The Sociology of Economic Life

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The Sociology of Economic Life

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Introduction

RICHARD SWEDBERG
MARK GRANOVETTER

This book is part of a recent and very exciting development: *the opening up of the academic debate about the economy to include a genuinely social perspective.* To the layperson it might seem obvious enough that the economy is part of the social world and not isolated from the rest of society. In academic economics, however, exactly the opposite opinion prevailed for several decades because during the early twentieth century, economists became convinced that economics could best progress if a series of simplifying assumptions was made that allowed formalization of the analysis with the help of mathematics. And these assumptions usually meant that a radically nonsocial approach had to be used.

We do not mean to imply that mathematical economics has been fruitless. On the contrary, brilliant analyses have been carried out by Paul Samuelson, Gerard Debreu, Kenneth Arrow, and others. What we do argue, however, is that sooner or later the realization was bound to come that it was unwise to make such a sharp separation between what is "economic" and what is "social."

As things turned out, the first ones to challenge this artificial division of labor between economics and the other social sciences were the economists themselves. Often they did this together with social scientists who felt that the economic model would also work on topics other than strictly economic ones. The first attempts in this direction came in the mid-1950s when a few scholars like Gary Becker and Anthony Downs argued that political topics could be analyzed with economic models (see, for example, Swedberg 1990b). In the 1960s this new approach was also extended to several other disciplines, including history, law, and demography. By the mid-1970s it appeared that all of these studies had something in common, and the term *economic imperialism* was increasingly used to identify them. In 1976 Gary Becker published an important programmatic work called *The Economic Approach to Human Behavior,* which more or less became the manifesto for this school of thought (Becker 1976). At this time the new approach was still a bit suspect in the eyes of many established economists. But when James Buchanan received the Nobel Prize for economics in 1986 and Gary

Becker finally became president of the American Economic Association, it was clear to everyone that the attempt to introduce the economic model into other social sciences had become perfectly respectable in the economics profession.

We shall criticize certain aspects of this "economic approach to human behavior," especially the one stipulating that existing economic institutions are to be understood as efficient solutions to certain problems in the market. For the moment, however, we sidestep this issue and instead emphasize that scholars like Becker and Downs were extremely important in being the first to challenge the peculiar division of labor between economics and the other social sciences that had developed in the twentieth century. They showed that one should not assume that certain topics are inherently "economic" (as in: Why does something cost as much as it does?) while others are "social" (as in: Why do people vote as they do?). Spurred on by proponents of "the economic approach," other social scientists have also begun to question the old sharp division of labor and have proposed their own solutions for what a new division should look like. Some of the main such strategies for restructuring the relation between economics and sociology are:

- *Rational Choice Sociology* (James Coleman, Gary Becker, Michael Hechter, and others). The basic idea is that the neoclassical model should be extended to topics that by tradition only sociologists have dealt with.
- *New Economic Sociology* (Mark Granovetter, Harrison C. White, Viviana Zelizer, and many other sociologists). The key notion is that many economic problems that by tradition belong to the economists' camp can be fruitfully analyzed with the help of sociology.
- *Socio-Economics* (Amitai Etzioni and a number of scholars from different social science disciplines). It is here argued that neoclassical economics is not enough to solve economic problems; a much broader perspective—which includes sociology, psychology, political science, and the other social sciences—must be used.
- *PSA-Economics (Psycho-, Socio-, Anthropo-Economics)* (a small circle around George Akerlof). The idea here is that by integrating certain findings from psychology, sociology, and anthropology directly into the economist's model, many problems, which for a long time have baffled economists, may be solved.
- *Transaction Cost Economics* (Oliver Williamson and scholars inspired by his approach). According to Williamson, many problems at the intersection of law, economics, and organization can be solved by assuming that institutions gravitate to forms that efficiently reduce transactions costs.

In a recent book of interviews, *Economics and Sociology: On Redefining Their Boundaries,* one of us (Swedberg) surveyed some of these strategies and interviewed many key proponents for these perspectives, and the reader may want to peruse some of these for an introduction to the issues in contention (Swedberg 1990a; see also the discussion of "socio-economics" in Etzioni 1988). Many positive things, as is clear from these interviews, can be said about each of the different perspectives. Although Akerlof's approach, for example, might not seem very original from the brief description given above, it is in reality both subtle and sophisticated. And although we, throughout this introduction, will criticize the proponents of "the economic approach" rather vigorously, many important ideas can be found in their works. This anthology, however, is first and foremost part of what has become known as New Economic Sociology (or New Sociology of Economic Life), and many—though not all—of the articles are written from this perspective. In order to give the reader more of a sense for economic sociology we shall offer a few words about its history and background before discussing the readings. We shall then give a brief introduction to the way economic sociologists look at things—what intellectual tools are available to economic sociologists and how they use these tools.

A BRIEF HISTORY OF ECONOMIC SOCIOLOGY

At the publication of Adam Smith's *Wealth of Nations* ([1776] 1976), there was no sharp separation between economic topics and social topics (for a more detailed history of economic sociology, see Swedberg 1987). Instead, there was an easy mingling of the two that continued in the nineteenth century, especially in Germany where the local version of this institutional economics soon became known as the Historical School. In England, however, Ricardo and a few other economists soon popularized a much more abstract analysis. These two perspectives—the historical-social one in Germany and the abstract-deductive one in England—had great difficulty in coexisting, and around the turn of the century they clashed very violently with one another. This fight started in Germany and Austria in the 1880s (where it became known as the *Methodenstreit*, or "the battle of the methods") and soon spread to several other countries, including England and the United States. The abstract-deductive approach won a devastating victory over the historically and socially oriented economists. During the twentieth century the claim of the latter even to be known as "economists" was increasingly questioned, and to a large extent they vanished into a new academic category—that of the economic historian.

Some of the historical economists were also attracted to sociology. The reason for this was simple: Sociology had clearly more of an affinity with the Historical School in economics than with the abstract-deductive approach of people like Ricardo and Menger. Indeed, the very first sociologist (or at least the person who coined the term *sociology*), Auguste Comte, had already in the 1830s criticized the economists for being far too abstract and non-empirical. Comte's critique was revived around the turn of the century, by economists as well as by sociologists, as part of "the battle of the methods." Of the sociologists, Emile Durkheim in particular was close to Comte, and when Durkheim formulated his own program for economic sociology, it was very close to what Comte had advocated. The other founder of economic sociology, Max Weber, was not hostile to the economists, as Durkheim had been. Still, Weber's ideas were ultimately closer to those of Comte and the Historical School than to those of the other side.

Durkheim and Weber made an unsuccessful effort to motivate support for economic sociology among sociologists. Durkheim, for example, wrote his major thesis on the division of labor in society, and it contains—like *Rules of Sociological Method* and some of his other writings—a sharp criticism of the economists' tendency to radically isolate their topic from everything "social" (see Durkheim 1915, [1893] 1984). Durkheim also conducted a very imaginative study of how the respect for property has emerged throughout the course of Western history (Durkheim 1983). And in each issue of the journal he had started, *l'Année Sociologique,* he saw to it that a section on *sociologie économique* was included.

Ultimately economics never fascinated Durkheim to the same extent as morality, religion, and education. For Weber, however, economics was one of his major interests. He wrote a thesis, for example, on medieval trading corporations and a major work on the social structure of agriculture in ancient civilizations (Weber 1976a, 1988c). During his lifetime he also wrote on industrial relations and stock exchanges, and he took part in an important discussion on whether economic theory is applicable not only to industrial societies but also to pre-industrial societies (see Weber 1976a, 1988a, 1988b).

Weber's two most important works in economic sociology are *Economy and Society* ([1922] 1978) and *General Economic History* ([1919] 1981). The former is an exceptionally rich work that, among other things, contains an important chapter (of a hundred and fifty pages!) in which Weber presented his theoretical program for economic sociology. This is the famous chapter 2: "Sociological Categories of Economic Action." Weber's second great contribution to economic sociology has been translated into English as *General Economic History.* This work is actually a transcript of a course that Weber gave in 1919–1920. When the students complained that his theory of economic sociology (as reprinted in chapter 2 of *Economy and Society*) was much too abstract and difficult to grasp, Weber decided to add some "flesh and blood" to the theoretical skeleton; the result was a more historically oriented lecture series than his original chapter.

But as the twentieth century advanced, sociologists increasingly shied away from economic topics—which they perceived to be in the domain of professional economists. Still, some of Weber and Durkheim's students continued to produce studies in economic sociology. Some of these have lost their intellectual luster today. Others are still as fresh as the day when they were written; this is especially true for Joseph Schumpeter's writings in economic sociology. We especially recommend his essays on imperialism and the tax state as well as his true masterpiece *Capitalism, Socialism, and Democracy* (Schumpeter [1942] 1990b, 1990a, [1942] 1975).

Until now we have only mentioned the European sociologists when we have discussed economic sociology. But some of the early U.S. sociologists—

we especially think of Cooley (who received his doctorate in economics)—did excellent work in economic sociology (see, for example, Cooley 1930). Still, the American sociologists basically came to see themselves as dealing only with "social" problems, which by definition were different from "economic" problems. This development was due in part to the sharp division of labor recommended by Talcott Parsons in the 1930s. Parsons, whose earliest academic positions had been in departments of economics (at Amherst and Harvard), came to see sociology as focusing exclusively on the values, or "ends," in "means-ends" chains, with economics assigned the task of analyzing the most efficient ways to achieve ends taken as given. (See Granovetter 1990 for a more detailed account.) In the 1950s, however, Parsons, with his student Neil Smelser, partially reversed this view, making an effort to expand sociology and take on some economic problems. Their programmatic work was *Economy and Society* (Parsons and Smelser 1956).

By this time, scholars in other social sciences also felt that mainstream economists had gone too far in isolating themselves. In 1956, for example, a few young Harvard economists (spurred on by a young sociologist, Francis X. Sutton) published *The American Business Creed* (Sutton et al. 1956). In the 1950s Karl Polanyi also energized some of his colleagues in anthropology into taking on those anthropologists who felt that economic theory was applicable not only to industrial societies but also to pre-industrial societies. One book, *Trade and Market in the Early Empires* (1957), which Polanyi coedited with some colleagues, was especially important in this context. This work actually became the opening shot in a long and hard battle between the so-called formalists and substantivists in economic anthropology. This battle still flares up now and then, even if the intense hostility of the 1960s is gone (see, for example, Orlove 1986).

We are now getting close to the present revival of economic sociology, also known as New Economic Sociology, which started in the early 1980s. One possible reason for sociologists to become interested in economic topics at about this time was because scholars like Gary Becker had challenged the existing division of labor between economics and sociology, which meant that economists were now taking on sociological topics and beginning to step on the toes of the sociologists. Again, it was at Harvard that the revival began. This time around, however, it was not under the guidance of Talcott Parsons but of Harrison White. In the 1960s and 1970s White had a number of students and young colleagues—Robert Eccles, Mark Granovetter, Michael Schwartz, and others—who were interested in economic topics. Harrison White mainly wrote about production markets; Wayne Baker studied securities markets; Robert Eccles, economic organization; Mark Granovetter, labor markets; and Michael Schwartz, financial networks (see, for example, White 1981, Baker 1984, Eccles 1985, Granovetter 1974, Mintz and Schwartz 1985).

Independently of the Harvard group, several individual sociologists had begun to study economic topics on their own. Viviana Zelizer was writing about life insurance; Mitchel Abolafia about the Hunt brothers' attempt to corner the silver market in the 1970s; and Susan Shapiro about the attempt by the Securities and Exchange Commission to keep "wayward capitalists" in line (see, for example, Zelizer 1983, Abolafia 1984, Shapiro 1984). During the last few years the number of studies in economic sociology has increased very rapidly. Many of these works are referred to in the Editors' Notes on Further Reading, which accompany each article in this anthology.

KEY PROPOSITIONS IN ECONOMIC SOCIOLOGY

The central tradition in economic sociology is rich and draws on many different sources. For example, it contains works of Weber as well as of Marx and Durkheim. Still, there is a common core of central propositions. We suggest these three:

1. Economic action is a form of social action;
2. Economic action is socially situated; and
3. Economic institutions are social constructions.

We will say a few words about each of them.

Economic Action as Social Action

It is generally recognized in economic theory as well as in economic sociology that *economic action* should constitute the basic theoretical building block. Definitions of the economy that focus on the production of material objects—as, for example, in the analysis of wealth of the seventeenth century, which preceded "political economy"—are considered unsuitable today. Economic theory and economic sociology also agree in a general way that economic action is a type of behavior that has to do with choosing among scarce means that have alternative uses (see, for example, Robbins [1932] 1984:16; Weber [1922] 1978:65).

At this point, however, the agreement ends. From the viewpoint of economic sociology, the current concept of economic action in mainstream economic theory goes much too far in eliminating all noneconomic motives. This does not mean that the exercise of assuming that there only exist economic motives is without value. On the contrary, as any orthodox demand-supply analysis shows, this type of exercise can be extremely important. But to make this assumption in each and every situation, as in today's mainstream economics, is profoundly misleading.

How has economics come to its present, rather peculiar position that economic action is essentially maximizing, rational behavior, and everything else belongs to "noneconomic" action? This is difficult to say, but it is clear that the answer is to be found far back in time. According to Adam Smith, it was quite obvious that people have a "propensity . . . to truck, barter and exchange one thing for another" (Smith [1776] 1976:17). On the one hand, Smith presented this narrow concept of economic action as something given by human nature. Social influences, on the other hand, were seen as something that basically *disturbed* economic action. In another famous passage in *The Wealth of Nations,* Smith noted that "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices" ([1776] 1976:144).

In *The Passions and the Interests,* Albert O. Hirschman (1977) pointed out that the idea of economic action as synonymous with rational and sensible behavior is a recent and somewhat accidental historical product in Western thought. "Trucking, bartering, and exchanging" was originally seen as a destructive passion in medieval Europe. With the coming of capitalism, it was hoped that industriousness and commerce would first counterbalance and gradually replace the destructive lust for power and glory of the feudal princes. Scholars including Montesquieu sang the praise of the civilizing effects of commerce *(doux commerce).* As we know, the process of industrialization was not "mild" in most societies but very disruptive. Still, the idea stuck that somehow economic action was different from all other types of human behavior and therefore could be understood apart from them.

In many respects, the study of economics has been advanced by the assumption that economic action is a one-dimensional and closed world. But this perspective has been exaggerated to an unhealthy extent, especially during the twentieth century when economics has had minimal contact with the other social sciences. How is one then to remedy the situation? On a general level, it is obvious that the discourse in mainstream economics needs to be opened up to a genuinely social perspective. There are several ways of doing this. One could, for example, keep the original perspective in economic theory and then try to add or incorporate the social perspective. One would then hope for results that would fit empirical reality better. This is, to some extent, the strategy that characterizes George Akerlof's work, which he calls "psycho-, socio-, anthropo-economics" (Akerlof 1984). In many cases, however, one would probably have to totally restructure the whole research question in order to do justice to the social dimension.

The task of economic sociologists in this situation is to try to engage the economists in a discussion about economic action by elaborating the sociological viewpoint as forcefully as possible. From a sociological perspective, it is clear that economic action cannot, in principle, be separated from the quest for approval, status, sociability, and power.

How these quests influence economic action is an old theme among economic sociologists and remains high on their agenda. Among the pioneers, Durkheim, for example, has especially emphasized how pure economic action fails to bind people together for more than a few moments. In *The Division of Labor in Society* he said that "even where society rests wholly upon the division of labour, it does not resolve itself into a myriad of atoms juxtaposed together, between which only external and transitory contact can be established." He stressed that "The members are linked by ties that extend well beyond the very brief moment when the act of exchange is being accomplished" (Durkheim [1893] 1984:173).

A similar viewpoint also underlies Marx's concept of the economy, which is centered on the necessity to cooperate in the labor process. However, Weber first introduced a sophisticated sociological concept of economic action. Most of Weber's reflections on this topic can be found in the important chapter 2, "Sociological Categories of Economic Action," in *Economy and Society.* Weber begins the chapter by stressing that the concept of social action, as used in economic theory, is basically similar to that used in economic sociology. Both are actions oriented to economic means or, more precisely, to the satisfaction of desires for utilities. It is clear from Weber's discussion that he found economic theory a perfectly useful and legitimate enterprise.

On two points, however, Weber's sociological concept of economic action differs from economic action as used in economic theory. First of all, the action is always oriented toward people's behavior; it "takes account of the behavior of others," as Weber ([1922] 1978:4) phrased it. This taking account can be done in many ways—by seeing other people, by talking to them, by thinking of them, and so on. In all these cases, it should be emphasized, the actor always takes other people's behavior into account through *socially constructed* meanings. On this point Weber's thought comes close to Durkheim's. According to Durkheim, economic action—like all other forms of social action—is always oriented toward and inspired by certain "collective representations." The notion of monetary value would be an example of a collective representation (as well as a social construct of meaning in Weber's sense).

The second point of difference, according to Weber, is in relation to power. As Weber saw it, economic action makes little sense from a sociological viewpoint if it is divorced from the idea that the economy constitutes a major source of power in society. Weber insisted that the sociological concept of economic action, which he defined as the *"peaceful exercise of an actor's control over resources which is in its main impulse oriented to economic means"* (Weber [1922] 1978:63, 68; emphasis added), includes as an essential component the criterion of power. The word "peaceful" tells us that Weber had a special type of power in mind. The term he used is formally translated as "the legally sanctioned power of control and disposal" *(Verfügungsgewalt).* In a looser sense it can simply be translated as "economic power."

Weber then went on to analyze a series of important economic facts from the viewpoint of this power-oriented concept of economic action. "Exchange," for example, should in his opinion essentially be understood as resolution of a conflict of interest by means of a compromise; markets that are formally free are nevertheless often influenced by the actual distribution of power ("substantive regulation" as opposed to the formal "market freedom"). Weber also extended the concept of economic power directly into his analyses of prices and money.

> Money prices are the product of conflicts of interest and of compromises; they thus result from power constellations. Money is not a mere "voucher for unspecified utilities," which could be altered at will without any fundamental effect on the character of the price system as a struggle of man against man. "Money" is, rather, primarily a weapon in this struggle; they are instruments

> of calculation only as estimated quantifications of relative chances in this struggle of interests (Weber [1922] 1978:108).

It should finally be noted that throughout his academic career Weber was very concerned with improving communication between economic theorists and economic sociologists. He had grown up under the *Methodenstreit,* which in his opinion had been an absolute disaster and split economics into "*two* sciences" (Weber 1949:63). This division was unacceptable to Weber, and he spent a great deal of energy trying to reconcile the theoretically oriented economists with the more historically and sociologically oriented ones. Weber's own recipe for how to solve the impasse of the *Methodenstreit* was something he called "social economics" *(Sozialökonomik).* This kind of economic analysis was very broad and incorporated not only marginal utility theory but also historical economics and economic sociology. As Weber saw it, the point was not so much in trying to force all these different ideas into one coherent, logical system—he abhorred this type of system for various reasons—but to let all of them peacefully coexist under the big umbrella of "social economics."

Economic Action as Socially Situated

Economic action is socially situated and cannot be explained by reference to individual motives alone. It is embedded in ongoing networks of personal relationships rather than being carried out by atomized actors. By *network* we mean a regular set of contacts or similar social connections among individuals or groups. An action by a member of a network is *embedded,* because it is expressed in interaction with other people. The network approach helps avoid not only the conceptual trap of atomized actors but also theories that point to technology, the structure of ownership, or culture as the exclusive explanation of economic events.

The concept of *networks* is especially useful in the sociological analysis of the economy. Because it is very close to concrete, empirical reality, its use thereby prevents conceptual errors common in mainstream economic theory, New Institutional Economics, and some abstract sociological analyses. In the New Institutional Economics, the emergence and maintenance of social institutions is typically explained through their alleged efficiency. We will argue that such propositions, popular because of their apparently parsimonious solution of otherwise intractable problems, appear increasingly inadequate as soon as one starts to seriously map out the social structure involved.

For all its obvious virtues, Karl Polanyi's notion of embeddedness suffers from a similar limitation. Polanyi formulated his theory of embeddedness in direct opposition to the atomistic viewpoint of mainstream economics (see Chapter 1 in this anthology). In the 1930s and 1940s, some anthropologists had started to introduce concepts from conventional economics into their studies. Polanyi felt that this was totally wrong, and he spent a large part of his intellectual career formulating a "substantivist" alternative to these "formalistic" economic anthropologists. The economy in pre-industrial societies, he argued, was embedded in social, religious, and political institutions. This meant that such phenomena as trade, money, and markets were inspired by motives other than profit making. Economic life in these early societies was instead ruled either by reciprocity or by redistribution. The market mechanism was not allowed to dominate economic life: Demand and supply did not set the price but rather tradition or political authorities. In modern societies, however, it was exactly "the price-making market" that determined all of economic life. A new logic ruled these societies, a logic that dictated that economic action must *not* be embedded in society. The economy, as Polanyi phrased it, was in this type of society "directed by market prices and nothing but market prices" where "human beings behave in such a way as to achieve maximum money gains (Polanyi et al. 1957:43, 68)." In brief, the industrial revolution had created just the kind of society presupposed in conventional economic theory.

But if we apply a networks perspective to the kind of societies Polanyi discusses and take a careful look at their social structures, we quickly find out that the level of embeddedness varies considerably—*both in industrial and in pre-industrial societies.* There are some pre-industrial societies where people are as obsessed with making money as in the most capitalistic society—for example, some tribes in the Melanesian region north of Australia (see Pospisil 1963). And if we look at capitalist societies, we find that economic action is not "disembedded," as Polanyi thought. Rather, economic actions are embedded in a different way. In brief, network analysis can help to address many of the problems traditionally associated with Polanyi's substantivist theory.[1]

By using the term *network* we do not mean to impose an imperialist claim over other interpretations in economic sociology, such as Weberian theory, symbolic interaction, or Marxist sociology. Our claim is, rather, that regardless of the perspective one identifies with in sociology, it is absolutely essential to look at the actual, concrete interactions of individuals and groups. In, for example, Michael Burawoy's neo-Marxist *Manufacturing Consent* (1979) we find an excellent network analysis of the work situation in a manufacturing plant in Chicago—despite the fact that the author is no network analyst. Burawoy, who worked in the factory, found that in order to avoid monotony and boredom the workers in various ways tried to compete among themselves. This game of "making out" kept the workers going during the long hours of work, and they related to the other workers in terms of this game. In his later book, *The Politics of Production* (1985), Burawoy built a more general argument that relied in part on the idea that proper Marxist analysis of the workplace must have as an essential part an analysis of the informal relations and networks that constitute the everyday system of production.

Another case where network analysis helps illuminate the economy is in the role of ethnic networks. The burgeoning literature on "middleman minorities" illustrates this (see, for example, Bonacich 1973). It is also common in studies of international banking to point to the importance of ethnic and religious minorities and to note how easily members of the same ethnic background can form well-functioning networks over huge geographical areas (cf. Curtin 1984). David Landes, to cite just one example, has analyzed the success of the Huguenots in French banking from this perspective:

> No sooner were the French Calvinists, or Huguenots, settled in cities of refuge than they sent their children back to France, not as Frenchmen subject to discrimination and persecution, but as foreigners covered by Swiss or Dutch citizenship. By the beginning of the eighteenth century, there was in Paris an active colony of Calvinist bankers, whose close relations with relatives abroad were supplemented by invaluable ties with Protestants who had never left the country. . . . Solid, conservative, extremely conscious of their faith and their dignity as a religious minority, they formed a coherent financial bloc, anchored on Paris and Geneva, but reaching into every important market on the Continent. In discount transactions and foreign exchange, they had enourmous respect for, and implicit confidence in, one another and received similar respect and confidence from outsiders; in loan flotations and industrial promotions, they were quick to consult and share among themselves. And though not particularly wealthy, their prudence, reliability, and co-operation as a group gave them power beyond their numbers and personal resources, so much so that in France, 'high finance,' *la haute banque,* and Protestant finance, *la banque protestante,* have been almost synonymous (Landes 1979:21–23).

Although it is true that the role of ethnic and religious minorities in banking provides a particularly striking example of the role of networks in the economy, the usefulness of network analysis extends well beyond this and similar obvious cases. Many students of finance in general have found that a network approach answers much more to empirical reality than the atomistic approach of mainstream economic theory. When George Katona decided to analyze the relationship between banks and their corporate clients in the early 1950s, he quickly found out there was a great deal of stability to these ties. Indeed, two-thirds of the corporations had not changed their primary banking partner during the previous ten years, and nearly half of them had had the same partner for more than twenty years (Katona 1957:112). A corporation that changed banks too often ran the risk of becoming known as a "bank changer." According to Katona (1957:115), "change in banking connections appears to constitute an unpleasant process which is sometimes avoided even if the relationships appear not quite satisfactory."

In their recent study, Robert Eccles and Dwight Crane (1988) see investment banking as a kind of network business, where the investment banker mediates the flow of assets between investors and those that need capital ("issuers"). The network approach, however, is not only applicable to the "external ties" of an investment bank. By the very nature of its work, an investment bank has to have a particularly flat and flexible structure ("internal ties"). Every deal is carried out under tremendous pressure, Eccles and Crane explain, and a rigid and sharply hierarchical structure would make it hard to quickly put together a complicated deal. The fact that corporations today