

# ELEMENTS OF ECONOMIC SOCIOLOGY IN CLASSICAL POLITICAL ECONOMY

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**Abstract:** This chapter examines the elements of economic sociology that are present in classical and post-classical political economy. We consider classical political economy to begin with Adam Smith (2007 [1759], 2009 [1776]) and to follow in the ‘mainline’ tradition of economics with branches from the Austrian, Virginia, and Bloomington schools. First, we examine the fact that classical political economy shares many key figures with those in the economic sociology tradition, including Weber and Schutz. Then we detail the main elements of economic sociology, using Weber’s (1949) understanding, and also incorporate a discussion of new economic sociology, engaging both Granovetter and Swedberg. We use this discussion to emphasize how classical political economy shares some of the same key elements as new economic sociology. Specifically, classical political economy and those in Smith’s tradition understand action to be socially grounded and understand institutions as socially constructed. We believe it is important to highlight that the overall classical political economy tradition tracks very closely with, and is a natural dialogical partner of, economic sociology.

**Keywords:** Classical political economy | Economic sociology | New economic sociology | Austrian economics | Bloomington school | Virginia school

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## I. Introduction

Classical political economy and post-classical political economy (henceforth CPE), which includes the Austrian, Bloomington, and Virginia schools of thought, is an approach to political economy that follows in the ‘mainline’ tradition of Adam Smith (Boettke 2020, Mitchell and Boettke 2017).<sup>1</sup> Arguably, three propositions advanced by Smith about the nature of the social world characterize the classical political economy and the schools of thought that comprise it (see Boettke et al. 2016). First, classical political economists believe that individuals face both cognitive and epistemic limits as the attempt to navigate the social world. Second, they believe that human activity is guided and directed by formal and informal rules which act as points of orientation. Third, they believe that social coordination and cooperation are possible without central direction. These propositions form the basis of the Austrian school’s discussions of entrepreneurship and the market process, the Virginia school’s discussions of constitutional choice and political decision making, and the Bloomington’s schools discussions of polycentricity and collective action.

We argue that there are strong links between CPE and economic sociology, and especially between CPE and the new economic sociology (henceforth NES). In the later nineteenth and early twentieth centuries, the distinction between economics and sociology was not so stark. Additionally, CPE and NES share many of the same intellectual forebearers. For instance, Max Weber has deeply influenced both CPE and NES. As Smelser and Swedberg (2005, p. 8) described, “among the classics in economic sociology Max Weber occupies a distinct place. He proceeded furthest toward developing a distinct economic sociology, laying its theoretical foundation and carrying out empirical studies.” Similarly, as Käsler (1998, p. ix) explains, “among sociologists, Weber is recognized as one of the principal ‘founding fathers’ of the discipline.” Also, “Weber has become regarded throughout the world as an undisputed ‘classic’ of sociology. Every lexicon or ‘history’ of this discipline mentions his name as central and emphasizes his authoritative influence on its development” (Käsler 1988, p. 211).

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<sup>1</sup> As Boettke, Coyne, and Newman (2016) detail: “In *Living Economics* (2012), Boettke argues that there is a “mainline” of economics and political economy that runs from Adam Smith and David Hume to Mises and Hayek, and from Mises and Hayek to Buchanan and Vernon Smith. This intellectual line is defined by substantive propositions about how the economic system works.”

Similarly, Weber was a key figure in the development of Austrian economics. As Boettke and Storr (2002, p. 1730) write, “Weber and the Austrians have a deep and symbiotic relationship.” Ludwig von Mises, a founder of the modern school of Austrian economics, devoted large portions of both his *Epistemological Problems of Economics* (1981 [1933]) and *Human Action* (2013 [1949]) to a critical exploration of Weber’s methodological approach. Indeed, Mises and subsequently most Austrian political economists adopted Weber’s position on methodological individualism, value freedom, and *Verstehen*. As Lachmann’s (1951, p. 413) review of Mises’ *Human Action* contends, “in reading this book we must never forget that it is the work of Max Weber being carried out here.”

Additionally, Alfred Schutz was a student of Mises and the leading proponent of phenomenological sociology. Mises was the one who encouraged Schutz to pursue his studies of Weber. Prendergast (1986), for example, argued that Schutz’s early writings provided philosophical and sociological foundations for Mises’ work. As Barber (2002) added, Schutz’s primary work, *Phenomenology of the Social World*, “supplied philosophical foundations for Max Weber’s sociology and for economics, with which he was familiar through contacts with colleagues of the Austrian school.”

There are similar links that can be drawn between CPE, NES and Alexis de Tocqueville. Indeed, central figures of both CPE and NES have written books dedicated to his ideas in reference to their field: Richard Swedberg (2009) one of modern economic sociologists most prominent thinkers, and Vincent Ostrom (1997), one of the founders of the Bloomington School.<sup>2</sup> Tocqueville, though a lesser figure in economic sociology, explored the relationship between social phenomena and economic outcomes in ways quite like Max Weber. And, as V. Ostrom acknowledges, his own “effort is to deepen the foundations implicit in Tocqueville’s analysis so that we might recognize the theoretical merit of Tocqueville’s achievements and begin to explore potentials for crafting democratic societies built on principles of self-governance” (Ostrom 1997, p. 30).

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<sup>2</sup> See Swedberg’s *Tocqueville’s Political Economy* (2018), and Ostrom’s *The Meaning of Democracy and the Vulnerabilities of Democracies: A Response to Tocqueville’s Challenge* (2000).

This chapter discusses the connections between CPE and NES and highlights what both camps might learn from one another. Specifically, we point to Weber's writings on the scope of socio-economic inquiry, NES's discussion of the social nature of economic action, and CPE's discussion of the social situation of economic phenomena. We contend that for several reasons CPE and NES are natural dialogical partners.

## **II. The scope of socio-economic inquiry**

Economics is arguably a narrow field. The economics found in most introductory textbooks, for instance, is focused on buying and selling, consumers and producers, demand and supply, and little else. Often, even the animating agents (i.e., entrepreneurs), and context of economic activity (i.e., the formal and informal institutions that inform economic action) are absent or in the background.<sup>3</sup> Weber, however, saw the social and economic realms as inextricably linked. In particular, Weber (1949) argued that social economic phenomena were comprised of economic phenomena, economically relevant phenomena, and economically conditioned phenomena. The first, economic phenomena or 'pure' economic phenomena, are described as the "events and constellations of norms, etc. the economic aspect of which constitutes their primary cultural significance for us" (Weber 1949, p. 64). An example of this would be the economic institution of banks (Swedberg and Agevall, 2016, p. 73). Or, as Storr (2013, p. 6) details, "economic events such as exchange and competition [and] economic norms such as offering employees a lunch break" fall under the category of pure economic phenomena. These phenomena lend themselves to a study of economic aspects, not social ones. Social scientists study pure economic phenomena for an economic understanding.

Second is economically relevant phenomena. These phenomena "are non-economic phenomena that are relevant for economic phenomena" (Swedberg and Agevall, 2016, p. 73). These phenomena include "all the activities and situations constituting an historically given culture [that] affect the formation of the material wants, the modes of satisfaction, and the integration of interest groups..." (Weber 1949, p. 66). Ascetic Protestantism provides a main

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<sup>3</sup> Although the scholarly conversation within mainstream economics is much broader than the textbook version, it is still somewhat narrow in the sense that is open to only certain empirical techniques.

example of this type of phenomenon, one that that Weber employed in his famous work. In general, as Storr (2013, p. 6) points out, “gender, racial, ethnic and class relations and biases, religious and political beliefs and institutions” all are a part of economically conditioned phenomena because “they affect actors’ preferences and decisions.”

Third, Weber details economically conditioned phenomena, which are defined as “non-economic phenomena that are partly conditioned by economic phenomena, e.g. the religious beliefs of the social classes” (Swedberg and Agevall 2016, p. 73). In other words, these phenomena are, as Weber himself put it, “not economic...and the economic effects of which are of no...interest to us...but which in individual instances are in their turn more or less strongly influenced in certain important aspects by economic factors” (Weber 1949, p. 64). As Storr (2013, p. 6) detailed, “families and friendships, the fiscal aspects of the state, and attitudes towards...immigrants, to the extent that they are influenced by economic phenomena, would fall into this category.”

The kinds of subjects that both CPE and NES focus on, thus, fit comfortably with Weber’s schema. Taken as a whole, his phenomena encapsulate the entangled world of social economy. This has been described by Zelizer as “connected lives” (Zelizer 2005) or as “differentiated ties” (Zelizer 2000). Her point is that relationships (Zelizer specifically focuses on intimacy) are embedded within social and economic phenomena. Her argument is in direct contention with the ‘hostile worlds’ and ‘nothing but’ views: the ‘hostile worlds’ view argues that relationships and the economy are incompatible, and that the two spheres should not be mixed. The ‘nothing but’ view explains things like intimacy as driven by nothing but one phenomenon. For instance, intimacy to some economists could be explained as being nothing but rational economic action; or to some sociologists, as nothing but sociological phenomenon. Zelizer argues that both of these views ignore a Weberian understanding that economic action is socially embedded.

Boettke and Storr (2002) have similarly described this as treble embeddedness, i.e., the society, the polity, and the economy are on the same ‘level’ of comparison and the individual is simultaneously embedded within each of these spheres. Rather than viewing the polity embedded within society, and the economy embedded within the polity (what is referred to as single embeddedness; see Boettke and Storr 2002, p. 169-170), one must understand that all three influence, overlap, and intersect each other, creating a treble embeddedness. Treble

embeddedness allows us to analyze individuals and communities that are at once affected by and also effect change within all three areas – society, the polity, and the economy.

Consider, for instance, how comfortably the study of entrepreneurship, rent seeking, and efforts to overcome commons problems would fit within the scope of what Weber's social economics, even though those subjects, for a time at least, were seen as outside the economics. Austrian School economist Kirzner's (1973) theory of entrepreneurship, for instance, rests upon his understanding of entrepreneurial 'alertness.' The entrepreneur is alert to hitherto unnoticed profit opportunities, where he can 'buy low and sell high' and provide goods and services that help satisfy otherwise unsatisfied human wants. This alertness, of course, requires knowledge of society, the polity, and the economy, and as we will discuss later, these all affect individuals (including entrepreneurs), and individuals are also involved in their crafting. As Lavoie (1991, p. 46) explains, "profit opportunities are not so much like road signs ... as much as they are like difficult texts in need of a sustained effort of interpretation. Entrepreneurship is not only a matter of opening one's eyes, of switching on one's attentiveness; it requires directing one's gaze." Similarly, Arentz et al. (2013) argue that prior knowledge and experience play a critical role in an entrepreneur's ability to identify and exploit entrepreneurial opportunities.

Consider also Virginia School economist Tullock's (1967, 1993) discussions on rent seeking. Tullock argued that certain privileges or extra-economic profits (rents) can be secured by firms through the manipulation of the political environment. Tariffs, for instance, were one of Tullock's main examples. If a domestic producer can lobby for tariffs on the goods they produce, then more domestic goods, and less foreign goods, are produced and sold on the marketplace. This benefits the firm, but the resources expended in securing the tariffs and costs to consumers of paying higher prices are socially wasteful. As with commercial entrepreneurs, the successful political entrepreneurs must be aware of contextual nuances within society, the polity, and the economy to rent seek effectively.

Also of note is Bloomington school founder E. Ostrom's (1990) ideas on common pool resource (CPR) problems (discussed further in *Section III*). Ostrom detailed how the options for governing (CPRs) were not simply between private ownership and government ownership. Ostrom identified a third solution simply by observing the world around her: individuals have

the ability to craft their own means of self-governance over the commons. While it may not work in every scenario, Ostrom found that many communities were already doing just this, i.e. solving CPRs without relying on top down solutions or resorting to private ownership (E. Ostrom 1990, 2009).

The range of topics that NES scholars explore are similarly extensive and fit within a framework of Weber's economic sociology. Consider, for instance, the field's discussion of social capital (see Coleman 1988, Portes 2000). Social capital has been used to describe an individual's social connections, the resources that individuals can access by virtue of those connections, and the norms that govern those connections. These relations are both economically conditioned, i.e. social relations are undoubtedly shaped by economic conditions, and economically relevant, i.e. social relations and the norms that are enforced through social relations certainly shape economic actions. The discussion of structural holes and (strong and weak) ties within NES, similarly, focuses on how social structures and individuals positions in that structure shape economic opportunities and choices (see Burt 2004, Granovetter 1973, 1983, Uzzi 1996). Economic circuits are, similarly, both economically conditioned and economically relevant phenomena (see Zelizer 2013, Wherry 2012, Mears 2011). Remittances, microcredit, and local monies and currencies all are emblematic of economic circuits: they rely upon local norms and enforcement for their maintenance and accreditation. Circuits likewise rely upon an understanding of individuals' treble embeddedness within society, the polity, and the economy.

It seems clear that CPE and NES are natural dialogical partners. Like Weber, a forebearer of both fields, CPE and NES both emphasize that the political, social, and economic realms are inextricably linked. Both fields employ notions of embeddedness to get a holistic view of human beings within society, the polity, and the economy.

### **III. The social nature of economic action and the social construction of institutions**

Mainstream economic textbooks often begin with a model of Robinson Crusoe, a fiction figure from Daniel Defoe's novel of the same name who is stranded alone on a deserted island. Crusoe has an allocation problem. He must decide how to spend his time to maximize the quality of his life. He must choose how much time to devote to fishing/hunting/gathering and how much

time to devote to leisure. This thought experiment of an economy comprised of a single individual has been fruitfully deployed by economists to make sense consumption and production behavior as well as to study public choice and economic growth.

For CPE and NES scholars, the action begins once Friday joins Crusoe on the island. For both camps, economic action necessarily takes place within a social environment. Buchanan has criticized the Crusoe economics of mainstream economics (Buchanan 1964). He details that simply analyzing Crusoe, before Friday enters the island, is not “an appropriate starting point for our discipline, even at the broadest conceptual level” (Buchanan 1964, p. 217). A better starting point is examining the “exchange, trade, and agreement” that Crusoe and Friday engage in together (Buchanan 1964, p. 218). The Virginia school, with its emphasis on studying social action, rather than action within a vacuum, understands the importance of the social nature of economic action. Buchanan himself was said to believe “that economics is not a science” but instead an art, recognizing that economics was more about exchange than it was about maximization or equilibrium (Boettke 2012, p. 245).

Similarly, Swedberg and Granovetter two of the founders of NES, emphasized the idea that economic action is socially influenced. Granovetter’s famous article, “Economic Action and Social Structure: The Problem of Embeddedness,” for instance, noted that social scientists often take an under- or over-socialized view of human actors. Granovetter argued, however, that individuals are neither entirely devoid of all culture, norms, and other social elements (under-socialized), nor are they entirely driven by culture, norms, and other social elements (over-socialized). A middle road of sorts allows the social scientist to understand human beings as both shaped by, and constantly shaping, their environments and social structures. Similarly, in “The Strength of Weak Ties” (1973), Granovetter detailed how weak ties, those we may have with acquaintances and distant friends, actually provide a strength that strong ties do not. Weak ties provide an individual with the ability to reach out to distant groups for help and favors. For example, Granovetter examines how most job positions are found through the help of weak ties, since they have connections with whom the jobseeker may not have been aware. Overall, Granovetter’s research agenda affirmed “the affinity between his Weber’s economic sociology and his own analysis of embeddedness” (Swedberg 1998, p. 221 note 4).

Granovetter along with Swedberg have described the three propositions that define NES: economic action is social action, economic action is socially situated, and economic outcomes is socially constructed (the third proposition will be explored later in this section). The proposition that economic action should be seen also as social action retained cursory agreement among mainstream economists and economic sociologists. Both groups “agree in a general way that economic action is a type of behavior that has to do with choosing among scarce means that have alternative uses... At this point, however, the agreement ends” (Granovetter and Swedberg 1992, p. 6). Mainstream economists, however, adopt a narrow view of economic action where actions as devoid of any cultural meanings and not oriented toward any type or group of actors. A narrow understanding of economic action, Granovetter and Swedberg (ibid.) argued, “goes too far in eliminating all noneconomic motives... But to make this assumption in each and every situation, as in today’s mainstream economics, is profoundly misleading.” As an alternative, NES offers the ability to study and understand that some noneconomic motives exist in action. Granovetter and Swedberg (ibid., p. 7) argued that “...economic action cannot, in principle, be separated from the quest for approval, status, sociability, and power.”

The second proposition that Granovetter and Swedberg highlight is that economic action is socially situated. This is arguably another key area of disagreement between mainstream economics and NES. Mainstream economics centers on *homoeconomicus*, a completely atomistic being who responds essentially automatically to incentives. Sometimes *homoeconomicus* is assumed to be perfectly rational, in possession of all the relevant facts and situated into an action space devoid of institutions. Often the agent is modeled as plagued by a number of biases that they cannot overcome and/or are placed in an environment where institutions are modeled as constraints rather than say points of orientation. Granovetter and Swedberg (ibid., 9), on the other hand, argued that “economic action is socially situated and cannot be explained by reference to individual motives alone. It is embedded in ongoing networks of personal relationships rather than being carried out by atomized actors.”<sup>4</sup>

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<sup>4</sup> They continue to explain network theory and embeddedness:

By *network* we mean a regular set of contacts or similar social connections among individuals or groups. An action by a member of a network is *embedded* because it is expressed in interaction with other people. The network approach helps avoid not only the conceptual trap of atomized

The Austrian School has similarly placed an emphasis on the need to understand the social nature of economic action. Mises (1957, p. 159-160) gave the fullest account for a need of understanding of embeddedness:

Every individual is born into a definite social and natural milieu. An individual is not simply man in general, whom history can regard in the abstract. An individual is at any instant of his life the product of all the experiences to which his ancestors were exposed plus those to which he himself has so far been exposed. An actual man lives as a member of his family, his race, his people, and his age; as a citizen of his country; as a member of a definite social group; as a practitioner of a certain vocation. He is imbued with definite religious, philosophical, metaphysical, and political ideas, which he sometimes enlarges or modifies by his own thinking. His actions are guided by ideologies that he has acquired through his environment.

Mises, along with other Austrian thinkers at the time, understood that individuals act within a complex social environment. His actions come from somewhere, and these can best be understood through economically relevant and economically conditioned phenomena, and through NES's understanding of action as social action.

The Bloomington School, most notably associated with Elinor and Vincent Ostrom, emphasizes, too, that economic action is socially influenced. In particular, the Bloomington School emphasis on self-governance has highlighted that individuals often act differently than standard economic theory would predict, because of their social situations and their ability to work together with others. Again, E. Ostrom's (1990) famous study was of how communities overcome commons problems and escape Hardin's (1968) tragedy of the commons was not insurmountable. Indeed, the Ostroms' focus on the inherent social nature of economic action is evidenced in their "emphasis on concrete, real world cases" (Aligica et. al. 2017, p. 6). For example, E. Ostrom's work on governing the commons (1990) detailed how the options for governing common pool resources (CPRs) were not merely private ownership or government ownership. The former may require large financial means or the ability to overcome regulatory burdens, which may prove impossible. The latter requires taxes and other regulatory burdens to be placed upon the CPR's users. A third solution which Ostrom proposed in her work is the

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actors but also theories that point to technology, the structure of ownership, or culture as the exclusive explanation of economic events (Granovetter and Swedberg, 1993: 9).

ability for the resource to remain a CPR, and for individuals within the community to craft their own means of self-governance over the commons. While it will not work in every scenario, Ostrom applied these ideas and found that many communities were already doing just this, without the need for private or public ownership (E. Ostrom 1990, 2009).

It is apparent that Ostrom took Weber's understanding of social economic phenomena to heart. Her work understands that the typical tragedy of the commons story did not take into consideration, specifically, that economic actors are socially situated. For example, the relationships that those operating within a CPR maintain matter as to whether they can craft their own governing solutions and institutions. If they have close-knit relationships with those who also use the CPR, it is likely the users will be able to craft governing solutions of their own. This is precisely what Ostrom detailed in her studies of fisheries, where the CPR was not depleted but instead governed by its users (Ostrom 2009, Aligica and Sterpan 2017). If, however, users are unaware or weary of others using the CPR, or they are disconnected from others who use the resource, they are unlikely to be able to adopt the self-governing structures to overcome commons problems. Ostrom recognized that the relationships in the lives of individual actors mattered in real-life scenarios. Economists may discuss *homoeconomicus* in their models, but without an understanding of real-life relationships, social actions, and their effects on economic institutions, the theory may be lacking. Ostrom showed just this in her updated understanding of Hardin's tragedy of the commons.

Similarly, Vincent Ostrom's later work, drawing upon Tocqueville, stressed "how norms and cultural evolution matter for democratic governance" (Aligica et. al. 2017, p. 3), which is related to the Austrian interaction thesis (discussed below), and of course, the idea from NES that economic institutions are social constructions. V. Ostrom's (1997) work detailed that "[m]ethods of normative inquiry for making interpersonal comparisons can only be realized by drawing on the resources of language and culture that have become a part of human existence in a world of human creativity" (V. Ostrom 1997, p. 13). Indeed, he pleaded that "[w]e need to consider the cultural foundation of creative civilizations if people are to avoid becoming 'a sacrifice to ills of which they are ignorant' (Tocqueville [1835-40] 1945, 1:231)" (V. Ostrom 1997, p. 225). In other words, studies in the social sciences must ground themselves in the culture of the surrounding

community, without which the studies will be woefully misguided. He continued: “Family, neighborhood, and community bring together all essential elements in constituting all the diverse aspects of language usages that are constitutive of the matrices of society and contingencies of culture” (V. Ostrom 1997, p. 298). The Ostroms understood the necessity of studying social action as shaping and being shaped by economic institutions. By viewing culture as a main influence, the Ostroms were able to take a more comprehensive approach to understanding and studying communities and entire civilizations.

Likewise, the Virginia school recognizes that social, cultural, and institutional settings shape the incentives that people face, yet they also discuss that actors can influence those very settings. Indeed, the entire school was founded upon the very idea that institutions like social settings *change incentives and behavior*. As Buchanan explained (1978, p. 364):

Man acts within a set of institutional constraints that have developed historically: in part by sheer accident; in part by survival in a social evolutionary process; in part by technological necessity; in part by constructive design (correctly or incorrectly conceived).

Buchanan emphasized that institutions and rules can largely alter behavior. That is, economic action takes place within the realm of social situations, including institutions and rules. This is why Buchanan sought to study man within the political sphere, where incentives like profit-and-loss calculation are largely absent, and consequently alter an individual’s behavior.

This, of course, is closely related to Granovetter and Swedberg’s second proposition that economic action is socially situated. Ostrom, as discussed above, largely focused on applied case studies (Aligica et. al. 2017, p. 6). NES, similarly, places emphasis on analyses of the real-world, where situations exist outside of a vacuum. As Granovetter and Swedberg (1992, p. 9) detailed, “economic action is socially situated and cannot be explained by reference to individual motives alone. It is embedded in ongoing networks of personal relationships rather than being carried out by atomized actors” (Granovetter and Swedberg 1992, p. 9).

In the broader sense, then, both CPE and NES understand that social context, which is both shaped by the individuals creating rules of the game, and which also shapes individuals within that game, is important for the social sciences. Weber anticipated this appreciation of the social construction of institutions. Indeed, Weber understood that individuals were involved in

the construction of, and also constructed by, the economic institutions within which they existed, which is crucial for any economic analysis (Aggasi 1960, 1975, Boettke 1989, 1990a, 1990b, Prychitko 1989/90). As Boettke and Storr (2002, p. 171) detailed,

[i]n addition to being influenced and affected by the context of meanings in which he or she is located, however, the Weberian actor is also conceived of as the producer of, the creator of, that context. As such, a Weberian individualism neither proceeds with disembodied actors, unaffected by the social institutions within which their actions are embedded, nor with social structures and relations dissociated from the web of meanings that give them life.

In other words, individuals are neither completely determined by their environments, nor are they completely asocial and separate from their environments.

Weber applied this logic in his *Protestant Ethic and the Spirit of Capitalism* (2018 [1905]), which is arguably his most famous work. Weber understood modern capitalism to be animated by a particular spirit, namely the Protestant (mainly Puritan, as he pointed out) ethic that encourages an ethos of hard work, discipline, and frugality. He argued that each form of capitalism was animated by a particular spirit, but in this work, he traced the individual appeal towards Protestantism, and the ethics that it promoted, as the main spirit driving Western capitalism. Thus, Weber's emphasis that individuals with the Protestant ethic tend to lead to an animating spirit of sorts which brings about modern capitalism, which relies upon an understanding that these individuals are within and even constructing, but not purely determined by, their religious and community environments.

The third key proposition that Granovetter and Swedberg noted was that economic institutions are social constructions. The economic approach to institutions, found in the field of New Institutional Economics, is often associated with economists such as Oliver Williamson (1975, 1985) and Douglass North (1973, 1981). According to the efficiency-always propositions of the mainstream economists, "[a]n institution exists because it is efficient" (Granovetter and Swedberg 1993, p. 14). By assuming that every actor within that institution is maximizing given his constraints, there is in fact no logical way for the emerging institution *not* to be efficient. But NES take trouble with this approach: "the concept of efficiency in mainstream economics is confusing and contradictory (see, for example Granovetter 1979, Oberschall and Leifer 1986) and

lacks subtlety.” Among other arguments, Granovetter and Swedberg (1993, p. 17) also detailed how path-dependent development shows “that the most efficient solution does not always win out” because “chance elements often interfere at an early stage in the process, altering its course.”

In contrast to the neoclassical approach, Granovetter and Swedberg (1993, p. 19) understood

institutions [as] social constructions of reality... Only a dynamic analysis can handle the problem of institution formation in the economy. In cases where there is in fact only one viable equilibrium, then a static type of analysis is sufficient. Otherwise, a dynamic analysis is needed...

The discussion above of the Bloomington Schools work on governance has already pointed to their emphasis on the social construction of institutions. As a fellow traveler, the Austrian School has contributed to the idea that individuals are involved in the construction of, and also shaped by, their economic institutions. Consider Austrian economists’ emphasis on spontaneous order. As Ferguson (1782) detailed, a spontaneous order is something that is “the result of human action, but not of human design.” Smith’s (2009) notion of the invisible hand followed in this line of thought, as he famously described that man “is led by an invisible hand to promote an end which was no part of his intention” – that is, the butcher, the baker, and the brewer all have a regard to their own self-interest, and this generates an institution which no individual oversaw, planned, or intended. In the same tradition, Hayek went on to detail how the socio-economic setting where we all reside is as an “extended order” that was more complicated than any sole mind could comprehend, let alone plan (Hayek 2010). And as Mises (1963, p. 312) explained, “the market phenomena are social phenomena. They are the resultant of each individual’s active contribution.” Spontaneous order are orders, or patterns of regularity, or institutions, that humans craft through social, political, and economic actions, even if doing so unknowingly.

Moreover, the Austrian school is also a strong proponent of the interaction thesis, which studies “the interaction between cultural attitudes and beliefs and the formal institutions that provide the infrastructure for economic development” (Boettke and Nicoara 2015, p. 653). Indeed, this thesis was propagated by Mises and Hayek themselves: they both “made a deeper philosophic argument about how beliefs and attitudes either legitimize or delegitimize the liberal order” (Boettke and Nicoara 2015, p. 653). The Austrian School developed this thesis and

“brought to the forefront once again these broader arguments about the cultural foundations of economic growth” (Boettke and Nicoara 2015, p. 653). Because the Austrian school understood that culture is fundamental to economic growth (or lack thereof), they understood Granovetter and Swedberg’s third proposition that economic institutions are social constructions to be of utmost importance to discussions of growth. Austrians, like their fellow travelers in NES, the Bloomington School, and the Virginia School, note that there is *some* context that shapes man; he does not exist within a vacuum but is rather shaped by social norms, and shapes those norms as well.

There is, of course, another sense in which institutions are socially constructed. Berger and Luckmann (1966), both influenced by Schutz, advanced this very point. They argue that while the physical earth can exist without human beings, any notions of society or social orders cease to exist as soon as human beings cease to exist. As they explained (1966, p. 52, *emphasis original*) “social order exists only as a product of human activity.” Without such activity, social orders are a nonexistent phenomenon. In addition to social orders having an objective reality (as discussed above), social orders also have a subjective reality in that they are internalized by individuals whose beliefs about the nature and meaning of those orders come to be embedded within them. Storr (2010) added onto Berger and Luckmann’s point by arguing that the market is one such institution that is a social construction. As Storr (2010, p. 205) argues, markets are social constructions that have objectifiable features but also become subjectively internalized by market actors. Markets are both brought about through the interactions of buyers and sellers, and are internalized as sites of meaning making and relationship building. Storr (*ibid.*) goes on to detail how “the market...is experienced by individuals as not just a series of conversations about prices and profits but also conversations between potential and actual friends.”

Both CPE and NES take seriously the notion that individuals are shaped by, and also actively shape, the world around them. Institutions like markets are spontaneous orders that are created by, yet also shape, the humans within them.

#### **IV. Conclusion**

This chapter establishes the natural partnership and complementarity between classical political economy and economic and new economic sociology. In general, we understand these two different fields, that of CPE and NES, to be more alike than a cursory glance might show. Economic sociology emphasizes the importance of economic social phenomena (Weber 1949) and economic action as socially oriented (Granovetter and Swedberg 1992). In particular, the Austrian school emphasizes methodological individualism, objectivity of the social sciences, and that culture can have an effect on economic development. The Bloomington school importantly understands that economic action is socially situated, recognizing that economic theory, which takes place in a vacuum, loses sight of the social context in which actions and group dynamics play out. And, the Virginia school also takes economic action as embedded in social situations, as it proposes the understanding that institutions, social structures, and the like, all influence individual incentives and action. CPE and NES are, as we comprehend, natural dialogical partners to economic sociology.

There has been some recent work at the intersection of CPE and NES. In the disaster recovery literature, there have been several authors at the forefront of connecting CPE and NES. Storr, Haeffele-Balch, and Grube (2015) detail how communities in New Orleans after Hurricane Katrina and in New York after Hurricane Sandy recovered following such trying situations. Entrepreneurs within communities, they argue, were able to help their communities recover because of their unique understanding of the conditions. In other words, these entrepreneurs were embedded within a specific society, polity, and economy, and by understanding these unique insights, they were able to help their communities recover. In a similar line of work, Chamlee-Wright (2010) investigates communities within New Orleans following Hurricane Katrina, and digs into not only how communities rebuild physically, but how they rebuild socially. She explores the greater phenomenon of spontaneous order and how it relates to disaster recovery, where humans recover not through a planned human design, but simply as a result of individual and community actions.

Moreover, Lemke (2011, 2016) argues that greater women's rights often form in communities that allow for greater jurisdictional competition (2016) and allow for polycentric governance (2011). Lemke (2016) explores communities where lawmakers have a vested interest

in their communities, and where residents are able to choose between jurisdictions; the social and legal aspects of communities, Lemke finds, are of utmost importance for women gaining more rights, such as holding property. Her work has been crucial in connecting CPE and NES in the study of women's rights.

Studies of friendships, particularly commercial friendships, have also been at the forefront of connecting CPE and NES. Storr (2008) argues that the market is more than just a space of impersonal and anonymous buying and selling – indeed, it can be a social space where individuals form friendships, whether it be with a barista or a colleague. Chamlee-Wright (1997) studies Ghanaian open-air markets and finds that the women who work at these markets form friendships and even watch each other's children, moving far beyond the realm of anonymous exchanges and instead into a world where individuals are embedded within social and economic relations with each other. These works help to elucidate an understanding of social, political, and economic embeddedness of friendships and relationships that form and develop in market settings.

More work, though, ought to be done on connecting CPE and NES. Specifically, one fruitful line of research could connect the Ostrom's ideas of polycentricity (E. Ostrom 2010) to economic sociology. And other potential research could link economic sociology to constitutional political economy and the crafting of a constitution, from Buchanan and Tullock (1962). Studying the world through both lenses – CPE and NES – can bring much nuance to studies of social, political, and economic phenomena.

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