System

A remarkable feature of the organisation of urban economy was the prevalence of the guild system (*sreni*). As against the *jajmani* system in the rural economy urban craftsmen and traders had formed craft and trade guilds. Members of a particular guild belonged to the same craft or trade. There were guilds of potters, smiths, weavers, ivory etc. These guilds played a very important role in organising production and in shaping public opinion (Thapar 1976:109). The vast majority of artisans joined guilds because these bodies provided them security from competition as well as social status. The guilds fixed rules of work and the quality of the finished product and its price to safeguard both the artisan and the customer. They also controlled the prices of manufactured products.

Various guilds were localised in different areas of towns as per their specialisation. The guilds were headed by their respective heads called *bhojaka* who were assisted by a small council of senior members. The guild court controlled the conduct of guild members through enforcing customary usages of the guild (*shreni-dharma*) which had the force of law. The leaders of the guild were very powerful in urban life. They were respected by the rulers.

There were also other types of workers bodies such as worker' cooperative, of which *Puga* was well known. *Puga* included artisans and various craftsmen associated with a particular enterprise. For example, the construction of cities and temples was carried over by cooperatives, which included specialized workers like architects, engineers, brick-layers etc.

Moreover, the guilds also acted as a banker, financier and trustee. People deposited money with the guilds and got interests in return. But generally these functions were performed by a different category of merchants, known as the *sreshthins* or financiers (Thapar 1987:112).

**Ref. ESO 12: Society in India; Unit 11 Urban Economy; Pg. 28.**

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## 1.4 CLASSICAL WRITINGS OF MARX, WEBER, DURKHEIM, SIMMEL, WEBER AND FEW OTHERS

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Accordingly, there are various traditions of explaining the dynamics of economy and social life in sociology. The early approaches of the economic sociology can be classified broadly in three types. The *first approach*, following Marx's dialectical method of understanding the modes of production, explains the larger social structural dynamics of relations formed around material life, division of classes, the production of rent & profit, economic differentiation and the impact of capitalist structure on socio-cultural realm. It significantly accommodates Weber's stress on the study of organizations. It therefore analyzes the interaction between organizations and social actors like state, social classes e.g. difference between industrial interests and agrarian interests etc. The *second approach* of economic sociology focuses on the role of networks in the economy. Inspired by elite studies, this approach analyzes the elite relations with each other and their

access and monopoly over the social resources. How do several economic elites form alliance with social and political leaders; how does this alliance shape national policies and business deals etc. A *third way* to study the economic life is institutional approach. Inspired primarily by Durkheim, the practitioners of this persuasion study the beliefs, social myths, ideologies, and social construction of economies via this method. Economic sociology has been quite slow in attaining its own identity as a separate sub-discipline in sociology.

### 1.4.1 Karl Marx (1818 – 1883)

We can now turn to the intellectual writings of economic sociology. Marx provides the central question of economic sociology. According to him, labour is the most important existential condition of human society and all other activities are organized around this. In his classic text, *Capital*, Marx has criticized the classical economists for their inability to adequately describe the conflict between capitalists and workers characteristic of capitalist economies. Marx chose to emphasize the existence of the social constraints intrinsic to the basic institutions of capitalist economies. In other words, he focused on the question of ownership in the means of production, and waged labor, as mechanisms regulating the production of goods and the distribution of incomes. Marx set out a *dialectic* vision, influenced by German philosopher Hegel to explain the class formation and social transformation. Capitalism would generate a growing polarization between the social classes and this would lead to a progressive intensification of conflict, which in turn would lead to the overthrow of old forms of economic organization. His pessimistic prognosis regarding the ability of capitalist economies to continue producing and distributing wealth results in large part from his emphasis on the exploitation of the working class as the driving force behind the economy through the creation of surplus value and profit. In *Capital* (1867–94), Marx developed the presuppositions lying behind his criticisms of political economy. In a capitalist economy based on the private ownership of the means of production, goods cannot be produced if there is no profit for the holders of capital. But where does profit come from? When an individual worker is used in the productive process, he creates added value over what is necessary to pay his wages. This difference constitutes a surplus of labor that forms the source of surplus value, and this becomes the source of profit. However, in a competitive situation, the individual capitalist entrepreneurs have an interest in (& are forced to) introduce new machines, thereby increasing fixed capital at the expense of labor. In this way, they reduce the cost of labor and enjoy greater profits until other capitalists are pushed into introducing the same innovations. This, however, has two main consequences: First, it leads to unemployment and worsens the living conditions of the working class; second, it leads to a tendency for the rate of profit to fall, reducing the stimulus to production. Profit, in Marx's view, depends only on the exploitation of labor. In addition, in his works of historical analysis (*The Class Struggles in France, 1850* and *The Eighteenth Brumaire of Louis Bonapart, 1852*), Marx demonstrated the growing differentiations in the class structure and the autonomous influence of culture and politics on the consciousness and action of the social classes. He also believed, after the legacy of the classical economists, that the mechanisms of the competitive market would inevitably lead to the spread of the capitalist mode of production, reducing differences between countries.

### 1.4.2 Max Weber (1864 – 1920)

Weber's research during the first half of the 1890s raised important theoretical questions about economic sociology, as well as drawing attention to the crucial role that must be attributed to non-economic cultural and institutional conditions in understanding economic behavior. His work *The Protestant Ethic and the Spirit of Capitalism* is conventionally treated as the basic statement of his theory of the origin of modern capitalism. In this work, he asked the simple question, why did capitalism emerge where it did? Weber claimed that many of the economists of that time misunderstood the social and cultural context within which capitalism had originated. He investigated the cultural values of many civilizations and identified that protestant ethic inspired by Calvinism had played a crucial role in the formation of capitalist ideas. According to him, the doctrine of predestination had primed many people to read the sign of 'being chosen' in terms of their material prosperity. Further, many people started seeing their work life as a major symbol of their destiny. Following the Calvinistic principles of hard work, investment and saving, people started forming their own criteria of 'success' and devised ways to become the 'chosen ones'. For instance, those who worked hard, are pious, honest are usually seen as recipients of God's favour. Consequently, work became a *calling* and being frugal raised the financial status of individuals. However, the spirit of capitalism did not only involve the search for profit as an ethical duty, but also a commitment to the productive use of capital and a condemnation of luxury goods and pleasures. Thus, Weber argues that this logic became the bedrock of the emergence of capitalism. The interesting argument about Weber's thesis is that it weaves the historical complexity of cultural context of Europe and the structural development of capitalist enterprise. He suggested that entrepreneurial activity should not be seen as a constant, but as a variable that depended on the institutional context in which actors found themselves. He consequently believed that an appropriate institutional framework was necessary for the sphere of production, as well as for labor and finance. It was only if these settings could support the growth of entrepreneurship that economic development could be generated. Weber's discovery of entrepreneurship in the course of his research on German society pushed him to consider the macro-sociological problems of the origins of capitalism and its territorial development, which would occupy him for many years to come. Weber contributed his class formula to economic sociology as well. His idea of rubbing the 'ideal types' against the empirical realities to produce the actual experiences is one of the most salient features of his version of doing sociology.

### 1.4.3 Emile Durkheim (1858 – 1917)

Durkheim's maintained that the economic factor depends on social phenomena, because it is embedded in social institutions, norms, and values i.e. the social embeddedness principle. Such ideas have significantly influenced segments of economic theory and research to the point that some modern economic sociologists regard him as the 'father of economic sociology'. Durkheim and Weber both made unsuccessful efforts to mobilize scholarship for economic sociology. He criticized economists outrightly unlike Weber, for their tendency to isolate everything from what they consider 'social' aspects. Durkheim studied the emergence of industrial societies and aimed to provide sociological explanations of transformation in community lives. True to his sociologism i.e. 'society' as sui



generis thing, he analyzed the changes in what he calls 'social density'. In his classic text, *The Division of Labour in Society* (1893), Durkheim claimed that with the advancement in technology and formation of towns, several groups of people came together with profound consequences. This also brought change in the way they socialize with others. People started developing specific skills, as it was no longer possible to do all kinds of tasks unlike pre-industrial period. With the processes of industrialization and urbanization, people became occupied in particular kinds of tasks and it simultaneously increased their inter-dependence on each other. Thus we find increase in social differentiation which led to the emergence of the 'organic solidarity' in modern society. The broader shift was consequential for society as new forms of division of labour emerged and social fabric became even more complex.

In this way, Durkheim also provided a critique of utilitarian economists who were harping on rational action as the general nature of human society. Modern industrial society also underwent shift in terms of their laws. It required flexible punishments such as fines, called the restitutive laws instead of repressive laws of earlier times. Society experienced more individualism in terms of consumption, thinking, values etc. His first important contribution was that he therefore criticized economists' theory of action, and formulated an institutional theory. From the substantive point of view, his most important point was that the organization of economic activities in modern societies were socially destabilizing because of "abnormal forms" of the division of labor. After this, however, he widened his intellectual interests to new subjects. The actual economic behavior of individuals was influenced by moral norms and rules that altered as society changed. These institutional factors affected economic development and were in turn affected by them. According to the traditional explanation, widespread among economists, the division of labor came about because of individual actions, because it would increase the advantages enjoyed by them. Durkheim found this argument untenable because single individuals could not easily predict or understand the advantages of greater productivity and well-being. According to Durkheim, the reasons for the division of labor have to be sought in a different, social source. Variations in the social morphology and the nature of social relations are crucial sites for it. These reflected in forms of solidarity, and shared moral norms linking people with each other and regulating their relationships.

#### **1.4.4 Georg Simmel (1858-1918)**

Simmel writes in his *The Philosophy of Money* (1900), money as one of the major institutions in contemporary capitalist society. For Simmel, however, its crucial importance lay in the fact that it played a wide and profound role in the relations between people in modern society. In order to clarify the origins and consequences of the use of money, or of the money economy, it was essential to understand modern society. However, one could say instead that capitalism, for Simmel, was a specific economic system for the production and distribution of goods that was consequent on the monetary economy, so he took it for granted and paid attention to the institutional prerequisites of capitalism. They agreed on the social consequences of the money economy, such as the increasing depersonalization and rationalization of social relations and life paths. According to Simmel, capitalism is an economic system that presupposed the private accumulation of capital. This, in turn, required that money be used in a more

widespread way as an instrument of exchange, leading to a widening of the circle of actors involved in the money economy. However, in order for money to be a driving force for economic activities, one basic non-economic condition had to be present – a growing trust in the capacity of money to be converted at any time into concrete goods. The accumulation of capital thus presupposed an accumulation in trust and this cultural condition was, in its turn, supported by institutional factors: the legitimization and efficacy of political power and the guarantees provided by the legal order. **In this sense, money became a public institution.** Simmel also underlined that the money economy was a powerful factor in the dissolution of the natural economy based on production for self-consumption. Thus, it promoted the formation of a centralized state, which would carry out the fundamental function of controlling money. The modern state could thus also grow through the developing of taxation, which allowed the bureaucracy and military to be maintained, subject to a central power. These instruments would contribute, in turn, to the weakening of the old feudal system and the strengthening of the money economy, guaranteeing the developing of exchanges. Simmel's prevailing interest was to examine the consequences of the money economy for social relations and ways of life. He highlighted the ambivalence of these effects, discussing both their positive and negative aspects. Thus, money favored the growth of individual liberty, because it made social relationships in the spheres of exchange and production interchangeable. In production, it was possible to choose among various suppliers, which depersonalized relations between buyers and sellers, and made both more independent. Moreover, there was not only greater freedom in the choice of economic partners, but also greater choice of objects, breaking the ritualism and fixity of traditional forms of consumption. As a result, there was an increased freedom with regard to objects too. This change was also felt in the sphere of production, where the dependence of the serf on his lord, or of the apprentice on his master in a medieval guild gave way to a specific and explicit labour contract. These depersonalized relationships are product of the formation of money as public institution.

**Activity 1** Interview at least five friends on the Significance of money; its social economic, political and cultural value in their lives.

Write an essay on “The Social Significance of Money”. Discuss your essay with other peers at your Study Centre.

### 1.4.5 Thorstein Veblen (1857–1929)

Veblen was interested to redesign economic analysis on an institutional basis, drawing on the evolutionary perspective. It is in this sense that his institutional economics is comparable with the model developed by Durkheim, even if it has a different social and cultural context. Veblen contributed to a non-individualistic theory of economic action, and he focused on a problem of historical–empirical research that was not dealt with by economics – the social effects of liberal market-based capitalism. He presented the essential elements of his critique focusing on three problem-areas. These are: (i) First, there was the individualistic conception of human nature embodied in the theory of economic action. (ii) Second, was the static nature of traditional economic analysis, that is, its focus on equilibrium rather than change. (iii) Finally, came the link between the pursuit of individual interest and collective well-being. were guided by values and norms which they

absorbed from the society in which they lived. Historical change depended on transformations both in institutions and individual behavior. Traditional economic theory could not properly grasp this variability in action, since it treated individual preferences and the state of knowledge and technology as something given. Veblen underlined the static and ahistorical nature of neoclassical economics. For him, the traditional approach was tied to an idea of equilibrium, to a search for mechanisms that stabilized the economy, which was influenced by the physical sciences and in particular by mechanics. One consequence of Veblen's theory of change was the possible co-existence of societies in which the relation between technology and institutions was different. Veblen did not believe in a process of inevitable institutional convergence, pulled in the wake of technology, which would lead to the establishment of a unique institutional model that could respond more efficiently to the problems of adaptation posed by the economic and social environment. In his best-known book *The Theory of the Leisure Class* (1899), Veblen discusses the cultural aspects of the consumption practices. The desire to increase consumption of material goods, according to him, did not in itself provide a sufficient incentive for people to engage in economic activity. In modern society, in which the economy was organized on the basis of private ownership and the market, the possibility to consume more was sought by individuals because it was a source of prestige and social honor. *Conspicuous consumption* replaced courage and valor in war, which had been signs of social distinction in a previous era.

#### **1.4.6 Talcott Parsons (1902 – 1979) and Neil Smelser (1930 -)**

In one of his first written pieces on the relationship between economics and sociology, Talcott Parsons discussed the scientific status of economics according to the formulation of an influential neo-classical economist, Lionel Robbins (Parsons 1934). Parsons' main argument was that sociology, the analysis of the institutions of economic life, should be a complement to rather than a substitute for mainstream economy. According to Parsons, the solution to the classic Hobbesian problem of social order is not so much the capacity of political power to control individual interests, nor of supposing a natural and spontaneous integration of the ends, but the existence of a set of shared goals – of common values that orient action. Henceforth, economic laws differ radically from physical ones; they are 'an abstraction, a formulation of only part of the forces at work in concrete reality' (Parsons 1934). In other words, economic laws are *normative*, indicating the criteria of rational action under certain conditions. Their empirical validity depends, however, on whether actors effectively behave according to these criteria to satisfy their ends. This, according to Parsons, is extremely unlikely in reality.

Parsons was most critical of Thorstein Veblen's institutional economics. Parsons mentions two objections against institutional economics. In the first place, his dissatisfaction concerned the alleged anti-theoretical nature of institutional economics – in the name of a generalized radical empiricism, it denied the legitimacy of the analytical abstraction (Parsons, 1976: 178). Secondly, Parsons objected to its emphasis on technology as the institution par excellence, and its neglect of the cultural-normative factors in the larger picture, which transcended the economic perspective (Parsons, 1976: 179). The most important limit, in his view, was the exclusion of the actor's goals. It excludes the investigation of ends,

which leads irrevocably to an atomistic individualism – that is, one presupposes that individuals define their ends independently of their mutual interaction. It is at this point that a serious problem emerges – there is no reason for thinking that final ends of the individuals merge together. If there are no factors at work introducing elements of coherence, coordination and integration between the goals of various individuals, society risks becoming a mere chaos of conflicting and competing individuals.

In *Economy and Society* (1956) Parsons and Smelser suggested that both sociology and economics can be understood as part of the general theory of social systems. The economy is a subsystem, which interchanges with the other three subsystems (the polity, the integrative subsystem, and the cultural-motivational subsystem). The concept of a subsystem is reminiscent of Weber’s notion of sphere, but while the latter refers only to values, the economic subsystem also has an adaptive function as well as a distinct institutional structure. It may finally be mentioned that *Economy and Society* got a negative reception by economists and failed to ignite an interest in economic sociology among sociologists. Smelser’s attempt to consolidate economic sociology in the next decade helped fix economic sociology as a subfield in the minds of scholars and in the curriculum of colleges and universities, but could not spawn distinct new agendas of research. **Smelser defines economic sociology as the application of the frames of reference, variables, and explanatory models of sociology to that complex of activities concerned with the production, distribution, exchange, and consumption of scarce goods and services.** The economic sociologist asks two types of questions. The first is *microscopic*, and concerns economic activities as such. The economic sociologist asks how these activities are structured into roles and collectivities, by what values they are legitimized, and by what norms and sanctions they are regulated. Within economic organizations, such as the firm, Smelser studies the status system, power and authority relations, deviance, and cliques and coalitions as these affect the economic activities of the firm. The second type of question is *macroscopic*, and concerns the relations between sociological variables as they manifest themselves in *economic* contexts and sociological variables as they manifest themselves in *non-economic* contexts. For example, what sorts of political conflict are generated by the economic arrangements in different societies; and what kinds of class systems emerge in different kinds of economic systems.

**Check Your Progress 2**

1. What is Economic Sociology? Explain in about eight lines

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2. What did Simmel think about money economy? Use five lines.

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3. How did Smelser define economic sociology? Discuss in five lines.

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## 1.5 ECONOMIC DEVELOPMENT: ISSUES AND CONTRADICTIONS

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‘Modernization Theory’ emerged in western world, started its domination over the academic and policy circles from 1950s onwards. Its main tenets were as movement of societies from a traditional stage to an industrial, developed phase, which includes high rates of economic growth, trade, and foreign investment, and emulates the policies of western countries. Which this framework, economists developed formal models stressing capital accumulation, savings, changes in technology, industrialization, and directed state activity as major threads. Other disciplines selected their favored themes - sociologists and anthropologists focused on traditional cultural and structural obstacles to development, as well as typical institutional changes (in stratification systems, kinship, community, and religion) that accompany development. Political scientists were interested in the movement from tribal, communal, and local political systems toward the complex of parties, interest groups, and modern political institutions.

### Box 1.1 Organised and Unorganised Sectors

Indian urban economy has been seen as dual in nature comprising organised or formal sector and unorganised or informal sector. The organised sector possesses some or all of such characteristics as large-scale operation in terms of capital and labour, wage labour, advanced and modern technology, public and private ownership are found in the organised sector. Regulated and protected markets for labour and output, formal nature of employment and the requirement of formal educational qualification or training in skill for its workers are also

some of the other features. On the other hand the unorganised sector enterprises feature small-scale of operation in terms of capital and labour, private or family ownership, labour intensive, backward technology, unregulated market, unprotected labour and easy to start due to usually no need of licence or registration (Satya Raju 1989: 12-13; Aziz 1984: 6-8).

The nature of employment in the organised sector is wage labour. But in unorganised urban sector both wage labour and self-employment are prevalent. Workers are employed on wages in activities like manufacture and repair, construction, trade, transport and other services including domestic service. The areas of self-employment activities comprise hawking, peddling, pushing carts, and plying manual rickshaws and so on.

In India, the Government has mainly emphasised the organised sector for promoting economic development of the country.

**Ref : (2017 Reprint) ESO 12: Society in India, IGNOU, BDP**

Dependency theory and World System theory emerged as a critique of this paradigm. The compelling power of the modernization paradigm was already weakening in the 1960s. Its fundamental approach was criticized as imperialistic, west-centric and degrading to the cultures of other societies. Scholars challenged the idea that traditional societies are static and that traditions disappear with modernization. Economic historians and others criticized the idea of convergence and identified different paths to industrialization. The most fundamental attack came from Latin American and later African scholars. As early as the 1950s, some complained that the modernization paradigm ignored the international dimension, in particular the dominance of “core” (developed) over “peripheral” countries (Prebisch, 1950). This impulse grew in strength and within a decade had crystallized into a theoretical framework known as *dependency theory*, stressing that the decisive factors were international and that the dominance of international capital not only crippled development, but also distorted internal relations in less-developed countries.

Dependency theorists emphasized import substitution and competitive industrialization as the favored developmental strategies among efforts to break out of dependency. Radical and less radical versions of dependency theory appeared, and a cousin, world systems theory (Wallerstein, 1974), emphasized similar mechanisms of international political and economic dominance. These theoretical statements echoed the earlier writings of Marx and Lenin on imperialism and struck sympathetic notes with the disaffected in the late 1960s and 1970s. Dependency theory also fell on hard times because of scholars’ criticisms of its diagnoses, because of the apparent limitations of its strategies of intervention, and because of the dramatic “Asian miracle” in which South Korea, Taiwan, Singapore, and Hong Kong scored a dramatic developmental gain. The idea of the developmental state achieved prominence in developing countries, describing the partnership among business, finance, and government in these success stories.

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## 1.6 THE WASHINGTON CONSENSUS

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The early 1980s witnessed a counter-revolution in developmental economics as part of a general resurgence of economic orthodoxy. This was commonly known as the ‘**Washington Consensus**’, a term coined by John Williamson of the Institute for International Economics and adopted by the World Bank and International Monetary Fund (IMF). It was informed by the economic writings of Friedrich Hayek and Milton Friedman and the philosophies of the Margaret Thatcher and Ronald Reagan administrations, and by lessons learned from the debt crisis of the early 1980s. The consensus generated a recipe of measures to be applied to debtor Third World countries: fiscal discipline reduced public expenditures, tax reforms to improve incentives, market-determined interest rates, competitive exchange rates, trade liberalization, privatization, deregulation, and protection of property rights. This triumph of neoliberalism coincided with a growing disaffection with or disregard of Marxist ideas and communist-socialist political systems. This developed first in Eastern Europe, then in Western Europe, then in the United States. The collapse of these systems in 1989– 90 merely accelerated the impetus, since the only serious competitor to western capitalism had now disappeared, and western economists and policy-makers rushed in to these areas to encourage capitalist development. At this time, a new usage of globalization also appeared, connoting that capitalism could now command the entire globe without ideological or political challenge (Kurth, 2001). The fundamental ideas of faith underlying the Washington Consensus were that neoclassical economic theory was applicable to all economies and needed no significant alterations or new postulates. A corresponding reliance on rationality, incentives, deregulation, and privatization; and an anti-state conviction that markets can work perfectly without any interference. Economic policies accompanying neoliberalism fell under the category of Structural Adjustment Policies (SAP), an invention of the IMF that meant imposing conditions on debtor countries that would help guarantee loan repayments. SAP arrived in India during 1990’s when India was going through the debt crisis and drying of foreign currency reserves. These programs aimed to cut government expenditures, reduce the extent of state intervention in the economy, and liberalize trade. In practice, many of these policies were punitive, involving wage freezes, devaluation of currency, and also bringing in labour laws which immobilize the labour unions and any attempt to collectivize the working classes.

### Check Your Progress 3

1. What do you understand by the term “Washington Consensus”? Use about five lines.

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## 1.7 LET US SUM UP

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In this unit, we have provided a brief account of the development of economic sociology as a sub-discipline of sociology. In the formative years of economic sociology, it remained focused on the production of sociological response to the limitations of economic theories with Marx, Weber, Durkheim, Simmel, and Veblen as key theorists. However, the economic life has been approached from the standpoint of the social framework in which they exist, as distinct from their pure treatment in economics. Moreover, these phenomena have been not just leftovers but are essential in itself. The substantiality of the difference in their epistemological focus becomes clear with the popular quote of James S. Duesenberry, when he remarks, ‘*while economics is all about how people make choices, sociology is all about why they don’t have any choices to make*’. This state of affairs has been made clear by the classical theoretical debates within both the disciplines that is, both economics and sociology. In spite of the efforts of these classical theorists, economic sociology had to wait for 1950’s to expand in the new directions with empirical focus instead of just complement the economics, sociologists now are bold enough to trespass the border of economics and raise critical questions on the economists’ domain.

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## 1.9 SPECIMEN ANSWERS TO CHECK YOUR PROGRESS

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### Check Your Progress 1

1. Both economics and sociology as disciplines deal with cooperation and complementarity amongst human beings in society rather than competition or substitution among different people.
2. Émile Durkheim one of the classical thinkers studies ‘social facts’ and ‘collective conscience’, their relation with each other. He was interested in the division of labour in modern societies and its dynamics in terms of social solidarity and evolution from simple to complex societies.

### Check Your Progress 2

1. Economic Sociology is an area and a body of research which attempts to establish a link between human social behaviours and the economic and



cultural aspects of society. Sociologists unlike pure Economists like Adam Smith and others; believed that there are social and cultural contexts within which individuals act and therefore, their actions constitute social action which can differ in different cultural contexts.

2. Simmel in his book, *The Philosophy of Money* (1900) believed that money is one of the major institutions in contemporary capitalist society. It plays a profound role in the lives of people in modern societies. In societies the institution of money enabled people to accumulate; to invest and exchange in a situation of trust and stability across cultures in an institutionalized manner. Thus, it becomes a public institution.
3. Smelser defined economic sociology as the frame of reference, variables and explanatory models of sociology to that complex of activities which deal with the process of production distribution, exchange and consumption of scarce goods and services in society.

### **Check Your Progress 3**

1. 'Washington Consensus' means the resurgence of counter-revolution during the early 1980's in developmental economics. It was a term coined by John Williamson from the Institute For International Economy which was adopted by the World Bank and the International Monetary Fund (IMF).

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## **UNIT 2 FORMALISM AND SUBSTANTIVISM\***

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### **Structure**

#### 2.0 Objectives

#### 2.1 Introduction

#### 2.2 Economic Anthropology/Sociology: The Schools of Thought

##### 2.2.1 Formalism

###### 2.2.1.1 Pre-Industrial and Industrial Economics

###### 2.2.1.2 Karl Polanyi and Self-Regulating Market

##### 2.2.2 Substantivism

###### 2.2.2.1 Embedeness and Substantive Economy

###### 2.2.2.2 Reciprocity, Redistribution and Exchange

#### 2.3 Danadharmā in India: A Case Study of Gift Exchange

##### 2.3.1 A Critique of Gift Exchange

#### 2.4 Let Us Sum Up

#### 2.5 References

#### 2.6 Specimen Answers to Check Your Progress

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### **2.0 OBJECTIVES**

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After studying this unit you will be able to:

- describe the meaning and nature of economic and sociology;
- explain the meaning of two different schools of thought of formalism and substantivism;
- focus on the core ideas of formal modern economy and its proponents;
- discuss the core ideas of the substantivist scholars, such as, Karl Polanyi and finally;
- provide a critique to the theory of “gift exchange” given by Marel Mauss.

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### **2.1 INTRODUCTION**

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In the previous unit on Society, Culture and Economy you learnt about relation between Society, Culture and Economy and differences in the thinking of the classical and neo-classical scholars. This unit introduces you to the myth of the universality and naturalness of capitalist system. There has been a debate on this within both the disciples of Economic Anthropology and Sociology. This Unit will introduce you to that debate which was initiated under the ‘Formalist and Substantivist’ schools of thought.

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## 2.2 ECONOMIC ANTHROPOLOGY/SOCIOLOGY: THE SCHOOLS OF THOUGHT

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‘Formalism’ and ‘Substantivism’ refers to the two schools of thought in Economic Anthropology which was split into these two groups since mid-1950s. The distinction between ‘formal’ and ‘substantive’ economy was propounded by Hungarian Economic Historian Karl Polanyi. Drawing on the work of German Sociologist Max Weber who distinguishes between formal and substantive rationality, Karl Polanyi argued that economy can be defined in two terms – formal and substantive. This differentiation led to the formation of two schools of thought in Economic Anthropology and Sociology i.e. substantivist and formalist approaches based on two methodological disputes. Formalism is based on a deductive and logical mode of thinking, whereas substantivism is descriptive and built on experience. Formalist orientation is based on the idea of economic rationality of maximising individuals whereas substantivists, including Karl Polanyi, argue that economy is embedded in social-cultural contexts. Polanyi’s ideas led to the birth of a new school of thinking in economic anthropology called ‘substantivist’ orientation, whose prominent members include Paul Bohannan, Pedro Carrasco, Louis Dumont, Timothy Earle, Maurice Godelier, Claude Meillassoux, John Murra, Marshall Sahlins, Rhoda Halperin, Eric Wolf and George Dalton. In the following sections we will discuss the meanings of formal and substantive economies in detail.

### 2.2.1 Formalism

Formalism is associated with the principles of capitalist economy which stands remarkably different from the pre-capitalist economies. It also means that the principles of capitalist economy are seen as universal, thereby subordinating the non-industrial economies to the principles of market economy. Formalists argue that the formal rules of neoclassical economic theory derived mainly from the study of capitalist market societies can be used to explain the nature and dynamics of non-capitalist economies. For instance one of the Formalists Melville Herskovits, an American Anthropologist, in his book *The Economic Life of Primitive People* endorsed this position. He said that scarcity and maximising behavior is a universal character. The same means are applied everywhere to achieve different ends. We will be discussing about this formalist characteristic in the following pages.

#### 2.2.1.1 Pre-Industrial and Industrial Economies

Karl Polanyi in his seminal book *The Great Transformation* has described the genesis of such theoretical paradigms in the great transformation of European civilization from preindustrial world to the era of industrialization. Industrial revolution signifies a remarkable change in the methods of production and shifts in ideas, ideologies, and social and economic policies accompanying it. In *Great Transformation* he analysed the consequences of market capitalism in England during early nineteenth century and rest of the industrialising world. According to him market capitalism commodified and commercialised all goods and services in terms of a single standard of money whereas in pre-capitalist economy it was neither monetised nor commoditised but submerged in social relationships. It does not mean that pre-capitalist economies did not have markets. Many pre-

capitalist economies had market places but they were not governed by the rules of ‘self-regulating market’ relying on the forces of ‘supply-and-demand’. Along with commoditising the goods, market capitalism also commoditised the labour. In Polanyi’s view, capitalism has elevated profits and the market over society and human values, turning everything (land and labour) into commodity to be bought and sold. For him market economy is “an economic system controlled, regulated and directed by markets alone” and is built upon the ‘fictitious commodification’ of land labour and money. In market economy society is subordinated to the laws of the market. He thought that economics developed along with market capitalism is its servant and is merely a part of the system that helps keep capitalism going by making it seem natural. Polanyi went further back in time to look at earlier empires to try to understand other ways, besides market capitalism.

### 2.2.1.2 Karl Polanyi and Self-Regulating Market

He argues the industrial revolution in the nineteenth century has produced thinkers who have developed the theory of market liberalism with its core belief in the idea that all economies should be subordinated to **self-regulating markets**. For instance Adam Smith who is considered the father of classical political economy propounded that the forces of demand and supply will work as invisible hand in regulating the markets. As a part of the England’s leading role as ‘workshop of the world’, the beliefs of self-regulating market or free market became the organizing principle for the world economy. Polanyi rejected the central theses of self-regulating markets. He argued that self-regulating market is a myth as it is full of deficiencies in its internal working as well as its consequences making government interventions necessary. For him the ideology of free market or self-regulating market is of particular interest to capitalists. Hence the free market ideology is clearly the handmaiden for capitalism. This way he breaks the myth of self-regulating market which is the central thesis of formal economies.

#### Box 2.0

Do you know that the Great Depression of 1930s that originated in United States after the stock market crash in 1929 completely demolished the myth of *lassaiz faire* (free market) economy? The US government was forced to intervene. Franklin Roosevelt who was the President of US from 1933 to 1945 came out with massive spending by government to revive the economy. In one of his speeches in 1932 he made interesting comments on the myth of self-regulating market economy. He said, “the same man who tells you that he does not want to see the government interfere in business-and he means it, and has plenty of good reasons for saying so-is the first to go to Washington and ask the government for a prohibitory tariff on his product. When things get just bad enough-as they did two years ago-he will go with equal speed to the United States government and ask for a loan; and the Reconstruction Finance Corporation is the outcome of it. Each group has sought protection from the government for its own special interest, without realizing that the function of government must be to favor no small group at the expense of its duty to protect the rights of personal freedom and of private property of all its citizens.”

This proves that contrary to the creed of classical political economy propagating, *laissez-faire* economy is actually a product of deliberate social action as Polanyi writes, “*Laissez faire* was planned, planning was not.” (Polanyi, K. (1957) *The Great Transformation - the political and economic origins of our time*, Beacon Press, Boston: 141.)

Formal economy or capitalist economy that is entrusted to the self-regulating mechanism propagates the idea that human beings behave in such a way as to achieve maximum gains in terms of money. This has been theorised as **means-end relationship** that relies on the idea of choice between scarce means in relation to preferred ends. The rules governing choice of means are called the logic of rational action which denote another core aspect of formal economics. Rational action in formal economy is defined as choice of means in relation to ends. Means are anything appropriate to serve the end, whether by virtue of the laws of nature or by virtue of the laws of the game. “Such formal meaning of economy deriving from the logical character of the means-ends relationship is apparent in words like ‘economical’ or ‘economizing’. It refers to definite situation of choice, namely, that between the different uses of means induced by an insufficiency of those means. For Polanyi choice does not always presuppose a scarcity.” (Polanyi 1977 p.25) In fact human societies have shown tendencies of harder choices in abundance of sources as Polanyi writes, “if means are less ‘scarce’, the more and harder choices we are forced to make. (Ibid; 1977)

According to Polanyi, it is impossible to understand human society, the economy and human history from the formal perspective of neo-classical economy. Because “to narrow the sphere of the genus economic specifically to market phenomena is to eliminate the greatest part of man’s history from the scene” (Polanyi 1977 p. 6).

### Box 2.1

The Substantivist school of economic anthropology (its chief exponent was Polanyi’s student, George Dalton) was basically empirical in orientation. One takes a given society, looks at how things are distributed, and tries to understand the principles. The main result was a list of new forms of exchange and distribution, all of which did not seem to operate on principles of economic maximization, to add to the gift economies with which anthropologists were already familiar. These included the notion of redistributive economies, the phenomena of ports of trade (neutral enclaves in which merchants of different countries could do business according to pre-established exchange rates.(p.11)

The Substantivist challenge was met by a counter-offensive by self-proclaimed Formalists. Formalists claimed that Polanyi had misunderstood what economics was actually about. It did not depend on the presence or absence of something called “the economy.” Economics was concerned with a certain type of human behavior called “economizing.” People economize when they make choices between different uses for scarce resources in an attempt to minimize their outputs and maximize rewards The point of social science is not comparing different forms of social system but understanding what motivates human beings to act the way they do.(p.11)

The Substantivists didn't try to explain anything; they just created taxonomies. Insofar as they did invoke a larger theory, it was generally some variant on Durkheimian functionalism. Where economists saw the shape of society largely as the outcome of individual decisions, Functionalists represented society as an active force in its own right—even, as something close to a conscious, purposive agent, though its only purpose seems to be a sort of animalistic self-preservation(p.11)

For a Durkheimian, economic institutions can be seen as a means of social integration—one of the ways society creates a network of moral ties between what would otherwise be a chaotic mass of individuals—or, if not that, then at least the means by which “society” allocates resources. The obvious question is *how* “society” motivates people to do this. Without some theory of motivation, one is left with a picture of automatons mindlessly following whatever rules society lays down for them, which at the very least makes it difficult to understand how society could ever change.(P.12).

While the Substantivist-Formalist debate is considered definitively passé, yet the issues are yet to be resolved. But there is a point. Those who start by looking at society as a whole are left, like the Substantivists, trying to explain how people are motivated to reproduce society; those who start by looking at individual desires end up, like the Formalists, unable to explain why people chose to maximize some things and not others (or otherwise to account for questions of meaning). (p.12)

Source: Graeber, David 2001 *Toward an Anthropological Theory of Value*, Palgrave, Newyork.

### 2.2.2 Substantivism

Polanyi maintains that the concept of economic rationality is a very specific historical construct that applies chiefly to the forms of market society that emerged in Western Europe in the early modern period. Thus Polanyi maintains that it is socially motivated behavior — behavior motivated toward the interests of one's family, clan, or village” — rather than self-interested behavior that is “natural” for human beings; rational self-interest is rather a feature of a highly specific society: market society.

In place of economic rationality and the market mechanism providing the basis for organization of the premarket economy, Polanyi argues that communitarian patterns of organization are to be found in a range of traditional societies. Polanyi ascertains that history and ethnography provide a wealth of variety of fundamental economic and social institutions. “Market institutions are historically specific...[and] themselves show substantial variation across time and place. That said — trade, artisanship, commodities, and production for the market appear to be activities that have very ancient roots in human societies. These kinds of economic exchanges are well documented in ancient China, Europe, and the Americas, and we can understand very well how they would emerge again and again out of ordinary human activity and interaction.” So markets are surely not the nearly unique historical creation that Polanyi maintains them to be. Moreover, we can distinguish among “market” institutions (as Marx and Weber both do)

according to whether they are organized around use or around accumulation; consumption or profit. Polanyi takes issue with the understanding that the most fundamental human motivation is rational self-interest. On the contrary, Polanyi maintains, this social psychology of “‘possessive individualism’... is itself a very specific historical product — not a permanent feature of human nature. In fact, Polanyi goes a step further and argues that the “social motivations are more fundamental than rational self-interest.” (Polanyi, K. 1977)

Polanyi uses the concept of embeddedness to further elaborate the meaning of substantive economy. The concept of embeddedness is his most famous contribution to social thought. His concept of embeddedness actually stands for a critique of capitalist economy in which society and economy appear as two distinct spheres, disembedded from each other.

Polanyi starts by emphasizing that the entire tradition of modern economic thought or formal economy, continuing up to the present moment, rests on the concept of the economy as an interlocking system of markets that automatically adjusts supply and demand through the price mechanism. Even when economists acknowledge that the market system sometimes need help from government to overcome market failure, they still rely on this concept of the economy as an equilibrating system of integrated markets. In *The Great Transformation* while discussing the self regulating market, Polanyi states that no society, naturally live for any length of time unless it possessed an economy of some sort, but before now no economy has ever existed that, even in principle was controlled by markets as is the case with capitalist societies today. Gain and profit made on exchange never before played an important part in human economy. Though the institution of the market was fairly common since the later Stone Age, its role was, no more than incidental to economic life.

#### **2.2.2.1 Embeddness and Substantive Economy**

Polanyi’s intent is to show how sharply this concept differs from the reality of human societies throughout recorded human history. Before the nineteenth century, he insists, the human economy was always embedded in society which he calls substantive economy. The human economy is embedded in institutions, economic and non-economic. The inclusion of the non-economic is vital (e.g. religion). His purpose was to show how the economy meshed in with other cultural institutions in different societies at a particular period in time.

Polanyi emphasized the institutedness and social embeddedness of economies. He considered the economy, in its substantive sense, as ‘an instituted process of interaction between man and his environment, which results in a continuous supply of want-satisfying material means’. He added that, as an instituted process, “the human economy ... is embedded and enmeshed in institutions, economic and noneconomic. The inclusion of the noneconomic is vital. For religion or government may be as important for the structure and functioning of the economy as monetary institutions or the availability of tools and machines themselves that lighten the toil of labor”.

The term ‘embeddedness’ expresses the idea that the economy is not autonomous from society as the classical economists would make us to believe. Economy is always subordinate to politics, religion and social relations. He highlights how radical a break the classical economists, especially Malthus and Ricardo, made

with previous thinkers. Instead of the historically normal pattern of subordinating the economy to society, their system of self-regulating markets required subordinating society to the logic of market. He writes in part one of *The Great Transformation*: “Ultimately that is why the control of the economic system the market is of overwhelming consequence to the whole organization of society: it means no less than the running of society as an adjunct to the market. Instead of economy being embedded in social relations, social relations are embedded in the economic system.

In the substantive economy, for Polanyi, economy is submerged in man’s social relationships. “Man does not act so as to safeguard his individual interest in the possession of material goods, he acts so as to safeguard his social standing, his social claims, his social assets. He values material goods only in so far as they serve this end. Neither the process of production, nor that of distribution is linked to specific economic interests attached to the possession of goods, but every single step in that process is geared to a number of social interests which eventually ensure that the required step be taken. The interests will be very different in a small hunting or fishing community from those in a vast despotic society, but in either case the economic system will be run on non-economic motives. Polanyi frequently used Malinowski’s *Kula* trade as an example of substantive economy.” (1977)

Polanyi says that the classical economists propagated the idea of a society in which the economy had been effectively disembedded and for this they have used the political apparatus to pursue this objective of ideological promulgation. Yet he also insists that they *did not* and *could not* achieve this goal. In fact, Polanyi repeatedly says that “the goal of a disembedded, self-regulating market economy is a utopian project; it is something that cannot exist.” In the opening page of Part One of *The Great Transformation*, for example, he writes: “Our thesis is that the idea of a self-adjusting market as implied is a stark utopia. Such an institution could not exist for any length without annihilating the human and natural substance of society; it would have physically destroyed man and transformed his surroundings into a wilderness. (Polanyi, 1977).

Polanyi states that creating a fully self-regulating market economy requires that human beings and natural environment be turned into pure commodities, which assures the destruction of both society and natural environment. In his view the theorists of self-regulating markets or market liberalism are constantly pushing human societies to the edge of a precipice. But as the consequences of unrestrained markets become apparent, people resist; they refuse to act like lemmings marching over a cliff to their own destruction. “Instead they retreat from the tenets of market self-regulation to save society and nature from destruction. In this sense one might say that disembedding the market from society in capitalism or modern industrial society is similar to stretching a giant elastic band. Efforts to bring about greater autonomy of the market increase the tension level. With further stretching, either the band will snap – representing social disintegration – or the economy will revert to a more embedded position. The efforts of free-market theorists to disembed the economy from society are doomed to fail.” (Ibid; 1977)

Polanyi’s substantive model is profoundly relativist, it says that the economy is based on entirely different logical principles in different societies. Therefore, the tools for understanding capitalism are as useless for studying the ancient Aztecs



as a flint knife would be for fixing a jet engine. He insists that any study of how empirical economies or substantive economies are embedded and instituted in social structures, non-economic factors should start from the way in which the economy acquires unity and stability, that is the inter-dependence and recurrence of its parts. This is achieved through a combination of a very few patterns which may be called the forms of integration. The economy for Polanyi is always defined by the balance of three forms of integration: (i) Reciprocity, (ii) Redistribution, and (iii) Exchange. Polanyi distinguishes between these three modes of circulation which have coexisted in different degrees in societies throughout human history.

#### **2.2.2.2 Reciprocity, Redistribution and Exchange**

Reciprocity, Redistribution and Exchange signify three structures through which goods produced are distributed in any society. Reciprocity is that form of distribution of goods and services in which mutual sense of obligation prevails in terms of helping and sharing. Goods and services are exchanged between people who are related to each other in a symmetrical relationship by virtue of their belonging to same family or clan. Redistribution, as the name suggests, refers to the exchange of goods and services through a central authority of some kind who collects from everyone and then redistributes. Contrary to these two, Exchange refers to market system in which price system functions. Pre-capitalist economies are integrated primarily through Reciprocity and Redistribution whereas Capitalist societies are integrated via market system of Exchange. This does not mean that pre-capitalist societies have no functioning markets. They do have marketplaces where people trade, but they are not guided by rules of a self-regulated market. Although one can find the coexistence of all these three systems of circulation of goods and services in capitalist economies, but the dominant form would be Exchange and Reciprocity and Redistribution would fall into periphery and prone to be hegemonised by the dominant form of Exchange.

Pre-capitalist and Socialist economies are primarily dominated by Reciprocity and Redistribution. “Consequently, the mere presence of the marketplace as a physical location of commercial exchange, or that of money is not in itself an evidence of the existence of a capitalist economy. In many traditional economies we can identify the presence of objects that have the role of money, but it’s often special purpose money and not a means of exchange for general purposes that functions as universal standard of value, as is the case in the market economy. Because special-purpose money and goods or services that can be exchanged for them are restricted to certain areas of society, pre-capitalist economies are multicentric, i.e. they have more spheres of exchange. By contrast, capitalist economies are inherently uni-centric, as all goods, services and means of production flow in a single unified sphere of exchange, integrated by market principles and made possible by the use of all-purpose money. . . Modern market exchange using money and bargaining to set prices is a very special case that became central to the European economy with the industrial revolution. A *market system* only comes into being when there is a market for the “fictitious commodities” of land, labor and money. It is only when income, the bulk of survival, becomes dependent upon the market that the market becomes the market economy. It is only then that the market takes over society and indeed becomes society.”

**Activity 1**

Visit a neighbourhood market/Haat or shopping centre. Note down at least ten activities between the customers and shopkeepers or salesman/women.

Recall or attend a Puja or birth/ death or marriage rituals. Note down various gift/money exchange between concerned families and priests.

Write a two page report on the nature of economic and cultural exchange in a comparative sense. Share your note with others at your Study Centre.

**Check Your Progress 1**

1. How is Economic anthropology/sociology understood?

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2. Who influenced Karl Polanyi in his theory of Economic Sociology?

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3. Distinguish between formalism and substantivism in about ten lines.

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**2.3 DANADHARMA IN INDIA: A CASE STUDY OF GIFT EXCHANGE BY MARCEL MAUSS**

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To equip a better understanding of Reciprocity and Redistribution, let us discuss a few examples. Marcel Mauss in his seminal book *Gift Exchange* discusses various pre-capitalist societies in which Reciprocity and Redistribution was the prevalent form of circulation and integration of economy. He takes representative

cases from Melanesia, Polynesia, the Andaman Islands, and the northwest coast of North America. In these societies Mauss found substantive material to sustain his thesis of three moral obligations to give, receive and reciprocate gifts in a gift economy. He also analyses the survivals of the principles of gift economy in the legal codes of ancient economies of Rome, India and Germany. Let us take one examples from this book which is specific to India.

Mauss narrates the theory of *danadharma* (the law of the gift) which applies to Brahmins. The theory of gift exchange in India is extracted from the epic *Mahabharata* which, according to Mauss has the value of *Smiriti* and *Castra* (*shastra*) in Brahminic tradition. Mauss says that the thirteenth book of *Mahabharata*, the Anucasanaparvan (*Anusasana Parvan*) is more explicit on gift customs than the other law books. So he takes it as the prototype of gift exchange economy in Vedic India.

He considers *Mahabharata* as a story of tremendous **potlatch**. Potlatch is described by Mauss as practices of exchange in various tribal societies (such as Trobriand Islands studied by Anthropologist Bronislaw Malinowski) in which gifts are given away or destroyed as part of enhancement of social status. He refers to the game of dice in *Mahabharata* between Pandavas and Kauravas as Indian version of potlatch. He also mentions the military festival in *Mahabharata* where Draupadi chooses her husband.

So the economic theology postulates the idea that the gift is the extension of the giver which means in gift one actually gives oneself. At the same time gift is not completely lost at the time of giving to the giver. Rather it is said that “the thing given brings return in this life and in the other.” (Mauss, M: 54). So in a way gift reproduces itself as Mauss writes, “It may automatically bring the donor an equivalent return—it is not lost to him, but reproductive; or else the donor finds the thing itself again, but with increase. Food given away means that food will return to the donor in this world; it also means food for him in the other world and in his series of reincarnations. Water, wells and springs given away are insurance against thirst; the clothes, the sunshades, the gold, the sandals for protection against the burning earth, return to you in this life and in the other.” (Mauss, M: 55)

He further argues that this is a morally and economically regulated economy in which nothing is casual from contracts, alliances, transmission of goods and bonds created by these transfers. This is how it is different from market economy “where man takes a thing objectively for a price.” (Mauss M:58-59)

By now the difference between formalism and substantivism must be clear to you. By looking at the examples cited by Mauss in his book *Gift Exchange* you must be able to identify the limitations of the debate between formalism and substantivism. One of the greatest contributions of Substantivist school of thought is that it has challenged the ideological propagation that Capitalism is a universal economic system, hence imperishable. By bringing in the ethnographic studies of various pre-capitalist societies of Asia and Africa, Substantivists have broadened up the scope for the discussion on alternative to capitalist economies. In fact, Karl Polanyi himself referred to Socialist economy with prevalence of Reciprocity and Redistribution. But this debate in Economic Sociology and Anthropology

has its own limitations. While it has focused on the aspects of circulation of goods and services, it has missed out the element of production of goods and services in any economy. Production and distribution cannot be looked at as two separate spheres of an economy. You can see this limitation in Mauss's work when he is discussing gift exchange in India through the epic of *Mahabharata*.

### 2.3.1 A Critique of Gift Exchange

First of all the elements of the Gift Economy that Mauss is analysing are absent in Indian case. There three essential obligations involved in a gift economy according to Mauss which are – obligation to give, obligation to receive and obligation to reciprocate. In Indian case the obligation to give does not lie with Brahmins, but definitely the obligation to receive. Similarly, the obligation to receive does not apply to Kshatriyas but only the obligation to give. And dalits are out of these obligations as Brahmins are not prescribed to receive things such as *pakka* food from them. Untouchables are completely out of this circle of obligations. Thomas Trautmann in his critique of Mauss's account writes,

“Let us begin with the Mahābhārata as potlatch. One sees what Mauss is getting at: a warrior class imbued with a spirit of rivalry, in competition with one another over honors. They engage in games of dice in which they provocatively stake everything. They compete at archery or other contests for the hand of a princess. They find honor not in accumulation of wealth so much as in the magnificence of their generosity. And so forth. In short, every element of the potlatch ethos is present, except for the potlatch itself. Games of dice and the like are no doubt contests in which all may be recklessly staked and lost, but the Mahabharata heroes do not directly engage one another in gift contests, in which the object is to best the rival by giving more than he can reciprocate. Nor do we find the moral framework, which—if we understand it right—are the rules of the potlatch competition: obligatory giving, obligatory receiving, obligatory reciprocation of the gift. Indeed, one of the striking things about the warrior ethos, the ksatra-dharma of the epic, as Minoru Hara has so nicely shown, is that kings refuse to accept, since to do so would be a sign of inferiority and dependence (Hara 1974). Only the Brahmin can be said to have an obligation to accept gifts, the second of Mauss' triple obligation—and he must not reciprocate, whence the third obligation does not obtain. Thus the Indian material from the Anuśāsana Parvan—which is so congenial at first to Mauss' thesis in respect of the notion of gift as extension of the giver, and as endowed with personality—fails him when he wishes to see in facts of this order the cause of the obligation to repay; for the (Brahmin) recipient of the religious gift is specifically forbidden to reciprocate.” (Trautmann, 2017)

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## 2.4 LET US SUM UP

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You have read in this Unit the debate in Economic Anthropology between Formalists and Substantivists. The Formalists argue that the principles of capitalist economy are universal thereby constructing a logic for the universal applicability of capitalism and its accompanying ideology. Whereas Substantivists, followed by Karl Polanyi, have criticised proponents of formal logic of economy and have

argued for the production and distribution of goods and services in pre-capitalist economies through specific cultural contexts. Substantivists categorised three forms of circulation of goods and services in any society which are Reciprocity, Redistribution and Exchange. Polanyi distinguished the capitalist mode of production (which he actually preferred to describe in terms of the market economy and market society) from other forms of economic organization primarily in terms of its lack of social embeddedness. In pre-capitalist economies, the process of production was more or less firmly embedded in a wide variety of institutions such as the family, neighbourhood, community, etc. Indeed it was this embeddedness of pre-capitalist production that led Polanyi to distinguish forms of economic life in terms of their respective principles of distribution rather than in terms of their social relations of production. Thus Polanyi argued that, whilst it was often hard analytically to disentangle production from other social activities, one could generally identify the operational principles affecting the distribution of material resources. But the rise of capitalism disembedded material production from all extra-economic institutions and led to the emergence of an autonomous market economy operating according to a profit-maximizing economic logic.

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## 2.5 REFERENCES

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## 2.6 SPECIMEN ANSWERS TO CHECK YOUR PROGRESS

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### Check Your Progress 1

1. Economic anthropology/sociology is understood in terms of two schools of thought; (i) Formalism; and (ii) Substantivism. One refers to the classical economics propounded by Melville Herskovits, who generally refers to the capitalist economy. The other, substantivists refer to non-capitalist societies economic life such as Karl Polanyi.
2. German sociologist, Max Weber influenced Karl Polanyi.
3. The Formalism and Substantivism was made by Polanyi based on two methodological disputes. Formalism associated with distinction between formalism and substantivism where formalism is based on a deductive and logical mode of thinking; whereas substantivism which is associated with anthropology is based on experience and description. Formalist approach is based on the idea of economic rationality of maximising individuals whereas substantivists, believed that economy is “embedded” in the social and cultural context.



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## UNIT 3 NEW ECONOMIC SOCIOLOGY\*

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### Structure

- 3.0 Objectives
- 3.1 Introduction
- 3.2 Meaning of New Economic Sociology
- 3.3 Emergence and Growth of New Economic Sociology
  - 3.3.1 Institutional Economics
  - 3.3.2 New Economic Sociology
- 3.4 Contribution of Different Scholars to Economic and New Economic Sociology
  - 3.4.1 Karl Polanyi (1886-1964)
  - 3.4.2 Mark Granovetter (1943)
  - 3.4.3 Paul Di Maggio (1951)
  - 3.4.4 Neil Fligsten (1951)
  - 3.4.5 Richard Swedberg (1948)
- 3.5 Social and Cultural Embeddedness of Economic Life: Alternate Perspectives
- 3.6 Let Us Sum Up
- 3.7 References
- 3.8 Specimen Answers to Check Your Progress

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### 3.0 OBJECTIVES

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After studying this unit, you will be able to:

- Provide the meaning of New Economic Sociology;
- Discuss the recent developments in Economic Sociology;
- Describe the intellectual contributions of Sociologists, such as Karl Polanyi, Mark Granovetter, Paul Di Maggio, Fligstein and Richard Swedberg; and
- Explain the concepts of New Economic Sociology.

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### 3.1 INTRODUCTION

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In the previous unit you had learnt about the two major schools of thought, Formalism and Substantivism related with the subfield of Economic Sociology. In this unit we now explore the further developments and shift focus from earlier 'Economic Sociology' with the contributions of Mark Granovetter Neil Fligstein, R. Swedberg and others. We have informed you in this unit about the growth of this specialized field of sociology of economic life by giving you more about social and cultural embeddedness of economic life; as well as the possibilities still left in this field for sociologists to explore.

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## 3.2 MEANING OF NEW ECONOMIC SOCIOLOGY

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The contemporary economic world and its newer opportunities shape social interactions and are themselves shaped by the larger societal trends. How far the market or networks of firms constitute the basis of our social inequalities, how does the consumerism acquire a social fashion and produce grounds for social exclusion. Economic sociologists grapple with such questions now more than ever done in its intellectual history. Today's sociologists have done important work, particularly on the role of networks in the economy, on the structure of economic organizations, and on the role of culture in economic life. Economists have developed an approach known as New Institutional Economics. The main objective is, for them, to explain the emergence and functioning of economic institutions with the help of microeconomics. On the other hand, sociologists have developed an approach to economic sociology, sometimes referred to as the "new sociology of economic life." Though some weaknesses hamper both new institutional economics and the new sociology of economic life, they have breathed new life and vigor into economic sociology.

New Economic Sociology is a little more than a decade old and has its roots in some works that appeared in the early 1980s'. Scholars argue that the term 'New Economic Sociology' became popular after Granovetter had formulated the concept of 'embeddedness'. In his brilliant piece 'Economic Action and Social Structure: The Problem of Embeddedness', which appeared in the November 1985 issue of *American Journal of Sociology*, Granovetter provided a systemic critique of New Institutional Economics by highlighting the role of 'non-economic' factors in economic life. The last ten to fifteen years in economic sociology have seen a dynamic growth and many new developments have taken place and new topics have been broached, such as wealth, entrepreneurship role of law in the economy. Earlier insights have also been developed in new directions. The latter is, for example, Granovetter's ideas about embeddedness, Neil Fligstein and Swedberg's work on markets. When economic sociology was revived in the mid-1980's sociologists were at a loss when it came to theory. There was a strong view that sociologists should develop their own approach, and that this approach should differ from that of mainstream economics — but that was about all. The heritage of economic sociology, especially the powerful ideas of Max Weber on economic sociology were not an option since they were little known.

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## 3.3 EMERGENCE AND GROWTH OF NEW ECONOMIC SOCIOLOGY

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In the border area between economics and sociology, there are two approaches that are of particular interest to economic sociology and both can be said together to constitute a new economic sociology. One of the approach is called 'new institutional economics' and second is known as 'new sociology of economic life'.

### 3.3.1 Institutional Economics

Primarily economists have developed the new institutional economics, although a few sociologists have also started working in this field. The key idea is that microeconomics can be used to explain social behavior and social institutions.



In principle, this approach is considerably broader than economic sociology, but in practice, it often deals with this field as defined by Schumpeter i.e. economic sociology being the analysis of 'institutions that are relevant to economic behavior'. It must, however, immediately be added that new institutional economics has little if anything in common with American institutionalism as developed by Veblen. As an intellectual movement, new institutional economics has its roots in the 1950s, although it did not really come into its own until the 1970s. Between 1950 and 1970, it spread in various legal, political, and social institutions. In the 1970s, however, some economists also began to propose provocative new theories of organizational behavior with the help of such concepts as asymmetric information, transaction costs etc. Each of these theories explains the emergence and/or structure of organizations somewhat differently. In agency theory the emphasis is on how the principal can control and direct the agent, while in transaction cost economics, it is on how to minimize transaction costs. Usually, however, all of these approaches agree that efficiency is central to the choice of one organizational form rather than another. Labour economics was dominated by mathematical modeling. These varieties of approaches lacked their focus on social institutions and rather instrumentally harped on the notion of 'efficiency'. Scholars have argued that it cannot be used to explain the existing institutions, in the economy or elsewhere (e.g. Granovetter 1985). Even though the so-called 'new institutional economists' were beginning to study institutions, they turned their explanations towards the 'efficient' and rational actions of self-pursuing individuals and hence, these are seen as institutions that were the product of the rationality. While sociologists were developing empirical interest in economic life beyond the industrial sociology's framework as well, few also studied the nature of capital and labour relations from an explicit Marxist perspective. For instance, Harry Braverman's famous *Labor and Monopoly Capital* (1974), Michael Burawoy's *Manufacturing Consent* (1979) and Mintz & Schwartz (1985) and Useem's (1986) study of 'inner circle' as the interlocks among corporates. These researches also opened the deadlock of functionalist sociology's exclusive focus on 'equilibrium puzzle'. One can also read the emergence of economic sociology in the backdrop of the waning Parsonian sociology and Marxism by 1990s which created an intellectual vacuum.

### 3.3.2 New Economic Sociology

New economic sociology has been perceived as primarily an American phenomenon and has only recently begun its journey in European contexts. On the other hand, Granovetter's most important move was to shift the critique of economics from its usual emphasis on the unrealistic nature of the concept of rationality to a more socially contextualized nature of economic behaviour. His work focused on the failure of economists to incorporate social structure into their analysis. The exclusive focus on individual human nature leads to an 'atomized' decision-making. 'Embeddedness' is introduced as a counter concept to economists stress on 'profit-maximization' and 'atomization' of economic actions. While the earlier tradition of economic sociology developed by Parsons, Smelser Moore had much to offer, Granovetter was able to come up with a combined approach of Polanyi and network analysis. It helped him to draw a sharp line between old and new economic sociology. In general, one of the main differences between the new and the old economic sociology has been precisely that it does not hesitate to attack neoclassical arguments in fundamental ways,

whereas the older work kept its criticism rather muted, and almost never constructed alternative models of economic action. During the ten years or so of its existence, ‘new sociology of economic life’ (Granovetter, 1990) popularly known as ‘**new economic sociology**’ has become quite popular. New Economic Sociology draws on the three distinct traditions in contemporary sociology and is therefore formed by their theoretical ideas – namely *networks theory*, *organization theory*, and *cultural sociology*. Whereas Karl Polanyi had introduced the notion of embeddedness to emphasize that the economy was an organic part of society in pre capitalist times, Granovetter’s point was nearly the opposite, namely to show that economic actions are truly social actions in capitalist society. It argues that the economic actions are ‘embedded in concrete systems of social relations’, and emphasis is given on the role of networks (Granovetter 1985: 487). The main idea is that economic behaviour is ‘embedded in networks of interpersonal relations’ (Granovetter 1985: 504). In other words, new economic sociology has critically developed the insights provided by previous generation of sociologists and not just the sociological interpretation of economic phenomena; it has questioned the very nature of ‘economic’ action and has emerged as a proper field of scientific inquiry.

### Activity 1

List ten activities and social institutions which are directly or indirectly related with economy. Do you see the ways in which network of relations or a “sub-system” appears.

Write a note on the basis of your research and share it with other students at your study centre.

### Check Your Progress 1

Use the below given space to answer the questions

1. What is ‘Economic Sociology’

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2. How is ‘New Economic Sociology’ different from ‘Economic Sociology’

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## 3.4 CONTRIBUTION OF DIFFERENT SCHOLARS TO ECONOMIC AND NEW ECONOMIC SOCIOLOGY

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Following the initial insights provided by Polanyi, the task of economic sociology became to trace the way that economic actions are structured via networks.

Economic actions do not follow the short and direct paths of maximization, as the economists claim. They rather mediated and grounded in the complexities of the existing networks and institutional contexts.



**Karl Polanyi**

Polanyi opined that formal methods are appropriate for understanding how people will behave within a market. But in most societies, institutions did not exist; therefore one simply cannot talk about an “economy” at all, in the sense of an autonomous sphere of behavior that operates according to its own internal logic. (P. 10)

Source: Graeber, David 2001 *Toward an Anthropological Theory of Value*, Palgrave, Newyork

### 3.4.1 Karl Polanyi (1886 – 1964)

Scholars in this field looked back to Polanyi’s *The Great Transformation* (1957) for inspiration. Polanyi argued not only that the creation of markets required states, but also that the formation of capitalist markets would produce social chaos. In continuation, he suggested that governments would have to intervene in markets to stabilize them and to provide social protection for workers and rules to guide the interactions between groups of capitalists. The ways they did this would necessarily be contingent and implied historical institutional variation could help explain cross-national variation in market structures. Polanyi was one of the major economic historians who shaped the directions of the emerging discipline called economic sociology. In his classic text, *The Great Transformation* Polanyi developed his thesis about the relation between economy and society. Its main thesis is that a revolutionary attempt was made in nineteenth-century England to introduce a very new, market-centered type of society. No outside authority was needed as everything was automatically to be decided by the market. Even the value of money was taken away from the political authorities and handed over to the market. The market may deploy both peaceful and violent mechanisms to generate its acceptance among the societal institutions. According to Polanyi, this type of proceeding could only lead to a catastrophe. When the negative effects of the market reforms became obvious in the second half of the nineteenth century, Polanyi continues, countermeasures were set in to rectify them (the double movement). These measures, however, only further unbalanced society; and developments such as fascism in the twentieth century were the ultimate results of the ill-fated attempt in mid-nineteenth-century England to turn everything over to the market.

The most famous concept associated with Polanyi's work is 'embeddedness' which, he used in a way different from its contemporary use. According to Polanyi, economic actions become destructive when they are 'disembedded' or not governed by social or noneconomic authorities. The real problem with capitalism is that instead of society deciding about the economy, it is the economy that decides about society, instead of the economic system being embedded in social relationships, these relationships were now embedded in the economic system. His work has also inspired a new framework to understand the new social movements as well. Another set of conceptual tools for economic sociology are Polanyi's 'forms of integration'. His general argument is that rational self-interest is too unstable to constitute the foundation for society; an economy must be able to provide people with material sustenance on a continuous basis. There are three forms of integration, or ways to stabilize the economy and provide it with unity. These are *reciprocity*, which takes place within symmetrical groups, such as families, kinship groups, and neighborhoods; *redistribution*, in which goods are allocated from a center in the community, such as the state; and *exchange*, in which goods are distributed via price-making markets.

### 3.4.2 Mark Granovetter (1943 -)

Mark Granovetter has contributed primarily to study how people, social networks and social institutions interact and shape one another. Granovetter basically argued that the economists' idea that the existing economic institutions have come into being because they represent the most efficient solution, is simplistic and wrong. According to him, this instrumentality of efficiency denies the role of institutions from its sociological, historical, and legal aspects. Not only this, one sided emphasis on efficiency by new economic institutionalism also discourages the detailed analysis of social structure. Granovetter's popular article on economic embeddedness has been regarded as the manifesto on new economic sociology. As mentioned earlier, Granovetter's influential perspective started during late 1980s. He associated "old economic sociology" with the economy and society perspective of Parsons and Smelser. According to Granovetter, new economic sociology emerged from a micro level critique of the neoclassical economic thinking prominent in economics. His conception of 'embeddedness' emphasizes the role of networks of interpersonal relations. This leads him to comment on the atomized individual actions (as asserted in economics) and over-socialized human actions (as argued in structuralist writings of classical sociologists). Similarly, Mark Granovetter's *Getting a Job* (1974) may be the most successful study of networks market and constitutes an exemplary study in economic sociology. It is innovative, meticulously researched, and analytically sharp. This work represents an attempt to analyze the social mechanisms through which people find employment, and is based on a study of professional, technical, and managerial workers in Newton, a small suburb to Boston. A random sample was taken; some 280 people filled in a questionnaire, and of them 100 were interviewed. The questions tried to establish the source of information that led to new employment. The study asked questions such as, are economists correct in seeing the labor market as a place where information about jobs reaches all the participants. And, is the person who gets a new job best understood as someone who engages in a job search, according to utility-maximizing principles? Granovetter's conclusion is that 'perfect labor markets exist only in textbooks' and that the idea of a rational

job search does not capture what actually happens when people find jobs (Granovetter, 1974).

The newness of new economic sociology, advocated by Granovetter is that the practitioners of recent times have not only started studying the markets, firms and institutional behavior but also questioned the taken for granted assumptions of economic thinking which was broadly accepted by sociologists of earlier generations. Even though organizational theories have highlighted the issues of corporate control and logic of the capital market functioning, they have still avoided analyzing the impact of macro social structures and contexts on rise of inflation, unemployment, and growth patterns. The embeddedness perspective also stresses the role of concrete personal relations and their networks in shaping the level of trust and confidence among individuals. Whereas the economists would focus exclusively on the continuation of future transactions as the basis of developing trust relations, Granovetter emphasized that it misses the past relations and the identities of the actors. Hence, the social relations, not the institutional/organizational arrangements, are the real foundations of trust in the economic life of individuals. In other words, the argument is that the anonymous market, firm of the neoclassical economic models is virtually nonexistent in actual economic life and that transactions of all kinds are rife with the social connections. Networks analysis for example, has been used to explore various types of economic interaction but it cannot be categorized either as customs or as some kind of organization.

### **3.4.3 Paul Di Maggio (1951 )**

Economic sociology shares with organizational sociologists a common concern with the firm, and with cultural sociologists an interest in the role of values and culture in the economy. Nevertheless, he is careful enough to not reduce every explanation of economic phenomena onto 'culture'. Economic sociologists have also found the use of networks quite congenial to their tasks. In 1983, Paul DiMaggio and Walter Powell built on this idea, sketching the networks through which new rational customs diffuse among organizations political networks, professional networks, and networks of firms. Schools were coming to look more like one another, and so were hospitals, auto factories, and charities. A growing body of standard practices can be found in each field. DiMaggio and Louch (1998) described the driving force behind institutionalization, as social managers of auto factories did not independently invent the same business practices; they copied those practices from leading firms. DiMaggio has been prominent advocate of cultural analysis of economic practices. For instance, he aims to understand the socio-cultural conditions under which consumers engage in exchanges with persons to whom they are linked by nonmarket relations. Thus, actors may use social relationships to identify and assess the reliability of partners to whom they have no direct or indirect social ties; the authors call this model as 'search embeddedness' (DiMaggio & Louch, 1998). Alternatively, actors may choose persons with whom they have preexisting noncommercial ties as transaction partners, and this is called as 'within-network exchange' (ibid.). In other words, his work has contributed in identifying and explaining the role of differential networks in consumer markets and explored the social organization of different varieties of markets. These forms of relationships also reduce the dissatisfaction, downside risk, and uncertainty. Moreover, the individual consumers use these

network relations quite similarly the way firms use organizational hierarchies. His work has also opened new areas of possible research in economic sociology. For example, the study of informal relations within the formal institutions of state and governance can provide new insights about the functioning of contractual officials in contemporary times.

#### **3.4.4 Neil Fligstein (1951)**

Fligstein focused his attention to study the firms and markets as part of the larger network, institutional, cultural, or historical trends. According to him, a simple example is that while cooperation or compliance depends strongly on particular interpersonal relations and their history, it also depends on the overall configuration of social networks in which people are situated. Thus, while two actors' previous relations partly determine whether they cheat one another, it is also important whether the overall network that contains them both. Accordingly, the characteristic feature of the modern markets is the emphasis on stability (Fligstein 1996, 2001). According to this perspective, actors do not want unstable economic environment, but the stable markets. In his study of ownership of the large corporations in America, Fligstein argues that differential ownership and the presence of bank interlocks are not important determinants of the strategic and financial outcomes of large firms. Instead he focuses on existing power relations within the firm and control mechanisms of the corporations and the actions of various competitors in the large firms. The agenda for the study of American firms that Neil Fligstein set out in *The Transformation of Corporate Control* (1990) has added new insights for the economic sociology of ownership. According to Fligstein, the strategies of the main U.S. firms have been decided by their 'conception of control' and not just by interpersonal networks. He criticizes the embeddedness approach of Granovetter and others by highlighting the role of power relations within an organization. The main novelty, when it comes to recent sociological research on firms, is mainly to do with its emphasis on dynamics of entrepreneurship in the markets and with that of government. Finally, Fligstein has championed the cause of organizational theory and developed critical entry points for economic sociologists to look into the corporate organizations and their functioning.

#### **3.4.5 Richard Swedberg (1948)**

He is one of the contemporary sociologists who has contributed immensely for economic sociology and put in efforts to get it accepted as a separate field of scientific inquiry. Inspired by Weber, Swedberg has studied the changing structures of market (historical variations) in modern economic world. Market needs to be seen more as social forms than merely a place of monetary exchange. According to him, the field should develop its own frameworks and concepts. For instance, he advocates that the meaning of culture is crucial part of the sociological explanation of economic lives. He suggests that social science should be interested in relations, objects, human interpretations, and meanings in order to theorize about the economy. Criticizing about the economics' abstract theory making about poverty, consumption and economic growth, he makes a plea for a 'materiality' approach. Based on this understanding, Swedberg has been prominent to develop the concept of 'interest'. Drawing on the work of Bourdieu, he stresses the need to see 'interest' as social construction. It requires that one distinguish the 'social'

interest from biological or psychological ones. While the erstwhile system theorist like Parsons tend to view interests as derivative of utilitarian tradition, Swedberg on the other hand, positions it in the very heart of sociological framework that can explain the dynamics of markets, firms and the larger capitalist order.

**Activity 2**

Visit a “weekly” market in a rural-urban fringe of a city. Observe the customers behavior and make a note about their attempt to bargain; to reject items which are expensive their appearance etc.

Visit a Shopping Mall in the prime part of a city. Observe the customers behavior and make notes about the self-same actions. Now write a one page report on the sociological issues; such as social class of customers; the sophistication of appearance etc. which may strike you as different or similar in both the contexts. Discuss with other students at your Study Center.

**Check Your Progress 2**

- 1. How did Karl Polanyi discuss the social and cultural dimensions of economic life? Discuss.

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- 2. What is the name of the book written by Mark Granovetter?

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- 3. Discuss the ideas of Richard Swedberg in about six lines?

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**3.5 SOCIAL AND CULTURAL EMBEDDEDNESS OF ECONOMIC LIFE: ALTERNATIVES PERSPECTIVES**

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Contrary to Parsons’ ideal, both New Economic Sociology and the return of institutional economics try to come up with substitutes for rather than just

complements to neoclassical economics. Larger-scale sociology, with its emphasis on the intersection of social networks and institutional arrangements, and the intricate interplay of structure and agency through coupling and decoupling, presents further reasons to be suspicious of reductionist accounts, as well as a positive argument about how economic outcomes arise. That is the reason economic sociologists have been interested in studying how market derives its *legitimacy* and social acceptance, which bring into force its regulatory mechanisms. New economic sociology needs to study the entrepreneurship as a separate reading of investigation. It would first have to break free from the social individualism that pervades this field. It has to separate from the attempt by psychologists to find the entrepreneurial personality to the focus on the entrepreneur as an actor who singlehandedly builds a fortune and an empire. One way to proceed would be to analyze entrepreneurship as a group activity. It can actually provide a ground to combine all three approaches – (i) network theory, (ii) organizational theory and (iii) cultural sociology to study the dynamics of entrepreneurship. Hence, one's network influences how you behave and your understanding of how people in other roles should behave. Similarly, the question of property has not been looked substantially within the field yet.

New economic sociology can offer new insights about the property structure of newly developing countries like India, China and Brazil. For instance, one can study, is there a pattern of individual ownership or institutional mediation in the property and how does this pattern get shaped by socio-cultural contexts. Thomas Piketty's recent work on *Capital in Twenty First Century* (2014) has provided sociologists new questions about the role of inherited wealth and its contribution in the reproduction of inequalities. It would also open up the invisible terrain of wealth inequalities and its demographic profile in these countries. It would be quite strange if economic sociologists are *not* concerned with the end result of the economic processes of market and capitalism and to explore who gets what and how. Economic power also goes hand in hand with the political power to determine public policies that shape how people see their interests and how they can behave. This sort of power over economic institutions and economic norms operates through political networks, industry networks, and professional networks that serve as the conduits for new policy ideas and business strategies. In other words, economic sociologists are more interested in the *fairness* in real market situation than its *efficiency*.

During the decade, this perspective has also been and one may speak of a general attempt to go beyond embeddedness replace it with some very different approach. For instance, a robust critique has been provided by French sociologist i.e. Pierre Bourdieu, who charged that the embeddedness approach has failed to deal with structural factors. Accordingly, he applies the concept of field to explain the macro-level issues, which shape the nature of economic behavior. Prices, for example, are determined by the structure of the field, and not the other way around. The notion of 'economic' habitus also adds a social psychological dimension to the analysis that is lacking in Granovetter and others (Bourdieu, 2005). Economic individual actors are the product of their social experiences, largely unconscious and embodied. Field structures their tastes, but also their strategies and orientations in the economic field, including at the top of companies or in the political and bureaucratic fields. This is the way Bourdieu challenges classical rational action theory with an original sociological theory of practice, opening to a set of



systematic observations. Economic structures appear as strong constraining frames for individual and collective actions: they cannot be reduced to the networks of interrelations between various nodes, since they are more deeply rooted in multidimensional social spaces, fundamentally structured by the distribution of various 'capitals' (symbolic, cultural and social capital and economic). The economic 'illusion', which means the belief which is at the basis of the economic field as an autonomous 'game' ('business is businesses), is a complex historical product. Bourdieu also problematizes the concept of 'interest' and makes the case of an original and rich notion of interest in contradiction to the 'economism' prevalent in economists' conception. In his understanding, interests are social constructions. Similarly, in his work on Housing industry, *The Social Structures of the Economy (2005)*, he focused on the field-based competition among such firms and its implication for individuals. Bourdieu carefully outlines the habitus of the different types of buyers, making use in the process of a national survey from the mid-1980s. He is also careful to note that a house is much more than a financial undertaking. People invest not only their money but also their time, work and emotions in their houses. The house is the place where a family will live; and it is therefore loaded with profound social, cultural, and symbolic significance. The field of the producers of house is also carefully mapped with the help of national statistics as well as correspondence analysis.

Luc Boltanski and Eve Chiapello in their work, *The New Spirit of Capitalism (2005)* provide a refreshing study of political economy combined with the framework of ideology and cultural analysis. They discuss how the new form of capitalism with even more degrading experiences for workers has managed to be thriving today. According to the authors, the continuous changing nature of capitalist practices results from its adaptation of the critiques waged from the society. These two forms of critique have constantly produced antagonisms among the proponents of capitalism. Gradually the critiques become weaker due to their incorporation within the system and as new antidotes are located they become neutralized, incapable of raising any resistance to the capitalist system. Boltanski and Chiapello argue that for example, flexible labour system of contract labour is the response of capitalism to the growing critiques of capitalism system. The authors have developed the 'third spirit' of capitalism from the management texts of 1960s and 1990s. In other words, this work provides a new 'pragmatic' dimension to understand the functioning of capitalist system and links the beliefs and justifications of actors with the larger political economy. Boltanski has in general criticized the network theory being ideologically conservative and pro-capitalist in nature. In his view, this theory has not explained the relationship between human actors and machines with which they work in the factories and firms.

New developments in economic sociology, something needs to be said about the recent attempt practitioners in this field of study to develop a historical and comparative economic sociology. Sociologists have a long and that successful tradition analyzing historical and comparative topics, and it is sometimes argued these two topics represent areas where economic sociology has comparative advantages in relation to pure economics. Economic sociology, as it exists today, can be described as an established subfield in sociology with a distinct identity of its own. Today it is not just the 'left-over science' as was believed by Louis Wirth, generations back. It has been strongly felt that it was important for economic sociology to have its separate identity, which could set it apart especially from

mainstream neoclassical economics but also from other approaches to economics, such as socio-economics and “old” institutionalism. It is clear that the 1990s and the last few years have been a steadily growing number of studies in economic sociology. Today, for example, there are several different theories of how markets are a growing field in the sociology of finance and so on. New economic sociology has made significant attempt to combine the historical materials, and the comparative approach into its larger agenda. New economic sociology has been very successful in using organization theory to explore the structure of firms, the links that exist between corporations and the larger milieu. But there also exist a number of areas which are central to economic sociology, but where little progress has been made. A few of these have been touched on in this unit, such as firm, interest formation and ethnic economy, and the attempt to bring stratification theory and economic sociology closer together. Economic sociologists have also begun to focus on the role that technology plays in the economic life. To understand modern economic order, economic sociologists need to conduct empirical researches of money, media, economic ideologies, financial crisis, strategies of inheritance, spatial inequalities and accumulation strategies, ethnic and gendered economies, and sources of exclusion etc. Explanation and interpretation of economic reality remain the two fundamental tasks for the field ahead. New economic sociology needs to be consciously reflexive, keep a close look at their own analyses, and try to figure out in what ways do these reproduce existing economic & cultural values in their own writings.

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### 3.6 LET US SUM UP

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This unit, ‘New Economic Sociology’ has explained the meaning of ‘New Economic Sociology’. It has described the different contributions to this subfield of sociology which gives you the understanding about economic sociology as developed by Karl Polanyi and the notion of the information and ‘embeddedness’ described by Mark Granovetter. Further, you learnt about the theory of Paul Di Maggio, Neil Fligstein and Richard Swedberg.

Finally, this unit reflects on the growth in this field in the socio-cultural Embeddedness of economic life and other perspectives.

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### 3.7 FURTHER READINGS

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Smelser, Neil J. & Swedberg, Richard (eds.) 2005. *The Handbook of Economic Sociology*, Second Edition. New Jersey: Princeton University Press.

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### 3.8 SPECIMEN ANSWERS TO CHECK YOUR PROGRESS

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#### Check Your Progress 1

1. Economic Sociology deals with the sociology of Economic life of people in different societies. It deals, with the market and social network. How it impinges on the social life of different communities and cultures.
2. New Economic Sociology has developed quite recently in the world of Economic Sociology. It became popular ever since Mark Granovetter developed the concept of 'embeddedness'. He provided a systematic critique of New Institutional Economics by highlighting the role of 'non-economic' factors in economic life.

#### Check Your Progress 2

1. Karl Polanyi believed that the creation of markets required the states and that the formation of capitalist markets would produce social chaos. He believed that governments will have to intervene to protect the interests of all the communities and capitalist groups to stabilize markets. Most important thing he said was that economic actions become destructive when they are 'disembedded' from social control. He believed that the real problem of capitalism was that here instead of society deciding about the economy, it is the economy that decides about society. He says that instead of the economic system being embedded in social relationships; it is these relationships which were now embedded in economic system.
2. The work contributed by Mark Granovetter in 1985 was; Economic Action and Social Structure: The problem of Embeddedness: American Journal of Sociology 91 (3): 481-510.
3. Richard Swedberg (1948) was influenced by Max Weber. He studied the changing structures of markets in a historical sense in the modern economic world. He advocated that meaning of culture is crucial to the understanding of Sociology of economic life. He, therefore suggested that social science should take interest in relations, objects, human interpretations and meanings to theory about economy.