3 The great transformation of embeddedness: Karl Polanyi and the new economic sociology[1]

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Introduction

Over the last 25 years, economic sociology has developed into one of the fastest growing fields of sociology and became an important subfield of sociological scholarship (Smelser and Swedberg 2005; Beckert and Zafirovski 2006). This does not mean that sociologists during the postwar era did not study economic phenomena, but they did so either selectively by focusing primarily on issues of the organization of the industrial work process, labor markets, and industrial relations, or by focusing on the societal and cultural *effects* of capitalist economies. An example of this is the concentration of critical social theory on issues of alienation and the "colonization of the life world" (Habermas 1981). Class theory was primarily interested in the distributional effects of capitalism and various phenomena of exploitation of the industrial worker. What was lost in these sociological approaches to the economy in the postwar period was the comprehensive study of the social preconditions of capitalist economies and their core institutions, especially markets. This broad approach had been developed by the classical sociological authors in their studies of the economy. For Max Weber, Émile Durkheim, and Georg Simmel, the exploration of the institutions of modern capitalism was an important part of their respective social theories, and the neglect of this issue left a void in sociological scholarship during the postwar period.

It is not easy to understand this decline of economic sociology and its reemergence in the late 1970s, but there is widespread agreement on several contributing factors. On the one hand, the decline of sociological interest in the economy is probably related to the "solution" of many of the economic problems that were paramount during the classical era of sociology. Once patterns of stable growth developed in the Western world during the 1950s and 1960s, economic problems became less important for the understanding of social integration. Keynesianism seemed to offer effective political instruments to steer economic growth, which made the fulfillment of "adaptive functions"

[1] I am grateful to the editors and to Akos Rona-Tas for their helpful comments.

(Parsons 1951) a problem that appeared to have found an enduring solution in a regimen of "embedded liberalism" (Harvey 2005; Ruggie 1982). Moreover, the dominant Parsonsian paradigm of structural functionalism advocated a division of labor in the social sciences which left most aspects of the investigation of economic phenomena to the discipline of economics.[2] Even the later critiques of structural functionalism did not touch this division of labor – at least at first – since the Marxist critiques, conflict theory, and interpretative sociology led either to the study of phenomena of distribution and exploitation or, as in the case of Harold Garfinkel, to an orientation which showed little interest in the investigation of economic phenomena.

These developments provide clues as to why economic sociology declined in the postwar era. But why did the field reemerge during the 1980s? First, problems of inflation, increasing rates of unemployment, and low growth rates since the 1970s brought economic problems into the focus of societal attention once again. These macroeconomic changes were accompanied by profound transformations on the organizational level, commonly referred to as the end of the Fordist production regime. Second, during the 1970s and 1980s sociologists, anthropologists, and political scientists "discovered" economic configurations whose success had to be attributed to factors not accounted for in orthodox economic theory: the enormous success of Japan (Dore 1986; Hamilton and Biggart 1992; Yamamura and Streeck 2003), the rise of industrial districts (Trigilia 2006), and the discovery of the informal economy (Hart 1973). Third, the global economic picture started to change significantly in the 1980s because of the pronounced shift to market-oriented economic policies not only in the Western capitalist countries but also in the developing world, especially in Asia and Latin America, and, later, in the transitional countries of the former Soviet bloc. Markets gained in importance relative to political regulation, which dominated the capitalist postwar economies. Though this shift toward markets brought the dominant political orientations closer to the assumptions of orthodox economics, sociologists were sensitized for the social anchoring of economic action and turned to the investigation of markets as the paramount institution of exchange advocated by neoliberalism. After the failure of shock therapy in transition economies, the insight that markets have social and political preconditions also reached policymakers in international organizations like the World Bank, where "social capital," for instance, became a core policy concept.

In addition to the "real" changes in the economy, changes in the relationship between economics and sociology must be mentioned, too. First and foremost, the 1970s saw an expansion of the rational choice approach into substantial

[2] The resulting paradigm has been called the "economy and society perspective" (Swedberg 1987; Granovetter 1990). Geoffrey Hodgson (2008: 137) refers to the "Robbins-Parsons Consensus."

fields that were hitherto domains of sociology. The new economic sociology is in part a reaction to this "economic imperialism" and its understanding of action, making the counterclaim that even on economics' home playing field, i.e. "the economy," many phenomena can be better understood by approaching them from sociological perspectives. At about the same time, however, new developments took hold within economics which made the discipline itself more sensitive to the institutional preconditions of market exchange. This holds true for information economics and the new institutional economics. Sociologists started to address the systematic problems raised by economists from these schools.

Given these transformations, the renewed interest of sociology in investigating core institutions of modern capitalist economies, especially markets, might not be surprising. What is surprising, however, is that the essential concept applied in the new economic sociology is not derived from the classical sociologists Max Weber, Émile Durkheim, Georg Simmel, or Karl Marx. Instead, the "founding manifesto" of the new economic sociology, Mark Granovetter's (1985) seminal article "Economic Action and Social Structure – The Problem of Embeddedness" centers on Karl Polanyi's concept of embeddedness. This concept had been introduced by Karl Polanyi in his *The Great Transformation* (Polanyi 2001).[3] Ever since the concept was brought to the attention of sociologists by Mark Granovetter, it has been a focal point of the new economic sociology. Hardly any article associated with the new economic sociology fails to mention "embeddedness" as the core concept indicating a sociological approach to the economy. Few economic sociologists would disagree with the statement "We are all Polanyians now."

I will argue in this chapter that, in its adaptation by the new economic sociology, Karl Polanyi's concept of embeddedness has itself undergone a great transformation. As it has been continually reinterpreted, significant meanings of the concept have vanished, while others have been added. In particular, the social-reformist connotations of the concept have been neglected. I begin by exploring below the different meanings attached to the concept of embeddedness in the new economic sociology. Against the established approaches, I argue that it is not the embeddedness of economic action as such that should constitute the vantage point of economic sociology, but rather three coordination problems that actors face in economic exchange. It is only by starting from these coordination problems that the *necessity* of embedding economic action becomes theoretically comprehensible. I will argue that by proceeding from these coordination problems, sociological, anthropological, and

[3] Though Karl Polanyi is usually cited as the originator of the concept of embeddedness, it was used earlier by Richard Thurnwald in his study "Die menschliche Gesellschaft" (Thurnwald 1932). Polanyi was familiar with the works of Thurnwald when writing *The Great Transformation* (see Firth 1972).

historical approaches to the economy can find common research questions which allow them to enter into more fruitful conversations with each other. Later, I draw attention to the social-reformist inclinations of Polanyi's use of the notion of embeddedness and thereby highlight the challenge posed in *The Great Transformation* that was largely not taken up by economic sociologists. Finally, I note limitations with regard to the development of a macro theory of the economy that result from making embeddedness the core concept of economic sociology.

Embeddedness: the ironies of the career of a concept

The career of the concept of embeddedness in the new economic sociology would certainly have come as a surprise to the man who is quoted as its originator. It has been pointed out repeatedly that Polanyi hardly ever used the term (Barber 1995: 401; Krippner 2001: 779), and by no means could one claim that it is a well-defined, central concept in his work. In *The Great Transformation* the term is used only in the chapter on the "Evolution of the Market Pattern." In the relevant paragraphs Polanyi contrasts the market economy with economic configurations based on reciprocity and redistribution: "Instead of economy being embedded in social relations, social relations are embedded in the economic system" (Polanyi 2001: 60). The second use of the term a few pages later also alludes to this contrast:

> In the vast ancient systems of redistribution, acts of barter as well as local markets were a usual but not more than a subordinate trait. The same is true where reciprocity rules: Acts of barter are here usually embedded in long-range relations implying trust and confidence, a situation which tends to obliterate the bilateral character of the transaction. (Polanyi 2001: 64)

Evidently the centrality of the concept of embeddedness is an artifact of the *reception* of *The Great Transformation*. Nevertheless, it is possible to identify two core meanings the concept had for Polanyi; first, he sees markets as necessarily limited by institutional regulations which connect them to the moral fabric of society. Unregulated markets cannot be more than a pathological form of organizing the fulfillment of adaptive functions in society and will lead to social anomie. This institutional anchoring of the economy is characteristic of all three types of economic exchange distinguished by Polanyi: reciprocity, redistribution, and market. Second, the term "embeddedness" is not only an analytical term but also alludes to the political or social reformist task of stabilizing a (democratic) organization of society through the institutional regulation of markets, especially in the realms that Polanyi termed fictitious commodities: land, labor, and money. Hence the reference point of embeddedness is not the economy as such, but "the larger social systems in which all economies are located" (Barber 1995: 406). In both connotations of the term "embeddedness," Polanyi's assessment of the modern capitalist economy corresponds fully with the approaches of classical sociological theory.

That "embeddedness" should become the central concept of the new economic sociology with reference to the works of Karl Polanyi is surprising given the limited significance the term has in the works of the author himself. This irony, however, is complemented by a second incongruity: the understanding of embeddedness advocated by Mark Granovetter (1985), which led to the widespread use of the term in the new economic sociology, differs fundamentally from the meaning of the term in the work of Karl Polanyi.

Granovetter introduced the notion in direct reference to two debates. These concerned the dispute between substantivists and formalists in economic anthropology (Schneider 1974), and the controversy between two competing concepts of action in sociology: on the one hand, the "undersocialized concept of action," incorporated from economics, which sees actors as isolated from each other and, on the other, the "oversocialized concept of action," which represents actors' behavior as being entirely controlled by the social norms in which they have been socialized.

For Granovetter, both concepts of action are flawed. As an alternative, he suggested making the patterns of relationships among actors the core variable for the explanation of economic outcomes. According to Granovetter (1985: 487), economic action is "embedded in concrete, ongoing systems of social relations;" in other words, in actors' social networks. This use of Polanyi's notion of embeddedness promotes a structuralist economic sociology in which economic outcomes are explained by the structural properties of social networks (Granovetter 1973, 2005). Networks pattern market exchange and facilitate collective action. The significance of network structures has been validated in a variety of different research areas, such as the diffusion of information on labor markets (Montgomery 1991; Granovetter 1995), immigrant networks (Portes and Sensenbrenner 1993), and the organization of financial markets (Baker 1984; Uzzi 1999; Mizruchi and Stearns 2001). Proceeding from Granovetter's programmatic essay, the network approach has become the most influential advance within the new economic sociology.

Yet Granovetter's linking of embeddedness to the structuralist network approach in economic sociology implies a fundamental transformation of the concept. As Krippner (Krippner 2001; Krippner and Alvarez 2007) has argued, Polanyi's understanding of the embeddedness of the economy is rooted in institutional analysis. For Polanyi, markets are not networks of structurally equivalent producers but "rather fully social institutions, reflecting a complex alchemy of politics, culture, and ideology" (Krippner 2001: 782). The network approach, by contrast, isolates a single aspect of markets – networks of ongoing social relations – "as constituting the proper domain of economic sociology"

(Krippner 2001: 799). This is a limited perspective because an exclusive focus on the structure of social relations leads to a neglect of the social content underlying the observed structure. By not taking attributes of actors and institutional rules into account, network analysis fails to explain how the social structure of markets emerges and why networks are structured the way they are (Beckert 2005). Moreover, the network perspective does away with Polanyi's concern with the stability of social order, by focusing exclusively on the process of market exchange itself and not on the larger social system.

This, however, is not the last irony in the career of the concept of embeddedness. On closer inspection it becomes evident that Granovetter's focus on network structures gives rise to a further inconsistency, this time with regard to his own intention to provide an alternative to the oversocialized and the undersocialized view of action. Far from providing an alternative within action theory, he does away with a grounding of economic sociology in action theory altogether (Beckert 2003, 2006a). Network structures, rather than social action, become the explanatory variable (Granovetter 2005). Small wonder that institutional economists and rational choice sociologists eagerly took up this notion of embeddedness, since they could readily incorporate it into a rational choice framework (Burt 1992; Lin, Cook and Burt 2001).[4]

In short, the central position of embeddedness – and, hence Karl Polanyi's work – in the new economic sociology appear to be the result of cumulative interpretative misunderstandings on several levels.

Coordination problems in market exchange as the starting point of economic sociology

Despite this confusion the notion of embeddedness has become the core concept of the new economic sociology. This was also possible because the meaning given to the term by Mark Granovetter has not remained the only reading. Zukin and DiMaggio (1990 elaborated a taxonomy that distinguished between four types of embeddedness. In addition to Granovetter's "structural embeddedness," they distinguished between cultural embeddedness, cognitive embeddedness, and political embeddedness. This broadening of the concept of embeddedness unquestionably brought it closer to the meaning that may be deduced from *The Great Transformation*. This breadth allowed different

[4] The comedy of errors behind the concept of embeddedness took a final turn a few years ago when Mark Granovetter stated that he did not even have Karl Polanyi's work in mind when introducing the notion of embeddedness in his programmatic essay: "I use the term 'embeddedness' [in the 1985 article] in a narrower and somewhat different way than Polanyi meant it. The reason is that I was not trying to borrow the term from Polanyi, or to re-appropriate or to reintroduce it. Something more complicated was going on. I have looked back at my old notebooks and found that I used the term embeddedness in some of my early notes, before I ever read Polanyi" (Krippner *et al*. 2004: 113).

sociological approaches to the economy to be brought together under a single heading, which has contributed to the development of the field over the last two decades. To what extent, however, can any notion of embeddedness provide a satisfying starting point for economic sociology?

Following Polanyi, I take it as axiomatic that the embeddedness of economic exchange makes economic and social integration possible: the attempt to establish a system of self-regulating markets based on the commodification of the "fictitious commodities," land, labor, and money, produced the dehumanizing social conditions that Polanyi held responsible for the social and political instabilities he witnessed in his lifetime. The analytical – and, as I shall argue later, also the political – challenge is to identify the social preconditions for the organization of the economy that allow the fulfillment of economic functions to be combined with the realization of a humane social and political order.

No critique of the notion of embeddedness as the initial concept of the new economic sociology can deny the indissoluble connection of the actor with his or her social surroundings. However, we may question whether sociology should *start* from this notion as its entry point into the field of the economy. My position is that "embeddedness" characterizes a general answer to specific problems without identifying the underlying problems themselves.[5] By starting from the embeddedness of economic action we are putting the cart before the horse. The first proper step would be to identify the problems that can actually be solved by an approach focusing on the embeddedness of economic action. I suggest that we identify these problems and make *them* the analytical starting point of economic sociology. The problems to be resolved in market exchange are found not only in contemporary, highly developed capitalist economies but also in preindustrial market exchange. Since sociologists have largely ignored such societies, the approach I am advocating invites collaboration with anthropologists and historians; in this respect it is fully consistent with the multidisciplinary interests of Karl Polanyi.

If the strict assumptions underlying neoclassical economic theory are relaxed, the embedding of economic action needs be viewed in the light of three problems of social coordination that actors face in market exchange. General Equilibrium Theory posits that markets can stabilize without being "embedded" because exchange allows for individual utility maximization based on fixed and exogenously given preferences and no actor has an interest in changing the equilibrium result. Once the assumption of perfect markets is given up, however, the problem of the social order of exchange reemerges (Latsis 1972), and it is only by the formation of robust expectations with regard to the actions of relevant "alter egos," i.e. the reduction of the social uncertainties

[5] Cf. Dobbin (2004). Rather than proceeding from a set of problems, Dobbin's approach proceeds from a set of social mechanisms that resolve underlying problems.

entailed in market exchange, that stable markets become possible. The reduction of uncertainty is an indispensable precondition for the emergence and operation of market economies (Beckert 1996). Market actors need "stable worlds" (Fligstein 2001) or "calculability" (Weber 1978) in order for role sets to be reproduced. Embeddedness is the mysterious substance which provides this stability in market exchange.

Three coordination problems

The three coordination problems actors face in market exchange are the problem of value, the problem of competition, and the problem of cooperation.[6]

Value

The problem of value may be defined as the "difficulties that market participants have in forming clear subjective values for goods in the market" (Koçak 2003: 8). Only if buyers are able to "discriminate between the worth of goods or services that confront them in the market" and sellers are able to reliably demonstrate "the value of goods they bring to the market" (Koçak 2003: 5f.) can market exchange take place. The basis for this is the cognitive process of commensuration, in which actors rank products according to their contribution to the fulfillment of a need and thus provide the basis for attaching value to a product in relation to others.[7] This is to some extent a technical process if standards are defined to distinguish different qualities of commodities and the contribution of a commodity to resolve a technically defined task. However, in large parts this process of valuation is social in character. The emergence of a "market for whale-watching" on Canada's west coast, for instance, depended on cultural transformations that changed the way whales are valued in Western culture. Although whales were perceived for centuries as feared behemoths – a perception most dramatically described by Melville – this perception began to change from the 1950s onward to the point where whales are seen today as a threatened species that symbolize the value of freedom. Only on the basis of

[6] An additional social precondition for the emergence of stable markets is the social legitimation of the market exchange of a certain good. Historically, markets have been subjected to numerous limitations in terms of their location, their duration and the goods they are legally allowed to trade (Braudel 1979; Polanyi 1944; 1976a; Walzer 1983; Weber 1922). The prohibition of trade in human beings (e.g. slavery or adoption), organs, or certain substances (e.g. illegal drugs) are but a few examples of such limitations. Clearly, there is no unilinear historical process by which markets become ultimately legitimate mechanisms for the exchange of all goods. Illegal markets face the same coordination problems as other markets. Actors in illegal markets must find different solutions to these coordination problems, however, which makes illegal markets even more precarious.

[7] I do not attempt to develop a theory of market prices here. Understanding why actors think of a product as being valuable and as having more or less value compared to another good is only one element of price formation; see Guyer, Chapter 11 in this volume.

this change in perception did it become possible for the watching – and not the hunting! – of whales to become a valued commodity for which people are willing to pay money (Lawrence and Phillips 2004). In the case of the market for wine, similar social processes lie behind the possibility of differentiating a product that is perceived by outsiders – or "non-experts" – as largely homogenous. Assigning vastly different values to wine based on the grapes used, the producer, the location of the winery, the year of production, the type of bottle used, and the evaluations of third parties is a complex process without which this market would not exist at all. The "quality markers" constituting the reputation of a wine must be established in communicative processes involving producers, consumers, traders, and intermediaries, especially wine critics. Through these processes the social uncertainty inherent in the product is reduced and consumers can develop confidence in the "value" of a wine despite the fact they cannot classify its quality based on its sensual characteristics.

Valuation processes are social in character in a second sense. Value may be based on the recognized contribution of the good or service to the positioning of its owner on the social ladder and thereby contribute to the definition of the owner's social identity. Products constitute and express membership of specific life-worlds. The classic treatment of this phenomenon is Veblen's (1899) discussion of "conspicuous consumption." But it holds true, of course, in a much more general sense: products are located in a social landscape which allows the owners of goods to be positioned and, conversely, to form social identities based on market choices. Only through such socially based processes of the subjective valuation of goods can stable markets emerge. Hence markets must be socially and culturally embedded to be feasible. In the case of valuation, the embeddedness of economic action is a necessary condition for classifying the material world in terms of the relative value of the products offered, i.e. for creating motives for product demand. A sociological theory of markets will aim to understand how the mechanisms of classification emerge and work (Bowker and Star 2000).

It is obvious that the study of processes of valuation is a field in which sociological, historical, and anthropological perspectives meet. The historical perspective highlights the processes of change in the valuation of goods. For example: Zelizer (1979), in her study of the emergence of the life insurance industry in the United States during the nineteenth century, reveals the long process before potential buyers of life insurance overcame their resistance to the product. At the outset of the industry, life insurance was seen by potential customers as morally corrupting since it involved a gamble with God and provided a premium for the death of another person. It was only by taking this cultural resistance into account that a change in marketing strategies could be achieved; the meaning of the product was reframed, and potential customers started to value life insurance. Economic anthropology has investigated such phenomena as the social base of measurement systems (Gudeman 2001: 12), the dependence of the value of goods on their meaning as symbolic representations of social status (Geertz 1973), and the cultural bases of the demand for products (Douglas and Isherwood 1979; Appadurai 1986; Graeber 2001; Hann and Hart forthcoming).

Competition

The second coordination problem actors face derives from competition. From the economist's standpoint, markets are based on competition. But sellers can only make a profit if markets are not perfect in the economic sense. If markets were perfect, marginal utility would equal marginal costs and the incentive to produce for the market would vanish. Profits emerge when markets are imperfect (Chamberlin 1933; Knight 1921; Robinson 1933). Therefore, market actors attempt to create market structures that provide protection from pure price competition. A power-driven "market struggle" (Weber 1922) ensues in which actors try to restrain competition or use existing regulations to their advantage. At the same time, market actors experiencing disadvantages from existing market regulations attempt to challenge incumbents by trying to change the rules of competition (Fligstein 2001). The state plays a major role in these market struggles by laying down ground rules, for instance in competition law or intellectual property law, and by granting subsidies or collecting tariffs. Political embeddedness as well as market differentiation based on the "singularization of the good" (Callon, Méadel and Rabeharisoa 2002: 201) and processes of network closure are mechanisms aimed at resolving this coordination problem. This is a second indication that markets can only emerge through their embeddedness in noneconomic social and political contexts.

Again, the investigation of these market struggles would profit from a close collaboration between sociologists, historians, and anthropologists. In the Middle Ages, guilds had the function of protecting established producers from unwanted competition. The rise of John D. Rockefeller in the oil industry in the late nineteenth century may be described as the result of a strategy of eliminating competition. Rockefeller created a monopoly by taking over the refineries owned by competitors. The government reacted by introducing antitrust legislation leading to the dissolution of the Standard Oil Company (Hohensee 2003: 78). Closing certain labor market segments to persons on the basis of their race, gender, caste, ethnicity, union membership, and so on also serves to protect defined labor market groups from competition. Geertz (1963: 32ff.) showed how competition in a Javenese bazaar takes place between buyer and seller rather than between sellers because no fixed prices exist. Here it is the lack of an institutional provision which inhibits the type of competition usually associated with market exchange. Stephen Gudeman (this volume) cites examples from anthropological research showing how market exchange is regulated by communal bonds as well as social networks and how these bonds restrict the trade of certain goods or trade between certain actors.

Competition and its moderation through regulation, entry barriers, or product differentiation reflects a fundamental coordination problem for market exchange. It allows market exchange to be understood as a political and social struggle over institutional regulation and "blocking action" (White 1992), pointing to the embeddedness of economic action as a *resolution* to a specific problem market actors face.

Cooperation

The third problem of coordination that actors confront in market exchange is the problem of cooperation.[8] It arises from the asymmetric distribution of information about price, product quality, and the possible opportunism of exchange partners in the light of incomplete contracts. Exchange relations are inherently risky undertakings. The resolution of the social risks of exchange, notably that of "defection," is a crucial precondition for the emergence of stable markets. In addition to social networks, clientelistic relationships, reputation systems, formal warranties, and branding, mechanisms such as trust, social norms, power, network closure, and emotions all help to resolve this coordination problem (Beckert 2006b). While trust, reputation, and institutional safeguards have been extensively discussed as forms of embeddedness in the new economic sociology, it is the systematic problem itself which provides the vantage point from which the cultural and institutional embeddedness of markets may be explained.

Again, proceeding from the coordination problem illustrates the commensurability of sociological, historical, and anthropological approaches. For example, from a historical perspective Berghoff (2005) has explored the origins of the credit reporting and rating agencies in the nineteenth century in the USA and Europe. Modern credit markets could only emerge when institutional solutions had been found to the problem of assessing the risks of credit. The historical investigation shows how the establishment of standards of creditworthiness emerged and altered as social and economic conditions changed and new technological and mathematical possibilities arose. Starting from interpersonal relationships in tightly knit religious networks, the instruments became increasingly formal up to the point where creditworthiness today is established through scoring systems. The very same problem has been investigated in a contemporary empirical case study by Guseva and Rona-Tas (2001), who examined the establishment of credit card markets in Eastern European countries. The research shows the specific solutions credit card companies find

[8] The distinction between competition and cooperation as two distinct coordination problems does not imply that competition does not involve cooperation between competitors. The solution to collective action problems is a form of cooperation. The distinction refers to the structuring of competition, on the one hand, and the social risks entailed in the exchange process, on the other.

when operating in an environment in which potential credit card holders have no documented credit history. In economic anthropology, Hart (1988: 179), among others, investigated practices of lending in the informal economy of a migrant community in Ghana, identifying the mechanisms by which traders assess the trustworthiness of their clients (cf. Gudeman, Chapter 2 in this volume). All of this research shows how the potentially devastating problems stemming from the asymmetric distribution of information and the freedom of choice of ego and alter ego are resolved through the connection of market exchange with the institutional, cultural, and social contexts in which this exchange takes place.[9]

Combining sociological, historical, and anthropological perspectives

Identifying the three coordination problems makes the cultural, political, structural, and cognitive embeddedness of market relations comprehensible in terms of the actual problems market actors confront. The embeddedness of market exchange is not the vantage point of economic sociology. Instead, it reflects social conditions that help actors in addressing underlying problems of coordination. This approach comes closer to Polanyi's conceptualization of embeddedness. It allows for a much broader perspective that does not have to limit itself to just one type of embeddedness but can investigate the actual solutions market actors find for the identified coordination problems as a combination of all four types of embeddedness and their mutual interdependencies. This corresponds to Polanyi's view that we should see markets as social institutions enmeshed in politics, culture, and ideology (Krippner 2001: 782).

The closer interaction between sociological, historical, and anthropological scholarship on economic exchange also corresponds to the Polanyian perspective. This plea for increased cooperation is not meant to reinforce disciplinary lines, but, rather, to improve the empirical understanding of economic exchange by enlarging the theoretical and empirical scope of scholarship in all three disciplines. How? First, by systematically studying the historical variance of solutions to the identified coordination problems and the historical genesis of current solutions. Second, by identifying and studying the large pool of alternative solutions to the coordination problems, which not only sharpens the understanding of solutions found in a specific situation but also heightens people's awareness of the cultural specificity and contingency of particular solutions. A comparative and historical perspective makes it possible to identify

[9] Many other examples of the study of this coordination problem in market exchange and of the investigation of the specific mechanisms by which it is resolved could be cited from the three fields (Kollock 1994; Braudel 1979). Of course the social and institutional context sometimes works to hinder the solution of cooperation problems. The argument is only that the solution to the problems cannot be analyzed in purely individualistic terms.

specificities of modernity and its variances in the organization of the economy in a non-functionalist way. Third, by applying theoretical concepts developed in one of the disciplines to empirical fields that get less attention in the discipline in which the concept originates. An example would be the concepts of gift-giving, reciprocity, and classification as important analytical concepts in anthropology. Despite their origins in sociology (Durkheim, Mauss), they were long neglected in economic sociology. Recently, however, they have been successfully applied to the analysis of economic exchange by economic sociologists (Godbout and Caillé 1998; Steiner 2004; Healy 2006; Adloff and Mau 2006).

Proceeding from the three coordination problems also enables us to connect economic sociology systematically with economics. Value, competition, and cooperation have been subject to extensive research in economics, especially during the last thirty years. What distinguishes a sociological – or anthropological, or historical – approach to the economy from an economic approach is not the questions asked but, rather, the answers given. The most profound difference – though this crosses disciplinary lines – is either seeing economic action from a normative perspective as contained in the universe of rational actors and efficient economic institutions, or understanding the economy empirically as a cultural and political phenomenon from its dialectic interrelation with other societal spheres (see also Gudeman, in Chapter 2). Which of these perspectives we take, however, is not simply a matter of taste. The coordination problems point to fundamental uncertainty for intentionally rational economic actors that impedes the maximization decisions presumed in orthodox economic models (Beckert 1996).

Embeddedness and social reform

I argued in the previous sections that there are two shortcomings in the use of embeddedness in the new economic sociology. The first difficulty is specific to Granovetter's (1985) influential conceptualization, which restricts embeddedness to the investigation of social network structures. The second, more general, limitation is that embeddedness is used as a starting point and not seen in its connection to the particular coordination problems market actors face. However, even if embeddedness is redefined to include the cultural, cognitive, and political contexts in which economic action takes place and is understood as a response to the three underlying coordination problems, another crucial challenge posed by Karl Polanyi would still not be taken up. In *The Great Transformation* Polanyi did not aim to understand the functioning of market exchange in order to explain the social preconditions for market efficiency; he was concerned with what happens to social order and political freedom when economic exchange is organized chiefly through self-regulating markets. This unease is evident throughout *The Great Transformation*, but is most directly stated in the last chapter of the book.

It follows that a sociological theory of the economy that claims Karl Polanyi as its inspirational source cannot be limited to the investigation of the social and political preconditions for the efficient fulfillment of economic functions, but must also pay attention to the effects of the organization of the economic system on society at large. Firms, for example, have increased leverage to exit existing national regulatory regimes. How does this affect the ability of nation-states to organize social solidarity? What impact does the increasing insecurity of employees caused by new employment regimes have on family structures? How does the expansion of markets effect social inequality, working conditions, and local communities? How are actors responding to the increasing uncertainties they face owing to the marketization of "fictitious commodities?" Whatever answers we give to these questions, they must be part of an economic sociology – and economic anthropology – which analyzes adaptive functions as part of the much larger question of the social integration of society. For Polanyi social order is precarious (Streeck 2007). The embeddedness of market exchange does not result from markets themselves or some other resource floating in society. It is the unstable result of social and political struggles, an outcome that has to be shielded by means of deliberate political engagement from the danger of an "institutional separation of society into an economic and political sphere" (Polanyi 2001: 74). The "double movement" is not an automatic response to the devastating effects of self-regulating markets but, rather, is the result of political intervention in markets in the light of their social consequences.[10] The "re-embedding" advocated by Polanyi implied a substantial political authority over the economy as a result of political and social engagement. In this sense Polanyi followed in the footsteps of the works of economic sociologists from the classical period (1890 to 1920), especially Émile Durkheim and Max Weber, whose scholarly work was also written to provide a scientific basis for social reform.

This reading of *The Great Transformation* as a social theory concerned with the question of social integration under conditions of political freedom is not widely accepted in the new economic sociology. Instead, the embeddedness of economic relations is seen as a constitutive element of *all* economies that can be taken as fact and is *only to be discerned* through sociological analysis. To the extent that the embeddedness of market exchange is seen as something to be established deliberately, it is the efficiency perspective that dominates. Embeddedness is then reduced to the optimal design of network structures for economic gain or of efficient economic institutions (Williamson 1985; Burt 1992).

[10] For a critique of Polanyi's notion of self-regulating markets see Gemici (2008).

Embeddedness and modernity

I argued earlier that economic sociology, economic anthropology, and economic history can find a common ground for the analysis of markets by proceeding from three coordination problems that have to be addressed wherever markets are found. This perspective does have certain limitations, however, which brings me back to the debate between substantivists and formalists in economic anthropology. For Karl Polanyi the embeddedness of economic exchange applied to modern societies as well and this perspective is shared by today's economic sociology. To quote Granovetter (1985: 483):

> I assert that the level of embeddedness of economic behavior is lower in non-market societies than it is claimed by substantivists and development theorists, and it has changed less with "modernization" than they believe; but I argue also that this level has always been and continues to be more substantial than is allowed for by formalists and economists.

The trouble with this perspective is that it does not help us to discriminate between traditional and modern economies, or between different types of market economies. In stark contrast to theories of functional differentiation, the new economic sociology highlights phenomena that demonstrate structural similarities between traditional and modern capitalist economies. It shows, for example, that particularistic networks remain paramount in the highly sophisticated market exchanges of today's capitalism (Portes and Sensenbrenner 1993; DiMaggio and Louch 1998). "Blocking action" aimed at restricting competitors (White 1992) is as much a feature of today's economies as it was during the time of the medieval guilds. Economic rationality has been deconstructed and shown to be determined by cognitive scripts that are culturally anchored (Dobbin 2001; Beckert 2002b). The rhetorical *mana* of concepts like "outsourcing," "diversification," or "shareholder value" is seen as structurally similar to the power of totems. Such management concepts serve as orientations for action based on the *belief* in their rational outcomes. On closer inspection, however, they are hardly more rational than magical beliefs.

The dominant narrative of economic sociologists is thus one of continuity. Such a perspective on the economy is appealing against the backdrop of modernization theories that see social networks, particularistic exchange, and magical beliefs exclusively as elements of premodern economies that have vanished in the course of rationalization. It is definitely enlightening to examine the cultural underpinnings of the notion of rationality and to call into question the ontologization that characterizes this concept in much of economic theory. This is also a valuable corrective to the agenda of classical sociology, including mid-twentieth century economic sociology, that sought to identify the distinctive characteristics of modernity in opposition to those of earlier economic formations (Parsons and Smelser 1956).

The appeal of Karl Polanyi for the new economic sociology might stem from the fact that his social theory does not imply a linear concept of development of the sort found in Marx, Weber, Durkheim, and Parsons. Embeddedness is *not* a characteristic that separates premodern economies from modern ones.[11] Based on the notion of a "double movement," social change is conceptualized as a dynamic process of oscillation between embedding, disembedding, and reembedding. Thus "all economies are embedded" (Barber 1995).[12] However, "embeddedness" does not provide a theoretical perspective informing us about the *specific* characteristics of the embeddedness of modern capitalist economies. The strong emphasis on similarities of economic systems across time and space, based on the notion of embeddedness, impedes the development of conceptual tools to address differences between economic configurations and, in particular, the specificity of the organization of modern capitalist economies.

This leaves us with an economic sociology that is unspecific with regard to the structural changes taking place in the organization of the economy with the development of modern capitalism. At the end of the day, all economies are embedded. Given the fact that the new economic sociology started from a strong anti-Parsonsian sentiment in American sociology in general, the allure of the notion of embeddedness is understandable. It has allowed for a concentration on meso- and micro level processes of economic organization and relieved sociologists from the task of addressing socioeconomic development at the macro level. This limitation is regrettable, however, because it excludes the possibility of analyzing changing forms of embeddedness from the premises of a sociological macro theory. I am not arguing for a return to the teleological errors of the past (Joas 1992: 218ff.). But we need an historical perspective if we are to understand the *specific* ways in which economic action is embedded in institutions and social structures of modern societies. We also need to identify the (normative) implications of such changes. Bourdieu's work on the transformation of peasant society in Algeria provides a fine example (Bourdieu 1963[6]). He showed how the logic of calculation wins over the logic of the household in the process of modernization, leading to social dislocation. It is not that modernization leads to disembedding in the sense of making networks and social institutions irrelevant, but structural changes devalue specific forms of embeddedness and force actors into new modes of social organization. The traditional *habitus* of the peasant clashes with the rational *habitus* demanded by capitalist society.

[11] This line of argument is also followed by Stephen Gudeman (in Chapter 2) when he emphasizes the dialectical relationship between necessity and contingency.

[12] It is true that Polanyi draws attention to the increasing role of the state in the organization of economic exchange (Block 2003: 281). Nonetheless, the dominant reading of Polanyi's work in the new economic sociology singles out the concepts of embeddedness and double movement, and shows little interest in a macrosociological theory of modernity.

A second example concerning the systematic changes of embeddedness in modern societies refers to cooperation, one of the coordination problems discussed earlier. Trust is a crucial facilitator of cooperation since market actors must take risks when engaging in exchange (Gambetta 1988a; Möllering 2006). Trust itself depends on social and institutional contexts that encourage the willingness to trust by improving the possibility of assessing the trustworthiness of the trusted party (Beckert 2005). Trust plays a role in economic exchange in both traditional and modern economies, but this observation should not prevent us from identifying structural differences in the ways in which trust is established.

Anthony Giddens (1990: 100ff.) distinguishes different ways of organizing the integration of exchange in premodern societies. The development of modern capitalist societies, however, tends to destroy the contexts of trust that support cooperation in exchange in traditional societies. Following Giddens, modern societies are characterized by an increasing time–space distantiation of economic exchange and the loss of traditional contexts of action. These changed macrosocial conditions necessitate the development of new forms of embeddedness that are able to support trust between exchange partners. Zucker (1986) has described this development for nineteenth-century America and shown the structural changes that characterize this development. She identifies a process where the sources of pre-industrial trust were increasingly disrupted by high rates of immigration, internal migration, and an increase in transactions across group boundaries and great geographic distance (Zucker 1986: 54). These changed macrosocial conditions led to a push to develop formal mechanisms for the production of trust, mainly through the establishment of formal institutions. The spread of new forms of standardization that were regulated by formal organizations, the increase in surveillance on the company level, the rise of the professions and of intermediaries like rating agencies may all be read as institutional responses to these changed conditions.

This observed increase in formalization of the bases of trust in modern economies does not *exclude* the continued existence of tight networks of interpersonal relations or cooperation based on religious beliefs. However, a structural change in the form of embeddedness of exchange relations occurred in nineteenth-century America as a response to a changing macrosocial situation. A comparative perspective shows, however, that the dissolution of traditional social relations does not automatically lead to efficient institutional forms of this kind. Hart's (Hart 1988) ethnographic description of economic relations among migrants living in the slums of Accra (Ghana) demonstrates unresolved trust issues in their exchange relations that ultimately lead to extremely high transaction costs and unsteady economic exchange. Trust emerges in particularistic friendship relations, but its generalization fails (Hart 1988: 190ff.).

These few examples suffice to show that historical analysis of the phenomenon of trust and trustworthiness makes it possible to identify and theorize systematic elements of modernization processes. Historical analysis of the economy is a key component of general theories of social change. The comparative approach is directed at the historically specific uncertainties actors face in economic exchange and at their particular reactions. This way a comparative perspective can direct our attention to the plurality of possible responses to macrosocial changes and also to possible failures to establish efficient solutions, thus avoiding the traps of teleological claims.

Conclusion

Based on the works of Karl Polanyi the notion of embeddedness has become the core concept of the new economic sociology. I have argued here that reading of embeddedness in the new economic sociology show a "great transformation" of the concept that does not do full justice to the meanings it had for Polanyi. This holds especially true for the reduction of embeddedness to networks of social relations. But the more encompassing understanding developed by Zukin and DiMaggio (1990) also leaves out the normative and social reformist concerns that formed the intellectual background of *The Great Transformation*. The way the new economic sociology has made use of the concept of embeddedness has, however, two further limitations. First, it does not address the coordination problems actors in economic contexts must resolve, which I have identified to be the problems of value, competition, and cooperation. To start from these problems provides a systematic vantage point for economic sociology and a basis for closer collaboration between sociological, anthropological, and historical approaches to the economy. Second, taking embeddedness as a foundational concept directs research in economic sociology to the meso- and micro levels and neglects processes of macrosocial change which were paramount in the investigation of economic phenomena by classical sociologists. For an understanding of the relationship between markets and society, an understanding of modernization processes and their effects on the organization of the economy remains indispensable.