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# Understanding the Global Financial Crisis: Sociology, Political Economy and Heterodox Economics

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## Abstract

This article argues that collective development of an understanding of the global financial crisis and ensuing austerity requires an alliance between sociology, 'heterodox economics' and related disciplines within the broad tradition of 'political economy'. It introduces 'heterodox economics' as a body of thought that emerged in response to the failure of mainstream economics to theorise coherently the capitalist system as a whole, suggesting that heterodox economics is potentially an aid to overcoming the historical split between economics and sociology. The article argues that, beyond understanding the crisis, an alliance of sociology and heterodox economics can help strategically and politically in challenging and overcoming the theory, ideology and policy advice of mainstream economics. It can also help broaden ideas about how society and economy may be organised in a post-crisis future.

## Keywords

economic sociology, economic system, global financial crisis, heterodox economics, interdisciplinary research, mainstream economics, political economy

## Introduction

The global financial crisis continues to pose multi-faceted challenges to society and to social scientists. The devastating impact of the crisis and ensuing austerity on the everyday lives of billions of people across the globe demands that the crisis be properly

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explained and, ultimately, that crises such as these be eradicated. The discipline of economics in particular has been heavily criticised for its failure to predict the crisis. Economists have also been implicated in the creation of the crisis itself, having supported financial reforms and practices that many now see as destabilising the financial system. What is more surprising is that the discipline of sociology has also received a good deal of criticism. Sociology, argue critics, has not done enough to counter the deleterious analyses and policy prescriptions stemming from mainstream economics. It is also accused of not coming up with its own analyses of the crisis, its causes and consequences (Chakroborty, 2012). The sociology discipline, represented in the UK by the British Sociological Association (Trueman, 2012), has argued that sociology *has* engaged in the explanation of the crisis both directly and in terms of analysis of the broader context (e.g. globalisation, neoliberalism) in which the crisis has occurred. Trueman (2012) cites a range of sociological contributions to illustrate this argument. The aim of this article is to introduce a body of thought that is termed 'heterodox economics' and to argue for a strategic alliance of sociology, heterodox economics and related disciplines within the broad tradition of 'political economy'. Such an alliance can, it is argued, further strengthen the response of sociology to the crisis and ensuing austerity, and more generally aid the collective development of thoroughly social alternatives to mainstream economics (i.e. approaches that eschew reductionist individualism).

The article argues that mainstream economics is not a partner with sociology in a harmonious division of labour within the social sciences. Rather, mainstream economics has become an individualistic and formalistic ideology. Heterodox economics is introduced as having emerged from recognition of the deep flaws in mainstream economics, drawing inspiration from Keynes (correcting mainstream misinterpretations), Kalecki and older traditions, to theorise capitalism using methodologies more commonly held within sociology and other social sciences, eschewing the individualism and formalism of mainstream economics. These shared ideas are what make an alliance between sociology and heterodox economics possible. The article argues that what makes such an alliance of great mutual benefit is that it can enrich and unite the analysis of the causes and consequences of the crisis currently made by diverse social scientists who remain rightly opposed to mainstream economics. This can help strategically and politically in challenging and overcoming mainstream economic support for austerity policies that have followed in the wake of the crisis. In turn, such collective effort can aid in formulating alternative (post-crisis) visions of society.

A word of clarification is in order at the outset. Throughout this article we refer to different academic 'disciplines' such as 'sociology' and 'economics'. We understand different disciplines primarily in terms of their different respective institutional constitutions and histories. Very simply, the economics department and the sociology department are different institutional entities offering, for example, very different respective norms and expectations regarding how to achieve career progression (on what to publish, where to publish, what theory and methodology to use and so on). There is a great deal of differentiation within disciplines (however defined) but we also wish to stress at the outset that the economics discipline is almost entirely homogenous at the level of an insistence on a narrow formalistic and individualistic *methodology* (usually attached to a set of core theoretical concepts such as production and consumption functions). There is no parallel

to this degree of tightly policed methodological uniformity by a monolithic mainstream in any other social science. This means, *inter alia*, that fewer and fewer economics departments contain any heterodox economists.

The article proceeds as follows. The first section contextualises the key issues historically and conceptually. Starting with classical political economy, the section will move on to consider the 'marginalist revolution' in economics which created the basis for the split between sociology and economics as we know it today. It will be argued that post-war developments revealed that mainstream economics could not keep its side of the 'gentleman's agreement' (Ingham, 1996) between economics (represented by Lionel Robbins) and sociology (represented by Talcott Parsons), for a division of labour between economics and sociology based upon a typology of action. In particular, mainstream economics could not offer a valid theory of the capitalistic economic system based upon individualistic premises. The next section will introduce heterodox economics as providing a thoroughly social understanding of the capitalist economy as a whole, filling the void left by the failure of mainstream economics, and suggesting an alliance between sociology and heterodox economics. Subsequent sections will consider the potential fruits of such an alliance, deconstructing 'economics imperialism' and supporting and developing recent contributions in economic sociology that aim to embrace 'political economy'. Conclusions follow.

## Historical and Conceptual Context

### *Classical Political Economy and Marx*

In order to contextualise the relationship between economics and sociology, and also to contextualise the eventual emergence of heterodox economics, it is necessary to begin with consideration of the predominant approach that existed prior to the split between economics and sociology – this was 'classical political economy', stretching from Adam Smith to JS Mill. It will prove apposite, in particular, to consider commonalities between Marx and classical political economy. To be sure, there are fundamental differences between Marx and classical political economy. For example, Marx criticised the false assumption of classical political economy that the categories necessary to comprehend the capitalist system had trans-historical validity, that is, could be projected back to comprehend previous social formations and would be valid far into the future. He also criticised the liberal individualism of classical political economy, in favour of the notion of the social individual (arguments that would be echoed by Durkheim and Weber). These differences are highlighted in the relevant literature and also serve to demarcate Marx from contemporary mainstream economics (Clarke, 1991; Ingham, 1996). However, there are also commonalities between Marx and classical political economy (and, conversely, differences between classical political economy and mainstream economics) that will prove very important for the issues at stake in this article.

Crucially, classical political economy existed in a 'pre-disciplinary' era (Wallerstein, 2003). It did not entertain the disciplinary split between 'economics' and 'sociology' that we now take for granted. Instead, it offered a holistic and pluralistic approach to the study of political economy (see Milonakis and Fine, 2009: ch. 3). When Adam Smith did political

economy, he did not abstract 'economy' from 'society', 'history' and 'polity', but rather undertook holistic explanation of how the political economy works and evolves. His approach to economic enquiry, by modern standards, would be called trans-disciplinary, integrating social, historical and political material – for Smith there was just one encompassing programme of research, one holistic political economy. Marx shared the desire to develop and promote an integrated analysis of the capitalist system. In classical political economy as well as in Marx's critique of it, there was no attempt to uphold a separate field of economics; instead, economics was inseparable from political economy and from Marx's theory based on the critique of political economy. Noteworthy too, is the agreement of both classical political economy and Marx on the significance of value theory. From this point of view, a change of value theory from a labour theory of value to a marginal utility theory, would have wide ramifications indeed – and so it proved.

### The 'Marginalist Revolution' in Economics

The 'marginalist revolution' of the 1870s, leading to the emergence of what came to be called 'neoclassical economics', was, in hindsight, of much wider significance than merely for the economics discipline. As we shall see below, by replacing classical political economy and setting the foundations for economics as a separate discipline, it ultimately established the basis for the fragmentation of social science into the several different disciplines as we know them today, of which sociology was one (Clarke, 1991; Fine and Milonakis, 2009; Milonakis and Fine, 2009). Fundamentally, it jettisoned the cost of production or labour theory of value of classical political economy in favour of marginal utility theory. The basic vision of the system became one of myriad interdependent rational individuals coordinated through market exchange, replacing the social class-based vision of classical political economy. In this new vision, the key value categories – prices, wages, profits and so on – were argued to be determined by the market mechanism, leading, in equilibrium, to optimal resource allocation across the system as a whole (Robbins, 1935; see the elaboration in Brown and Spencer, 2012).

The marginalist revolution was a prerequisite for the notion that sociology could be treated and actually undertaken as a separate discipline examining 'the social', where the latter had become neglected in economic theory. More specifically, it was a prerequisite for the notion that sociology provided an explanation of the realm of the non-rational, encompassing such phenomena as norms, customs and traditions, where the distinction between economics and sociology turned on a distinction between 'rational behaviour' specifically in the context of the market (studied by economics) and of non-rational behaviour including potentially within the market (studied by sociology and other disciplines). Similarly, the marginalist revolution, by removing the political and the historical from the economic, was also a prerequisite for the notion of politics as a discipline studying the arena of the political, and for the study of economic history to become the province of the discipline of history (Clarke, 1991; Hodgson, 2001; Milonakis and Fine, 2009).

The influential figure of Talcott Parsons was apparently content to accept the division between economics (as the study of rational behaviour) and sociology (as the study of non-rational behaviour). He was willing to allow neoclassical economists to study the economic in the way that they preferred and was seemingly unwilling to endorse the criticisms of

neoclassical economics provided by critics from within economics including institutional economists (Hodgson, 2001; Stark, 2009). Ingham (1996) refers in this regard to the 'gentleman's agreement' of those 'urbane figures', Parsons (1937) and Robbins (1935) (representing sociology and economics, respectively) based on this distinction between rational and non-rational action. Parsons's stance has been argued by critics to have held back the development of a separate sociology of economic behaviour (Granovetter and Swedberg, 1992; for a dissenting view on this point, see Holmwood, 2006).

To be sure, leading figures such as Weber and Schumpeter attempted to bridge the divide between economics and sociology by promoting a version of 'social economics'. Their efforts at synthesis, however, proved unsuccessful (see Milonakis and Fine, 2009: ch. 11). Economics and sociology in the early to mid-20th century became seen and actually existed as distinct and autonomous members of the social science family. The work of Polanyi, and his followers, appears as an exception to this generalisation but one which only serves to reinforce the point since his work was neglected by sociologists and economists until the renewal of economic sociology from the 1980s (Dale, 2010). In the post-war period, prior to this renewal, the idea that sociology should explain economic phenomena (such as the financial crisis of the present day) was ruled out almost by definition. There remains a lack of clarity in the literature as to exactly why such a complete separation occurred, given especially the ever-present weight of Weber's work within the sociology discipline (Ingham, 1996). Consideration of the emergence of heterodox economics can help shed light on this issue.

### **The Failure of Mainstream Economics and the Birth of Heterodox Economics**

Though initiated in the 1870s, marginalism was, as presented by Robbins (1935), still at its early stages in the 1930s. Robbins noted, in particular, that marginalism was still in the processes of introducing durable capital, interest and the business cycle, in what he generically referred to as 'dynamics'. Robbins and his contemporary marginalist economists in the 1920s and 1930s argued that the unrealistic assumptions of marginalism, in particular perfect foresight and perfect rationality, were to be dropped at later, more realistic stages of development of economic theory, in order to introduce dynamics, while retaining the basic picture of decentralised rational and optimal resource allocation initiated by the more simple and abstract starting point (Brown and Spencer, 2012; Caldwell, 1982; Giocoli, 2003 – these subtleties of Robbins's (1935) argument are often overlooked in the wider literature). What happened in the decades after the publication of Robbins's *Essay* was that this attempt by economists at more realistic development of dynamic theory based upon marginalist principles proved a failure.

One reason for this failure (stressed by Brown and Spencer, 2012) is that the incorporation of disequilibrium dynamics ineluctably leads to a central causal role for macroeconomic aggregates, due to the tendency of market disequilibrium to spill over across the system as a whole via the interconnectedness of markets. Yet Robbins (1935) himself stressed that macroeconomic aggregates (aggregate demand, aggregate consumption, aggregate investment, aggregate output and so on) are senseless from the point of view of marginalism, since they do not express any rational choice in exchange. The emergence of the systemic

centrality of macroeconomic aggregates could, if addressed coherently, only lead to rejection of marginalism and back to something akin to the earlier aggregated vision and value theory of classical political economy – but this was a road that only what became referred to as ‘heterodox’ economics could take.

Within mainstream economics, ‘macroeconomics’ emerged to be sure (initially in the form of Hicks’s misinterpretation of Keynes), but it posited toy models of fictitious ‘aggregate goods’ – such as aggregate output – bearing no discernible relationship to reality. In other words, macroeconomics was able to model national accounts data only through the fictitious construction of a good, generally called ‘Y’, deemed to be somehow representative of all goods in the economy as a whole; later the device of the ‘representative individual’ was invented for a similar purpose (Brown and Spencer, 2012). Macroeconomics, in positing aggregate entities, entirely contradicted the individualistic principles of marginalism, highlighting an ‘aggregation problem’ within mainstream economics that has not been resolved to this day. This basic internal inconsistency in mainstream economics was expressed in a stream of negative results, often found by mainstream economists themselves, but never systematically catalogued except by heterodox economists. Key negative results include the following (for details see Clarke, 1991; Fine and Milonakis, 2009; Giocoli, 2003; Lee, 2009): failure of the theory of interest and profit (e.g. Hayek’s failure to transcend unrealistic static assumptions); failure of Marshallian theory of market supply (failure to construct or aggregate standard supply curves); theory of second best (indeterminate welfare assessment of all situations that are not near perfect markets, i.e. of all situations); Arrow’s impossibility theorem (paradoxical result of aggregating individual preferences); defeat in the capital controversies (failure to aggregate capital), the ‘Sonnenschein–Mantel–Debreu’ theorem (no shape to aggregate economy-wide excess demands – i.e. no tendency to general equilibrium, or in plainer English, no invisible hand). The aggregation problem of mainstream economics meant that the *trans-historical* invalidity of marginalism, pointed out so forcefully by Weber (and echoing Marx’s critique of classical political economy), could now be seen to exist alongside the *historical* invalidity of marginalism, that is, not only was marginalism an invalid basis to comprehend previous social formations, marginalism removed any basis to understand the contemporary capitalist system.

Clarke (1991) expresses this historical invalidity of marginalism in Weberian terms: marginalist economics tried to abstract the ‘formal’ rationality of individual exchange from the ‘substantive’ irrationality of class exploitation and power (something Weber had thought possible) but this proved ultimately to be an invalid abstraction. This chronic failure meant that extreme instrumentalism and increasingly obscure mathematical formalism (added to an individualism that flatly contradicted macroeconomics) were the only methodological options if mainstream economics was to sustain itself. Not able to live up to its own remaining goal of predictive power, mainstream economics has appeared to some as more a branch of applied mathematics (Rosenberg, 1992) than a social science. However, the individualistic vision of mainstream economics served and continues to serve a clear function as an ideology, latterly serving the interests of the finance lobby (as depicted in the ‘financialisation’ literature – see later). No wonder mainstream economics was eschewed by all other social sciences including sociology – and no wonder it sought to insulate itself from rational criticism that such disciplines were bound to make.

## Heterodox Economics

With an inherently flawed individualistic and formalistic mainstream economics fully established by the 1950s as the dominant orthodoxy, it became possible to put a range of dissenting schools or paradigms of economic thought under the umbrella term of 'heterodox economics' and to observe development of and increasing interaction across these heterodox paradigms, in the face of an ever more antagonistic orthodoxy (Lee, 2009 provides the most detailed account of heterodox economics, its emergence, nature and history). Heterodox paradigms include post-Keynesian economics that eschews the orthodox interpretation and modelling of Keynes's arguments and instead emphasises fundamental uncertainty, 'old' institutional economics (e.g. drawing from Veblen and Commons), and approaches drawing from Marx or classical political economy. We are interested here not so much with the details of individual heterodox paradigms but with their potential contribution to integrating economics with other social sciences and more directly in offering help to fully social explanation of the crisis. We focus on some general features of heterodox economics that invite the integration of the social sciences. This can be seen in the form of the theories endorsed by heterodox economics but also by the latter's broad policy and political perspective as well as by its general openness to the methods used in other social sciences. We will also locate potential areas for the mutual exchange of ideas across disciplinary boundaries which can be exploited for the purposes of developing and promoting an interdisciplinary research agenda both in general and in relation to the crisis.

First, and most fundamentally (so underpinning the other points listed below), heterodox economics is able to draw on the tradition of classical political economy in order to offer a genuinely alternative 'vision' of the economic system as a whole to that promulgated by mainstream economics. The key and characteristic aspect of any financial and economic theory is precisely its theory of the system as a whole: a general and abstract theory of the basic way in which value categories (commodity, value, money, capital, profit, wages, interest, rent, etc.) cohere to form the system as a whole. For all their differences, both classical political economy and neoclassical economics each, respectively, offer a system-wide theory or 'vision' of the economy (and the wider social system in the case of classical political economy) (see Brown and Spencer, 2012). Mainstream economics, as we discussed earlier, draws on the vision of neoclassical economics which *inter alia* leads to a theory of potentially harmonious market equilibrium from which a crisis can be characterised as an exogenous and highly exceptional perturbation. Thus at the very starting point of neoclassical economics, in its most abstract and yet fundamental conception of the economic system as a whole, one based on atomistic individuals in free markets, can be found the intellectual underpinnings for the *laissez faire* policy prescriptions that supported the widespread deregulation of finance in the 30-year period leading up to the financial crisis; here we see the reason why mainstream macroeconomics does not debate *whether* free markets work but only *how quickly* they work. In the case of classical political economy its vision of the production and distribution of an aggregate social product *inter alia* leads to a characterisation of endogenous crisis tendencies of the system. Heterodox economics draws inspiration from this vision in a variety of ways as suggested by the various additional points listed below.



Second, heterodox economics addresses the economy, not as an aggregation of utility maximising individuals, but instead as an inherently social and historical process. The conception of the economy involves consideration of specific social categories such as class and institutions and takes into account the role of history. The ideas of equilibrium and efficiency found in mainstream economics are replaced with a more general focus on the historical development and evolution of the economy in its relation to society. When the economy is studied, for example, it is recognised that it has certain specific features as it is organised under capitalism. This point is perhaps most clearly evident in Marxian approaches where stress is placed on the forces and consequences of capital accumulation and on the existence and effects of capitalist exploitation (Fine and Saad-Filho, 2010); however, it is also reflected in institutional economics via the focus on the institutional setting of capitalism (Hodgson, 2004) and in post-Keynesian economics via the conception of a monetary production economy with the attendant analysis of the roles and functions of money and credit (Sawyer, 1989). Feminist economics adds to the consideration of the economy issues of gender, care and the family, and indicates the importance of non-market activities for the functioning of the economic system (Peterson and Lewis, 1999). In the above ways, heterodox economics recognises the importance of social structures and relations and incorporates them into the analysis of how the economy works. As such, direct connections are made with the concerns of other social sciences.

Third, heterodox economics brings into view the role and impact of politics, power and conflict. Heterodox economics is more political economy than economics in this respect. There is a stress, for example, on conflict between capital and labour over the distribution of income as well as over the generation of surpluses within production: post-Keynesian perspectives deal with inflationary processes linked to distributional struggles over income and institutional economics and Marxian approaches highlight conflicts within the workplace and their role in generating limits to firm and industrial profitability. Feminist economics brings into consideration issues of gender inequality and discrimination.

Fourth, heterodox economics identifies and explains tendencies to instability and crisis. Here limits to economic development and growth are explained not as the product of market imperfections, but rather as systematic features and outcomes of the capitalist economy. Heterodox economists, of course, differ in their conception of instability and crisis. On the one hand, post-Keynesian economists put emphasis upon demand conditions within the economy and link crisis periods to contractions of aggregate demand. On the other hand, Marxian approaches highlight systematic sources of capitalist crisis linked say to the tendency for the rate of profit to fall. Yet, while these differences remain important, there are also some areas of overlap in debate. This can be seen by the example of 'financialisation': a term and notion that derives from heterodox economics. The idea of financialisation is used both in post-Keynesian economics and in Marxian approaches to explain the changes in modern capitalism caused by the rise to dominance of finance, financial interests and a finance culture (Epstein, 2005; Hein, 2012; Lapavistas, 2013). The application of this idea is quite broad but one application comes in the study of the limits to capitalist accumulation and development. The specific idea here is that through its analysis of the dysfunctional aspects of financialisation heterodox economics

can offer real help and insight to other social sciences that are interested in gaining a better grasp of the trajectory and crisis prone nature of modern capitalism.

Fifth, heterodox economics seeks to challenge and transcend pro-market and neo-liberal policies. Policy and political agendas once more diverge between heterodox approaches in economics: whereas institutional and post-Keynesian perspectives take an essentially reformist position believing that capitalism can be saved from itself by suitable reforms, Marxian approaches take the position that capitalism must and will be transcended. The policy and political bent of heterodox economics, in general, complements and bolsters broader opposition to pro-market ideologies and approaches outside of economics.

Sixth, at the level of method, heterodox economics is open to different methodological perspectives, eschewing and resisting an exclusive reliance on econometric and mathematical modelling. There is also engagement with the broader debates in social theory regarding structure and action, and indeed several authors have located the dividing line between heterodoxy and mainstream economics in terms of the degree to which social structures are admitted into the underlying social ontology (Davis, 2004; Lawson, 2003). Heterodox approaches in economics tend to advocate mixed methods, combining quantitative and qualitative aspects of economics and non-economics disciplines, sometimes drawing upon realist arguments – to be found across the social sciences – in order to achieve this (Downward, 2003; Fine and Milonakis, 2009; Lawson, 2009). In these ways, such approaches link with research agendas and debates that are common to other social sciences.

### *Towards an Alliance of Sociology and Heterodox Economics*

We do not underestimate the tensions and differences over language and concept that exist even within heterodox economics, let alone those that are likely to arise in any attempt to bring together sociology and heterodox economics. However, at a purely conceptual or intellectual level, the case for at least a sustained dialogue between sociology and heterodox economics is surely a strong one in light of the above arguments. The fact is that many sociologists are rightly sceptical of the worth of mainstream economics. At the same time, sociology as it exists today does not have ready recourse to a fully developed *social* theory of the economic system as a whole that would help it address the causes and consequences of the crisis (though one is beginning to emerge in economic sociology, in exciting recent developments discussed below). We have argued that heterodox economics precisely offers such a conception, in contrast to the individualistic conception of the economic system found in mainstream economics. While there are no doubt deep challenges to the interdisciplinary research we advocate, there are also several opportunities, and the argument advanced here is that these opportunities ought to be actively realised via a dialogue and eventual alliance between sociology and heterodox economics.

We would not wish to prescribe in detail what the exact form of an alliance between heterodox economics and sociology should take. In general and practical terms, we would consider the potential for a joint or integrated research agenda, conferences, events, public debate and, in the longer run, we would suggest that sociology curricula could be

potentially fruitfully modified to include heterodox economics. As regards policy then 'economists' are still overwhelmingly called upon for economic policy advice and an alliance of heterodox economics and sociology could take up the demand for realistic policy-relevant economics that, for example, mainstream economists were unable to provide during the crisis. These ideas seem entirely in line with the sort of agenda advocated by Chakraborty (2012). However, rather than prescribe detailed suggestions, and pre-empt the collective determination of any future alliance of sociology and heterodox economics, we wish below to develop our general argument, and consider some potential fruits of such an alliance, whatever the specific form that it might take, by addressing some recent developments in the relationship between sociology and economics.

### **'Economics Imperialism', 'Economic Sociology' and the Prospects for an Alliance of Sociology and Heterodox Economics**

Since the 1970s, theoretical innovations – labelled here as 'economics imperialism' and 'economic sociology' – have occurred that have blurred the dividing line between economics and sociology. What would an alliance of sociology and heterodox economics have to say about each of these innovations? Conversely, what can they tell us about the nature and potential of such an alliance?

#### *Economics Imperialism*

One prominent development has involved, not the explanation of the economic by sociology, but the opposite move, the explanation of the non-economic by economics, a development known as 'economics imperialism' (Fine and Milonakis, 2009). Before the 1970s, the most prominent effort to extend the boundaries of economics was provided by Becker. But the extreme reductionism of Becker's work, trying to reduce, say, the institution of marriage, to a perfectly rational optimising decision in a market, put off many social scientists (not to mention many economists). Since the 1970s, economists have been able to go beyond Becker by taking seriously the problems of (1) imperfect information and (2) bounded rationality.

As regards (1), there is now a wide acceptance in economics that information is imperfect and asymmetrically distributed. The existence of imperfect and asymmetric information is seen to produce myriad market imperfections. These imperfections are in turn used to account for various social phenomena (e.g. institutions, norms, customs, etc.). 'New institutional economics', for example, employs the notion of imperfect information to rationalise the existence and evolution of collective institutions, most notably firms. The treatment of the non-economic as a response to or outcome of imperfect information has become the hallmark of the new information-theoretic economics (inclusive of new institutional economics), which has been pioneered and promulgated by economists such as Akerlof and Stiglitz.

As regards (2), there has been a move to relax the rationality assumption. Increasing numbers of economists now recognise that agents make decisions under conditions of

'bounded rationality'. The idea of bounded rationality in conjunction with the idea of imperfect information has been used to account for normative and other non-rational forms of behaviour. Bounded rationality, for instance, is a key aspect of the nascent field of behavioural economics that captures the complexity of individual decision making (for a practical application of behavioural economics, see Akerlof and Shiller, 2009).

Although the above new developments in economics appear to take seriously the realm of the non-economic and to offer a bridge to sociology, they remain, at root, imperialistic and antagonistic towards sociology – only those elements of sociology that seek to build solely upon rational choice theory are likely to be sympathetic to economics imperialism. Far from endorsing the idea that sociology can and should try to explain fundamental economic phenomena such as the contemporary crisis, these developments represent a claim that the individualistic and formalistic apparatus of economics is now able to explain non-economic aspects (institutions) as well as economic aspects (prices, wages, growth, etc.) of such phenomena. The view that social relations and institutions are fundamental in their own right, rather than mere epiphenomena of the choices of atomistic individuals, is dismissed (or ignored).

What is remarkable about the process of economics imperialism is that it proceeds as if mainstream economic theory is in good health. It is as if the series of contradictions and failures recounted above (and stressed by heterodox economics) do not exist. Most fundamentally, it is as if the basic marginalist picture of optimal general equilibrium achieved through market coordination of rational individuals is sound – and can be retained and developed while adding more realistic aspects such as imperfect information and behavioural modification. Such retention and development is exactly what Robbins and the marginalists of his day had hoped for. But we saw above that the hope was dashed – individualistic approaches have no purchase on the system as a whole, a system driven by macroeconomics aggregates, and until economic theory can explain that system it cannot explain any partial aspect of it. Modification of assumptions about individuals cannot help – it is individualism itself that has to be rejected.

The fundamental problem with economics imperialism is that it represents a development *within* rather than against neoclassical economics. Examples of economics imperialism such as behavioural economics retain a similarly individualistic and formalistic framework as standard neoclassical economics. They have to retain these features in order to be accepted in mainstream economics journals, conferences and societies. There is ample space, then, for alternative attempts to overcome the divide between sociology and economics that break free of individualism and formalism, and that form part of a valid approach to the economic system, not the invalid individualistic ideology of mainstream economics – ample space for an alliance of sociology and heterodox economics.

### *Economic Sociology*

Economic sociology has been revived in the years since the mid-1980s. Previously, as we saw above, there was a clear dividing line between economics and sociology. Sociologists rarely strayed onto the territory of economics. Although for some early authors such as Weber and Schumpeter (and later Polanyi) there was a place and need for what Weber

and Schumpeter termed 'social economics' that integrated sociology with economics, economic sociology only really gained prominence and impetus in the 1980s (Fine and Milonakis, 2009: 87). We cannot do justice to the full literature here but wish instead to focus on some key developments from the perspective of an alliance between sociology and heterodox economics.

The new economic sociology that has emerged since the 1980s has taken economics to task both for its theory and for its imperialism (see Smelser and Swedberg, 2005). First, economics is criticised for its failure to account properly for the role and influence of sociological factors: to understand truly how the economy works, it is argued, requires an in-depth analysis of social relations and social structures. Second, economics is seen to be wrong in its insistence that it can be broadened to understand the non-economic realm by the dropping of a few of its assumptions. The idea put forward by new institutional economics that institutions can be explained as the 'efficient' solution to informational and agency problems is denied on the basis that institutions can only be adequately understood by a thoroughgoing sociological analysis.

Key contributions have been made by Granovetter (1985). In an influential article, he showed how the economy is embedded in society, rather than separate from it. The notion of embeddedness (first introduced by Polanyi) is used by Granovetter to explain the importance of social relations and of social networks in the economy. Others contributors have followed the lead of Granovetter and offered sociologically informed explanations of different economic phenomena (see Smelser and Swedberg, 2005). These contributions in general have adopted methods and concepts that are alien to economics imperialism. They have retained affinities with mainstream sociological research and to this extent have remained detached from mainstream economics debates which have continued more or less regardless of the new economic sociology.

Other sociologists have considered the role of economics as a direct shaper of reality (MacKenzie et al., 2007). In the 'performativity' literature, economic theory is said to have transformed financial markets via its promulgation of ideas of market efficiency and risk-less trading. The adoption and spread of complex financial instruments including derivatives is seen to have been directly aided by economics. The role of economics, so the argument runs, has been to create a reality that fits with its underlying ideas and theories. Reality may not start out like economics says it is; however, via acceptance of its theories and models, reality is supposedly transformed to fit it. This idea of economics as performative is often deployed as part of a broader critique of economics. In effect, economics is viewed as a malign influence on behaviour and practice in the real world. Just as economics has created a reality of complex financial markets so it has sowed the seeds of financial market instability that has ultimately proved impossible to contain. The implosion of finance in recent years, so it is claimed, has revealed starkly the dangers of economics as a lens through which to comprehend the functioning of finance and the economy more generally.

However, there remains doubt expressed in the literature about whether economic sociology is entirely antithetical to economics. At one level, there is a deep ontological issue at stake as regards the performativity thesis and wider work on culture. In short, if the economy is *entirely* the construct of economics, then this would seem to deny the notion of the existence of a capitalist system developing and constraining what economists can and

cannot construct. Here debates between social constructionism and realism (and related approaches such as dialectics) become very significant for any alliance of sociology and heterodox economics. But doubts about the relation of economic sociology to economics do not just stem from this issue of social constructionism. Granovetter (2002) ultimately stresses the need for a 'unification' of economic sociology with mainstream economics, rather than a replacement of the latter by the former. In part, this is surely strategic: an isolated sub-discipline purporting to usurp mainstream economics is setting itself up against a very powerful foe, institutionally and politically. However, there is a conceptual or intellectual aspect to the issue that is also made clear in Granovetter's work and evident in the wider response of sociology to the crisis. In his seminal article, Granovetter (1985) admits that economic sociology has yet to develop analyses at the macro scale, rather focusing on specific institutions, organisations and networks, and he further stresses the need for economic sociology eventually to address this macro level. The financial crisis, originating within and affecting the global financial and economic system, underlines the importance of system-wide theory. Yet, by the same token, it refocuses attention on the lack identified by Granovetter – there is still not a fully social and systematic theory of finance and the economy within new developments in economic sociology. Interesting work on specific institutions and organisations exists, such as on money (see Ingham, 2004), but not a fully fledged social theory of the system of commodity, value, money, capital, wages, profit, interest, rent, banks and financial markets that is necessary to understand the crisis. When it comes to theorising the economic system as a whole, new developments in economic sociology do not have recourse to an alternative to the invalid mainstream economic theory of the operation of the market – or at least they did not until recently.

Some of the most recent developments in economic sociology, in part spurred on by the crisis, while not yet realising the full nature and potential of heterodox economics, can be seen as beginning to forge just the alliance of sociology and heterodox economics that we have been advocating. In so doing they illustrate what a pluralistic and open endeavour such an alliance can be, yet one united against mainstream economics. Two examples in particular can be picked out. The first example is the recent work of Jens Beckert (2013, 2014). Beckert argues that the failure to address the macro level in economic sociology (raised earlier) can be remedied by recourse to what he terms the 'political economy' literature by which means the 'varieties' (Hall and Soskice) and 'models' (Coats) of capitalism approaches. The bringing together of political economy and economic sociology is a crucial development because the political economy literature draws from and includes work by key authors within heterodox economics such as Keynes, Kalecki, Schumpeter and the contemporary French Regulation approach (e.g. Aglietta, Boyer, Lipietz). Heterodox economics enables Beckert to develop an account of the importance to economic theory of fundamental uncertainty and to set out a broad and thoroughly social account of the economic categories of the capitalist system – at the same time Beckert argues that the more meso-level insights of economic sociology on structure and agency can add to this literature by aiding the articulation of agency and structure under conditions of uncertainty (conditions incompatible with rational economic action).

A second development is the strongly Polanyi-inspired political economy of Harvey. We wish to highlight his attempt, with Geras (Harvey and Geras, 2013) to critique the

labour theory of value of Marx as part of a systematic agenda to comprehend value categories of the capitalist system. While Marx might be defended against these criticisms, the key point is that Harvey and Geras (2013) have opened up a space for such debate on matters ostensibly of economics, and done so outside of mainstream economics. This is crucial, for it is the opening up of space for such debate of key issues that the hegemony of mainstream economics has closed down, threatening to displace these ideas from any home in academia and ultimately to extinguish them by removing them from both research and teaching, leaving the way unopposed for the individualistic ideology of mainstream economics. It is in order to oppose these developments that we advocate an alliance between sociology and heterodox economics.

## Conclusion

The crisis as a global event with systemic features and outcomes requires that we rethink the relation of sociology to economics. On the one hand, we must continue to reject the narrow and moribund theory, method and ideology of mainstream economics. Equally we should be wary of the allure of 'new' advances in economics which, while appearing to offer change, in practice are rooted in mainstream (neoclassical) economics. On the other hand, as we have argued above, sociology has the potential to forge a new alliance with heterodox economics. Heterodox economics does not just share with sociology interest in a non-reductionist and holistic method but also provides a relatively developed understanding of the capitalist economy that can help fill the gap left by existing approaches in economic sociology, as well as enhancing the very latest developments that are moving to bring together economic sociology and political economy. We can think in particular of the contribution that heterodox economics could make in dealing with the bigger questions of capitalist development and crisis. For example, in the study of financial markets and their role in creating the conditions for crisis, heterodox economists could bring their expertise to bear on debates in sociology where there is interest in such matters: they could help to bring out the system-wide nature of the crisis and provide insights into ways to build a different economy and society where the possibility for crisis is removed. Such a contribution could iteratively draw upon, contextualise and deepen contemporary study of the power of financial elites and financial culture.

An alliance between sociology and heterodox economics would help to renew political economy and interdisciplinary research more generally. It would offer not only a way to understand the system better in its economic and social moments but also a means to enlarge our imagination of ways to reorganise economic and social life in the future. This would be an ideal outcome for sociology and heterodox economics as both look to confront and overcome the crisis.

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Andrew Brown would like to dedicate the article to the memory of his father, CH Brown, a passionate sociologist.

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