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# The Changing Relationship Between Economic Sociology and Institutional Economics:

## *From Talcott Parsons to Mark Granovetter<sup>1</sup>*

By OLAV VELTHUIS\*

**ABSTRACT.** In his early work, Talcott Parsons severely criticized Old Institutional Economists like Thorstein Veblen and Clarence Ayres. Parsons' main objection was that institutional economics had a misconceived view on the scope of economics: institutions, being the embodiment of values, were the proper subject of sociology rather than economics. By arguing for a clear-cut division of labor between economics and sociology, Parsons legitimated the divide between the two disciplines that came into being in the years to follow. Recently however, the relationship between economic sociology and institutional economics has changed dramatically. New Economic Sociology (advocated by scholars like Mark Granovetter and Richard Swedberg) rejects the division of labor proposed by Parsons. By providing *substitutes* rather than just *complements* to economics, it tries to counter economic imperialism. This creates significant similarities between New Economic Sociology, Old Institutional Economics and the recent return of institutionalism in economic theory. However, the quest for a division of labor between economics and sociology remains unfinished.

### I

#### **Introduction**

DUE TO A NUMBER OF DEVELOPMENTS IN BOTH ECONOMICS and sociology, the relationship between the two disciplines has become an important issue in contemporary social science (cf. Baron and Hannan, 1994; Ingham, 1996). Under the heading of "economic imperialism," a growing number of subjects that traditionally belonged to the discipline of sociology, has been studied by economists in the last few decades (Hirschleifer, 1985). From

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the side of sociology, the rational choice perspective has likewise questioned the clear separation between economics and sociology in subject matter, theoretical assumptions, and methodology.<sup>2</sup>

From a "heterodox" position, the relationship between economics and sociology has been put on the agenda by New Economic Sociology and institutional economics. Both schools are highly critical of mainstream economics, and want to counter economic imperialism. They try to provide a substitute for economic theory by focusing on the institutional context and social embeddedness of economic action. But whereas the institutional economists can build on the work of Old Institutional Economists like Thorstein Veblen and Clarence Ayres, New Economic Sociology sharply distinguishes itself from its intellectual ancestors, and in particular from the economic sociology of Talcott Parsons.

In this article, economic sociology and its relationship with institutional economics will be investigated. The American sociologist Parsons is a useful starting point for this exploration for a number of reasons. In the first place, Parsons was trained in both institutional economics and in sociology. Secondly, he was most influential for the further development of economic sociology in the United States. Finally, Parsons became highly interested in the relationship between economics and sociology in his early work. In fact, his attempt to establish a sociological theory that was clearly distinguishable from economics, directly led him to formulate a thorough critique of institutional economics.

Parsons' main argument was that sociology, or, for that matter, the analysis of the institutions of economic life, should be a *complement* to rather than a *substitute* for mainstream economics. In the debate between neoclassical economists and institutional economists that was going on in the 1930s, he therefore sided with the former: Parsons basically sympathized with orthodox, marginalist economic theory of his day, and mostly with its view on the subject matter of economics. Following the definition of economics put forward by Lionel Robbins, Parsons argued that sociology should study the ultimate ends, or the value factor of social action, whereas economics should study the means. Therefore, Parsons fiercely opposed institutional economics, which studied institutions as the embodiment of values.

It has been argued that the division of labor between economics and sociology that Parsons argued for, led to the demise of both economic

sociology and institutional economics (Granovetter, 1990). Since both disciplines share the same fate, it should not come as a surprise that none of Parsons' objections against institutional economics are shared by New Economic Sociologists. 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. In fact, the similarities between both schools are so manifold, that a number of scholars consider both schools to be interchangeable. Therefore, it is remarkable how little co-operation has been taking place between them. If it is indeed "via heterodoxy that closer connections between the two disciplines are likely to be forged" (Ingham 1996, p. 271), this lack of cooperation is all the more poignant.

## II

### **Parsons, Economic Sociology and Institutional Economics**

TALCOTT PARSONS' RELATIONSHIP with Old Institutional Economics is a complicated one. In a volume of collected papers on the life and work of institutional economist Clarence Ayres, Parsons recounts how he became influenced by the discipline as an undergraduate student at Amherst College in the 1920s (Parsons, 1976). Ayres and Walter Hamilton, another leading institutional economist at Amherst, were "the principal agents of my conversion to a concern with social science;" Parsons goes on to admit that "[t]he problems posed by [institutional economics] exerted a particularly potent influence on my thinking for the first several years of my postcollege career" (Parsons, 1976, p. 175–176). At the same time, however, he emphasizes that he abandoned the institutionalist perspective immediately after leaving Amherst.

At the University of Heidelberg (Germany), where he went to obtain a doctoral degree, Parsons became influenced by Max Weber's economic sociology, which he contrasted with the institutionalist legacy. Indeed, in an introductory essay to Max Weber's economic sociology, Parsons was most critical of Thorstein Veblen's institutional economics. As the relationship between economic sociology and institutional economics is at stake here, and Parsons' criticism is unusually severe, the passage is worth citing at length:

[A]s compared with Weber, [Veblen's] analysis even of elements of instability is exceedingly narrow. Quite adequate comprehension of all Veblen's real contribu-

tions can be found in Weber's work—many of them he took for granted as too obvious to need demonstration. Weber, however, was able to understand the positive functional significance of the modern price system, more broadly the business economy, in a way which was entirely inaccessible to Veblen. Furthermore, though he is at least as effective in deflating 'individualistic' utopianism, he is singularly free from anything corresponding to the counterutopianism of Veblen, his idealization of 'technology.' The conclusion seems inescapable that Veblen was a highly unsophisticated person who demonstrates the typical reaction of a disillusioned idealist in his scientific work. Weber, who, it should be remembered was a close contemporary, was on a totally different level of scientific and cultural sophistication. The fact that a Veblen rather than a Weber gathers a school of ardent disciples around him bears witness to the great importance of factors other than the sheer weight of evidence and analysis in the formation of 'schools' of social thought. (Parsons, 1947, p. 40n.11).

The question is of course, how Parsons came to this devastating criticism of the founding father of institutional economics. In the article on Ayres referred to above, 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, p. 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, p. 179).

One may have doubts if these two objections that Parsons formulated in retrospect, justify the overall rejection of Veblen earlier in his career. A better understanding of his relationship with institutional economics would be feasible if we go back to a number of early, largely neglected articles that precede the publication of his magnum opus *The Structure of Social Action* (1937).<sup>3</sup> Parsons wrote these articles after he turned his back on the Amherst tradition of institutional economics, when he got involved in (economic) sociology. As he recounts, they were "a kind of justification for the major intellectual turn I had taken, away from the orientations in this field to which I had been exposed as an undergraduate at Amherst" (Parsons, 1976, p. 178). The justification consists of a thorough assessment of institutional economics, which boils down to three interrelated, albeit distinguishable objections.

## III

**Three Objections Against Institutional Economics**

IN *SOCIOLOGICAL ELEMENTS IN ECONOMIC THOUGHT*, published in two parts in the *Quarterly Journal of Economics*, Parsons argued that "there has been too much sociology . . . in economics and too much economics in sociology" (Parsons, 1935b, p. 666). A clear division of labor between economics and sociology was needed to safeguard the theoretical independence of both disciplines. The division proposed by Parsons implied that the dividing line should not be drawn in terms of a "concrete department of social life" such as the economy, but in terms of an analytical perspective which would focus on an aspect of human behavior. In a review of Lionel Robbins' *Essay on the Nature and Significance of Economic Science* which Parsons (1934) published a year before, he therefore approved of Robbins' attempt to define economics in terms of an aspect of human action. Robbins defined economics as "the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses" (Robbins, 1932, p 16). Likewise, Parsons argued that sociology should study another aspect of human behavior that was just as clearly identifiable as the economic aspect.

This led Parsons to his well known "analytical factor view," which would become one of the central themes of *The Structure of Social Action* (1937): if economics was to study the allocation of means in the means-ends chain that constitutes human behavior, sociology would concentrate on the "value factor," i.e. the "ultimate common ends and the attitudes associated with and underlying them, considered in their various modes of expression in human social life" (Parsons, 1934, p. 529).<sup>4</sup>

In line with the analytical factor view, Parsons' first major objection against institutional economics was that it did not conform to the academic division of labor it implied. The Old Institutionalist School did not define economics in terms of an "element," "factor," or "aspect" of human behavior, rather using terms of a "department" of social life, or a "concrete sphere of activities," namely the economy (Parsons, 1935a, p. 424). Parsons opposed such a definition since concrete human action could not be divided into such departments (Parsons, 1935b, p. 660).<sup>5</sup>

Institutional economics had a misconceived view on the scope of economics, the more so since it obviously tried to incorporate institutions

into economic analysis. After all, the Robbins/Parsons division of labor implied that the institutions of economic life were the legitimate subject, even the central element, of sociology, not economics. Since Parsons defined institutions as the embodiment of the ultimate values of a society, and that sociology was to study the value factor in human action, it followed "that economic institutions are in the causal sense a specifically non-economic factor" (Parsons, 1934, p. 533). Therefore, he favorably quoted Durkheim who once defined sociology as the science of institutions (Parsons, 1935b, p. 650).<sup>6</sup>

It followed that the relationship between economics and (economic) sociology was *complementary* according to Parsons: neoclassical economics was lacking institutional analysis, but it was the task of sociology rather than economics itself to complement it. If economics would include the value element into its analysis, its separate identity would be lost. It would become an "encyclopedic sociology," i.e. nothing more than "a general synthesis of the theoretical results of all our knowledge of social life" (Parsons, 1935a, p. 452), which bespoke of an "irritating pretentiousness" (Parsons, 1935b, p. 666).

Parsons objection against the encompassing scope of institutional economics directly led him to a second, methodological objection. "The essence of science, the understanding as distinct from the mere photographic reception of concrete phenomena, is theory and the essence of theory is analytical abstraction," Parsons argued (1935b, p. 661).<sup>7</sup> This was another reason to approve of neoclassical economics: if economics would indeed concentrate on only one aspect of human behavior, it would necessarily be abstract (Parsons, 1934, p. 530). Institutional economists, by contrast, emphasized the concrete rather than the abstract, description rather than analysis, facts rather than theory. It was neither possible nor desirable to strive for "the complete explanation of the concrete functioning 'economy' as a concrete whole," or to deal with "the whole of concrete 'economic' reality" as in institutional economics (Parsons, 1935a, p. 442). Therefore Parsons admitted that empirically, institutional economists might be right, but he went on to conclude that "that does not make them any the less disastrously wrong theoretically" (Parsons, 1935b, p. 661)

Although Parsons did not build up his argument in this order, the third objection again directly follows from the former two. Whereas Parsons basically agreed with the assumptions underlying neoclassical economics,

institutional economists were highly critical of them. The cause of this misplaced criticism was what Parsons called the fallacy of misplaced concreteness, that is "taking the formulations of a set of abstract principles applying to some of the factors in concrete reality for a complete description of the whole of that reality" (Parsons, 1935b, p. 661). For example, since Veblen failed to make a distinction between the abstract and the concrete, he took the hedonistic basis of orthodox economics to be empirically true for the whole of economic life, rather than an abstract assumption necessary to analyze an aspect of human behavior (Parsons, 1935a, p. 436). Furthermore, Parsons did not agree with the institutionalist critique of the rationality postulate, and criticized the emphasis placed by institutional economists on the role of customs and habits in economic action. According to him, the entrance of this "psychological factor" or "anti-intellectualistic element" in economic thought "has hardly gone beyond methodological discussions and scattered, unsystematic appeals to certain nonrational psychological factors to explain certain concrete phenomena" (Parsons, 1935a, p. 440).

#### IV

#### **New Economic Sociology**

A CONSENSUS SEEMS TO EXIST that following Parsons and Robbins, a division of labor came into being from the 1930s onward legitimizing neoclassical economics' neglect of both institutional economics and sociology, and prevented substantial exchange at the boundaries of both disciplines to take place (Ingham, 1996, p. 244; Smelser and Swedberg, 1994, p. 17; Granovetter, 1990).<sup>8</sup> After the 1930s, both economic sociology and institutional economics collapsed, and the role of institutions in economic life remained virtually unexamined. Since then, the Robbins/Parsons division of labor is generally thought to have influenced the relationship between economics and sociology, although it has been contested increasingly in the last two decades. In a recent article on New Economic Sociology, Richard Swedberg argued that "[o]ne of the most important developments in modern social science during the past few decades has been the race to fill the void created by mainstream economics' failure to do research on economic institutions" (Swedberg, 1997, p. 161).

In economics, we find some incidental claims that economists should



take up the study of values (e.g. Heilbrunner, 1988; Klammer, 1996); this claim obviously conflicts with the Robbins/Parsons division, which had assigned the study of values to sociology. On a less incidental level, the relationship between economics and sociology is reconsidered by the revival or return of Old Institutional Economics (e.g. Hodgson, 1994, 1998; Samuels, 1995).

On the side of sociology, the culminating influence of neoclassical economics and its imperialistic tendencies has been criticized by a number of sociologists under the heading of New Economic Sociology.<sup>9</sup> The seminal article is Mark Granovetter's "Economic Action and Social Structure: The Problem of Embeddedness" (1985), which according to one commentator "marks a shift in the relationships between the disciplines" (Ingham, 1996, p. 266). In the article, Granovetter argued that economic action does not take place in a vacuum, but is embedded in networks of social relationships. In the *Handbook of Economic Sociology* that appeared about a decade later, Neil Smelser and Richard Swedberg defined 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" (Smelser and Swedberg, 1994, p. 3). Three assumptions lie at the basis of New Economic Sociology (Granovetter, 1992, p. 4):

1. Economic action is embedded in networks of social relationships.
2. Economic action is directed at the pursuit of both economic and non-economic goals.
3. Economic institutions are socially constructed.

These common assumptions of New Economic Sociology notwithstanding, it is impossible to identify the clear-cut analytical perspective that Parsons had envisaged for the sociology of economic life. Indeed after more than a decade Swedberg, one of the main protagonists of New Economic Sociology, had to admit that it had not been able to come up with an elaborate conceptual apparatus (Swedberg, 1997, p. 171). At the same time, New Economic Sociology does conform to Parsons' program in so far as it studies the institutions of economic life; Smelser and Swedberg even stated that the concept of embeddedness is "more or less synonymous with the notion that the economy is part of a larger institutional

structure" (Smelser and Swedberg, 1994, p. 18). Given the problematic relationship between Parsons' economic sociology and Old Institutional Economics, an obvious question to ask is whether or not Parsons critique is shared by New Economic Sociology, and if this critique can still be a barrier between the two 'revival' schools of thought.

## V

**Parsons' Criticism Revisited**

DOES PARSONS' CRITIQUE STILL FUNCTION as a dividing line between the present revival or return of both institutional economics and economic sociology? In order to end up with an understanding of the relationship between economics and sociology, I will discuss his three objections in reversed order. The emphasis will be on the writings of Granovetter because he is both one of the founding fathers and one of the main protagonist of New Economic Sociology.

In the first place, Parsons agreed with the basic assumptions of neo-classical economics, and argued that the institutionalist critique of them was misplaced. Granovetter, however, is highly critical of neoclassical economics. In fact, "the single thing that most clearly differentiates what I call the 'new economic sociology' from the 'old economic sociology' is that it is much less respectful of orthodox economics" (Granovetter, in Swedberg, 1990, p. 107; cf. Granovetter, 1990, p. 95). It shares the critique of the basic assumptions of mainstream economics put forward by institutional economics. That this critique is still vigorous in the return of Old Institutional Economics can be illustrated with the help of the first sentences of Geoffrey Hodgson's seminal text *Economics and Institutions, A Manifesto for a Modern Institutional Economics* (1988): "This book is born out of the conviction that some of the basic concepts of mainstream economic theory require critical and urgent re-examination," mainly because "mainstream economics is unacceptable in terms of its theoretical assumptions and the scope and direction of its formal argument" (Hodgson, 1988, p. 3; cf. Samuels, 1995).

Contrary to the methodological individualism of neoclassical economics, Granovetter states that economic action cannot be explained in terms of individual motives because "it is embedded in ongoing networks of personal relations rather than carried out by atomized actors" (Granovet-

ter, 1992, p. 270). Embeddedness is in other words contrasted with methodological individualism and even functions as a counterconcept to the atomized view on economic behavior that prevails in orthodox economics: "The opposite of atomization is something I want to call 'embeddedness'." (Granovetter in Swedberg, 1997, p. 164). Furthermore, Granovetter criticizes the utility postulate of neoclassical economics with the remark that "the pursuit of economic goals is normally accompanied by that of such non-economic goals as sociability, approval, status and power (Granovetter, 1992, p. 270). Criticizing the rationality postulate of neoclassical economics, Swedberg and Smelser conclude argue that rationality is a variable for economic sociology or phenomenon that needs to be explained, rather than an assumption as in neoclassical economics (Smelser and Swedberg, 1994, p. 5).

Now let us turn to Parsons' second criticism of institutional economics. Institutional economics wanted to replace mainstream economics because of the abstractness of neoclassical theory. Parsons, disagreed however was basically satisfied with the theoretical core of economics and especially with its level of abstractness. The problem is that explicit remarks about the methodology of New Economic Sociology are scarce in Granovetter's writings. In fact, a common methodology seems to be lacking in New Economic Sociology. Still, a preference for empirical research as against abstract theory building is unmistakably present. According to Granovetter, Parsons' economy and perspective on society crippled in part because of "its own weight, as the stratospheric Parsonian categories failed to stimulate empirical research" (Granovetter, 1990, p. 93); furthermore, in his own research, Granovetter shows a preference for detailed empirical research (cf. Granovetter, 1974; Granovetter, 1992; Granovetter and McGuire, 1998).

Additionally according to Smelser and Swedberg, the meanings of social action "must be investigated empirically, and are not simply to be derived from assumptions and external circumstances" (Smelser and Swedberg, 1994, p. 5). They go on to argue that sociologists are less formalistic and "often find sensitive and telling descriptions both interesting in themselves and essential for explanations" (Smelser and Swedberg, 1994, p. 7). Therefore they criticize economics for its formalistic modeling and its lack of interest in empirical data. We have to conclude that New Economic Sociology does not share Parsons' second objection either.

Finally, Parsons agreed that economics needed to be complemented with an institutional analysis which would take values into account. Since he maintained that this complementary institutional analysis was the task of sociology rather than economics, his last major objection against institutional economics was that it had misconceptions on the scope of economics. Granovetter is unclear with respect to this critique. On the one hand, he argues that economic sociology should deal the institutional analysis that neoclassical economics refrained from; in that sense, Granovetter agrees with Parsons. On the other hand, however, Granovetter wants to go much further than a mere complementary analysis of the institutional preconditions for economic life. In addition, he argues that New Economic Sociology should "offer an alternative account of everyday economic activity" (Granovetter, 1990, p. 95). The main difference between old and new economic sociology is exactly that new work "reverses economic imperialism by offering sociological accounts of core economic subjects such as markets, contracts, money, exchange, and banking" (Granovetter, 1990, p. 95). The ultimate aim is to show that the embeddedness of economic life in social networks and cultural institutions has implications for economic outcomes (Granovetter, 1990, p. 100).<sup>10</sup>

Moreover, New Economic Sociology does not claim the study of institutions as an exclusive activity of its own, and therefore does not share Parsons' third objection against Old Institutional Economics. By striving for a complete independence of economics and from sociology, Parsons legitimated the mutual neglect of economists and sociologists that is characteristic of the last 50 years, and even reinforced the separation of both disciplines: "If economics was fully adequate within its own domain, one separate from that of sociology which was to treat value systems and the institutional preconditions of economic action, there was little motive for economists to pay attention to sociology unless they were concerned with such matters, as few were in this period." (Granovetter, 1990, p. 91).<sup>11</sup> Briefly, " 'New economic sociology' is much more ready to argue that sociologists have something to say about standard economic processes and that this *supplements* and in some cases also *replaces* what economic theory has to say" (Granovetter in Swedberg, 1990, p. 107; cf. Granovetter, 1990, p. 95; emphasis added).

In comparing Parsons with New Economic Sociology, the conclusion seems inevitable that the relationship between economic sociology and

institutional economics has changed dramatically. Therefore, it should not be surprising that Granovetter regrets the demise of American institutionalism: "[t]he virtual demise of a vigorous, non-neoclassical institutional economics has . . . produced an odd simultaneous narrowing of the conceptual apparatus accompanied by a broadening of the subject matter" (Granovetter, 1990, p. 94; cf. Granovetter, 1992, p. 3). He even holds Parsons partially responsible for this demise: "[B]y his attacks on the institutional economists Parsons contributed to the failure of any alliance between them and economic sociologists. This failure has deprived both groups of a source of vitality, and helps account for the intellectually marginal position of current institutional economics" (Granovetter, 1990, p. 91). Granovetter concludes that the fate of economic sociology and old institutional economics was essentially the same: "Together with a waning interest in institutions, economics started to ignore the 'pseudoscience' of sociology" (Granovetter, 1990, p. 89).

## VI

### **The Present Relationship Between Economic Sociology and Institutional Economics**

NEW ECONOMIC SOCIOLOGY and the return of Old Institutional Economics have a mutual interest in economic institutions. Both agree that the fundamental core of neoclassical economics needs to be replaced, not just supplemented. Although it is beyond the scope of this article to give a thorough comparison of the two schools of thought, such a comparison would obviously be obfuscated by the fact that a definite characterization of either discipline is hard to give. Indeed, both disciplines are eclectic in both theoretical and methodological respects (cf. Smelser and Swedberg, 1994, p. 18; Samuels, 1995, p. 570). The similarities however between the two heterodox schools go much further. In fact, the institutional economist Hodgson argues that "the notion of an institution adopted by institutional economists links up with similar approaches in sociology, particularly by emphasizing that institutions are linked to cultural values and norms" (Hodgson, 1994, p. 64). Some scholars even suggest that New Economic Sociology is simply a modern version of the "classical institutionalist tradition" (Groenewegen, Pitelis and Sjostrand, 1995, p. 3), or maintain that some institutionalists "are methodologically indistinguishable from many branches of sociology" (Ingham, 1996, p. 245).

Given these similarities, two questions remain to be answered. The first question is why have not close connections between the two schools been established so far? It is surprising, to say the least, how little co-operation between New Economic Sociology and the revival of Old Institutional Economics has occurred. As a matter of fact, Swedberg acknowledges that one of the weaknesses of New Economic Sociology is that it has not succeeded in assimilating insights from familiar intellectual traditions such as institutional economics (Swedberg, 1991, p. 270).<sup>12</sup> Although a citation analysis might be necessary to prove this lack of co-operation, the handbooks both schools published in 1994 are exemplary: institutionalism is represented in the *Handbook of Economic Sociology* with only one article (Hodgson, 1994), whereas we do not find a single entry on sociology, a sociologist, or a sociological concept in the *Elgar Companion to Institutional Economics* (Hodgson, Samuels and Tool, 1994). How do we explain this lack of co-operation?

In the first place, and most obviously, apart from the similarities mentioned above differences exist between both disciplines that might inhibit co-operation. For instance, the evolutionary approach of institutional economics and its preoccupation with technology does not have a counterpart in New Economic Sociology (cf. Hodgson, 1994, p. 63). Another explanation would be from the perspective of rhetoric or sociology of knowledge: the fact that both schools evolve around different institutions (journals, conferences, departments) might inhibit co-operation (cf. Ingham, 1996, p. 271; Baron and Hannan, 1994); it is noteworthy that of the *Handbook of Economic Sociology* nearly all authors (39 out of 44) hold positions at American universities, whereas this share is hardly more than 50% (51 out of 97) for the *Elgar Companion to Institutional Economics* (Van der Meer, 1996). A rhetorical analysis might reveal that the metaphors, analogies, concepts, etc. that both disciplines use, are difficult to reconcile. For example, one may wonder if the biological metaphor that figures prominently in institutional economics, can be reconciled with the perspective of the New Economic Sociology (Hodgson, 1993).

More importantly, the intellectual traditions of New Economic Sociology, held in high esteem and "constantly reinterpreted" (Smelser and Swedberg, 1994, p. 4), may be difficult to reconcile with Old Institutional Economics.<sup>13</sup> As Swedberg showed in a number of articles, the three major traditions New Economic Sociology draws on, are the American tradition

represented by Parsons, the French tradition represented by Durkheim, and the German tradition represented by Max Weber (Swedberg, 1987, 1991; Smelser and Swedberg, 1994). We have already seen that the first, American tradition of Parsons is extremely hostile towards Old Institutional Economics. But apart from his own hostility, Parsons went on to contrast the institutionalist legacy with the legacy of economic sociologists like Weber and Durkheim. According to Parsons, both Weber and Durkheim recognized that mainstream economics merely needed to be *complemented* and not *substituted* with an institutional analysis. The fact that he found the same combination of belief in the abstractness of economic theory, and “eminent achievements in the field of the sociology of ‘economic life’” (Parsons 1935b, p. 654) with Weber and Durkheim, led Parsons to speak of a “remarkable case of convergence of thought” (Parsons 1935b, p. 664).

The point is that the very authors Parsons contrasts with the institutionalist tradition, are mentioned by Swedberg as the main representatives of the intellectual tradition of New Economic Sociology. In other words, a partial explanation for the difficulties in establishing closer connections with the Old Institutional School might be that the respective intellectual traditions, which both hold in high esteem, are difficult to reconcile. The tension is apparent in Granovetter’s appraisal of Weber and Durkheim. At one time, he acknowledges them as the “intellectual forebears” of New Economic Sociology because of their non-accommodationist stance vis-à-vis economics (Granovetter, 1992, p. 4). At another, however, Granovetter represents Durkheim and Weber together with Parsons as “old economic sociologists,” who did not “attack [mainstream economic theory] directly” and “were more interested in those sociological elements that formed the preconditions for markets and capitalist organizations than in the everyday workings of the economy” (Granovetter, 1990, p. 90). Granovetter suggests that Weber and Durkheim, just like Parsons, reinforced the Robbins/Parsons division of labor that led to the neglect of sociology by mainstream economics.

This brings us to the second question concerning the present relationship between economic sociology and institutional economics. For Parsons, the choice was between a division of labor in terms of an aspect of human behavior, or no division of labor at all; “[i]f there is to be *any* theoretical division of labor between the social sciences at all, it must be on

the basis of some form of the *aspect* view" (Parsons, 1934, p. 535). If New Economic Sociology rejects Parsons' analytical factor view or the Robbins/Parsons division of labor, what alternative do they present in order to differentiate (economic) sociology from (institutional) economics?

In this respect, it is important to notice that the institutional context in which New and Old economic sociologists operate is different; we have to take into account that the "scientific climate" has changed significantly since the 1930s. Parsons was working at a time when sociology was hardly established as a separate discipline. Indeed, at Harvard University, where Parsons was a lecturer and wrote his early essays, a continuous debate was going on about whether sociology needed to be established as an autonomous department. Sociology was characterized as the "pariah subject," mired in "trivial content" and more akin to "alchemy" than to the natural sciences or economics" (Camic, 1991, p. xxxviii).<sup>14</sup> Not surprisingly, Parsons had to wait a long time before getting tenure as an assistant professor in this environment.

In Parsons' time the process of the construction of scientific disciplines had not yet come to an end. He argued that in this process, social life could not be separated into departments to be allocated to every single scientific discipline. However, Parsons did not show why the separation in "factors" such as the value factor, or "aspects" such as the choice aspect, would be a more successful road to travel in order to end up with two clearly identifiable disciplines. Indeed, the language used by New Economic Sociologists suggests that such a separation is deemed unsuccessful. The pursuit of economic goals, to give an example out of Granovetter's texts, "is *intertwined* with noneconomic goals, and deeply embedded in structures of social interaction that extend backward in time and outward in space" (Granovetter, 1990, p. 95; emphasis added). Social science, the argument seems to be, is necessarily messy. In this respect, it is important to note that institutional economics, more explicitly than New Economic Sociology, subscribe to the ideal of a unified social science (Hodgson, 1994, p. 69).

At the same time Granovetter argues that a sophisticated economic sociology tries to integrate modern economics with a social construction account of economic institutions, and seeks to understand "what the division of labor must therefore be between sociology and economics" (Granovetter, 1992, p. 271). Granovetter does not give a clue, however,



what this new division of labor will look like, and how it differs from the one proposed by Parsons.

Similarly, Smelser and Swedberg insist that the most promising relationship between economics and sociology that can be envisaged, is one of "complementary articulation." Their description of what this complementary relationship should look like, is equally vague, however: "Of necessity, any line of disciplined inquiry focuses on certain operative variables and assumptions, and freezes others into parametric assumptions. Often the territory thus frozen is that very territory that is problematical from the standpoint of some other line of social science inquiry. It is this dialogue about the precise role of operative variables and the conceptual status of parameters that holds out the best promise for communication and theoretical development in both economics and sociology" (Smelser and Swedberg, 1994, p. 20).

## VII

### **Conclusion**

THIS ARTICLE DEALT WITH THE RELATIONSHIP between economic sociology and institutional economics; unavoidably, the wider problem of the division of labor between economics and sociology was at stake. The debate revolved against the background of a dilemma that Parsons already hinted at in a footnote: the subtle difference between establishing an "independent discipline" and establishing a discipline that is "unrelated to the other disciplines" (Parsons, 1934, p. 522n7). Unfortunately, Parsons failed to show how we could avoid ending up with the latter, when striving for the first. With hindsight, we have to conclude that as a result of Parsons' quest for an *independent* sociology, economics did become *unrelated* to sociology. It could simply ignore the institutional context or the 'value-factor' of economic action, since they were the domain of sociology, not economics according to the Robbins/Parsons division of labor.

New Economic Sociology is far more friendly than Parsons was of the Old Institutional School and of its revival and recent decades. In fact, ever since Parsons, economic sociology and institutional economics shared the same fate: they were neglected by mainstream economics. The main program of New Economic Sociology is therefore not to define itself in terms that make economic sociology clearly identifiable and distinguish-

able from mainstream economics, but instead to counter mainstream economics' imperialism. They do this by giving sociological accounts of subjects that traditionally belong to economics, such as markets, money and prices (Granovetter, 1990, p. 95). In doing so, the institutional context, and the way this context is socially constructed, is key.

Unfortunately, and in spite of their rejection of the Robbins/Parsons division of labour, the question of what the new division of labor should be between economics and sociology, is almost completely ignored in New Economic Sociology. If both economics and economic sociology should study economic action as a 'department' of social life, is a new division of labor feasible? Or should both be integrated in a new science of economic life, perhaps to be called 'econology'?<sup>15</sup> To be sure, this "unification of social science" is not yet within reach, since even the two "heterodox" schools of thought that appear to be perfect candidates for such a unification, so far have not been able to establish closer connections. The challenge remains.

### Notes

1. The author would like to thank Judith Mehta, Wilfred Dolfsma, Gwennaele Bruning and the participants of the seminar Cultural Economics (Erasmus University) for their useful comments. An earlier version of this paper has been presented at the European Conference for the History of Economics, Antwerp (1998).

2. In one review of a seminal text in rational choice sociology, James Coleman's *Foundations of Social Theory* (1988), the main argument was that the book should be regarded as a study in economics rather than sociology (Smelser, 1990), whereas another review (Frank, 1992) considered the book to be an important step in the direction of the "melding of sociology and economics."

3. For an excellent overview of both life and work of Parsons before the publication of *The Structure of Social Action* (1937), see Camic (1991) and Brick (1993).

4. Apart from economics and sociology, the other sciences would have their own element or aspect to study in the "means-ends" chain; e.g. politics would study the political factor, biology the biological factor (Parsons, 1934, pp. 523–524).

5. At one point, Parsons mentions an additional reason for this definite separation: it provides economics with a means of escaping the historical relativism of the German historical school: "To save the generality of economic theory it involves the relegation of the factors which above all account for the specific peculiarities of an "economic system" on Sombart's theory, its "economic spirit" or in other words its ultimate ethical values, to another science, namely sociology" (Parsons, 1935, p. 452)

6. Notice the similarity to Joseph Schumpeter's description of economic sociology: "By economic sociology we denote the description and interpretation - or 'interpretative

description' of economically relevant institutions, including habits and all forms of behavior in general, such as government, property, private enterprise, customary or 'rational' behavior" (cited in Smelser and Swedberg 1994, p. 13; see also Schumpeter 1954, p. 21). Therefore it should not be surprising that Schumpeter classified Veblen as a sociologist in *History of Economic Analysis* (Schumpeter 1954, p. 795n29). The other way round, Kenneth Boulding called Max Weber a "European Institutional" (Boulding 1973, p. 48).

7. At Harvard, where Parsons went after finishing his dissertation on Weber and Werner Sombart, he became convinced of the value of analytical abstraction (Parsons, 1976, p. 177); a major influence at Harvard was the philosopher Alfred Whitehead, according to whom "the utmost abstractions are the true weapons with which to control our thought of concrete fact" (Camic, 1991, p. xxxiv).

8. Obviously this division of labor has not been put into practice since. For example, it has been argued that sociology turned out to be the "science of leftovers," focusing on subjects that are left unstudied by other social sciences (Granovetter, 1990, p. 89). Other principles have been put forward to demarcate both disciplines, mostly in an aphoristic or even pejorative mode; e.g. James Duesenberry ("economics is all about how people make choices; sociology is all about how they don't have any choices to make"), Paul Samuelson ("sociology is left with the residue of irrationality"), Kenneth Arrow ("economist and sociologist simply ask different questions"), or Williamson ("sociology studies the 'tosh' of economic life") (cf. Ingham, 1996; Smelser and Swedberg, 1994).

9. To be sure, "the race to fill the void created by mainstream economics' failure to do research on economic institutions" has not been the exclusive business of New Economic Sociology and the return of Old Institutional Economics. New Institutional Economics, the orthodox counterpart of the Old Institutional School, has been equally devoted to the study of institutions (Williamson, 1985). It is beyond the scope of this paper to deal with their respective criticisms in detail, but it is remarkable that both New Economic Sociology and the return of the Old Institutional School are highly critical of New Institutional Economics (cf. Granovetter 1985, 1990, 1992; Hodgson 1989, 1994, 1998; Rutherford 1994). Granovetter's seminal article on embeddedness (1985) even starts with an elaborate critique of the "disembedded" and "undersocialized" perspective on institutions put forward by New Institutional Economics.

10. Granovetter gives the following example: trust might be taken as an explanation for the stickiness of prices "as buyers and sellers are unresponsive to price inducements to trade with unfamiliar partners," which prevents the clearing of markets (Granovetter, 1990, p. 105).

11. The other way round one might ask why sociologists would need "to keep abreast of technical economics, and neither Parsons nor others did so in the period from 1940 to 1970" (Granovetter, 1990, p. 91).

12. Likewise, Holton and Turner argue that "the theoretical development of 'economic sociology' *per se* remains a low intellectual priority within institutional circles" (Holton and Turner 1987, p. 92).

13. To be sure, a few intellectual forerunners like Karl Polanyi and Joseph Schumpeter appear in both traditions; indirectly, the influence of the German Historical School appears in both schools (Swedberg 1991, p. 259).

14. This characterization was made by Harvard historian Crane Brinton, but Parsons found out that Harvard philosopher L.J. Henderson, whom he held in esteem, basically agreed with it (Camic, 1991, p. xxxviii).

15. Geoffrey Hodgson came up with this term in 1999 in an editorial on an 'economic sociology' mailing list (*economic-sociology@uclink4.berkeley.edu*).

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