What Is Economic Sociology and Should Any Economists Care?

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A couple years ago, two of my colleagues independently proposed approximately the same title for their respective contributions to a series of lunchtime talks: "Why Erving Goffman Is My Hero (and Should Be Yours, Too)." I emerged from these two lunches mightily impressed – both by Goffman's (1959) insights into *The Presentation of Self in Everyday Life* and by the potential for Goffman's micro-sociological research to inspire a major new research stream in behavioral game theory. In a similar spirit, I considered titling this introduction "Why Robert Merton Is My Hero," but this approach seemed prone to at least two problems. First, explaining hero worship in a short space would probably require poetry, which is not my forte. Second, I feared that the title would be opaque to those economists who would immediately think of Robert C. Merton, the Nobel Laureate in financial economics, rather than his father Robert K. Merton, one of the great sociologists in the history of that discipline.

I take the ideas in these papers and their underlying sociological literatures quite seriously. In fact, one sociologist friend recently declared that I have an "economist's eye for the sociological guy." More precisely, my interest is in economic sociology, which I will define as the sociology of economic actors and institutions; see the two *Handbooks of Economic Sociology* by Smelser and Swedberg (1994, forthcoming) for volumes of detail. In this introduction, I will highlight some of the prominent themes from economic sociology that are illustrated in these papers and suggest which kinds of economists might find these themes interesting.

New Independent and Dependent Variables

My own interest in parts of the sociology literature began when I recognized that some sociologists were working with independent and dependent variables that were barely mentioned in the economics literature, but seemed potentially quite important.

For example, about a decade ago, I began writing a survey on “Incentives and Careers in Organizations” (Gibbons, 1997). At some point, I realized that certain sociologists were studying issues closely related to those I was trying to survey as a labor economist – such as “fast tracks” in promotion data, for example. But once I started to unearth these parallel papers, I also found papers that were not so parallel. For example, Granovetter (1974) analyzed the role of “social networks” in getting a job, Pfeffer (1983) suggested that “organizational demography” (that is, the distribution of *other* workers’ attributes) could influence a given worker’s productivity and turnover, and White (1970) studied “vacancy chains” (where the promotion of worker A from job 2 to job 3 creates an opportunity for worker B to be promoted from job 1 to job 2). Compared to a Mincerian earnings regression, which uses a worker’s own characteristics to explain the worker’s wage, all of these papers can be seen as putting a new independent variable on the right-hand side – a variable that locates the given worker in a social structure of other workers. These literatures have developed well beyond these seminal papers: for example, see the first-rate conceptual elaborations, data-collection efforts, and empirical analyses in Fernandez, Castilla, and Moore (2000), Podolny and Baron (1997), and Sorensen (2000).

If one sociological literature woke me up to new independent variables of interest to labor economists, another alerted me to new dependent variables – in particular, to a wealth of new aspects of organizational design and performance that economists could explore and perhaps explain. In one of the foundational works in organizational sociology, Max Weber (1924) suggested that rational organizations (“bureaucracies,” in Weber’s laudatory terminology) consist of crisply defined positions occupied by career professionals who exercise informed and dispassionate judgment because of the constraints imposed by the organization’s formal rules and procedures. Not long thereafter, however, Merton (1940) launched post-Weberian organizational sociology with his essay on “Bureaucratic structure and personality.” Several decades of theoretical and empirical work ensued (much of it mentored by Merton), which I recently summarized as follows (Gibbons, 2003, p. 754):

> [O]rganizational sociologists (and others outside economics) have long appreciated that organizations are typically not well-oiled machines. For example, the classic case studies by Blau (1955), Crozier (1964), Dalton (1959), Gouldner (1954), and Selznick (1949) depict organizations that differ radically from a hypothetical Weberian bureaucracy, with its ‘precision, speed, expert control, continuity, discretion, and optimal returns on input’ (Merton, 1940: 561). Instead, in the post-Weberian view, ‘rules are often violated, decisions are often unimplemented, ... and evaluation and inspections systems are subverted.’ Moreover, ‘informal structures deviate from and constrain aspects of formal structure, and ... the organization’s intended, rational mission [is undermined] by parochial interests.’

I went on to argue that this long-standing sociological view of what really happens in organizations has important commonalities with recent economic models by the likes of Bengt Holmstrom, David Kreps, Paul Milgrom, John Roberts, and Jean Tirole. For example, I described how one page from Crozier’s (1964) case study anticipated key elements of Milgrom and Roberts’s (1988) model of how the prospect of influence activities shapes second-best organizational design. More generally, I argued that modern organizational economics has departed from Marschak and Radner’s (1972) “Team Theory” in an empirically relevant way, and in so doing has unknowingly converged with Merton’s post-Weberian organizational sociology.

Micro and Macro Economic Sociology

Like economics, sociology ranges from macro to micro, but in economic sociology, “macro” emphasizes analyses of firms and markets, whereas “micro” focuses on individuals and small groups. The papers in this symposium also range from macro to micro. At the macro end, much of Mark Granovetter’s discussion concerns the roles of social structure in determining market performance (and in creating markets, for that matter). At the micro end, much of George Akerlof and Rachel Kranton's discussion focuses on individual identities and small-group dynamics. But all four papers make some reference to firms and markets and all four also raise the issue of identity within a social context.

Having thus introduced the papers collectively, let me also say something about them individually, thereby giving some sense for which kinds of economists might find which papers especially interesting. Akerlof and Kranton's paper has clear links to both labor economics and organizational economics, and also more broadly to behavioral economics. Indeed, as Akerlof and Kranton recognize, once we contemplate identity as a complement to the standard economic model of single-person decision-making, several questions naturally arise, including: when is decision-making governed by the standard model versus by identity (March's (1994) "logic of consequences" versus "logic of appropriateness"); how do others perceive our identity (Ross's (1977) "fundamental attribution error"); and how do we attempt to influence these perceptions by others (Goffman's (1959) *Presentation of Self*)? In economics, these multi-person issues are the province of behavioral game theory; related issues are starting to arise in work by Ernst Fehr, Matthew Rabin, and others.

Michael Hannan's paper, for its part, has very strong links to industrial organization – in fact, I have long wanted to facilitate a discussion between organizational ecologists like Hannan and indutrial organization economists like Boyan Jovanovic, Steven Klepper, and Ariel Pakes – but it also has strong connections to organizational economics. The paper by Barbara Reskin and Denise Bielby is of course very closely related to labor economics – especially as practiced by economists like, say, Francine Blau and Claudia Goldin – and it again raises organizational issues. Finally, Granovetter's paper speaks to an all-important subject in economics – markets! – but one that we economists have not yet legitimized as a separate field. Recent work by John McMillan, Alvin Roth, and others has begun to focus on both markets as institutions and institutions in markets; see also Zuckerman's (2003) superb review of Rauch and Casella's (2001) *Networks and Markets* for more on how economists and sociologists can and should take complementary approaches to these issues.

When I consider the potential relationship between economists and sociology, I recall an aphorism from Robert Solow: “When I listen to Milton Friedman, I start talking like John Kenneth Galbraith, and when I listen to Galbraith, I start talking like Friedman.” I trust that many economists will recognize within themselves a contrarian desire to challenge mainstream economics when it is supported, but also to defend mainstream economics when it seems under attack. My experience is that some economists (and some sociologists!) perceive economic sociology as an attack, and these economists are then quick to cite reasons, such as endogeneity concerns, for dismissing the entire field. I believe this quick dismissal is far too simplistic. Instead, even where endogeneity and other concerns are well founded, I think intellectual integrity demands a response like: “Thank you for alerting me to new dependent and independent variables, which suggest new empirical correlations and potential causal mechanisms.” I have found economic sociology helpful in thinking about how organizations are and should be structured and managed. I expect that other economists – certainly those interested in organizations, but also those interested in industrial organization, labor economics, and markets themselves – might also find this field helpful. Indeed, I hope that this symposium will help launch a Pareto-improving dialogue between the appropriate margins of economics and sociology.

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