**CHAPTER ONE**

**INTRODUCTION**

**1.1 THE DEFINITION OF ECONOMIC SOCIOLOGY**

Economic sociology—to use a term that Weber and Durkheim introduced - can be defined simply as “*the sociological perspective applied to economic* *phenomena”.* A similar but more elaborate version is “*the application of the frames of reference, variables,* *and explanatory models of sociology to that complex* *of activities which is concerned with the production,* *distribution, exchange, and consumption of scarce* *goods and services.”* One way to make this definition more specific is to indicate the variables, models, and so on that the economic sociologist employs.

* The first focus of economic sociology is on economic activities alone. The economic sociologists ask how these activities are structured into roles and collectivities, by what values they are legitimized by what norms and sanctions they are regulated, and how these sociological variables interact.
* The second focus of economic sociology is on the relations between sociological variables as they manifest themselves in the economic context and sociological variables as they manifest themselves in non-economic contexts. For instance, do familial roles articulate with occupational role of a local community and the control of its political structure? This relational focus includes both situations in which economic and non-economic structures are integrated with one another and situations in which the two structures operate at cross-purpose. This interplay of sociological variables in the economic and non-economic spheres can be observed in two settings: (1) *within concrete economic units.* In the industrial firm, for instance economic sociologist studies the status systems, power and authority relations and the relations among these phenomena. (2) *Between economic units and their social environments.* At one level the economic sociologists studies the relations between economic interests and other interests (legal, political, familial, and religious) in both community and larger society.

Generally, economic sociology deal with particular dimension of economic phenomena, namely their social dimensions, social structures and organizations in the economy.

1.1.2 **Major assumptions of economic sociology**

1. Skeptical stance toward the notion that legally regulated exchanges and markets comprise all that there is, or even the principal part of real economic activity.
2. An equally skeptical eye to the idea that unbridled self-interest is the sole or the primary motivator of economic action.
3. A general recognition that economic transactions do not occur in a vacuum but are inserted into cultural systems and webs of sociability.
4. An appreciation of the fact that rational means directed toward explicit goals frequently end up producing consequences different or even opposite to those originally intended.
5. An overall rejection of the image of the economy as a level playing field and an emphasis on the role of power.

The first two orientations differentiate the analytic point of departure of economic sociology from economics proper, particularly its neoclassical version. The last three define the key meta-assumptions from which the sociological study of the economy departs: ***the social embeddedness of the economy, the unexpected consequences of purposive action, and the pervasive influence of power.***

**The social embeddeness of the economy:** emphasized that markets are themselves social entities and that recurrent interactions by market actors create networks, reciprocity expectations, sympathies and versions that constantly modify what are supposed to be “rational” actions. Generally, embeddedness states the economic relations between individuals or firms take place within existing social relations and thus structured by these relations as well as the greater social structures of which those relations are a part.

**Unanticipated consequences of rational action:** a skeptical stance towards the notion that individual or collective action involving the purposive selection of means leads normally to the desired goals; because such actions are socially embedded the end point may be quite different from that originally anticipated

**The persuasive influence of power:** may be defined as one component of embeddedness, which is the social structure that frames and constrain economic action. Durkheim emphasized the external and corrosive character of social phenomena that compel actors to follow certain paths of action and not others, despite their own wishes on inclinations.

**1.1.3 Historical attempts of economic sociology**

The first significant attempt to create a solid economic sociology was made in Germany during the period 1890–1930 by a group of scholars who were all trained in economics. The three key figures were Max Weber, Werner Sombart, and Joseph Schumpeter. A major reason that economic sociology developed so forcefully in German-speaking academia was probably its strong tradition of historical economics. There was also the fact that toward the end of the nineteenth century Gustav von Schmoller, the leader of the historical school of economics, became embroiled in a bitter academic fight with Carl Menger, one of the founders of marginal utility analysis. By the time Weber and Sombart became active, German economics had been polarized into two camps through the socalled battle of the methods, or the Methodenstreit: one that was overly theoretical and one that was overly historical. The idea of ‘‘economic sociology’’ was conceived by both Sombart and Weber as an attempt to get out of this dead end and to function as a kind of bridge between economic history and economic theory. Economic sociology should be analytical in nature, but historically grounded. While Sombart, however, wanted economic sociology to totally replace economic theory, Weber thought differently. In his mind, a healthy science of economics (Weber used the term Sozialoekonomie, or ‘‘social economics’’) should be broad and simultaneously draw on economic theory, economic history, and economic sociology (Weber 1949). Schumpeter basically shared Weber’s opinion, although economic theory would always rank higher in his mind than in Weber’s. The idea of such a broad-based social economics, however, never caught on.

Weber, Sombart, and Schumpeter all made a series of first-rate contributions to economic sociology. For one thing, all of them produced major studies of capitalism: Weber ([1921-22] 1978) in Economy and Society; Sombart ([1902] 1987) in Der moderne Kapitalismus; and Schumpeter ([1942] 1976) in Capitalism, Socialism and Democracy. Weber emphasized that capitalism was becoming increasingly rationalized; Sombart was particularly interested in looking at the different historical stages of capitalism; and Schumpeter argued that modern capitalism was digging its own grave and was soon to be replaced by socialism. These visions of capitalism still dominate our thinking and are therefore of great interest. And so are many of the shorter studies by Weber, Sombart, and Schumpeter, such as Sombart’s ([1906] 1976) study of why there is no socialism in the United States, Weber’s ([1904–5] 1930) analysis of the relationship between Protestantism and the spirit of capitalism, and Schumpeter’s ([1919] 1954, [1918] 1971) two superb articles on imperialism and the tax state.

A special mention must also be made of Georg Simmel’s ([1907] 1990) The Philosophy of Money. This work contains an ingenious analysis of money that ranges from philosophy to sociology. No general theory of money is developed, but the author takes on a series of interesting topics, including credit, checks, and small change. Simmel should not only be credited with having made a serious attempt to develop a sociological approach of money; he was also the first sociologist to realize what an important role trust plays in economic life.

The only one to make a sustained effort to lay a theoretical foundation for economic sociology, however, was Max Weber. He did this in a chapter of Economy and Society (Weber [1921–22] 1978) entitled ‘‘Sociological Categories of Economic Action.’’ When Weber lectured on this chapter to his students, they found his analysis abstract and dry. He therefore decided to give a lecture course in economic history to supplement his theoretical ideas. This course became what is today known as General Economic History (Weber [1923] 1981), and it should be read together with Economy and Society. In the latter work Weber carefully constructs the various analytical categories that are needed in economic sociology. He starts with ‘‘the concept of economic action’’ and ends with macroeconomic phenomena, such as ‘‘market economies and planned economies.’’ He also defines and discusses such basic concepts as trade, money, and the market—all from a sociological perspective. At various points in his discussion Weber carefully underlines when economic theory and economic sociology differ. It is, for example, imperative for economic sociologists to use the concept of economic power in their analyses, while this plays no role in marginal utility theory. In economic theory it is assumed that consumers are price givers, but economic sociology assumes that they are price takers. In economic theory it is usually assumed that prices are simply the result of demand and supply, while in economic sociology it is necessary to look at the strength of the various social groups in order to understand the unfolding of the ‘‘price struggle.’’ Finally, in economic sociology economic action must in principle be oriented to the behavior of others. Economists exclusively study rational economic action, Weber concludes, while sociologists have a much broader focus.

During about the same time that Weber, Sombart, and Schumpeter were active in Germany, a similar, though independent, effort to create an economic sociology was made in France. The key figures here are Emile Durkheim, Marcel Mauss, and François Simiand. All three felt that since economic theory is not a social theory (in the sense that it does not assign analytical priority to society as opposed to the individual), it should be replaced by a sociological approach to the economy or, more precisely, by economic sociology. In this they echoed Auguste Comte’s critique in the early 1800s of economic theorists for ignoring the fact that the economy is part of society and that, as a consequence, there is no need for a separate economic theory (Swedberg 1987). The two most important studies in the French school of economic sociology are The Division of Labor in Society by Durkheim ([1893] 1964) and The Gift by Marcel Mauss ([1925] 1969) (see also Simiand 1932). The latter work not only covers gift-giving but also contains a series of brilliant remarks on credit, interest, and consumption. In The Division of Labor in Society Durkheim raises the question of how to bring about solidarity in industrial society. His answer, which is further elaborated in other works (see especially Durkheim [1928] 1962, [1950] 1983), is that no society in which the economic element predominates can survive. Economic life has to be restrained by a moral element; without a common morality, all persons would be at war with one another.

Both German and French economic sociology petered out in the 1930s. At around this time European sociology was exhausting itself, while U.S. sociology was in ascendency. Among the multiple subfields that appeared at that time, several are of interest to economic sociology, such as industrial sociology, the sociology of professions, and stratification theory. None of these, however, dealt with core economic problems or with economic theory. Instead there was a firm division of labor in U.S. social science at this time between economists, who only studied economic topics, and sociologists, who only studied social topics. In the 1950s, however, some sociologists decided to challenge this division of labor, and their efforts have become known as the ‘‘economy and society approach,’’ so called both because two works with this title now appeared (Moore 1955; Parsons and Smelser 1956) and because a conscious effort was made to bring closer together two bodies of thought in the social sciences—economics and sociology— that most social scientists felt should be kept separate (see also Polanyi et al. 1957). Talcott Parsons and Neil Smelser (1956) argued, for example, that the economy is part of society or, in their terminology,‘‘the economic sub-system’’ is part of ‘‘the social system.’’ In this sense they assigned a certain priority to society and implicitly to sociology. On the other hand, they also felt that economic theory was essentially correct—even if it needed to be complemented by a sociological approach. This dual position also informs the first textbook as well as the first reader in economic sociology—both produced by Smelser (1963, 1965).

**New Economic Sociology**

During the late 1960s and the 1970s little of interest happened in economic sociology. Since the mid-1980s, however, there has been a sharp increase of interest in this topic, and a new type of economic sociology has come into being (see Friedland and Robertson 1990; Granovetter 1990; Zukin and DiMaggio 1990). Not only sociologists but also economists have contributed to this development. Since the mid-1970s mainstream economists have become increasingly interested in the role of social structures and organizations in the economy. This has led to a movement usually referred to as ‘‘new institutional economics’’ (e.g., Eggertsson 1990). Sources of inspiration for this new institutionalism include transaction cost economics, agency–principal theory, and game theory. Gary Becker (1976), for example, has convinced many economists that social phenomena can be analyzed with the help of the economist’s tools; Kenneth Arrow has written about the role of organizations in the economy; Thomas Schelling (1960) has used game theory to develop a science of ‘‘interdependent decision’’; and Oliver Williamson (1975) has popularized the concept of transaction costs through his best-selling Markets and Hierarchies (see also Coase 1937; Swedberg 1990). Three Nobel Prizes have also been awarded to economists who in one way or another focus on the social aspects of the economy: R.H. Coase (1991), Gary Becker (1992), and Douglass North (1993). As a result of these and other events, mainstream economists today are interested not only in traditional issues relating to price formation but also in economic institutions and how these change. The last time this happened in the United States was in the early twentieth century, when American institutionalism was born (see, e.g., Commmons 1924; Gruchy 1947; Veblen [1899] 1973). There exists, however, an important difference between the old form of institutionalism and new institutional economics. While Thorstein Veblen and his contemporaries tried to analyze economic institutions with the help of an approach that was very close to that of sociology, Becker and other current theorists claim that the reason economic institutions work the way they do can be analyzed with the help of the economist’s traditional tools (efficiency, rational choice, etc.). This approach has been severely criticized by some sociologists on the grounds that it simplifies and distorts the analysis (e.g., Etzioni 1988; Granovetter 1985).

Since the mid-1980s, as already mentioned, there has been a major revival of economic sociology, and what is usually referred to as ‘‘new economic sociology’’ has come into being. The date of birth of this movement is usually set to 1985, since that year a highly influential article, which was to create much interest in economic sociology, was published. This was Mark Granovetter’s ‘‘Economic Action and Social Structure: The Problem of Embeddedness,’’ published in The American Journal of Sociology. The very same year, it can be added, Granovetter introduced the notion of ‘‘new economic sociology’’ in a brief paper at the annual meeting of the American Sociological Association. In his 1985 article on embeddedness, Granovetter sharply attacked the attempts by economists to explain the functioning of social institutions and accused them of simplicity. Just as economists have a tendency to ignore social relations through an ‘‘under socialized concept of man,’’ Granovetter said, some sociologists view the individual as a reflex of the social structure, and they consequently have an ‘‘over socialized concept of man.’’ The proper way to proceed, Granovetter suggested, is to tread a middle way between these two opposites, and this can best be done by assuming that individual actions are always ‘‘embedded’’ in social networks.

Granovetter’s article has been followed by a minor avalanche of writings in economic sociology, and there exist good reasons for arguing that new economic sociology today constitutes a minor school of its own. A large number of articles and quite a few monographs have been produced; a couple of introductory readers can be found on the market; and in the mid-1990s a huge Handbook of Economic Sociology was published (Smelser and Swedberg 1994). Other signs that a certain institutionalization of economic sociology has taken place are that a section in economic sociology has been organized at the American Sociological Association, which has also published a volume with course outlines and similar teaching materials (Green and Myhre 1996).

Before saying something about the concrete studies that have been produced since the mid- 1980s, it should be pointed out that new economic sociology is primarily a creation of North American sociologists. In Europe and elsewhere in the world there also exists an interest in economic sociology, but it tends to manifest itself in a less cohesive form than in the United States, and it is not held together through recurring conferences and the like. This is especially true for Europe. Most of the major European sociologists have written on economic topics in some work or another, but this is rarely perceived as an interest in economic sociology (e.g., Boltanski 1987; Bourdieu 1986; Luhmann 1988). There also exist articles and monographs by European sociologists who identify themselves as economic sociologists—but, to repeat, these tend not to be much noticed, since they are not held together by a strong and self-conscious tradition (e.g., Beckert 1997; Dodd 1994; Gislain and Steiner 1995). Finally, quite a bit of economic sociology has also been produced under the auspices of the section on economy and society within the International Sociological Association (e.g., Martinelli and Smelser 1990).

New economic sociology has advanced the understanding of economic phenomena in a number of ways, and it has especially been successful in analyzing the following three topics:

(1) The role that networks play in the economy,

(2) The way that culture and values influence the economy, and

(3) What causes firms to be organized the way they are?

Something will be said about each of these topics, but before doing so it should be noted that some interesting advances have also been made in many other areas, such as consumption, finance, and the role of gender in the economy (e.g., Abolafia 1996; Biggart 1989; Warde 1997). Finally, social capital is a topic that has attracted attention from sociologists as well as from political scientists and economists (e.g., Bourdieu 1986a; Coleman 1988; for an overview, see Woolcock 1998).

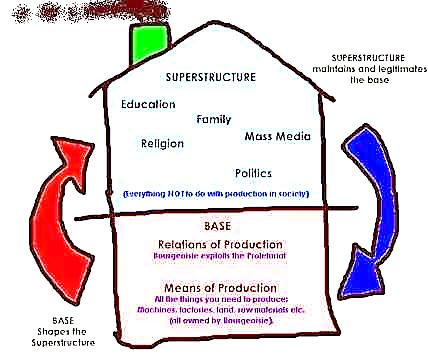
**1.1.4 Dominant figures in economic sociology**

**Karl Marx (1818-1883)**

He was obsessed with the role of the economy in the society and developed a theory according to which the economy determines society’s general evolution. Material interests that drives people in their everyday lives and these determine the structures and processes in the society.

According to Marx, every society , whatever its stage of historical development, rests on an economic foundation. He called this foundation “*mode of production*” of commodities. The mode of production in turn has two components. The first is “*the force of production*” or the physical and technological arrangements of economic activity. The second component of the mode of production is “the social relations of production” or the indispensable human attachments that men must form with one another in carrying on this economic activity. The mode of production as a whole Marx called “the economic structure of society”. But society is composed of more than its productive arrangements. Resting on economic structure is what he referred to as “super structure” or that complex of legal, political, religious, aesthetic, and other institutions. The totality of the relations of production constitutes the economic structure of society---- the real foundation, on which legal and political superstructures ……… the mode of production…….. determines the general character of the social, political and spiritual processes of life.

**The base and the super structure**

[](http://massthink.files.wordpress.com/2008/06/base-superstructure.jpg)

The base is the economic foundation of society, what Marx describes as “the economic structure” determining “the material conditions of life”. Its first level consist of the means of production🡺 i.e. *the actual raw materials used*(or available discovered at the time) in the production process (nature as resource, man as labor) this is the *what production* and *the nature of production process itself (*i.e. if it employs a subsistence methods, such as individual household production; an artisanal system with individualized producers and no form imposed from the top; or an assembly-line factory system , as in current industrialized mass production; this can be referred to as technology in the broadest sense*)🡺* i.e. *how the row materials are converted into economic goods.(how of production).* This meansof production, according to Marx are constrained by the historical context; they depend first of all on the nature of the actual means of subsistence find in the existence how to reproduce.

This process of materially producing the conditions of existence is “social production of life” producing material goods for their economic subsistence, they necessarily relate each other.

These relations form the relation of production, 2nd level of the economic base. Thus the economic that this mode of production must not be considered simply as being the production of the physical existence of individuals, rather it is a definite form of activity of those individuals, a definite form of expressing their life. The economic base in other words, conditions not only the actual goods produced and how they are produced but the relations that people form for themselves.

**Adam Smith vs. Mercantilism**

**Mercantilism**

The concept of mercantilism refers to a heterogeneous body of ideas that dominated European economic thought during the seventeenth and eighteenth century. These ideas do not form a coherent economic theory, but a conglomeration of value judgments, policy recommendations, and assertions about the nature of economic life. The heterogeneity of mercantilism trace in the part to the diversity of persons who espoused it.

The first theme concerns the mercantilists’ view of wealth. The wealth of a country was held to be equal to the amount of money possessed by that country. Moreover, mercantilists identified the possession of money with the possession of the precious metals, gold, and silver. Since they conceived the total stock of wealth in the world as being more or less stationary, they feel that whatever one country gained in wealth, another country lost. Hence the mercantilists stressed the importance of either accumulating precious metals outright or maintaining the balance of export over imports so that precious metals would flow into the home country.

The second theme concerns the mercantilists’ view of power and its relation to wealth. One major way to increase national power is to increase national wealth. They assumed that wealth worked in the service of power, and that the objectives of increasing wealth and power are essential harmony, indeed almost indistinguishable from one another. With respect to political policy as well, mercantilists saw an intimate association between power and wealth . the state is the locus of power. To stimulate economic growth and the increase of wealth, the state should use this power to regulate industry and trade. It should give political and economic support\_ by establishing state monopolies, for instance\_ to industries that manufacture goods for export; it should restrict imports by taxation or prohibition; it should colonize both to acquire supplies of gold and silver and secure raw materials to be worked up for export. By thus increasing its wealth, the state was also increasing its power.

**Adam Smith (1723-1790)**

Adam Smith was foremost critic of the mercantilist doctrines. From the multi sided polemic scattered through his famous *wealth of nations.* With respect to the nature of wealth, he forcefully reject mercantilists’ emphasis on money or treasure. The wealth of a nation, he argued, is to be found in the productive base of the nation, or its power to produce “the necessaries, comforts and conveniences of life.” Money is a medium of exchange that facilitates the allocation of these goods. The level of economic production depends in turn on the economic division of productive labor. The more highly is the labor, the more productive it is. The level of specialization of labor depends in its turn on the size of markets for the products of labor and the availability of capital. If the market is wide and the supply of capital is abundant, the economy can build and maintain an advanced division of labor. Smith denies the importance of accumulating a treasure of precious metals. Rather, to increase wealth, it is necessary to work for the widest possible markets for distributing products.

Smith also revised the mercantilists’ ideas regarding the relations between wealth and power. While not denying that nation’s power depends in part on its wealth, he attacked the notion that the best way to increase national wealth is through specific political encouragement. Governments should not establish monopolies, tax tariffs, or show favoritism to certain industries. Rather they should allow the power to make economic decisions to reside in the hands of economic agents themselves. In terms of power, the famous doctrine of ***laissez-faire*** means that the state should not regulate, but should give business and commercial agents the power to regulate themselves. Strictly speaking then, *laissez-faire* means reallocation of power in the social system, not simply the absence of power.

Such decentralization of power dose not, however, solve all the political problem of system. What guarantees the individual economic agents will not misuse their power and gain control of the market, fix prices and so on? Smith attempted to handle these problems by two devises.

1. He built into his theory an assumption there has become one of the core elements of the classical ideal of the “perfectly competitive market” – the assumption that no individual firm has (or should have) the power to influence price or total output of an industry. In this kind of model, power is ruled out as available. No economic agent can at same be political agent. Smith realized that in practice businessman and others agreed to pool their power in order to regulate prices or total output; persons “in the same trade seldom meet together,” he said, “but the conversation ends in conspiracy against the public.” But he felt thes agreements were unnatural and illegitimate. If the economy were completely free, businessmen would devote their capital to the most productive enterprises, and the shares of income would find their “natural” level in the market. The economy would regulate itself.

Smith applied the same reasoning for international trade. He argued that individual nations not make use of their power in creating monopolies for exporters or creating tariffs. Each country would produce that which was relatively most profitable in terms of its resources, and through free international trade an optimum allocation of goods would result.

1. He assumed that certain very general political constraints must operate to prevent business from pursuing their self-interest in a completely unbridled way. For instance, the state would provide a legal framework to guarantee that sales and contracts would be honored; the state would not grant favor to special groups in the economy. Thus even the state is not completely passive. It provides a moral, legal, and institutional setting that encourages business in general but not particular business enterprises.

**Max Weber**

Among the classics in economic sociology Max Weber (1864–1920) occupies a unique place. He proceeded furthest toward developing a distinct economic sociology, laying its theoretical foundation and carrying out empirical studies (Swedberg1998). The fact that he had worked as a professor of economics was no doubt helpful in these efforts to build bridges between economics and sociology.

Also very important economic as well as social in nature: to understand the origin of modern capitalism. Weber drew heavily on the theoretical work on interests of his time and extended that line of work by making it more sociological. Weber’s academic training was broad in nature, and its main emphasis was on law, with the history of law as his specialty. He wrot two dissertations—one on medieval trading corporations and the other on the sale of land in early Rome were relevant topics for understanding the rise of capitalism: the emergence of private property in land and of property in the firm (as opposed to individual property). Those works, in combination with a commissioned study of rural workers, earned him a position in economics (“political economy and finance”) in the early 1890s. In this capacity he taught economics but published mainly in economic history and in policy questions. Weber wrote, for example, voluminously on the new stock exchange legislation.

Weber wrote The *Protestant Ethic and the Spirit of Capitalism* (1904–5), as well as studies of the economic ethics of the world religions. In 1908 Weber accepted a position as chief editor of a giant handbook of economics. From the very beginning Weber set aside the topic of “economy and society” for himself. The work that today is known as *Economy and Society* consists of a mixture of material that Weber had approved for publication and of manuscripts found after his death (see, e.g., Mommsen 2000). Much of what Weber wrote in economic sociology can be found in *Collected Essays in the Sociology* *of Religion* (1920–21) and *Economy and Society* (1922). The former contains a revised version *The* *Protestant Ethic,* “The Protestant Sects and the Spirit of Capitalism” (1904–5; revised 1920) and voluminous writings on the economic ethics of the Chinese, Indian, and Judaic world religions and a few other texts (for the latter see Weber [1920] 1958, [1915] 1946a, [1915] 1946b). According to Weber, the material in *Collected Essays* concerns mainly the sociology of religion but is also of interest to economic sociology.

The most influential study is *The Protestant Ethic.* This work is centered on Weber’s generalpreoccupation with the articulation of idealand material interests and ideas. The believer in asceticProtestantism is driven by a desire to be saved (a religious interest) and acts accordingly. For variousparadoxical reasons the individual eventuallycomes to believe that secular work, carried out in amethodical manner, represents a means to salvation—and when this happens, religious interest is combined with economic interest. The result of this combination is a release of a tremendous force, which shattered the traditional and anti-economic hold of religion over people and introduced a mentality favorable to capitalist activity. The thesis in *The Protestant Ethic* has led to an enormous debate, with many scholars—probably a majority— arguing against Weber (for an introduction to this debate, see especially Marshall 1982).

While he was writing *The Protestant Ethic* Weber published an essay, “‘Objectivity’ in Social Science and Social Policy,” that summarized his theoretical views on economic sociology. In this work he argued that the science of economics should be broad and umbrella-like. It should include not only economic theory but also economic history and economic sociology. Weber also proposes that economic analysis should cover not only “economic phenomena” but also “economically relevant phenomena” and “economically conditioned phenomena”. Economic phenomena consist of economic norms and institutions, often deliberately created for economic ends—for example, banks and stock exchanges. Economically relevant phenomena are noneconomic phenomena that under certain circumstances may have an impact on economic phenomena, as in the case of ascetic Protestantism.

Economically conditioned phenomena are those that to some extent are influenced by economic phenomena. The type of religion that a group feels affinity for is, for example, partly dependent on the kind of work that its members do.

While economic theory can only handle pure economic phenomena (in their rational version), economic history and economic sociology can deal with all three categories of phenomena.

A somewhat different approach, both to economic sociology and to interests, can be found in *Economy and Society.* The first chapter of this work contains a general sociological analysis. Two concepts are important building blocks: “social action” and “order”. In the former, “action,” defined as behavior invested with meaning, is qualified as “social” if it is oriented to some other actor. An “order” is roughly equivalent to an institution, and it comes into being when social actions are repeated over a period, regarded as objective, and surrounded by various sanctions. Economists study pure economic action, which is action exclusively driven by economic interests (or “desire for utilities,” in Weber’s formulation). Economic sociologists, however, study *social* economic action, which is driven not only by economic interest but also by tradition and emotions; furthermore, it is always oriented to some actor(s).

If one disregards single actions, Weber says, and instead focuses on empirical uniformities, it is possible to distinguish three different types: those inspired by “convention,” by “custom” (including “habit”), and by “interest”.

Most uniform types of action presumably consist of a mixture of all three. Actions that are “determined by interest” are defined by Weber as instrumental in nature and oriented to identical expectations. An example would be the modern market, where each actor is instrumentally rational and counts on everybody else to be so as well. Weber emphasized that interests are always subjectively perceived; no “objective” interests exist beyond the individual actor. In a typical sentence Weber speaks of “[the] interests of the actors as they themselves are aware of them”. He also notes that when several individuals behave in an instrumental manner in relation to their individual interests, the typical result is collective patterns of behavior that are considerably more stable than those driven by norms imposed by an authority. It is, for example, very difficult to make people do something economic that goes against the individual’s interest. A sketch of Weber’s economic sociology in *Economy and Society* yields the following main points. Economic actions of two actors who are oriented to one another constitute an economic relationship. These relationships can take various expressions, including conflict, competition, and power. If two or more actors are held together by a sense of belonging, their relationship is “communal”; and if they are held together by interest, “associative”. Economic relationships (as all social relationships) can also be open or closed. Property represents a special form of closed economic relationship. Economic organizations constitute another important form of closed economic relationships. Some of these organizations are purely economic, while others have some subordinate economic goals or have as their main task the regulation of economic affairs. A trade union is an example. Weber attaches great importance to the role in capitalism of the firm, which he sees as the locus of entrepreneurial activity and as a revolutionary force. A market, like many other economic phenomena, is centered on a conflict of interests—in this case between sellers and buyers. A market involves both exchange and competition. Competitors must first fight out who will be the final seller and the final buyer (“Competition struggle”); and only when this struggle has been settled is the scene set for the exchange itself (“exchange struggle”). Only rational capitalism is centered on the modern type of market. In social led political capitalism the key to profit making is rather the state or the political power that grants some favor, supplies protection, or the like. Traditional commercial capitalism consists of small-scale trading, in money or merchandise. Rational capitalism has emerged only in the West.

***Émile Durkheim***

As compared to Weber, Emile Durkheim (1858–1917) knew less economics, wrote less about economic topics, and in general made less of a contribution to economic sociology. While none of his major studies can be termed a work in economic sociology, all of them nonetheless touch on economic topics. Durkheim gave the following definition of economic sociology:

There are the economic institutions: institutions relating to the production of wealth (serfdom, tenant farming, corporate organization, production in factories, in mills, at home, and so on), institutions relating to exchange (commercial organization, markets, stock exchanges, and so on), and institutions relating to distribution (rent, interest, salaries, and so on). They form the subject matter of *economic sociology.*

Durkheim’s first major work, *The Division of* *Labor in Society* (1893), has most direct relevance for economic sociology. Its core consists of the argument that social structure changes as society develops from its undifferentiated state, in primordial times, to a stage characterized by a complex division of labor, in modern times. Economists, Durkheim notes, view the division of labor exclusively as an economic phenomenon, and its gains in terms of efficiency. What he added was a sociological dimension of the division of labor—how it helps to integrate society by coordinating specialized activities.

As part of society’s evolution to a more advanced division of labor, the legal system changes.

From being predominantly repressive in nature, and having its center in penal law, it now becomes restitutive and has its center in contractual law. In discussing the contract, Durkheim also described as an illusion the belief, held by Herbert Spencer that a society can function if all individuals simply follow their private interests and contract accordingly. Spencer also misunderstood the very nature of the contractual relationship. A contract does not work in situations where self-interest rules supreme, but only where there is a moral or regulative element.

“The contract is not sufficient by itself, but is only possible because of the regulation of contracts, which is social in origin”.

A major concern in *The Division of Labor in Society* is that the recent economic advances may destroy society by letting loose individualgreed to erode its moral fiber. This problematicis often cast in terms of the private versusthe general interest, as when Durkheim notes that subordination of the particular to the general interestis the very well-spring of all moral activity”. Unless the state or someother agency that articulates the general intereststeps in to regulate economic life, the result will be“economic anomie,” a topic that Durkheim discussesin *Suicide*. Peopleneed rules and norms in their economic life,and they react negatively to anarchic situations.In many of Durkheim’s works, one finds a sharpcritique of economists; and it was Durkheim’s convictionin general that if economics was ever to becomescientific, it would have to become a branchof sociology. He attacked the idea of *homo economicus* on the ground that it is impossible to separateout the economic element and disregard therest of social life. The pointis not that economists used an analytical or abstractapproach, Durkheim emphasized, but that theyhad selected the wrong abstractions.Durkheim also attacked the non-empirical tendencyof economics and the idea that one can figureout how the economy works through “a simplelogical analysis” Durkheim referredto this as “the ideological tendency of economics”*.* Durkheim’s recipe for a harmonious industrial *society* is as follows: each industry should be organizedinto a number of corporations, in which theindividuals will thrive because of the solidarity andwarmth that comes from being a member of agroup. He was well aware of therule that interest plays in economic life, and in *The Elementary Forms of Religious Life* he stresses that“the principal incentive to economic activity has alwaysbeen the private interest”. This does not mean that economic life ispurely self-interested and devoid of morality: “Weremain [in our economic affairs] in relation withothers; the habits, ideas and tendencies which educationhas impressed upon us and which ordinarilypreside over our relations can never be totallyabsent”. But even if this is the case, the socialelement has another source other than theeconomy and will eventually be worn down if not renewed.

***Joseph Schumpeter***

It is not possible to discuss the works of Joseph Schumpeter without also saying something about the contributions those economists more generally to economic sociology. On the whole one can say that the work of several of the early economists is of great interest to economic sociology. One example is Alfred Marshall (1842– 1924), whose analyses of such topics as industries, markets, and preference formation often are profoundly sociological in nature (Marshall [1920]

1961, 1919; cf. Aspers 1999). There is also Vilfredo Pareto (1848–1923) is famous for his sociological analyses of rentiers versus speculators, business cycles, and much more (Pareto [1916] 1963; cf. Aspers 2001a). The work of Thorstein Veblen (1857– 1929) sometimes appeared in sociological journals, and his analyses include such topics as consumer behavior (“conspicuous consumption”), why industrialization in England slowed down (“The penalty of taking the lead”), and the shortcomings of neoclassical economics (Veblen [1899] 1973, [1915] 1966, [1919] 1990; cf. Tillman 1992). Final mention should also be made of Werner Sombart (1863–1941), who wrote on the history of capitalism, on “the economic temper of our time,” and on the need for a “*verstehende* economics”1902–27, 1930, 1935). The contributions of Schumpeter are especially noteworthy e.g.,. His life spanned two periods in modern economics—the period around the turn of the century, when modern economics was born, and the period of a few decades later when it was mathematized and secured its place as “mainstream.” Schumpeter similarly spanned two distinct periods in sociology— from Max Weber in the first decade of the 20th century through Talcott Parsons in the 1930s and 1940s. Schumpeter is also unique among economists for trying to create a place for economic sociology next to economic theory. In this last effort Schumpeter was clearly inspired by Weber and, like the latter, referred to this type of broad economics as “social economics.” Schumpeter defines economic sociology as the study of institutions, within which economic behavior takes place. Schumpeter produced three studies in sociology. The first is an article on social classes that is of interest because of his distinction between economists’ and sociologists’ use of the concept of class. While for the former, he argues, class is a formal category, for the latter it refers to a living reality. The second study is an article about the nature of imperialism that can be compared to the equivalent theories of Hobson, Lenin, and others.

Schumpeter’s basic idea is that imperialism is pre-capitalistic and deeply irrational and emotional in nature—essentially an expression for warrior nations of their need to constantly conquer new areas or fall back and lose their power. The third study is perhaps the most interesting one from the viewpoint of contemporary economic sociology, “The Crisis of the Tax State”. Schumpeter characterizes this article as a study in “fiscal sociology”; its main thesis is that the finances of a state represent a privileged position from which to approach the behavior of the state. As a motto Schumpeter cites the famous line of Rudolf Goldscheid: “The budget is the skeleton of the state stripped of all misleading ideology (Schumpeter [1918] 1991, 100). Schumpeter did not regard *Capitalism, Socialism,* *and Democracy* as a work in sociology, but its main thesis is nonetheless sociological in nature: the motor of capitalism is intact but its institutional structure is weak and damaged, making it likely that socialism will soon replace it. On this point Schumpeter was evidently wrong. His analysis of the forces that are undermining capitalism may seem idiosyncratic at times. Nonetheless, Schumpeter should be given credit for suggesting that the behavior of intellectuals, the structure of the modern family, and so on, do affect capitalism. Of special importance are his insights about economic change or, as Schumpeter phrased it with his usual stylistic flair, “creative destruction.” Entrepreneurship is at the heart of Schumpeter’s treatment of economic change. He himself saw his theory of entrepreneurship as falling in economic theory, more precisely as an attempt to create a new and more dynamic type of economic theory. Nonetheless, many of his ideas on entrepreneurship are sociological in nature. His central idea—that entrepreneurship consists of an attempt to put together a new combination of already existing elements can be read sociologically, as can his idea that the main enemy of the entrepreneur is the people who resist innovations.

**Karl Polanyi**

Like many of the early figures in economic sociology, Karl Polanyi lacked a formal education in economics Polanyi Trained in law, later taught himself Austrian economics as well as economic history and economic anthropology. Though he was interdisciplinary in approach, his main specialty was economic history, with an emphasis on nineteenth-century England and preindustrial economies.

Polanyi’s most famous work is *The Great Transformation* (1944), conceived and written duringWorld War II. Its main thesis is that a revolutionary attempt was made in nineteenth-century England to introduce a totally new, market-centered type of society. No outside authority was needed; everything was automatically to be decided by the market (“the self-regulating market”). In the 1840s and 1850s a series of laws was introduced to turn this project into reality, turning land and labor into common commodities. Even the value of money was taken away from the political authorities and handed over to the market.

According to Polanyi, this type of proceeding could only lead to a catastrophe. When the negative effects of the market reforms became obvious in the second half of the nineteenth century,

Polanyi continues, countermeasures were set in to rectify them (“the double movement”). These measures, however, only further unbalanced society; and developments such as fascism in the twentieth century were the ultimate results of the ill-fated attempt in mid-nineteenth-century England to turn everything over to the market. Polanyi also cast his analysis in terms of interests and argued that in all societies, before the nineteenth century, the general interests of groups and societies (“social interests”) had been more important than the money interest of the individual (“economic interest”). “An all too narrow conception of interest,” Polanyi emphasizes, “must in effect lead to a warped vision of social and political history, and no purely monetary definition of interest can leave room for that vital need for social protection”. The theoretical part of

*The Great Transformation* is centered around Polanyi’s concepts of “embeddedness” and “principles of behavior” (later changed to “forms of integration”). The fullest elaboration of this line of work is to be found in *Trade and Market in the Early Empires*, and especially in Polanyi’s essay

“The Economy as Instituted Process”. Polanyi criticized economic theory for being essentially “formal”—a kind of logic focused on choice, the means-end relationship, and the alleged scarcity of things that people want. There is also “the economistic fallacy,” or the tendency in economics to equate the economy with its market form. To the formal concept of economics Polanyi counter poses a “substantive” concept, grounded in reality and not in logic. “The substantive meaning of economic derives from man’s dependence for his living upon nature and his fellows”. While the notion of economic interest is directly linked to “the livelihood of man” in substantive economics, it is only an artificial construction in formal economics (Polanyi 1977). The most famous concept associated with Polany’s work is “embeddedness,” which, however, he used in a way different from its contemporary use. According to the current use, an economic action is in principle always “embedded” in some form of social structure. According to Polanyi, economic actions become destructive when they are “disembedded,” or not governed by social or noneconomic authorities. The real problem with capitalism is that instead of society deciding about the economy, it is the economy that decides about society: “instead of the economic system being embedded in social relationships, these relationships were now embedded in the economic system” .

Another set of conceptual tools for economic sociology is Polanyi’s “forms of integration.” His general argument is that rational self-interest is too unstable to constitute the foundation for society; an economy must be able to provide people with material sustenance on a continuous basis. There are three forms of integration, or ways to stabilize the economy and provide it with unity. These are *reciprocity,* which takes place within symmetrical groups, such as families, kinship groups, and neighborhoods; *redistribution,* in which goods are allocated from a center in the community, such as the state; and *exchange*, in which goods are distributed via price-making markets. In each economy, Polanyi specifies, there is usually a mixture of these three forms. One of them can be dominant, while the others are subordinate.

***1.2 The concept of economic action***

***1.2.1 The Concept of the Actor***

The analytic starting point of economics is the individual; the analytic starting points of economic sociology are typically groups, institutions, and society.by contrast, In discussing the individual, the sociologist often focuses on the actor as a socially constructed entity, as “actor-in-interaction,” or “actor-in-society.” Often, sociologists take the group and the social-structural levels as phenomena, without reference to the individual actor. However, *methodological individualism* need not be logically incompatible with a sociological approach. E.g. Economy *and Society,* Weber constructed his whole sociology on the basis of individual actions. But these actions are of interest to the sociologist only insofar as they are *social* actions or *“take account of the* *behavior of other individuals and thereby are oriented in their course*” This formulation underscores a difference between microeconomics and economic sociology: the former generally assumes that actors are not connected to one another; the latter assumes that actors are linked with and influence one another. We argue below that this difference has implications for how economies function.

***1.2.2 The Concept of Economic Action***

In microeconomics the actor is assumed to have a given and stable set of preferences and to choose that alternative line of action which maximizes utility. In economic theory, this way of acting constitutes economically rational action. Sociology, by contrast, encompasses several possible types of economic action. To illustrate from Weber again, economic action can be rational, traditional, or effectual. Except for residual mention of “habits” and “rules of thumb,” economists give no place to traditional economic action

On the context of rational action, the economist traditionally identifies rational action with the efficient use of scarce resources. The sociologist’s view is, once again, broader. Weber referred to the conventional maximization of utility, under conditions of scarcity, as *formal rationality*. In addition, however, he identified *substantive rationality*, which refers to allocation within the guidelines of other principles, such as communal loyalties or sacred values. A further difference lies in the fact that economists regard rationality as an *assumption,* whereas most sociologists regard it as a *variable*. For one thing, the actions of some individuals or groups may be more rational than others. Along the same lines, sociologists tend to regard rationality as a phenomenon to be explained, not assumed.

Weber dedicated much of his economic sociology to specifying the social conditions under which formal rationality is possible, and Parsons argued that economic rationality was a system of norms—not a psychological universal— associated with specific developmental processes in the West. Another difference emerges in the status of *meaning* in economic action. Economists tend to regard the meaning of economic action as derivable from the relation between given tastes, on the one hand, and the prices and quantities of goods and services, on the other. Weber’s conceptualization has a different flavor: “the definition of economic action [in sociology] must . . . bring out the fact that all ‘economic’ processes and objects are characterized as such entirely by the *meaning* they have for human action”. Meanings are historically constructed and must be investigated empirically, and are not simply to be derived from assumptions and external circumstances.

The dimension of *power* in economic action. Weber insisted that “[it] is essential to include the criterion of power of control and disposal in the sociological concept of economic action,” adding that this applies especially in the capitalist economy. By contrast, microeconomics has tended to regard economic action as an exchange among equals, and has thus had difficulty in incorporating the power dimension (Galbraith 1973, 1984). In the tradition of perfect competition, no buyer or seller has the power to influence price or output. It is also true that economists have a tradition of analyzing imperfect competition—in which power to control prices and output is the core ingredient— and that the idea of “market power” is used in labor and industrial economics. Still, the economic conception of power is typically narrower than the sociologist’s notion of economic power, which includes its exercise in societal (especially political and class), as well as market, contexts. In a study of the power of the U.S. banking system, for example, Mintz and Schwartz (1985) analyze how banks and industries interlock, how certain banks cluster into groups, and how banks sometimes intervene in corporations in order to enforce economic decisions. More generally, sociologists have analyzed and debated the issue of the political implications of wealth inequality and the extent to which corporate leaders constitute a “power elite” in the whole of society.

**Socially Oriented Economic Action**

*Socially oriented economic action* is not an explanatory mechanism but an orienting strategy—a meta-assumption. Like all concepts at a similar level of abstraction, it is unfalsifiable and vacuously applicable to a number of settings. Its value consists in calling attention to features of economic structure and exchange that otherwise may pass unnoticed and to their potential effects in the behavior of relevant actors. The concept of socially oriented economic action leads naturally to that of embeddedness of the economy. The latter was pioneered by Karl Polanyi in his efforts to demonstrate that markets were neither natural creations nor omnipresent. Instead, the road to markets had been opened and kept open by deliberate governmental intervention. Polanyi emphasized, in addition, that there were forms other than markets to organize the economy, including reciprocity and redistribution. However, once the road to markets was opened, he acknowledged that market actors tended to operate according to the rational maximizing logic assumed by mainstream economics.

**Weber’s postulate of socially oriented economic action**

1. Economic action is socially oriented in the sense that it can be governed, in whole or part, by value introjection. Included in this category is not only the type of behavior dealt with in economics and sociology under the label “altruism” but also, and more generally, every action guided by moral considerations. Morality, or the acting out of collectively held values, may influence both the character of personal goals and the selection of means to attain them.

2. Economic action is also socially oriented in the sense that the pursuit of material gain interacts with other self-centered goals such as the quest for approval, status, and power, all of which depend on the opinions of others.

Wholly unrestricted maximizing behavior meets with disapproval by others in the same social milieu, especially if it is pursued without regard to their own interests.

The accumulation of the valued goal, wealth, may thus come into conflict with the realization of another valued goal, social status, and with the unhampered exercise of the power that wealth itself confers. The accumulation of material means compels others to do one’s bidding, but it does not by itself create the *auctoritas* that lead others to do so willingly. The Weberian distinction between power and authority thus bears directly on how economic action is conducted, insofar as authority is guided by concerns for legitimacy.

3. Finally, economic action is socially oriented in the sense that even the unrestricted pursuit of gain is constrained by reciprocity expectations built up in the course of social interaction. The accumulation of social “chits” is central to the pursuit of economic advantage insofar as they facilitate access to information, capital, and other scarce resources. By the same token, such access is granted in the course of everyday transactions with full expectation that it will be reciprocated. Over time, each economic actor becomes surrounded by a dense web of expectations built in this manner. Nonobservance of reciprocity expectations carries the threat of immediate or delayed retribution; either by the aggrieved party or by his/her associates. The existence of such social obligations does not guarantee that economic actors will not pursue their own

***Constraints on Economic Action***

Economic actions are constrained by tastes and by the scarcity of resources, including technology. Once these are known, it is in principle possible to predict the actor’s behavior, since he or she will always try to maximize utility or profit. The active influence of other persons and groups, as well as the influence of institutional structures, is set to one side. Knight codified this in the following way: “Every member of society is to act as an individual only, in entire independence of all other persons” ([1921] 1985, 78). Sociologists take such influences directly into account in the analysis of economic action. Other actors facilitate, deflect, and constrain individuals’ action in the market. For example, a friendship between a buyer and a seller may prevent the buyer from deserting the seller just because an item is sold at a lower price elsewhere. Cultural meanings also affect choices that might otherwise be regarded as “rational.” In the United States, for example, it is difficult to persuade people to buy cats and dogs for food, even though their meat is as nutritious as and cheaper than other kinds. Moreover, a person’s position in the social structure conditions his or her economic choices and activity. Stinchcombe (1975) evoked the principle that structural constraints influence career decisions in ways that run counter to considerations of economic payoff. For example, for a person who grows up in a high-crime neighborhood, the choice between making a career stealing and getting a job has often less to do with the comparative utility of these two alternatives than with the structure of peer groups and gangs in the neighborhood.

**1.3 Meaning and Types of Economic Organization**

**Meaning of Economic Organization**

Economic Organization is the act of coordinating the other factors of production – land, labor and capital. Organization performs a very important function in modern production, which is carried on a large-scale. Organization is done by the entrepreneur. The entrepreneur may be described as the captain of industry. The economic development of many rich nations like the U.K. and the U.S.A was made possible only by the activities of the entrepreneurs. Sometimes the entrepreneur is also known as “organizer” or “undertaker”

**Types of Economic organization**

Economic organization may be broadly classified into the following types:

1. Sole proprietorship (one-man business)

2. Partnership

3. The Joint Stock Company

4. Co-operative Organization

5. State Undertakings

**1. Sole Proprietorship**

Sole proprietorship is the oldest form of business organization. It is a “one-man” business. ‘One-man business’ is still common in retail trade. Though the scale of production has increased after the Industrial Revolution, small-scale business still continues to be an important element in modern economic organization. In the ‘one-man’ business, a single person undertakes the risk of production. He owns capital and performs all the functions of an entrepreneur. ‘one-man’ business is carried on generally on a small scale. The ‘one-man’ business has some advantages and disadvantage.

**Advantages**

1. The owner of the firm will take a lot of interest in it and he will make his business as efficient as possible because he will get all the profits for himself, as he is his own boss.

2. He can take quick decisions. There is no need for him to consult anyone else for changing the policies of his firm. In addition, he can put into effect his decisions immediately.

3. He can have personal supervision of all the work done in the firm. He will be in close touch with his employees and customers. Under such circumstances, there will be little scope for dispute between the labor and management.

4. Since the scale of production is small under sole proprietorship, it is a convenient type of business to cater to local demands. Generally, under large-scale production, standardization of goods is the rule. Where variety is needed, ‘one-man’ business is an ideal form of business organization.

**Disadvantages**

1. Since the sole proprietor will have a small amount of capital, it may be difficult for him to expand his business.

2. Risk is great in the case of one-man business. In case there is a loss, it has to be borne entirely by one man.

3. The success under sole proprietorship depends upon the ability of one man. But with his death, if he is not succeeded by equally efficient men, the business will come to an end. And best men are not always succeeded by men of ability.

4. ‘One-man’ business will be unsuitable in the case of industries where large capital has to be sunk. (For example, the construction of railways)

**2. Partnership**

Partnership is a type of business organization where business is carried on by two or more men. Sometimes, the small business may expand to such an extent that it may be beyond the control of one man. For its further development more capital may be necessary. Since one man cannot provide all of it, he will take a partner or two. Thus, sometimes one-man business grows into partnership. But in the case of some firms, there will be partnership right from the beginning. In some partnerships, there will be a sleeping partner also. That is, suppose there are two men in a partnership. Of the two, one member simply provides some capital but will not take part in the actual running of the business. Such a partner is known as sleeping partner. The function of a sleeping partner is more or less similar to that of a shareholder in a Joint-Stock Company. A partnership is based on confidence and mutual trust. It has some advantages and disadvantages.

**Advantages**

1. The risk in a partnership is not as great as under sole proprietorship. For, in the case of a loss, it will be borne by both the partners.

2. Greater amount of capital will be available than under one-man business. For the borrowing capacity of a partnership firm will be greater that of one-man business.

3. Management of the firm under partnership will be generally efficient. Suppose one man looks after production matters, the other man may look after the general administration of the firm.

**Disadvantages**

1. There is unlimited liability. One of the partners may possess a high degree of efficiency. But if the other partner happens to be inefficient or a man of doubtful character, there will be a loss. Both the partners have to bear the losses irrespective of their ability or honesty.

2. In a partnership, some of the innocent partners are often cheated by others.

3. Like the sole proprietorship, even the partnership is not permanent. Partnership will come to an end with the death of one of the partners or if there is quarrel between the two partners

**3. The Joint Stock Company**

The Joint Stock Company is the most important form of business organization in modern times. A Joint Stock Company is an Association of shareholders who subscribe to its capital, which is divided up into a large number of shares. The shares are usually of small value. Thus, an important feature of a Joint Stock Company is that people will provide the capital in varying amounts and receive shares in the profits in proportion to the amounts of money they have invested in the company. In this way, it will be possible to raise large sums of capital necessary for large-scale production. Since the capital of the company is contributed jointly by a large number of shareholders, it is called a Joint Stock Company.

A Joint Stock Company is started usually in the following manner. An entrepreneur plans a scheme of business and requests his friends to cooperate with him and promote the business. The small groups of organizers are known as promoters.

The capital of a Joint Stock Company is divided into a number of small shares. There are three main types of shares. They are:

1. Preference shares

2. Ordinary shares

3. Deferred shares

Preference shareholders usually get a fixed rate of dividend and they are paid in full before the ordinary shareholders receive anything. In case, the company incurs losses and is about to be liquidated the preference shareholders must be paid in full from the remaining capital of the company before others are paid. Ordinary shareholders get their dividends only after all other claims of the company have been met. Generally, the ordinary shares carry no fixed rate of dividend. In other words, the rate of dividend on the ordinary shares is uncertain. Deferred shares are generally held by the promoters. Whatever is left of the total profits, after paying to all other types of shareholders, goes to them. By this way, usually the promoters get a major share of the profits.

In addition to the issue of various types of shares, a company may also get capital by raising loans from the public. It gets the loan capital by the issue of debentures. Debentures are not shares. The holders of the debentures are not members of the company like the shareholders. They receive a fixed rate of interest whether the company makes profits or losses. The debentures are repayable after a fixed number of years.

In a Joint Stock Company, the shareholders bear the risk of uncertainty. They elect a Board of Directors to manage the affairs of the company. The Board of Directors in turn, elects, one among them as a Managing Director or appoint a General Manager from outside on salary. Usually he will look into the day-to-day administration of the company. The directors are those persons who hold a large number of shares.

**Advantages**

1. An important advantage of a Joint Stock Company is that the liability of each shareholder is limited. It means the liability of the shareholder is limited to that amount of his share capital. In case the company runs into financial difficulties, the shareholder may lose only the amount equal to the value of his shares and nothing else. The rest of his property is free from any claims by the creditors of the company.

2. The small amounts of the persons who are interested in investment are brought together and this helps in capital formation. By this way, large-scale operations are made possible. People with even small savings can become shareholders of a Joint Stock Company. So it promotes investment habit.

3. Shares are easily transferable. If a shareholder is in need of money, he can sell his shares on the Stock Exchange market.

4. The Joint Stock Company has more or less a permanent existence. It has a stable life for generations. Shareholders may change. But the company goes on forever so long as it is managed well.

5. The Joint Stock system is attractive for those ordinary investors who do not want to take an active part in the management of business. It enables them to invest their capital in a number of Joint Stock Companies. By this way, risk is spread out. Risk is much less in a Joint Stock Company than in a single business. Apart from the above advantages, a Joint Stock Company enjoys the general advantages of large-scale production.

**Disadvantages**

1. The shareholders do not take personal interest in the business. Often they live at a great distance from the business. As long as they get their normal dividends, they may not bother themselves to know what is actually going on in the company. In other words, they are indifferent to the administration of the company. If the directors happened to be corrupt and unscrupulous, the company would be ruined.

2. The salaried managers will not take any personal interest in business. They are not interested in making innovations. Even if some managers are enterprising men, they are subject to the control of directors. This acts as a check on their enterprise.

3. Quick decisions are not possible.

4. Promoters and directors cannot be effectively controlled by the shareholders. Small investors have little control over the way in which their capital is used.

It should, however, be noted that in spite of some of its defects, the Joint Stock Company has become the most popular form of business organization in modern times. It has helped to a great extent in raising large sums of capital for large-scale production. Joint Stock System is very popular in the organized sector of our economy. There are joint stock banks, sugar mills, paper mills and so on in our country.

**4. Cooperative Organization**

Cooperation has become an important form of business organization since the last century. Cooperation has taken many forms. There are consumers’ cooperative, producers’ cooperatives, cooperative marketing societies and so on. In a consumers’ cooperative society, members cooperate as consumers. They buy goods at wholesale prices, sell them at the usual retail prices, and then distribute the profits of the society in the form of dividend on profits. In a producers’ cooperative, a number of people, usually workers, combine to produce a commodity and share the profits among themselves. Consumers’ cooperation has been more successful than all other forms of cooperation in many countries.

A cooperative society resembles a Joint Stock Company in one respect. The capital of a cooperative as well as a Joint Stock Company is supplied by a large number of persons who receive interest on other shares. But there are many important differences. For example, the profits of a Joint Stock Company are distributed in proportion to the value of shares held by a person. But the profits of a cooperative society are distributed according to the value of the purchases. Voting in a cooperative society is based on ‘one man-one vote’ principle, irrespective of the number of shares held by a person. Another important difference between the two is that members of a cooperative society are not permitted to sell their shares. But shareholders of a Joint Stock Company can sell their shares. Of course, members of a cooperative society can withdraw their capital from the cooperative society if they desire to do so.

**Advantages**

1. It is based on the democratic principle of ‘one man-one vote’. In other words, it is based on the principle of equality. Each member of the cooperative society has only one vote irrespective of the number of shares held by him. “All for each and each for all” is the motto of cooperation.

2. A cooperative society generally has a stable trade. For, all the members will be loyal to the society.

3. Middlemen’s profits are eliminated. It is the presence of a large number of middlemen between producers and consumers that is largely responsible for the high prices of many goods.

4. It is the middle way between capitalism and socialism. It has all the advantages of capitalism and socialism minus their disadvantages. In a cooperative society, private profit motive is eliminated and there is no conflict between labor and capital as under capitalism. In a socialist organization, individual freedom is restricted to some extent. Sometimes people will be compelled to do certain things. But in a cooperative organization, some of the democratic principles such as liberty and equality are preserved. Membership of a cooperative society is voluntary. There is no compulsion of any kind.

**Disadvantages**

1. A majority of the members of the cooperative society lack business experience. So they do not know how to promote business in an efficient manner.

2. It does not attract men of ability. The main reason is that the directors and other senior officers in cooperative societies are paid low wages in comparison with private firms. So they prefer to go to private firms.

3. Risk taking is an important factor in modern economic organization and it is very essential for the promotion of business. But the members of the cooperative society are slow in taking risks.

**5. State Undertakings**

The modern State plays a greater role in the economic affairs of today than in the past. The State itself owns and manages many firms, which supply commodities and services to people. The State operates many public utilities such as post-offices and railways. It supplies electricity to people. The Industrial Policy of the Government determines the role of the State undertakings in the economic field. Generally, those industries, which are of importance to the country from the point of view of defense and strategy, will be under the control of the government. Sometimes, for starting certain industries, large amounts of capital might be necessary. And private individuals or companies might not be in a position to start such industries. In such cases, the State will undertake the work. Again, there are certain essential services. If they are provided by private companies, they will exploit the people by charging high prices. But State undertaking will provide them at nominal prices. Until recently public utilities such as post-offices were operating on the principle of “no loss, no profit.” But there has been a change of this policy in recent times. Nowadays, the government fixes the prices of the goods supplied by State undertakings in such a way that the profits from these undertakings have become an important source of revenue to the government.

The State undertakings have certain advantages and disadvantages. The main advantages are that they provide essential services to people at a cheap price, private profit is eliminated and large amounts of capital are available for them. Further, there are no wastes of competition and key industries of national importance will be in the hands of the State.

The main disadvantage of the State undertakings is that, the absence of personal interest and of competition in many fields makes them inefficient. In the absence of competition, it is also not easy to judge the efficiency of most of the State undertakings