

## Interpenetration Versus Embeddedness

### *The Premature Dismissal of Talcott Parsons in the New Economic Sociology*

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ABSTRACT. The economy and economics are important fields in Talcott Parsons's work. Parsons's contributions on this subject were, however, mostly critically received in the new economic sociology. In this article, main points of criticism of Parsons's economic sociology will be discussed and the question asked whether the importance of Parsons's works in economic sociology was adequately treated. It will be demonstrated that the critical assessments was based for the most part on theoretical conceptions Parsons developed during his structural-functionalist period. Hence the assessments neglected to discuss the theory of expressive-symbolic communication of affect that Parsons developed in his later systems-functionalist period. However, precisely these later theoretical developments correlate

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directly with the concept of social embeddedness as a key concept in the new economic sociology. A stronger linking with this development in Parsons's theory could bring economic sociology closer to finding a foundation in action theory, which has been missing up to the present.

## I

**Introduction**

TALCOTT PARSONS WAS ALSO AN ECONOMIC SOCIOLOGIST. In fact, his works in this field represent an already impressive sociological oeuvre. Even before *The Structure of Social Action* ([1937] 1949a) was published, Parsons (1991) had produced a series of theoretical essays in leading economics journals in which he dealt critically with economic action theory and with the role of "noneconomic factors" on the economy. In the 1940s, more essays followed, regarding economic action theory (1949b, 1954a) and regarding the professions (1951, 1954b). In the 1950s, Parsons gave the Marshall Lectures ([1953] 1986) in Cambridge, which became the basis for *Economy and Society* (1956). Both texts describe the workings of the economic system and its integration in the social system of society using the AGIL pattern. Finally, the article on the sociology of money (1963), which was written in the context of his media theory, is also part of Parsons's work in economic sociology.

This is a remarkable legacy for economic sociology! However, at the time of their publication, neither the works from the 1930s nor *Economy and Society* were great successes for Parsons (Parsons 1977; Smelser 1981). And, later, when the importance of *The Structure of Social Action* was recognized in sociology, it was not the economic sociology entailed in it that was considered interesting. Rather, his convergence thesis, the canonization of sociological classics that were suggested in the work, and the rejection of utilitarianism as a theory of social order became influential in sociological discourse. Parsons's works were hardly considered important contributions to economic sociology at the time of their publication.

A probable reason for this is the fact that economic sociology, although it had an excellent debut with classic sociologists such as

Emile Durkheim, Karl Marx, Georg Simmel, and Max Weber, received little attention for many decades from the late 1930s onward. How could someone then become seriously interested in Parsons's significance as an economic sociologist? Only during the last 25 years did the situation in economic sociology change dramatically. It developed from a marginalized area of sociological research to an innovative and prominent field. This is especially true for the United States, where today "the new economic sociology" is an important field of sociological scholarship (Guillén et al. 2003; Smelser and Swedberg 1994; Zukin and DiMaggio 1990). In this scenario, it would have been expected that as a part of the increasing interest in economic sociology the works of Talcott Parsons in this area of scholarship would have received late credit.

Parsons's works on the economy were indeed debated in the 1980s and 1990s (Deutschmann 1999; DiMaggio and Powell 1991; Ganssmann 1989, 1996; Granovetter 1985, 1990; Holton 1986, 1992; Saurwein 1988; Swedberg 1987; Zelizer 1994). However, all in all, these receptions were mostly critical. Important proponents of the new economic sociology distanced themselves from Parsons, even defining today's economic sociology against his theoretical concepts.<sup>1</sup>

In this article, I will use these critics as a starting point and analyze to what degree they do justice to Parsons's works in economic sociology. I will follow three main lines of critical debate: (1) the discussion over Parsons's action theory, (2) the debate on the relationship between economy and society, and (3) the criticism of his theory of money. I will argue that the criticisms from the new economic sociology often point to problematic aspects in Parsons's economic sociology. But they do so in an abbreviated and incomplete sense. As a result, they obscure important theoretical contributions that are contained in Parsons's economic sociology, which might be fruitful for the further development of the new economic sociology. Particularly Parsons's detachment from a primarily value-oriented understanding of integration of economic functions in his systems-functionalist period is practically ignored. In consequence, even important similarities between Parsons's ideas in economic sociology and the term *embeddedness* as a key concept in the new economic sociology—which can be discerned from Parsons's writings in this

period—were not recognized. In conclusion, I will argue, building on my own work (Beckert 2003, 2005) and Harald Wenzel's (2001), that there are basic elements for a theory of market integration in Parsons's later works that can be linked to the concept of embeddedness and that also allow this concept to receive a foundation in social theory.

## II

**On the Criticism of Action Theory**

THE MOST INFLUENTIAL CRITICISM on Parsons in the new economic sociology was brought forth by Mark Granovetter (1985).<sup>2</sup> In the prominent essay "Economic Action and Social Structure: The Problem of Embeddedness," Granovetter introduced the term *social embeddedness*, which has since become a key concept in economic sociology. The term is explicitly defined in opposition to Parsons. According to Granovetter, economic sociology must keep its distance from two action-theoretical positions. On the one hand, it must distance itself from an "undersocialized" understanding of economic action. Contrary to the assumption of individual utility maximization of economic theory, actors do not act as isolated *monads*, but are embedded in social network structures that are themselves relevant for the explanation of economic results.

In addition to the action concept of economic theory, Granovetter rebuts a second position in action theory, which is this time connected to Parsons. As he argues, economic sociology could be attached to an "oversocialized" concept of action (Wrong 1961) that views action as culturally determined and therefore does not give credit to freedom of action. The actors thus appear to be "cultural dopes" (Garfinkel 1967), marionettes being led by the strings of their functionally integrated culture.

Granovetter's concerns readily find consensus. Every concept of economic sociology that is worthy of its name distances itself from the atomistic assumptions of the rational actor model. At the same time, the assumption that decisions are not *determined* by the actors' integration in social and cultural relations can be regarded as a widely accepted result of the debate on the relationship between structure

and agency that has continued up to the present. However, it can be questioned (1) to what extent the formulated criticism on Parsons is actually justified and (2) to what extent Granovetter is successful in developing a theoretical alternative.

1. An answer to the first part of this question depends particularly on which parts of Parsons's works are examined. In fact, it is arguable that Parsons in his structural-functionalist period from the 1940s onward focused on the internalization of values in the socialization process, while the actors' freedom of action played little systematic role in *this* theoretical conception.<sup>3</sup> This was not the case in his earlier works. The voluntaristic theory of action that Parsons developed in his early works ([1937] 1949a) had its starting point specifically in the rejection of deterministic theories from behaviorism and utilitarianism, which are criticized for being inappropriate as theories of social order (Alexander 1983; Beckert 2002; Münch 1988). In his voluntaristic theory of action, Parsons was committed specifically to the anchoring of freedom of action in decision making. In the theoretical model, Parsons introduced norms and values as elements of the "unit act" while at the same time considering the category of "effort," pointing to the voluntaristic element of action. This theory therefore cannot be labeled as culturally deterministic.

Of course, one does not have to recognize a normative action theory as the sought alternative to rational actor theory from economics (Joas and Beckert 2001; Beckert 2003). Still, Granovetter's critique of Parsons's action theory relies too heavily on simplified formulations of Parsons's critics and therefore does not do justice to the richness of the conceptions of action in his work.<sup>4</sup>

Immanent criticism might claim that in the voluntaristic theory of action the category of "effort" was introduced as a residual category without being adequately determined theoretically (Wenzel 2001: 300). Parsons took on this task only much later, when he developed a theory of symbolic communications media of the generalized system of action. In this work he developed a theory of expressive-symbolic action (*ibid.*: 288ff.) that detaches itself from the greatly value-oriented explanation of social order. I will specifically treat this

below. For now, it should only be kept in mind that the criticism on normative overdetermination is neither fair to Parsons's early works nor to his conception in his later period of systems functionalism.

2. In order to completely reject Parsons's action theory as outdated for economic sociology, Granovetter should have suggested an alternative action theory. Granovetter's (1985) key concept consists in taking social embeddedness as a starting point for economic sociology. *Social embeddedness* in this case means the integration of actors in networks of social relations. According to this view, the network structures themselves are the most important explanatory variable for economic outcomes.

Network analysis has become the most important approach in the new economic sociology (Burt 1992; Uzzi 1997; White 2002). To what degree, however, does network analysis provide a way out of Granovetter's outlined dilemma between an oversocialized and an undersocialized concept of action? Doubts are appropriate here. Network analysis is a structuralist theory whose explanations are not based upon action theory. With that, Granovetter's concept of "social embeddedness"—formulated as a starting point of economic sociology—should not be regarded as a "solution" to the problems associated with Parsons's value-based conception. Rather, both concepts are established on categorically different levels (Beckert 2003), and the question regarding the appropriate basis in action theory remains unanswered. To the extent that network analysts search for explicit connections to action theory, they find them foremost in the model of rational action—in other words, in the undersocialized concept of action. Few works try to combine network research with more interpretative concepts in action theory.<sup>5</sup> This limited interest in action theory is problematic, since the connection between network analysis and action theory could raise some of the most interesting research questions for economic sociology: How are existing network structures interpreted in differing cultural and political contexts? What influence on this do attributes such as gender, class, race, or ethnicity have? What influence do values have? How do social bonds develop between actors in networks, and how are they strengthened? How can employers use network structures contingently for their interests?

Regardless of the answers to these questions, the problem of what a nonnormativistic and nonrationalistic theory of economic action might look like has been opened. Could a closer look at Parsons contribute to resolving it?

### III

#### **Evaluative Versus Cognitive Integration of Economic Action**

BEFORE EXPLORING THE POTENTIAL OF PARSONS'S THEORY on these questions, I will discuss a further line of criticism. A second influential opinion on Parsons's action theory from the new economic sociology was brought forth by Paul DiMaggio and Walter Powell (1991), who examined Parsons's basic concepts on action theory more thoroughly than Granovetter. Their main point of criticism consists of the fact that Parsons's conceptualization of the influence of culture on the decisions of actors in economic contexts overestimates the evaluative dimension of culture (see also Warner 1978).

According to DiMaggio and Powell (1991: 16ff), a strong orientation toward Freud during the structural-functionalist period erroneously led Parsons to understand social order as depending on the precondition of internalization of culture in the socialization process. Institutional integration would be understood by Parsons as an agreement between a society's general value patterns and the structure of individual needs located in the personality system. Problematic for DiMaggio and Powell is not first and foremost the steering of action through culture but rather Parsons's limited understanding of culture.

Their criticism is based on ethnomethodological and phenomenological approaches. In their view, Parsons followed a limited strategy by reducing his own concept of culture—initially comprised of cognitive orientations and a cathectic dimension, in addition to the value dimension—to the dimension of values. With this reduced understanding of culture, Parsons's theory would not do justice to the diverse ways in which culture influences decisions. The often strategic usage of culture through actors was not considered.<sup>6</sup> In addition, according to DiMaggio and Powell, the level of purely cognitive-based

integration in routine action would not become clear, which is effectively independent of the evaluative dimension of culture. Ignoring routines leads to an ultimately incomplete break with utilitarianism because, for Parsons, action is oriented quasi-intentionally toward gratification, which can be achieved by actors by means of value-conforming action.

DiMaggio and Powell also focused their criticism on Parsons's structural-functionalist period. Unlike Granovetter's critique of Parsons's "oversocialized" concept of action, criticism on the underrepresentation of the cognitive dimension of action cannot be diffused through reference to Parsons's early works. This holds true despite the fact that Parsons in his early essays (1991) put forward an entire palette of noneconomic factors that were relevant for the integration of economic exchange processes. Among these were routine and habit. Yet these elements are not categorically anchored in the "unit act." DiMaggio and Powell, however, do not take into account Parsons's later theory development. In the development of his media theory, as Harald Wenzel (2001: 300f.) points out, Parsons emphasized the importance of expressive-symbolic action and no longer saw generalized meaning as rising foremost from internalized value attitudes but rather from the process of concrete interaction between ego and alter. With this, the cathectic dimension and prereflective phenomena such as routines and habits come into view.

That this theoretical development is not taken into account is especially unfortunate, as DiMaggio and Powell's suggestions for a foundation of economic sociology in action theory might have been connected to *this* development of Parsons's theory. Instead, DiMaggio and Powell refer to the attempts at a "new synthesis" in sociological theory that have been developing since the 1970s. Among the promising approaches the authors argue should be integrated in the new economic sociology are the phenomenological approaches from Harold Garfinkel, Peter Berger, Thomas Luckmann, and Mary Douglas, as well as the advances from Randall Collins, Anthony Giddens, and Pierre Bourdieu. A more exact elaboration of the action-theoretical foundations of a phenomenologically-based economic sociology is not, however, provided by the two authors.<sup>7</sup>

IV

**Economy and Society**

ALONG WITH THE REJECTION of a primarily norm-based action theory, criticism from the new economic sociology was directed at Parsons's way of viewing economic structures, which Mark Granovetter and Richard Swedberg designated the "economy-and-society perspective" (Granovetter 1990: 90ff.; Swedberg 1987: 62). This criticism is aimed at the compartmentalization of the fields of sociology and economics, not only in the early works but also in *Economy and Society* (1956).

What exactly is meant by that? Parsons's theoretical essays from the 1930s should be seen in the context of the controversy in American economics between institutionalists on the one hand and neoclassical economists on the other. In this debate, Parsons is on the side of the institutionalists insofar as he, like them, particularly emphasizes the role of economic institutions for economic exchange. For Parsons, institutions are a noneconomic factor that is not based in the economic system itself but rather in the value attitudes of society. They are a "set of normative rules, obligatory on the participants" (1991: 170). Neoclassical economics keeps these factors out of its theoretical models and treats them as restrictions that enter into the data set of economic decision making. Institutionalists, however, claim that institutions must be recognized in economic theory as constituting economic action. This is exactly what Parsons disputed. On the basis of methodological arguments, which can mainly be traced back to Alfred North Whitehead (Wenzel 1990), Parsons criticized institutionalist economics, saying that with their method they could not achieve anything more than a photographic rendition of reality. The task of science, however, should be abstraction.

Parsons therefore advocated the existence of multiple disciplines in the social sciences that would be *analytically* separated and that would find their subject in the study of *one aspect* of the general scheme of action. Economics should deal with means-end relationships. The analytically limited area of study in sociology, on the other hand, would be made up of the study of the system's ultimate ends, the "value factors" (Parsons 1991: 163). As a result of this, Parsons

recognized orthodox economics as a legitimate approach. However, at the same time, a place for sociology is found within the realm of scientific disciplines, which makes sociology appear “equal” to other social sciences, especially to economics. One can suspect that this construction was inspired by motives to legitimize sociology as an academic subject and that controversies with the field of economics were preferably avoided (Camic 1987, 1991).

Economic sociology, however, is left pretty helpless in this theoretical framework. Orthodox economics is recognized, and sociology’s task consists of investigating which values actors orient themselves toward when acting rationally. Because of that, sociological findings cannot in principle lead to *revisions* of economic theory.

Parsons himself must also have had his doubts about this compartmentalization of sociology and economics. For one, his essays on economic sociology from the 1940s (1949, 1954) do not adhere to this separation but rather can be characterized as institutional. Additionally, Parsons abandoned his focus on the theoretical conceptualization of the relationship between sociology and economics at the end of the 1930s (Brick 2000; Parsons 1977).

It is therefore even more surprising that Parsons took up this theme again in the 1950s, first in the Marshall Lectures ([1953] 1986) and then in *Economy and Society* (1956), written jointly with Neil Smelser. At first glance it would appear as if Parsons had given up on the compartmentalization of sociology and economics. His point of reference in the 1950s was no longer microeconomics but Keynesian theory. However, closer inspection reveals an astonishing continuity. In the Marshall Lectures, Parsons wanted to show again that economic theory—this time in the form of Keynesianism—fits into a meta-theoretical scheme and can be located there. The higher ranking point of reference for economics and sociology became the AGIL scheme. Once again, his concern was not with sociological criticism on economic theory but with its location within a given theoretical frame.

## V

### **The Interpenetration of Economy and Society**

This economy-and-society approach followed in *Economy and Society* contributed to the widespread rejection of the book in the

new economic sociology (Granovetter 1990: 92). Nevertheless, the dismissal of Parsons's economic sociology from the 1950s based on the critique of the economy-and-society perspective could be premature for two reasons. First, because it does not do justice to the achievements of the book in the analysis of the systematic interconnectedness of the economy with cultural, socially integrative, and political realms of the social system and with the personality system. With their analysis of interdependent relationships between economic and other social functions, Parsons and Smelser contributed to the core of economic sociology. Second, in *Economy and Society*—under the influence of Keynes's theory—a new orientation for the understanding of market integration is indicated, which is of importance for the theoretical advancement of economic sociology.

Hence, for the judgment of *Economy and Society*, the close investigation of Parsons and Smelser's analysis of the boundary exchanges between the economic system and the other societal subsystems *as well as* the evaluation of the suggested conception of integration of economic action are crucial. Both aspects, however, were hardly acknowledged by Parsons's critics from the new economic sociology. I will illustrate what fruitful results could have been reaped from this on the basis of two examples.

#### A. Consumer Markets

The first example is the analysis of consumer markets. Parsons and Smelser did not see consumption primarily in its function of satisfying biological needs for reproduction but rather as reflecting role expectations of a culturally defined lifestyle standard. Through spending on consumption, the social system "household" fulfils institutionalized demands to live according to a certain lifestyle. Expenditure levels are determined by a culturally defined basket of goods that determines the "cultural survival" (Parsons and Smelser 1956: 221) of the household. Beyond that, expenditures for entertainment, leisure, and vacations are given a function for intra-family conflict management and, with that, status symbols assume an integrative function by positioning the household in relation to other households and thus symbolizing membership in a group.

Interest is thus directed toward institutional structures that add to

the explanation of the integration of diverging interests of market parties. With that, the principal problem is formulated as follows: "For there to be stability in the retail consumers' market there must be an integration between the values and norms on the one hand of the economy, on the other of the family" (Parsons 1986: 28). Parsons regarded two institutions that make this integration possible. On the one hand, there are universally valid prices, whereby the opportunity to determine prices by negotiation between sellers and interested buying parties is rendered impossible. On the other hand, there are quality signals of the producers in the form of image building for brands and through warranties.

Through fixed prices, the consumer is left with only two options: whether to buy the product, and how much of it to purchase. The product seller is at the same time prevented from reacting to differing social backgrounds of the customers with price changes. Through this, the economy's differentiation from other social systems and a tendency toward universalized structures is expressed.

The situative fixing of prices, depending on the social situation (particularly of the individual buyer) expresses on the other hand a "particularistic' nexus of relationships'" (1986: 59) that contains duties that go beyond economic transactions. If consumers are socially bound to buy goods from a specific company and the seller sets prices based on the social status of the individual buyer (relative/stranger, poor/wealthy, etc.), the competition between suppliers is effectively stopped. Through price fixing, the economic transaction is freed from particularistic restrictions, and the consumer's competitive behavior is directed toward alternative suppliers. Compared to the regulation of prices through situative bargaining, the institution of price fixing reveals itself to be more efficient, if market control of prices remains. This consensus with economic theory does not, however, mean that the institution of price fixing can be *explained* by economic interests. Instead, Parsons and Smelser pointed out that the differentiation process of economies and the interest in increasing economic productivity in society must be culturally legitimized in itself.

The second institution of consumer markets, which serves to guarantee continuing consumer demand and also ensures high economic performance, consists of quality signals in the form of image creation

and warranties that are provided by the producer. The function of these signals lies in the reduction of consumer risks in purchasing decisions, which stem from the asymmetrical distribution of information. In particular, the quality of technologically complex, durable consumer goods cannot really be judged by consumers. Trust is necessary, which the consumer “invests” in the producer through his or her purchases. Here, Parsons and Smelser anticipated debates on incomplete contracts and on trust that became important fields of research in the new economic sociology.

#### B. Financial Markets

A theoretically significant part of *Economy and Society* is the analysis of financial markets. Here, the move away from the concept of mainly normative integration of economic action clearly can be recognized. Parsons and Smelser see financial markets as internal economic markets. The investor is not bound by the norms and interests of society but rather can act independently from social considerations, solely oriented toward maximization criteria. Paradoxically, the necessity of the institutionalization of decisions arises precisely from this nonstructuredness in financial markets. Here, Parsons ties into the problem of action in conditions of uncertainty (Beckert 1996). In financial markets there is a maximum of alternative possibilities for decisions and a minimum of normative predispositions for decisions, from which risky and uncertain situations result (Parsons and Smelser 1956: 234). However, how can the ability for action be maintained under these circumstances of double contingency? Parsons and Smelser refer to Keynes, who in his *General Theory* ([1936] 1949) had explained the orientation toward conventions and the significance of mimetic behavior on financial markets with the problem of uncertainty. The authors went even beyond Keynes by supporting anthropological findings on action in situations with uncertainty: the origin of magic and superstition is located in such situations. Comparable mechanisms are apparent in financial markets: investors orient themselves not on facts but rather on the *opinions* of those believed to have insider knowledge, or they make decisions by using rules of thumb (Parsons and Smelser 1956: 238). For financial markets, the

point is that the actors have to create confidence for investment decisions *independently from any value order* that could otherwise guide their decisions in order to keep these markets functioning.

Of course, Parsons and Smelser could have written much more on the link between uncertainty and institutionalization in market contexts. The remarks on this topic were kept very short in *Economy and Society*. By pointing to the nonnormative social mechanisms that stabilize actors' expectations on financial markets, they show in principle, however, that noneconomic elements flow into this market and that sociology can contribute to the understanding of the functioning of financial markets by analyzing these mechanisms. At the same time, these mechanisms do not rest on a preceding value order but must be created by the actors in the action process. Especially in this, an important perspective can be recognized for the action-theoretical foundations of economic sociology that was not adequately valued in the reception of *Economy and Society*.

The investigation of the institutional bases of consumer markets and the study of financial markets thus are examples for the analysis of the interconnectedness of economic action and society. This is the primary concern in economic sociology. The concrete empirical insights achieved by Parsons and Smelser nevertheless received little appreciation from the new economic sociology criticism on Parsons.<sup>8</sup> Rather, this criticism concentrated on Parsons's meta-theoretical recognition of economic theory and concluded that such "self-restriction" hindered the study of the economy from a sociological perspective.

This does not imply that one must agree with the findings of Parsons's economic sociology in every detail. Particularly the studies on consumer markets reveal the problematic assumption of the orientation of action on internalized values. However, instead of primarily ignoring Parsons's findings, it would have been more appropriate to ask, for example, what a different understanding of culture—with a stronger emphasis on the cognitive dimensions—would mean for the conceptualization of consumer markets. Or whether the important insights on the functioning of financial markets may be informative to the investigation of other market contexts. In this sense, however, Parsons's economic sociology was not taken up, and the potential of his works was not exhausted in the new

economic sociology. For Parsons's *empirical discoveries*, this can hardly be made up for today because the new economic sociology has progressed much further in the understanding of cultural, political, and cognitive embeddedness of economic processes than Parsons had half a century ago.

This is different from the *theoretical insights* in *Economy and Society*, which Parsons and Smelser derived from Keynes and that were central to their discussion of financial markets and the workings of credit in the economy. Here, a conceptualization of economic action is indicated that is no longer based on normative action, but rather on the generalization of meanings of action in the process of action itself (Wenzel 2001: 237ff.).<sup>9</sup> Due to the lack of normative integration and the uncertainty developing from this, decisions on financial markets can come into existence only when actors succeed in establishing confidence in the future outcomes of their investment decisions. This cannot be achieved through values but instead refers to an integration that can merely be achieved by communication in the action process. This aspect is closely connected to the theory of money.

## VI

### Money as a Symbolically Generalized Medium

THE THEORY OF MONEY REPRESENTS the third area of critical discussion on Parsons's economic sociology, along with the criticism on his theory of action and his conception of the relationship between sociology and economics. German economic sociologists, in particular, thoroughly discussed Parsons's theory of money (Deutschmann 1999; Ganssmann 1989, 1996; Habermas 1984; Luhmann 1988; Paul 2004).<sup>10</sup> The reason for this is probably the great resonance of Parsons in the work of the two most influential German post-World War II social theorists, Jürgen Habermas and Niklas Luhmann. In their media theories, Luhmann (1988, 1995) and Habermas (1984) directly connected with Parsons, thereby directing attention to Parsons's original contributions.

Building on Max Weber, Parsons sees the precondition for the functional differentiation of the economy in the development of a money

economy. In an economy that is characterized by highly specialized production processes, the direct exchange between labor and consumer goods would not be practicable and, besides, would not take the diverging interests of families and companies into account. While a company's production decisions are oriented toward expected profits, consumer choices are made—as we have seen—on the basis of lifestyles that are culturally anchored. The differentiation between production and the consumption of goods requires the relative detachment of employment and consumer purchasing decisions. It is only through abstraction from concrete goods and value storage by means of the medium of money that production plans can be developed independently of the concrete needs of the workers and be adjusted to the profit motive. Through the medium of money, consumers can attain independence from the products they produce, which makes it possible to adequately speak of the development of lifestyles on the basis of consumer choices. The different needs of the economy and the family can be reconciled as consumer demand and labor demand become separated by the exchange medium of money from concrete producers and at the same time remain connected to each other on a generalized level. By adding the mechanism of money, the qualitative dimension of connecting the economy and the household disappears, and the potential conflict of interests between household and company is reduced to a conflict over wages.

Despite this central role of money in explaining functional differentiation, the discussion of money plays only a subordinate role in *Economy and Society*. Parsons developed his theory of money as a symbolically generalized medium of exchange only in the 1960s (particularly Parsons 1963). The analysis of money as a medium of interaction through which the economy regulates its boundary processes with other subsystems became Parsons's model for his entire media theory.<sup>11</sup> Appealing to economic theories of money, Parsons described money as a medium of exchange whose function consists in measuring value (Parsons 1963: 236). Money is thereby symbolic, "in that though measuring and thus 'standing for' economic value or utility, it does not itself possess utility in the primary consumption sense—it has no 'value in use' but only 'in exchange', i.e. for possession

of things having utility” (Parsons 1963: 236). The offers to buy or sell goods or services are communicated through the medium of money. Parsons traced the development of money to its roots in precious metals, which have intrinsic value. This connection is fully lost in differentiated money economies, to the extent that money becomes worthless in regard to its use value. The theoretical problem arising from the worthlessness of money (why should ego be willing to exchange a good for worthless money in the exchange process?) is deciphered by Parsons pointing to the four degrees of freedom that actors achieve through the medium of money: the buyer can spend money on any goods; he or she can buy from any producer; the buyer can freely decide on the time of purchase; and he or she is free to accept or reject the terms of purchase. The disadvantage of the worthlessness of money is compensated by the gain in options and motivates acceptance of the medium in exchange.

However, the risk remains that money will not be accepted by third parties or that it will become worthless due to inflation. This risk remains because money is not tied to a product that has a use value. However, the disconnection of money from its historical origins in precious metals is, according to Parsons, a precondition for its functional efficiency as a medium of exchange, which is why this risk is part of the structure of differentiated economies. Only the actors’ *trust* in the stability and acceptance of the symbolic medium can be supported through its institutionalization. “There must be an element of bindingness in the institutionalization of the medium itself—e.g. the fact that the money of a society is a ‘legal tender’ which must be accepted in the settlement of debts which have the status of contractual obligations under the law” (1963: 240). At the same time, the institutionalization of money allows a separation of economic exchange processes from their anchoring in culturally sanctioned expectations of reciprocity. Only under these conditions do the degrees of freedom, which have been attained through acquisition of money, become relevant, which could otherwise not be exercised due to institutionalized obligations. What, from whom, when, and for what price something is purchased is no longer culturally decided. The resulting uncertainty of economic decisions can no longer be

normatively reduced. This points again toward the detachment of Parsons's economic sociology from the concept of normative integration of exchange processes.

The criticism from economic sociology of Parsons's theory of money is sparked by several arguments. One aspect of this was the assumption of trust in the enduring value of money. Heiner Ganssmann (1989: 293) argues that Parsons's theory of money has always assumed that an institutional trust in money exists, without, however, explaining where this trust comes from. According to Ganssmann, the theory therefore describes a functioning economy but cannot explain its origins. The main point of criticism for Parsons's theory of money was based on his obvious underestimation of money's societal relevance. By considering money merely as a symbol—which was already problematic (1963: 290ff.)—Marx's and Weber's insight that the monetary economy enables an orientation toward profits as its own end was ignored. Money is the central instrument for the orientation toward the profit motive and makes possible the principally unlimited dynamics of capitalist economies, detached from concrete needs (1963: 292). Parsons's theory of money, however, completely in the tradition of the neoclassical theory of money, plays down the possible social implications of money by understanding it only as a neutral means to simplify exchange. Christoph Deutschmann's (1999: 44) criticism follows these same lines. He accuses Parsons's theory of money of not recognizing "wealth characteristics of money" and with this its potential to reach beyond the economic system and to attain social power.<sup>12</sup> This suggests that money is not only a neutral means of exchange; it contains the "additional usefulness" of freedom of choice. Compared to the owner of a good, the owner of money can transfer his or her wealth easily from one use to the next and achieve social power by strategically exploiting this possibility. On the other hand, according to Deutschmann, Parsons ignores the imaginary dimension of action, which is embodied in money and consists of the possibility to attain not only existing wealth but even imaginable future wealth. Only monetary wealth initiates "the production of today unknown products by not yet known producers" (1963: 54).

All in all, this criticism of Parsons's theory of money from economic sociology practically amounts to the point that he underestimates the

social-structural importance of money (compare also to Zelizer 1994). The reason for this is suspected to lie in Parsons's premise to acknowledge the neoclassical theory of money.<sup>13</sup> A completely new perspective on Parsons's theory of money was opened, however, by Harald Wenzel (2001: 246ff.). He referred to the connection between Parsons's theory of money and Keynes's. In his Marshall Lectures and in *Economy and Society*, Parsons had indeed relied heavily on Keynesian economic theory. And for Keynes, it holds true that "money matters"! Even though money is discussed only marginally in the Marshall Lectures and in *Economy and Society*, Keynes's theory of money enters into it indirectly in an important way.

According to Keynes, a stable underemployment equilibrium can arise precisely because economic actors can reserve parts of their investment funds in liquidity. This hoarding of money for speculative reasons can lead to depriving the economy of sufficient investment funds. Keynes thus establishes a connection between money and the real economy, a connection that is largely refuted in neoclassical theory. The actual amount of money that is kept in liquid form decisively depends on a noneconomic entity according to Keynes, namely, the *expectations* of the investors concerning the further development of the interest rate and the long-term revenues from capital investments. Here, Keynes refers to the "state of confidence," in other words, the trust in market development, as relevant for the rate of investment (Keynes 1949: 149). The actual expectations actors hold with regard to future states of the economy do not, however, reflect a rational estimate. This is impossible due to uncertainty. Instead, the expectations and the level of confidence are an expression of "mass psychology" and "animal spirits," making "economic prosperity . . . excessively dependent on a political and social atmosphere" (1949: 162).<sup>14</sup> This implies that the integration of economic processes depends to a high degree on the creation of confidence (or trust) in processes of social interaction.

Parsons's media theory follows this central characteristic of modern money economies by no longer primarily referring to mechanisms of normative integration for explaining the interpersonal generalization of meaning, but instead turning to the expressive-symbolic communication of affect. What matters is convincing alter in situations that

are principally characterized by uncertainty, that is, to produce a “state of confidence.” The result of Parsons and Smelser’s analysis of financial markets was specifically that no general value orientations guide action, but rather that the contingent achievement to convince actors of the positive prospects of their investments is what really counts. The state of confidence can be created only through communication—the possibility of which is established by the very same differentiation processes, induced through the medium of money, that represent the expansion of the freedom of choice for the actor. With that, economic sociology is guided toward an interactionist theory of the communication of affect. None of the critiques from economic sociology on Parsons recognized this theoretical aspect that paves a way to a pragmatist understanding of action in economic contexts (Beckert 2003). An important theoretical basis for the sociological understanding of the integration of market processes could lie in this because it offers an alternative to the less plausible assumption of primarily normative integration of modern economies.

## VII

### **Conclusions**

WHAT SIGNIFICANCE DOES the economic sociology of Talcott Parsons have in view of the manifold criticisms from the new economic sociology? Parsons’s action theory from his structural-functionalist period was rightly criticized for its strong orientation toward values and the use of a limited concept of culture. This leads to a restricted understanding of the integration of economic processes. Yet at the same time, it must be kept in mind that this justified criticism was rarely made into a starting point in the development of alternative concepts of action in the new economic sociology until now.

That Parsons’s works in economic sociology were used too little as stimuli for further development holds true also in one other respect. The boundary processes between the economy and other societal subsystems and intra-economic exchange processes, which were analyzed by Parsons and Smelser in the 1950s, point to areas of analysis that were only taken up again 30 years later in economic sociology. For example, the study of financial markets, which has become an

important topic today (Abolafia 1996; Baker 1984; Knorr Cetina and Preda 2004), could have used Parsons's suggestions to its advantage. In this case, the reception of the book by the new economic sociology—which first gave the work little attention and later ignored the details by focusing on the problematic conceptualization of the relationship between the economy and society—wasted its potential.

In the criticism on Parsons's theory of money, it was rightly pointed out that Parsons neither analyzes money in view of its social-structural effects nor adequately addresses the effects of the developed money economy on the dynamic of capitalist economies. An attempt to develop economic sociology further as part of social theory is most evident in these criticisms on the theory of money. However, these criticisms are not successful in recognizing the importance of theoretical developments expressed in Parsons's media theory, of which the theory of money is one important part. Parsons himself—not just his critics from the 1960s and 1970s—developed an action theory that conceives social integration much less as originating from an established consensus of values than in his structural-functionalist writings. In reference to Keynes, Parsons brings the problem of uncertainty (or double contingency) to the fore as a core problem of sociological theories of order and social action. The question of how actors make decisions in economic contexts in which they cannot calculate the consequences of their decisions rationally and their actions are not culturally determined can in fact be recognized as the central starting point for economic sociology (Beckert 1996). Parsons's conceptualization of the expressive-symbolic communication of affect points toward a theoretically important change in the basic assumptions of mutual coordination of action in the economy. Normative patterns that precede action play a much more limited role. Instead, the rather short-term and contingent creation of willingness to cooperate through expressive or performative action sits center stage. The creation of voluntary willingness to cooperate in situations with uncertainty—that is, out of trust—is one crucial basis of a market's ability to function (Beckert 2005).

This “created trust” cannot exist without any institutional and normative “backing.” Values and norms continue to play a role. However,

the main focus of Parsons's explanation for action no longer lies in existing cultural states but rather in the creation of willingness to cooperate in the process of action itself (Beckert 2002: 259ff., 2003; Wenzel 2001: 317). With that, economic sociology's core concept of embeddedness can find a foundation in an action theory that is distinct from the rational actor model. This removes the concept of embeddedness from a purely structuralist reading, which reduces the understanding of coordination of markets quasi mechanically to the structure of networks. Instead, the role of "skillful actors" (Fligstein 2001) or "institutional entrepreneurs" (Beckert 1999) that produce "stable worlds," that is, confidence, can take center stage in the explanation of how markets function. This does not deny the crucial insight that goal-oriented action is always "embedded in concrete, ongoing systems of social relations" (Granovetter 1985: 487) that provide opportunities for entrepreneurial action.

Mark Granovetter's (2003: 46) reference to structural differentiation, which separates social spheres of action, is obviously closely related to the puzzle providing the starting point of Parsons's theory of differentiation. That is, how can these differentiated spheres be reintegrated in a way that allows for social order? Following Granovetter, social differentiation can be understood as constituting social structures that contain structural holes. Entrepreneurial activity signifies mobilization of social resources through the bridging of such holes. This occurs through trust building and through social power (Granovetter 2003: 49ff). For Granovetter, the connection between structural preconditions and mobilization strategies makes an understanding of concentration of economic power and the expansion of markets possible. This starting point, however, is in direct agreement with Parsons's (building on Keynes) analysis of bringing about a "state of confidence," in which investments can be mobilized on the basis of forming contingent behavioral expectation into joint action, which cannot be explained by norms and values. With this, Parsons and the new economic sociology are not opponents but complement each other in an important way. Both see trust building as developing in the contexts of social interaction. The strand of the new economic sociology that is based on network theory teaches us that trust-building opportunities and economic power depend on the

structure of the actors' social relationships. Parsons's conceptualization of the expressive-symbolic communication of affect contributes a nonnormative foundation in action theory for the understanding of this process of expectation building that allows for cooperation. Such a foundation has not yet been provided by the new economic sociology, and it was also not recognized in the reception of Parsons. This makes the reexamination of Parsons 50 years after the publication of *Economy and Society* worthwhile for the theoretical development of the new economic sociology.

#### Notes

1. The rejection of Parsons, particularly from American sociology, is not limited to his works in economic sociology but rather expresses general objections to the "grand theory." The critical assessment was directed specifically against Parsons and is not to be viewed as an anti-historical iconoclasm. Other works from classic sociologists, especially Weber (Hamilton and Biggart 1992; Swedberg 1998) and Durkheim (Steiner 1992), were readily built upon.

2. Granovetter, however, draws heavily on Ronald Burt's *Toward a Structural Theory of Action* (1982).

3. Many of the boundary processes between economic and other societal subsystems conceptualized in *Economy and Society* (1956) were problematic due to their orientation toward the principle of value integration. Two examples serve to illustrate this.

First is the normative theory of innovation that was developed in *Economy and Society* (1956: 265ff). According to this theory, the motivation for innovation originates from a conflict between the integrative part of the economic system and the personality systems of the actors. The inefficient use of production resources supposedly leads to dissatisfaction on the part of economic actors because it contradicts the internalized value of efficient resource use. Innovations, or changes in combinations of factors, aim at increased productivity and thus resolve intra-personal tensions. The motivation behind economic innovation cannot be explained through aspiration toward utility maximization but is rather the result of the interpenetration of personality systems and the economic system.

Second, Parsons and Smelser explain the pacification of the conflict between capital and labor by means of socialization processes that workers go through as they learn professional roles, leading to an internalization of the value of stable productivity. The dimension of social power is left out of this normative conception of the relationship between capital and labor. Using this argument against Parsons and Smelser, Alexander (1983: 234) stressed

that normative orientations did not decide the course of action in the labor market but rather “economic class-position and material resources.” Though labor market relations are also normatively integrated—which was already established by Durkheim—Parsons’s theory is problematic due to its exclusion of the importance of social power.

4. Perhaps one should consider Granovetter’s criticism less as a critical discussion of Parsons’s works and more as a theoretical delimitation that could also have been formulated independently of Parsons. The reference to Parsons could merely serve to underline a position set apart from the concept of normative integration of economic action.

5. For criticism on this, see Emirbayer and Goodwin (1994). An exception to this are some of the later works by Harrison White, especially his *Identity and Control* (1992).

6. This point of criticism relates to Swidler’s (1986) concept of culture as a “tool kit.”

7. In the new economic sociology, the demand for an alternative action theory that is neither normativistic nor rationalistic in an economic sense has hardly become a focus (compare, however, Beckert 2002, 2003; Friedberg 1995; Storper and Salais 1997). This could be due to an avoidance of often unproductive debates with proponents of rational choice theory; the dominating self-conception of the new economic sociology as a “middle-range” approach; and the inherent difficulty in operationalizing more interpretative conceptions of action for quantitative empirical research. That the new economic sociology appears to be treading water theoretically despite a number of highly interesting studies could be due to a lack of a sophisticated micro-foundation as well as a lack of a social theory. As warranted as the criticism on Parsons’s action theory from the 1950s may be, Parsons does teach us the importance of a sociotheoretical foundation in economic sociology. Only on such a foundation can individual empirical studies lead to a general sociological perspective on the economy. Parts of Parsons’s work could be helpful today for this task.

8. Compare, however, e.g., Holton (1986, 1992) and Münch (1994).

9. The emphasis on trust for the functioning of consumer markets points in this direction.

10. See also, however, Dodd (1994) and Zelizer (1994).

11. Habermas (1984). See also Wenzel (2001).

12. Indeed, Parsons (1963: 242) does mention the consequences of unequal distribution of money. According to Parsons, the owner of greater wealth has an advantage in that the marginal value of the price of a specific product is smaller for him or her than for a less wealthy person.

13. If money can be recognized as a socially consequential aspect at all, then only in its egalitarian effect: “All dollars are ‘created free and equal’” (Parsons 1963: 242). This is because, in monetarily regulated exchange

processes, the buyer's or seller's social status is neglected. Only the amount of money offered is deciding.

14. See also the very interesting article by DiMaggio (2003) on the usefulness of these Keynesian ideas for economic sociology.

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