

## Economic sociology

### Unit One:

#### Definition and Subject Matter of Economic Sociology

The subject matter of economic sociology can be defined as encompassing economic actions, relations, and processes within their social setting. Thus, economic sociology differs from economics, which deals with economic behavior per se (though some economists use the concept of "social framework" often too narrowly, in the sense of the economic system and policy). And, economic sociology also differs from **rational choice theory**, which focuses on pure economic variables of social life. By contrast, economic sociology examines the sociological categories of economic life. Whereas, rational choice theory proposes the economic determination of society, economic sociology deals with the social construction of the economy. Too often, conceptual relations between the disciplines have been confused or overlooked, not just by rational choice theorists but even by many economic sociologists themselves.

#### How economic sociology considers economic phenomena?

Economic sociology tends to consider economic phenomena as one particular case of the general states of the sociological system. Within neoclassical economics the **economic system** is defined by the relations between economic goals ("tastes") and the "obstacles" to attain these goals (Pareto 1927), or between demand or utility and supply or scarcity (Walras 1952; Wicksell 1951), or between aggregate production and aggregate consumption (Keynes 1960). This definition considers economic system as self-sufficient or self-reliant system as it deals with the relationship between pure economic variables. Such tendency reduces the total social system to its economic subsystem. That means it ignores the fact that economy is one aspect of the social system. However, as Pareto observed, the "social system is more complicated" for it includes not only such **rational actions** but **non-rational** ones as well. In other words, the social system incorporates the economic system as a constituent part. This conception represents modern systems theory in sociology.

Not only just the social system but the economic system can also be viewed holistically and characterized as a whole of which all the parts are connected and react to each other (Cournot, 1960).

To put it simply, economic sociology is concerned with the following important issues.

- It studies the economic activities and how they are structured into organizations, how they are organized according to statuses, values and norms that regulate economic activities (contract laws) and sanctions (rewards and punishments).
- It studies the relationship between sociological variables as they manifest themselves in economic and non-economic contexts. This relationship can be viewed from two aspects: **intra-unit and inter-unit focus**. In the intra-unit focus sociologists take a given concrete economic unit, for example a factory and they study power and authority relations, employer-employee relationships, etc. In the broader inter-unit focus, it studies the relationship between economic units and

their social environment: factors at social level as they affect economic process, labor management, public policy and so on.

- It studies the sociological aspects of the central economic variables (money, saving and investment).

## 1.2 Two ways of Definition of Economic sociology

**Economy** can be defined in two ways. In the **first**, economy is presented as ***bodies of activities which are usually carried out by members of society in order to produce, distribute and exchange goods and services.*** The **economy** here is conceived as an institutionalized process – it is guided by relatively stable rules- of interactions between men and nature in the satisfaction of society's needs. These needs are not exclusively physical; they may also be cultural, scientific or military. However, to the extent that the production and distribution of goods and services is needed them, the economy is involved.

Although it is apparently straightforward and easy to understand, this definition is not widely accepted. Not all economists are subscribed to it and the **second** definition is more typically found in economics books. In this definition, the emphasis is on “economizing” a synonymous for economic phenomena which is to say, ***an activity which involves the rational allocation of scarce resources in order to obtain the most from the means available.*** According to this view, individuals carrying out economic activities are motivated by the rational pursuit for their interests, while the rules conditioning the interaction between them are set by the market as a result of the effect of demand and supply on prices. The ways in which goods and services can be produced can therefore be explained through the maximizing choices of individuals in the market context.

**Economic sociology** doesn't study the economy in general, but in stead analyses specific economic systems, for example, capitalist economies, feudal economies, the economies of primitive societies, and so on together with the specific characteristics that these take on in particular cases. The concept of the economic system is crucially important in this perspective; it tends to underline the different ways, over space and time, in which institutions orient and regulate economic activities.

## Section Two: Economic Sociology and economics: Interplay

Economics and economic sociology study the same complex economic activities. But there are differences between these fields of studies as each of the field operates with different class of dependent and independent variables and explanatory models. For instance, **economics** deals with purely economic variables: relations of price and supply, supply and demand, monetary flow, cost-benefit analyses, input-out put ratio, savings and investment, labor, capital, commodities, etc. **Economic Sociology**, on the other hand, deals with both formal and informal organizations; with the roles, status, values and norms that exist in the economic institutions; with *social problems that result from economic shortage or poverty such as crime, alcoholism, suicide, mental disorder as manifestations of economic poverty*. That is **economic sociology** deals with the relations between social and economic variables.

In addition to theses, sociologists study a number of **social factors** that influence economic institutions. Such as:

- The contribution of **education** to the productivity of labor
- The impact of incentives on production
- Employee-employer relationship on production
- The impact of values and preferences on price of goods, etc.

In other words, they study enterprises as social organizations, not just as economic ones. In addition to the economic benefit analyses, social benefits that can not be calculated in terms of money are also emphasized.

Another difference between economic sociology and economics is **the methodology they employ** in the investigation of the phenomenon under consideration, in this case the economic process. Sociologists use **comparative** method (Weber's study of *the protestant Ethic and the Spirit of Capitalism* is a typical example), where as economists depend more on **mathematical and statistical methods and models**. Moreover, the **survey** method is widely used in economics to collect facts about households and firms, assets and plan of expenditure where as sociologically survey method is used to assess attitudes and opinions towards expenditure, investment, etc.

The difference of perspectives between economics and other social sciences – in particular economic sociology is found in a famous definition by **Joseph Schumpeter** (1954), referred economic sociology to explain how people “came to behave as they do” and he specified that actions must be related to the institutions which affect economic behavior, such as the state or private property and contracts. For its part, economics deals with the questions “how people behave at any time and what the economic effects are”.

A sociologist or an economic historian who wishes to evaluate how a particular country has developed will tend to consider both **economic variables**- such as the availability of capital and labor – and **non-economic variables** – such as political and socio-cultural structures together. Moreover, it is clear that an economist who seeks to bring his analysis closer to empirical reality will have to consider the role of institutions-whether explicitly or implicitly – to improve his hypothesis. For example, it is difficult to study the labor market in contemporary capitalist societies without taking the role of unions into account. **Schumpeter** would of course have agreed, and his research, which was always open to institutional questions, confirms this. He felt that the *theoretical economist should have master economic sociology, just as they master history and statistics*.

### **What is the scope of economic analysis for economic sociologists?**

In actuality, the economic sociologist should not simply limit his inquiry to the influence of the institutional context on the economy, as the previous definition might seem to suggest. As we have already noted, he/she would examine causal relation running in the opposite direction, taking an interest in the social, political and cultural consequences of economic development. In studying capitalist societies, he/she would attempt to evaluate, for example: *the extent to which economic structures increased social and political conflict, or led to changes in the family structures or relations between town and country*. In this way it becomes possible to formulate hypothesis for interpretation of institutional change, in particular change in the organization of economic activities-one of the most difficult task for traditional economics with its historical tools. To return to the above example, one could

evaluate how capitalist economic structures have given rise to social and political conflicts which have in turn led greater state intervention in the economy and the role of unions and industrial relations in general. As a consequence, the previous institutional framework regulating economic activity was modified (sometimes a transformation of this kind is referred to as a transformation from liberal to organized capitalism). The bidirectional research -from society to the economy and vice versa - should not present simply as extension of the field of analysis, but as having its own intrinsic motivation: it allows one to focus on change in economic structure.

### **Section Three: How Power, Institutions and Network Shape Economic Behavior**

**Power:** Power relations shape economic behavior, both directly, as when the powerful firm dictate to a weak supplier, and indirectly, as when the powerful industry group shapes the regulation to its own advantage. The structural theory of power is the direct inheritor of Marx's idea, even if not all of its practitioners would call themselves Marxists. Their concern is with how powerful groups succeed in promoting practices and public policies that are in their interests as being in the common interest. Marx described the capitalist state as a tool of capitalist class, which justified its existence under the guise of political liberalism. His idea was that modern states serve one group while claiming to embody principles that benefit everyone. Structural theorists of power explore the role that power plays in determining the state policies, corporate strategies, and individual behaviors that we take to be transparently rational. When particular group succeed in promoting its favorite public policy or business strategy- in making that approach the new convention- that group can reinforce its power or wealth without having to exercise constant coercion.

#### **How do social institutions shape the economic behavior?**

**Institutions:** Social institutions- conventions and the meanings they have for people- shape economic action. Weber (1968) argued that social conventions must be understood in terms of **subjective meanings** to individuals because we behave in ways that are meaningful to us –that we understand. Sociological institutionalists understand economic behavior to be regular and predictable not because it follows universal economic laws, but because it follows meaningful institutional scripts. The meaning underlying modern behavior patterns is highly rationalized. We know that the decision to downsize the work force might mean – that the work force is larger than need be, or that the stock market express higher returns from the firm. **Economic customs** thus carry meaning and economic customs often spreads as fads spread. The fad downsizing appeared on the horizon, and suddenly the firms were doing it whether they need to or not. Since the time of Weber, institutionalists have also pointed to the ways in which wider social institutions – religious, educational and labor market constraints shape economic behavior.

**Social Networks:** Your social network-what sociologists call your peer groups and role models- influence your behavior by providing concrete examples of how to behave and by enforcing sanctions for misbehavior. *The individual position in a social milieu shapes both his behavior and his underlying identity.* According to Emile Durkheim, social networks

shape the actions of individuals not merely in a negative sense, of undermining antisocial behavior, but in a positive sense of establishing accepted behavior patterns.

Economic practices – behavior patterns such as **pricing strategies** and **firm structures** – emerge in net works of actors, via the institutionalization of scripts for how to behave in order to achieve particular ends. Powerful actors try to shape the scripts that are constructed, and to shape the rules of the game that become institutionalized in the public policy. The economic practices, or scripts, that emerge shape individual cognition, and determine how individuals will respond to situations in the future. In other words, economic practices emerge through distinctly social process in which social net works and power resources play roles in the definitions of certain practices as rational.

## UNIT TWO

### FOUNDATIONS AND DEVELOPMENT OF ECONOMIC SOCIOLOGY

Economic sociology arose as a new approach to the analysis of economic phenomena; emphasizing particularly the role economic structures and institutions play upon society, and the influence a society holds over the nature of economic structures and institutions. The first use of the term “**economic sociology**” is thought to have occurred in 1879, when it appeared in a work of British economist Jevons. The term was taken over by sociologists and it can be found in the works of Durkehim and Weber during the period 1890-1920. It was also during this period that classical economic sociology was born, in such works as ***A division of labor in society*** (1893) by Durkehim, ***The Philosophy of Money*** (1900) by Simmel- by far most importantly ***Economy and Society*** (written between 1908 and 1920) by Weber. What characterizes classical economic sociology is primarily the following: First there was a sense among Weber and his colleagues of being pioneers and of constructing a new type of analysis. Secondly, there was a focus on such fundamental questions as, what is the role of economy in society? How does sociological analysis of the economy differs from that of economists? In addition, there was an attempt to size up capitalism and understand its impact on society.

#### **Major Pioneers**

##### **1.1 Karl Marx**

Karl Marx (1818-1883) was preoccupied with the role of economy in society and developed a theory which states “*the economy determines society’s general evolution*”. What derive people in their everyday lives, Marx argued are material interests and this also determines the structures and process in society. While Marx wanted to develop strictly scientific approach to society, his ideas were equally infused his political desire to change the world. The end result was what is known as “Marxism” a mixture of social science and political statements, welded in to a single doctrine.

Marx’s point of departure is **labor** and **production**. People have to work in order to live, and this fact is universal. **Material interests are correspondingly universal. Labor** is social rather than individual in nature, since people have to cooperate in order to produce. Marx severely criticized economists for their use of the isolated individual; he himself

sometimes spoke of “social individuals”. The most important interests are also of a collective nature-what Marx calls “**class interests**”. These interests will, however, only be effective if people become aware that they belong to a certain class (“class for it self,”) as opposed to “class in itself” as Marx argued.

### **According to K. Marx, What determines the progress of a society?**

Marx severely criticized Adam Smith’s idea that individual interests merge and further the general interests of society (“the invisible hand”). Rather according to Marx, classes typically oppress and fight for each other with such ferocity that history is as if written with “letters of blood and fire.” Bourgeoisie society is not exception on this score since it encourages “the most violent, mean and cruel passions of human heart the furies of private interest.” In various works Marx traced the history of class struggle, from early times into the future. In a famous formulation from 1850s, Marx states that a certain stage “**the relations of production**” enter into conflict with “**the forces of production**,” with evolution and passage to a new “mode of production”, as a result. The economic law of modern society works “with the iron necessity towards inevitable results” of revolutionary change.

### **Marx and Economy**

For Marx, economics are what constitute the base of all of human life and history — generating division of labor, class struggle, and all the social institutions which are supposed to maintain the status quo. Those social institutions are a superstructure built upon the base of economics, totally dependent upon material and economic realities but nothing else. All of the institutions which are prominent in our daily lives — marriage, church, government, arts, etc. — can only be truly understood when examined in relation to economic forces.

*The basic determining factor of human history is economics. According to him, humans — even from their earliest beginnings — are not motivated by grand ideas but instead by material concerns, like the need to eat and survive.* This is the basic premise of a materialist view of history. At the beginning, people worked together in unity and it wasn’t so bad. But eventually, humans developed agriculture and the concept of private property. These two facts created a division of labor and a separation of classes based upon power and wealth. This, in turn, created the social conflict which drives society.

All of this is made worse by capitalism which only increases the disparity between the wealthy classes and the labor classes. Confrontation between them is unavoidable because those classes are driven by historical forces beyond anyone’s control. Capitalism also creates one new misery: **exploitation of surplus value**.

### **What is the appropriate economic system for Marx to realize social equality?**

For Marx, an ideal economic system would involve exchanges of equal value for equal value, where value is determined simply by the amount of work put into whatever is being produced. Capitalism interrupts this ideal by introducing a profit motive — a desire to

produce an uneven exchange of lesser value for greater value. Profit is ultimately derived from the surplus value produced by workers in factories.

*A laborer might produce enough value to feed his family in two hours of work, but he is kept at the job for a full day — in Marx's time, that might be 12 or 14 hours. Those extra hours represent the surplus value produced by the worker. The owner of the factory did nothing to earn this, but exploits it nevertheless and keeps the difference as profit.*

To end the exploitation, it is important to introduce communism. In this context, Communism has two goals: First it is supposed to explain these realities to people unaware of them; second it is supposed to call people in the labor classes to prepare for the confrontation and revolution.

### **Discuss points on which social thinkers criticized the work of Karl Marx.**

- His focus on economic determination
- Human history is full of conflict and struggle
- Religion is wholly determined by material and economic realities.

If Marx were right, then capitalism would appear in countries prior to Protestantism because, based on his view, Protestantism is the religious system created by capitalism — but we don't find this. The Reformation comes to 16th century Germany which is still feudal in nature; real capitalism doesn't appear until the 19th century.

- A final problem is Marx places his emphasis on the concept of value, which can only be created by human labor, not machines. This has two flaws. First, a labor-intensive industry will produce more surplus value (and hence more profit) than an industry relying less upon human labor and more upon machines if Marx is correct. But reality is just the opposite. At best, the return on investment is the same whether the work is done by people or machines. Quite often, machines allow for more profit than human labor. Second, common experience is that the value of a produced object lies not with the labor put into it but in the subjective estimation of a potential purchaser. Marx's labor theory of value and concept of surplus value as driving exploitation in capitalism are the fundamental underpinning upon which all of the rest of his ideas are based. Without them, his moral complaint against capitalism falters and the rest of his philosophy begins to crumble. Thus, his analysis of religion becomes difficult to defend or apply, at least in the simplistic form he describes.

Marxists have tried valiantly to refute those critiques or revise Marx's ideas to render them immune to the problems described above, but they haven't entirely succeeded (although they certainly disagree — otherwise they wouldn't still be Marxists.)

To sum up, Karl Marx pioneered the historical approach to economic sociology in his studies of the rise of capitalism. Marx reacted against Hegel's view that human history, including economic history, was driven by dialectical evolution of ideas. For Hegel, ideas were translated into ways of living and of organizing the economy. Marx saw the world in quite the opposite way, believing that economic relations shape the ideas of the day.

## **MARX's CONTRIBUTION**

Marx produced reams of material about economic life. A positive feature of Marx's approach is his insight into the extent to which people have been willing to fight for their material interests throughout history. He also contributed to understanding how large groups of people, with similar economic interests, under certain circumstances, can unite and realize their interests. On the negative side, Marx grossly underestimated the role in economic life of interests other than the economic ones. His notion that economic interests in the last hand always determine the rest of society is also impossible to defend; social structure, types, and attitudes are coins that do not readily melt.

### **1.2 Max Weber**

Among the classic authors in economic sociology Max Weber (1864-1920) occupies a unique place. It was Weber who made the first sustained attempt to develop a distinct economic sociology – both to its theoretical foundation and to carry out empirical studies with its help (Swedberg, 1998). His experience as a professor of economics for many years was no doubt helpful in these efforts. Also very important is the economic as well as social nature of the major research task that occupied Weber's mind throughout his career, namely to understand the origin and nature of modern capitalism.

Max Weber's economic sociology is usually associated with *The Protestant Ethic and the Spirit of capitalism* in his book entitled as **The Economy and Religion:** (1904-1905). Because while most people are familiar with *The Protestant Ethic and the Spirit of Capitalism*, few know that during the last decade of his life Max Weber also tried to develop a new way of analyzing economic phenomena, which he termed economic sociology. In contrast to the proposition of Marx, Weber argues that ideology can play a key role in influencing and changing the economy of a society. Weber's analysis contrasts Marx's argument. **Marx considers religion to be a dependent variable and the economy an independent variable**, where as Weber argues that religion could cause changes in other social structures including the economy.

In one of major works in sociology, Max Weber tried to trace the impact of protestant religion on the spirit of capitalism. He says the major explanatory variable for the emergence of capitalism in the West was the set of religious ideas created by the religious revolutions of the 16<sup>th</sup> century.

He conducted a study in societies with mixed religious systems in order to provide evidence for his contention that religious ideas and values could influence the economy. He alleges that he found out those who are technical and commercial owners, the leaders of the economic system are overwhelmingly Protestants. Their religion was the main motivational



factor for these people to choose those occupations but other religious systems fail to produce ideas systems that encourage people to those occupations. He discussed the spirit of capitalism in relation to Calvinism. ***Calvinism is the idea system that only a few numbers of people are chosen for salvation and in addition it alleges that people are predetermined to be among the saved or the damned.*** This idea of predetermination leaves people in the state of uncertainty. Hence, Calvinists developed some signs of salvation-economic success. Such religious attitude, therefore, advocated and encouraged hardworking, accumulation of capital (saving) and investment as virtues of moral man. In such way, Calvinist has contributed for the emergence and development of capitalism. He then summed up the following values that are associated with protestant religion that are so important to capitalist economic development.

### **1. Acquisition rationality**

Calvinists are supposed to avoid worldly pleasure and use of wealth in traditional way. In stead they encouraged thrifty and despise waste. They use their capital to expand their business activities. In general, Calvinists advocated the accumulation of capital, saving and investment rather than conspicuous consumption and extravagancy.

### **2. Financial rationality**

Calvinists were not only expected to save what they have acquired but they were also expected to invest in much industrious ventures for further economic prosperity and for increased interest.

### **3. Work rationality**

Calvinists believed that work is intrinsically good and has a religious importance or significance. Calvinists regarded work as personal calling or mission. Thus they advocated hardworking, diligence and these and other values of the protestant religion have helped the transformation of North Europe from feudal agrarian to industrial capitalist society.

### **4. Individualism and competition**

Calvinists believed that man is alone before his maker; he should not trust the friendship of man that only God should be his confident. Each individual could seek success as the sign of grace and strive to be consistent with economic competition.

According to Max Weber, protestant religion didn't hold ground in all Europe at the same time. He mentioned Italy and Spain as lagging behind in economic development as they were predominantly Catholic. He argued that Protestantism provided a good ground for capitalist economic development by introducing the new work ethics mentioned above.

## **Max Weber on Economic Evolution**

Weber primarily looked at the evolution of agrarian structures throughout history in relation to social groups, especially the household and the clan. His original approach to economic sociology works quite well for pre capitalist society, because not much of an autonomous economic sphere had yet developed. He uses examples from all over the world – German, China, India, and Egypt and elsewhere in his work on pre-capitalist agrarian. What interested Weber most; however, was not so much the variety of agricultural life throughout the world as the role that a few universal social groups played in agricultural life, and how these had changed during the course of history. For example, **the clan** was

very important at an early stage of agricultural life. A second social group that Weber analyzed on agriculture was the **household**. A household could own land but usually only moveable means of production.

### **Discuss the basic concepts in Weber's Economic Sociology.**

(The relationship between economic theory and sociology)

Weber's view of the principles of sociology and an introduction to its basic concepts was developed in the first chapter of *Economy and Society*. His famous definition was the following one:

- *Sociology is a science concerning itself with the interpretative understanding social action and thereby with the causal explanation of its course and consequences.*

The same is true for social actions of economic nature, for which the element of meaning is just as central. An adequate explanation in sociology, according to Weber, is one that can explain the actual social action through the understanding of the actor. Weber's type of causality can be called **interpretative**; it differs from functional and mechanical type of explanation.

The basic unit in sociology is the individual, or more precisely, the social actions of the individual. Just like economic theory, in other words, sociology starts its analysis with the individual and the meaning that individual attaches to his/her behavior (methodological individualism). The individual is driven primarily by his or her interest, which can be ideal as well as material; habits and emotions often play a role as well. What first and for most distinguishes sociology from economic theory, however, is **that the action of the individual has also to be social**. While economic theory, in other words, **analyzes economic action** in general, sociology only analyses economic action that also oriented in its meaning to the behavior of others.

### **What are the four major category of social action?**

Weber also categorized social action into four types. The four major types of social actions are: **“traditional,” “affectual, value-rational, and instrumentally rational”**.

- **Value-rational** social action is driven by ideal interests,
- **Instrumentally rational** action is driven by material interests.
- **Affectual** action is driven by habit (tradition) and by emotions as well as by interests
- **Traditional** – driven by habit (tradition) and by emotions

Similarly Economic theory, in Weber's view, analysis situation in which **the actor is driven mainly by material interests and aims at utility (economic action) but doesn't take the behavior of other actors into account**. **Economic sociology** focuses on economic social action- that is, action that is mainly driven by material interests, is oriented to utility, and takes other actors into account. **Social action and economic action** can also be driven by habit (tradition) and emotions typically in combination with interests.

Weber argues that economic analysis should not only cover “**economic phenomena**” but also the **economically relevant phenomena**” and **economically conditioned phenomena**”.

1. **Economic phenomena** consist of economic norms and institutions, which are often deliberately created for economic ends and are primarily significant to people because of their economic aspect. Examples include banks, corporations and stock exchanges.
2. **Economically relevant phenomena** are non-economic that may have an impact on economic phenomena. A paradigmatic example is ascetic Protestantism, as analyzed in *The Protestant Ethics*.
3. **Economically conditioned phenomena**, finally, are phenomena that to some extent are influenced by economic phenomena. The type of religion that a group tends to adopt is for example, partly dependent on what kinds of work its members do.

While **economic theory** can only handle economic phenomena (in their rational version), **economic history and economic sociology** can also deal with economically conditioned phenomena and economically relevant phenomena.

## **The Economy and Politics**

In order to understand how Weber viewed the interactions between the economy and politics, it is useful to contrast his approach to that of Marx. Marx had claimed that the economy decisively influences most social phenomena, but Weber had a different opinion. For one thing, he argued, the causality may just as well work in the opposite direction; the economy may influence the society and again non-economic phenomena equally well influence the economy. In addition, he said, economic phenomena may influence society, but not necessarily in a decisive manner.

### **The Economy and law**

#### **How does law influence economic relations?**

Weber devoted a great deal of attention on law in economic sociology in part because he views law a central to a capitalist society. The modern state according to Weber, has five basic functions, and three of these are directly related to the legal system:” **the enactment of law** (legislative function), “**the protection of vested rights** (administration of justice), and “**the protection of personal safety and public order** (the police).” There is furthermore, in Weber’s mind, a strong tendency in western societies for legitimation to be legal in nature; political leaders are obeyed primarily because they have received and exercise power in accordance with law. Law also plays a key role in modern economy, owing mainly to the contract:” present -day economic life rests on opportunities acquired through contracts. “All contracts are in principle guaranteed by “the threat of legal coercion,” which is administered through the state.

*In general, there is a need for calculability in the modern economy, and these include the legal system. According to Weber, one of the presuppositions of Western national capitalism is that it is rational that is based on calculable law.*

The basic function of law in economic life, viewed from perspective of sociology, is described in the following manner according to Weber. “The empirical validity of a norm as a legal norm affects the interests of an individual in many respects. In particular, it may convey to an individual certain calculable chances of having economic goods available or of acquiring the under certain conditions in the future.”

Several interesting implications follow from looking at how law as a way of increasing the probability that some actions will indeed take place. For one thing, businessmen may dispense with legal forms, if they feel sure that the transaction will take place anyway (as they often do, Weber adds). This confidence also explains why new forms of economic behavior may come into being long before there is any relevant legislation. In addition, it is not at all assumed in Weber’s argument that people do something primarily because they wish to obey the law; in many economic situations, for example, the main reason that people engage in a certain behavior is self-interest rather than obedience to authority.

Finally, Weber also points out that the economic theory disregard the legal environment (as well as other norms) in its models. All that matters, to economic theory, Weber says, is that some behavior indeed takes place- not the various reasons why it does (usage, custom, convention, law, self-interest and so on).

### 1.3 Hebert Spencer

For Herbert Spencer, society evolves from **militant to industrial** and to ethical (perfect) society. In arguing this, he tried to describe the economic activities that characterize each of these forms of societies. He suggested that cooperation in economic production, distribution, exchange and consumption of goods and services is compulsory in militant society. Where as in industrial society, **cooperation is voluntary** and it is regulated by the means of market forces.

In industrial societies, economic activities flourish independent of the direct control of the government based on competition and market based economy. **He was an advocate of laissez fair economic policy**-where unrestrained free trade and competition would promote economic development and stability. He believed a **government should promote competition and free-trade economy**; it should not control or regulate economic activities. The government should leave the business sector to the individuals and should not involve in the economic activities. He defined the state as a limited company formed by individuals to protect their mutual liberty. The proper duty of government is to maintain equal justice and protect order. This is the opposite of the command (centralized) economy where government makes every decision about the production, distribution, exchange and consumptions of goods and services.

### 1.4 Emile Durkehim

Emile Durkheim (1858–1917), compared to Weber, knew less about economics, wrote less on economic topics, and in general made less contribution to economic sociology. However, such conclusion fails to signal the most important fact about Durkheim’s work in this context, namely that it is deeply original and still largely unexplored in light of economic sociology (Steiner, 1992).

## What are the major contributions of Durkheim for the development of economic sociology as discipline?

Durkheim's major contribution to economic sociology is *The Division of Labor in Society* written in 1984. Its central argument is that Western society has developed from being undifferentiated to an advanced division of labor.

In *The Division of labor in the Society*, Durkheim discussed about the different forms of specialization of social functions and he argued that the division of labor is intrinsically connected with the type of social order or social solidarity. In societies characterized by **mechanical solidarity**, we find the division of labor based on sex, age and other natural characteristics. He pointed out that cooperation in such society is compulsory. That means people should cooperate whether they like it or not. In complex societies, where the division of labor is based on specialized role structure, there is freedom from any domination. Cooperation is voluntary and such societies are integrated by organic solidarity.

Durkheim **emphasizes Economists such as Adam Smith** view the division of labor exclusively as an economic phenomenon and is especially fascinated by the increase in production that it entails. **What the economists fail to see, however, is the social dimension of the division of labor**—how it helps to integrate society and make it cohesive, by creating a multitude of dependencies. That means division of labor is determined by social factors.

In *Suicide* Durkheim also notes that unless the state or some other agency representing the general interest can step in and regulate economic life, the result will be “economic anomie”. He says that the state of anomy occurs when the division of labor fails.

People need rules and norms in order to guide their economic actions, and they react very negatively to anomic or anarchic situations. Suicide, for example, does not only increase when the economy suddenly turns downward, but also when it turns *upward*.

In many of Durkheim's works, including *The Rules of Sociological Method* (1895), one can find sharp attacks on mainstream economics. Throughout his academic career Durkheim firmly believed that if economics were ever to become scientific, it would have to become a branch of sociology. He criticized the idea that emphasizes economy as independent entity on the ground that it is impossible to separate the economic element from social life and ignore the role of society.

### 1.5 George Simmel

Simmel's work contains much that is of value to economic sociology. In his famous work *soziologie* Simmel addresses the problem of what a sociological interest analysis should be like and why an analysis of interest is indispensable to sociology. Two of his most central propositions are that interests drive people to form social relations and that **it is only through social relations that interests can be expressed**. **Social relation** is realized in innumerable different ways in which individuals grow together into a unity and within which their interests are realized. And it is on the basis of their interests—or ideal, momentary or lasting, conscious or unconscious, causal or teleological—that individuals form such units.

Another of Simmel's key propositions is that **interests, including economic interests, can take a number of different social expressions**: The identical interest may take one

form in very different relations. Economic interest, for example, is realized both in **competition and in the planned organization of producers**, in isolation from other groups and in fusion with them. *Soziologie* also contains a number of suggestive analyses of economic phenomena, including competition. Simmel suggests, for example, that competition can take the form of *tertius gaudens* (“the third who benefits”). In this situation, which involves three actors, Actor “A” exploits the fact that actors “B” and “C” are competing for his/her favor—to buy or to sell something, for example. Competition is consequently not something that concerns only the competitors (actors B and C); it is also related to Actor A, the target of the competition. There also exists another and much fuller section on competition in *Soziologie*, in which Simmel contrasts competition to conflict. While a conflict typically means a head-on confrontation between two actors, according to Simmel, competition implies parallel efforts, which means that society can benefit from the actions of both actors. **Instead of destroying your opponent, as you do in a conflict, in competition you try to do exactly what your competitor does—only better.**

**The Philosophy of Money** (1900) is one of Simmel’s major sociological work, and it has a somewhat ambivalent status. Even if it is true that Simmel mixes philosophical reflections with sociological observations in a somewhat idiosyncratic manner; that he draws heavily on anecdotes; and that he supplies no references or footnotes, *The Philosophy of Money* has nonetheless much to give if it is read on its own terms. Simmel’s work contains, for example, many insightful reflections on the connection between money and authority, between money and emotions, and between money and trust.

- A. The value of money, Simmel observes, typically extends only as far as the authority that guarantees it—or only within “the economic circle”.
- B. Money is also surrounded by various “economically important sentiments,” such as “hope and fear, desire and anxiety”.

Without trust, Simmel argues, society could simply not exist; and “in the same way, money transactions would collapse without trust”. In relation to money, he continues, trust consists of two elements. There is first of all the fact that because something has happened before, it is likely to be repeated in the future. People who accept a certain type of money today, for example, are likely to do so tomorrow. This type of trust Simmel calls “**a weak form of inductive knowledge.**” But there is also another type of trust, which has no basis in experience and which can be characterized as a non-rational belief. This last type Simmel calls “quasi-religious faith,” and he notes that it is present not only in money transactions but also in those involving credit. Generally, he tried to contribute to the study of economic sociology in his emphasis on the individuals interest led to social relation including economic interactions and his concern on the philosophy of money, interpreting social action interms of money.

## **Section Two: From classical Economics to Economic Sociology**

It is impossible for any society to survive without some form of economic activity to sustain it. And yet it was only fairly recently –**during 1700s** – that the economic phenomena began to be studied in their own right; that means economics was born as a scientific discipline. Why this? This cannot solely be attributed to the slow pace at which knowledge of society has developed. It also involves the “visibility” of economic activities and their autonomy vis-

à-vis other social structures. Specifically, only when the production and distribution of goods and services began to be clearly separated from religious and political regulations and constraints did it become possible to study the 'laws' of economics as such. The economy could now be analyzed as phenomenon that was self-regulating according to its own principles. These principles were those of the **market**: production and distribution depended on the interplay between demand and supply on the market, a game in which actors were sought to maximize the likelihood of individual gain.

**Karl Polanyi** (1977) was one of the authors who insisted on the **primal link between economic enquiry and the consolidation of the market**. To substantiate this view, he referred to anthropological and historical work that studied primitive and archaic economies. In these contexts, economic activities were embedded into a system of non-economic institutions. This means that the production and exchange of goods tied to agriculture, breeding, fishing, and handcrafts were organized on the basis of the principle of "reciprocity" and or "redistribution rather than "market trade."

In the case of reciprocity, goods and services were produced and distributed on the basis of shared solidarity commitments to other members of the family group or tribe. Such duties were usually linked to the perceptions of the prevailing religion, and forms of reciprocity, both within the family group and the larger groups, were foreseen. In this way, different products could be exchanged, and, in fact, the economies of these primitive societies were characterized by a **continuous exchange of goods**. It is clear then that individual behavior was not motivated by the incentive for individual gain in this context, and that the quantity of goods produced was not subjected to the free play of market forces. If one wishes to understand the economies of these societies, one must take account of the complex network of reciprocal social obligations that linked members and motivated their behavior.

Reciprocity in primitive societies often went together with redistribution. For example, prevailing social norms might prescribe that the head of a village or a tribe be given certain products. These would then be put away, conserved and periodically redistributed on special ceremonial occasions, according to variable rules that entitled different levels of inequality. Such forms of economic organization allowed a specialized division of labor across wider territories. For example, it was typical of the economies of the great bureaucratized empires, such ancient Mesopotamia, Egypt, the Incas in Peru and Roman Empire. In these cases, wide scale redistribution went together with the introduction of differentiated political structures, of "a center" that established the rights and duties of people with regard to the economy.

Over time, the level of the economic activities increased, and money began to be used. Economic behavior began to be constrained not only by shared social duties, but also by specific formal rules that were given force by political power, although this was usually legitimized in religious terms. In this case too, therefore, one can not separate the study of the economy from the study of the political structure in which economic activity was embedded.

According to Polanyi, one must take account of reciprocity and distribution as mechanisms of regulation in order to understand European feudalism too, with its complex network of relations between the monarch and liege-lords, and between the latter and the inhabitants of the of their estates. however, it is important to note that the medieval period saw- in Europe more than elsewhere –the constituting of a growing and autonomous space for the market as an instrument for organizing economic activity-increasingly at the expense of the other two “forms of integration,” reciprocity and redistribution.

To understand this process, one must not subsume all types of under the rubric of “market trade”. Exchange involves the relatively pacific acquisition of goods that are not immediately available through a bilateral relation. According to the type of relationship existing between the parties, three forms of exchange can be identified. 1. First is “gift trade”, which, as we have seen, was typical of relationship of reciprocity regulated by shared norms

2. “Administrated trade” was instead characterized by transactions that were rigorously controlled by the political power, as seen in the archaic economies of large empires of antiquity.

In both cases, the reason exchanging for commercialized goods was not located in the relationship between demand and supply, but in the social or political norms; the demand and the supply relationship was specific to market trade in the strictest sense. The importance of market exchange grew slowly but surely in the Western world until finally, during the 1800s-“self-regulating” markets (that is market which determines price through demand and supply) became the primary instrument regulating the production and distribution of goods and services in the developed world. Thus, economic behavior was no longer conditioned by social or political duties but was driven instead by the seek of the gain or the fear of hunger. The political system limited it self to an external role, guaranteeing property right and the freedom of the bargaining, while the life -chances of individuals came increasingly to depend on their sale of the resources at their disposal on the market. It was in this context that economic research, as an independent field of enquiry based on the laws of the market, was able to develop. It was only the emancipation and unbundling of economic activities from social and political constraints – as Polanyi emphasized that enabled economics to emerge as a science.



## Unit Three

### Theories on socioeconomic process

#### 3.1 Formalism

The formalist model is the one most closely linked to neoclassical economics, defining economics as the study of utility maximization under conditions of scarcity. As an attempt to use neoclassical theory to analyze subjects outside of its traditional purview, the formalist model can be linked with new institutional economics. This approach usually makes the following central assumptions:

- Individuals pursue utility (or preference) maximization by choosing between alternative means. They will always choose alternatives that maximize their utility (or that yields a given amount of utility for the least possible amount of inputs or effort required), often within specific informational or transactional constraints.
- Individuals will do so based on rationality, using all *available* information to measure the cost and utility of each means and considering the opportunity costs involved compared to spending their time and effort on other utility maximizing pursuits. Lack of information can be modeled as information asymmetry or as a transaction cost. Whether by conscious forethought, instincts, or traditions, individuals are able to undertake the relevant calculations. In order to make rational choices individuals will seek to obtain all relevant information up to a point where the opportunity cost of information-gathering equals the additional utility gained from having been able to make better informed choices.

All individuals live under conditions of scarcity of means while at the same time having unlimited wants.

Underlying individuals' pursuit of utility maximization is the principle of diminishing marginal utility, meaning that additional resources allocated towards a particular end will tend to achieve that end less and less efficiently. Rational actors will allocate their resources first towards those opportunities that provide the greatest payoff for them, and as opportunities get used up, allocate them towards progressively less efficient ends.

Some formalists use game theory [*attempts to mathematically capture behavior in strategic situations, in which an individual's success in making choices depends on the choices of*

*others. While initially developed to analyze competitions in which one individual does better at another's expense it has been expanded to treat a wide class of interactions, which are classified according to several criteria. Today, "game theory is a sort of umbrella or 'unified field' theory for the rational side of social science, where 'social' is interpreted broadly, to include human as well as non-human players* [as a model of rational behavior under specific cultural or interpersonal constraints.

Formalists such as Raymond Firth and Harold K. Schneider assert that the neoclassical model of economics can be applied to any society if appropriate modifications are made, arguing that the principles outlined above have universal validity. All human cultures are therefore a collection of "choice making individuals whose every action involves conscious or unconscious selections among alternatives means to alternative ends" whereby the ends are culturally defined goals. Goals refer not only to economic value or financial gain but to anything that is valued by the individual, be it leisure, solidarity or prestige.

Since a formalist model usually states what is to be maximized in terms of preferences, which often but not necessarily include culturally expressed value goals, it is deemed to be sufficiently abstract to be capable of explaining human behavior in any context. A traditional assumption many formalists borrow from neoclassical economics is that the individual will make rational choices based on full information, or information that is incomplete in a specific way, in order to maximize whatever that individual considers being of value. While preferences may vary or change and information about choices may or may not be complete, the principles of economizing and maximizing still apply.

The role of the anthropologist or sociologist may then be to analyze each culture in regards to its culturally appropriate means of attaining culturally recognized and valued goals. Individual preferences may differ from culturally recognized goals, and under economic rationality assumptions individual decisions are guided by individual preferences in an environment constrained by culture, including the preferences of others. Such an analysis should uncover the culturally-specific principles that underlie the rational decision-making process. In this way, economic theory has been applied by anthropologists to societies without price-regulating markets. Besides cultural values, formalists may also use evolutionary psychology [an approach to the entire discipline that views human nature as a universal set of evolved psychological adaptations to recurring problems in the ancestral environment] to help model preferences.

### 3.2 Substantivism

The substantivist position, first proposed by Karl Polanyi in his work *The Great Transformation*, argues that the term 'economics' has two meanings: the formal meaning refers to economics as the logic of rational action and decision-making, as rational choice between the alternative uses of limited (scarce) means. The second, substantive meaning, however, presupposes neither rational decision-making nor conditions of scarcity. It simply refers to study of how humans make a living from their social and cultural environment. A society's livelihood strategy is seen as an adaptation to its environment and material conditions, a process which may or may not involve utility maximization. Economics is simply the way society meets their material needs.

*The Great Transformation* is a book by Karl Polanyi, a Hungarian political economist. First published in 1944, it deals with the social and political upheavals that took place in England during the rise of the market economy. Polanyi contends that the modern market economy and the modern nation-state should be understood not as discrete elements, but as the single human invention he calls the Market Society.

Polanyi argued that the development of the modern state went hand in hand with the development of modern market economies and that these two changes were inexorably linked in history. His reasoning for this was that the powerful modern state was needed to push changes in social structure that allowed for a competitive capitalist economy, and that a capitalist economy required a strong state to mitigate its harsher effects. For Polanyi, these changes implied the destruction of the basic social order that had existed throughout all earlier history, which is why he emphasized the greatness of the transformation. His empirical case in large part relied upon analysis of the Speenhamland laws, which he saw not only as the last attempt of the Squirearchy to preserve the traditional system of production and social order, but also a self-defensive measure on the part of society that mitigated the disruption of the most violent period of economic change. The book also presented his belief that market society is unsustainable because it is fatally destructive to the human and natural contexts it inhabits.

Polanyi turns the tables on the orthodox liberal account of the rise of capitalism by arguing that “laissez-faire was planned”, whereas social protectionism was a spontaneous reaction to the social dislocation imposed by an unrestrained free market. He argues that the construction of a ‘self-regulating’ market necessitates the separation of society into economic and political realms. Polanyi does not deny that the self-regulating market has brought “unheard of material wealth”, however he suggests that this is too narrow a focus. The market, once it considers land, labor and money as “fictitious commodities” (fictitious because each possesses qualities that are not expressed in the formal rationality of the market) “subordinate[s] the substance of society itself to the laws of the market.” This, he argues, results in massive social dislocation, and spontaneous moves by society to protect itself. In effect, Polanyi argues that once the free market attempts to separate itself from the fabric of society, social protectionism is society’s natural response; this he calls the ‘counter movement’. Polanyi did not see economics as a subject closed off from other fields of enquiry, indeed he saw economic and social problems as inherently linked. He ended his work with a prediction of a socialist society, noting, “after a century of blind ‘improvement’, man is restoring his ‘habitation.’”

Polanyi's term "great transformation" refers to the divide between modern, market-dominated societies and non-Western, non-capitalist pre-industrial societies. Polanyi argues that only the substantive meaning of economics is appropriate for analyzing the latter. Without a system of price-making markets formal economic analysis does not apply, for example in centrally planned economies or pre-industrial societies. Individual choice in such places is not so much based on the maximization of economic profit but rather on social relationships, cultural values, moral concerns, politics or religion. Production in most

peasant and tribal societies is for the producers, also called 'production for use' or subsistence production, as opposed to 'production for exchange' which has profit maximization as its chief aim. These types differ so radically that no single theory can describe them all.

**According to Polanyi, in modern capitalist economies the concepts of formalism and substantivism coincide since people organize their livelihoods based on the principle of rational choice. However, in non-Capitalist, pre-industrial economies this assumption does not hold.** Unlike their Western capitalist counterparts, they are not based on market exchange but on redistribution and reciprocity. Reciprocity is defined as the mutual exchange of goods or services as part of long-term relationships. Redistribution implies the existence of a strong political centre such as kinship-based leadership, which receives and then redistributes subsistence goods according to culturally-specific principles. In societies that are not market-based reciprocity and redistribution usually occur together. Conversely, market exchange is seen as the dominant mode of integration in modern industrial societies, while reciprocity may continue in family and inter-household relations, and some redistribution is undertaken by the state or by charitable institutions. Each of these three systems of distribution requires a separate set of analytical concepts.

### **Discuss the concept of economic embeddedness.**

Another key concept in substantivism is that of 'embeddedness'. Rather than being a separate and distinct sphere, the economy is embedded in both economic and non-economic institutions. Exchange takes place within and is regulated by society rather than being located in a social vacuum. For example, religion and government can be just as important to economics as economic institutions themselves. Socio-cultural obligations, norms and values play a significant role in people's livelihood strategies. Consequently, any analysis of economics as an analytically distinct entity isolated from its socio-cultural and political context is flawed from the outset. A substantivist analysis of economics will therefore focus on the study of the various social institutions on which people's livelihoods are based. The market is only one amongst many institutions that determine the nature of economic transactions. Polanyi's central argument is that institutions are the primary organizers of economic processes. The substantive economy is an "instituted process of interaction between man and his environment, which results in a continuous supply of want satisfying material means."

The concept of embeddedness has been very influential. In his study of Chinese ethnic business networks in Indonesia, Granovetter found individual's economic agency embedded in networks of strong personal relations. In processes of clientelization the cultivation of personal relationships between traders and customers assumes an equal or higher importance than the economic transactions involved. Economic exchanges are not carried out between strangers but rather by individuals involved in long-term continuing relationships. Granovetter describes the neo-liberal view of economic action as separating economics from society and culture, thereby promoting an 'under socialized account' that

atomizes human behavior: "Actors do not behave or decide as atoms outside a social context, nor do they adhere slavishly to a script written for them by the particular intersection of social categories that they happen to occupy. Their attempts at purposive action are instead embedded in concrete, ongoing systems of social relations."

### 3.3 Culturalism

For some anthropologists the substantivist position does not go far enough in its criticism of the universal application of Western economic models on societies all around the globe. Stephen Gudeman, for example, argues that the central processes of making a livelihood are culturally constructed. Therefore, models of livelihoods and related economic concepts such as exchange, money or profit must be analyzed through the locals' ways of understanding them. Rather than devising universal models rooting in Western understandings and using Western economic terminologies and then applying them indiscriminately to all societies, one should come to understand the 'local model'. In his work on livelihoods Gudeman seeks to present the "people's own economic construction" that is, not just examining the cultural construction of values as in which products people like to buy and how much they value leisure, but people's own conceptualizations or mental maps of economics and its various aspects, i.e. their understanding of concepts such as exchange, property or profit.

His description of a peasant community in Panama reveals that the locals did not engage in exchange with each other in order to make a profit but rather viewed it as an "exchange of equivalents", with the exchange value of a good being defined by the expenses spent on producing it. Only outside merchants made profits in their dealings with the community, and it was a complete mystery to the locals how they managed to do so.

Gudeman not only rejects the formalist notion of the universal 'economic person'; he also criticizes the substantivist position for imposing their universal model of economics on all preindustrial societies and so making the same mistake as the formalists. While conceding that substantivism rightly emphasizes the significance of social institutions in economic processes, Gudeman considers any derivational model that claims to be of universal nature, be it formalist, substantivist or Marxist, to be ethnocentric and essentially tautological. In his view they all model relationships as mechanistic processes by taking the logic of natural science based on the material world and applying it to the human world. Rather than to "arrogate to themselves a privileged right to model the economies of their subjects", anthropologists should seek to understand and interpret local models. Such local models may differ radically from their Western counterparts. To quote Gudeman: "Gaining a livelihood might be modeled as a causal and instrumental act, as a natural and inevitable sequence, as a result of supernatural dispositions or as a combination of all these." For example, the Iban only use hand knives to harvest rice.

Even though the use of sickles would speed up the harvesting process, their concern that the spirit of the rice may flee is greater than their desire to economize the harvesting process.

Gudeman brings post-modern cultural relativism to its logical conclusion. Generally speaking, however, culturalism can also be seen as an extension of the substantivist view, with a stronger emphasis on cultural constructivism, a more detailed account of local understandings and metaphors of economic concepts, and a greater focus on socio-cultural dynamics than the latter. Culturalists also tend to be both less taxonomic and more culturally relativistic in their descriptions while critically reflecting on the power relationship between the ethnographer (or 'modeler') and the subjects of his or her research. While substantivists generally focus on institutions as their unit of analysis, culturalists lean towards detailed and comprehensive analyses of particular local communities. Both views agree in rejecting the formalist assumption that all human behavior can be explained in terms of rational decision-making and utility maximization.

### Critics of the Approaches

There have been many critics of the formalist position. Its central assumptions about human behavior have been questioned. In particular, it has been argued that the universality of rational choice and utility maximization cannot be assumed across all cultures. But also with regards to modern Western societies the economic reductionism in explaining human behavior has been critiqued. Prattis notes that the premise of utility maximization is tautological; whatever a person does, may it be work or leisure, is declared to be utility maximization. If he or she doesn't maximize money then it must be pleasure or some other value. To quote: "This *post hoc* reasoning back to *a priori* assumptions has minimal scientific value as it is not readily subject to falsification." For example, a person may sacrifice his or her own time, finances or even health to help others. Formalists would then pronounce that s/he does so due to placing a high value on helping others, and so sacrificing other goals in order to maximize this value and thereby to gain utility (e.g. meaning, satisfaction of having helped, approval from others etc.). But this is simply an assumption; the motivation of this person may or may not coincide with this inferred explanation pattern. Similarly, Gudeman argues that Western economic anthropologists will invariably "find" the people they study to behave "rationally" since that is what their model leads them to do. Conversely, formalism will consider any behavior that does not maximize utility based on available means as irrational. However, such "non-maximizing acts" may seem perfectly rational and logical for the acting individual whose actions may have been motivated by a completely different set of meanings and understandings.

Finally, there is the substantivist point that both economic institutions and individual economic activities are embedded in the socio-cultural sphere and can therefore not be analyzed in isolation. Social relationships play an essential role in people's livelihood strategies; consequently, a narrow focus on atomized individual behavior to the exclusion of his or her socio-cultural context is bound to be flawed.

Substantivism has not been without its critics, either. Prattis (1982) argues that the strict distinction between primitive and modern economies in substantivism is problematic. Constraints on transactional modes are situational rather than systemic (he therefore implies that substantivism focuses on social structures at the expense of analyzing

individual agency). Non-maximizing adaptation strategies occur in all societies, not just in "primitive" ones. Similarly, Plattner (1989) argues that some generalization across different societies are still possible, meaning that Western and non-Western economics are not entirely different. In an age of globalization there are probably hardly any "pure" preindustrial societies left. Conditions of resource scarcity can be said to exist anywhere in the world. It is significant to note anthropological fieldwork that demonstrates rational behavior and complex economic choices amongst peasants. Also, individuals in e.g. communist societies can still engage in rational utility maximizing behavior, e.g. by building relationships to bureaucrats who control distribution, or by using small plots of land in their garden to supplement official food rations. Cook thinks that there are significant conceptual problems with the substantivists' theorizing: "They define economics as an aspect of everything that provisions society but nothing that provisions society is defined as economic."

While market exchange is dominant in the West, redistribution can also play a very significant role particularly in the more socialist or welfare-state Western societies such as France, Germany or Sweden. State and charity or religious organizations collect donations and then distribute them to needy groups (or use the funds to offer free or inexpensive social services).

Culturalism can also be criticized from various perspectives. Marxists would argue that culturalists are too idealistic in their notion of the social construction of reality and too weak in their analysis of external (i.e. material) constraints on individuals that affect their livelihood choices. If, as Gudeman argues, local models cannot be objectively appraised or held against a universal standard, then there is also no way of deconstructing them in terms of ideologies propagated by the powerful that serve to neutralize resistance through hegemony. This is further complicated by the fact that in an age of globalization most cultures are being integrated into the global capitalist system and are influenced to conform to Western ways of thinking and acting. Local and global discourses are mixing and the distinctions between the two are beginning to blur. Even though people will retain aspects of their existing worldviews, universal models can be used to study the dynamics of their integration into the rest of the world.

German economists Gunnar Heinsohn and Otto Steiger have acknowledged that market exchange is not universal and start from Karl Polanyi's distinction between systems based on reciprocity, redistribution and markets. However, they criticize both substantivists and formalists for being unable to provide a satisfactory explanation for market rationality and its historical origins. They developed a novel explanation for the origins of property, contracts, credit, money and markets that they term the "property theory of interest, money and markets". They apply their model to development economics, where an understanding of dynamic markets is essential since the task is to create them where they have not existed before.

## Economy and Society:

### Economic Action

#### The concept of economic action

1. Action will be said to be “economically oriented” so far as, according to its subjective meaning, it is concerned with the satisfaction of a desire for “utilities” (Nutzleistungen). “**Economic action**” (Wirtschaften) is any peaceful exercise of an actor’s control over resources which is in its main impulse oriented towards economic ends. “Rational economic action” requires instrumental rationality in this orientation, that is, deliberate planning. We will call autocephalous economic action and “economy” (Wirtschaft), and an organized system of continuous economic action and “economic establishment” (Wirtschaftsbetrieb).

2. The definition of economic action must be as general as possible and must bring out the fact that all “**economic**” processes and objects are characterized as such entirely by the meaning they have for human action in such roles as ends, means, obstacles, and by-products. It is not, however, permissible to express this by saying, as is sometimes done, that economic action is a “psychic” phenomenon. The production of goods, prices, or even the “subjective valuation” of goods, if they are empirical processes, are far from being merely psychic phenomena. But underlying this misleading phrase is a correct insight. It is a fact that these phenomena have a peculiar type of subjective meaning. This alone defines the unity of the corresponding processes, and this alone makes them accessible to subjective interpretation.

The **definition of “economic action”** must be formulated in such a way as to include the operation of a modern business enterprise run for profit. Hence the definition cannot be based directly on “**consumption needs**” and the “**satisfaction**” of these needs, but must, rather, start out on the one hand from the fact that there is a desire (demand) for utilities (which is true even in the case of orientation to purely monetary gains), and on the other hand from the fact that provision is being made to furnish the supplies to meet this demand (which is true even in the most primitive economy merely “satisfying needs,” and regardless of how primitive and frozen in tradition the methods of this provision are).

3. As distinguished from “**economic action**” as such, the term “economically oriented action” will be applied to two types: (a) every action which, though primarily oriented to other ends, takes account, in the pursuit of them, of economic considerations; that is, of the consciously recognized necessity for economic prudence. Or (b) that which, though primarily oriented to economic ends, makes use of physical force as a means. It thus includes all primarily non-economic action and all non-peaceful action which is influenced by economic considerations. “Economic action” thus is a conscious, primary orientation to economic considerations. It must be conscious, for what matters is not the objective necessity of making economic provision, but the belief that it is necessary. Robert Liefmann has rightly laid emphasis on the subjective understandable orientation of action which makes it economic action. He is not, however, correct in attributing the contrary view to all other authors.

4. Every type of action, including the use of violence, may be economically oriented. This is true, for instance, of war-like action, such as marauding expeditions and trade wars. Franz Oppenheimer, in particular, has rightly distinguished “economic” means from “political” means. It is essential to distinguish the latter from economic action. The use of force is unquestionably very strongly opposed to the spirit of economic acquisition in the usual



sense. Hence the term “economic action” will not be applied to the direct appropriation of goods by force and the direct coercion of the other party by threats of force. It goes without saying, at the same time, that exchange is not the only economic means, though it is one of the most important. Furthermore, the formally peaceful provision for the means and the success of a projected exercise of force, as in the case of armament production and economic organization for war, is just as much economic action as any other.

Every rational course of political action is economically oriented with respect to provision for the necessary means, and it is always possible for political action to serve the interest of economic ends. Similarly, though it is not necessarily true of every economic system, certainly the modern economic order under modern conditions could not continue if its control of resources were not upheld by the legal compulsion of the state; that is, if its formally “legal” rights were not upheld by the threat of force. But the fact that an economic system is thus dependent on protection by force does not mean that it is itself an example of the use of force.

How entirely untenable it is to maintain that the economy, however defined, is only a means, by contrast, for instance, with the state, becomes evident from the fact that it is possible to define the state itself only in terms of the means which it today monopolizes, namely, the use of force. If anything, the most essential aspect of economic action for practical purposes is the prudent choice between ends. This choice is, however, oriented to the scarcity of the means which are available or could be procured for these various ends.

5. Not every type of action which is rational in its choice of means will be called “rational economic action,” or even “economic action” in any sense; in particular, the term “economy” will be distinguished from that of “technology.” The “technique” of an action refers to the means employed as opposed to the meaning or end to which the action is, in the last analysis, oriented. “**Rational**” technique is a choice of means which is consciously and systematically oriented to the experience and reflection of the actor, which consists, at the highest level of rationality, in scientific knowledge.

## UNIT FOUR

### THE ECONOMIC SOCIOLOGY OF CAPITALISM

Capitalism is the dominant economic system in today's world, and there appear to be few alternatives in sight. Socialism, its main competitor, has been weakened immeasurably by the collapse of the Soviet Union. In countries where socialism still prevails, such as in the People's Republic of China, serious attempts are made to turn the whole economic system in a capitalist direction so that it will operate in a more efficient manner.

While the superiority of capitalism as an economic system and growth machine has fascinated economists for centuries, this has not been the case with sociologists. For sociologists, capitalism has mainly been of interest for its *social* effects-how it has led to class struggle, anomie, inequality, and social problems more generally. Capitalism as an economic system in its own right and as a generator of wealth has been of considerably less interest. Some of this reaction has probably to do with the unfortunate division of labor that developed between economists and sociologists in the nineteenth century: **Economists studied the economy, and sociologists studied society minus the economy.** In this respect, as in so many others, sociology has essentially been a "left-over science" (Wirth 1948).

This division of labor between economists and sociologists, however, has not gone unchallenged. In the 1980s sociologists especially in the United States turned their attention to the study of the economy itself, asking questions such as the following: Where do markets come from? How is economic action embedded in social relations? What role do norms and trust play in the economy? (White, 1981).

These set of questions indicated something new soon became clear. That means a huge amount of research known as "New Economic Sociology" soon came into being.

In all of the writings by sociologists on the economy, the emphasis has primarily been on middle-range phenomena, and few efforts have been made to analyze capitalism. Why this is the case is difficult to say. One answer might be that capitalism is taken for granted, and this would seem to be especially true for the business schools, where a number of important economic sociologists are currently to be found. Another may be that new economic sociologists (with a few exceptions) do not seem to have been very interested in politics and the concept of capitalism is by tradition among sociologists associated with a political critique of capitalism. The contributions to the study of capitalism that one can find in Marxist sociology have, for example, not been much explored by contemporary economic sociologists.

If we now turn to the economists, these used to stay away from analyses of capitalism as an economic system and instead focus on the workings of the price system and show how this led to an efficient allocation of resources. The word "capitalism" was rarely used by

economists during the twentieth century until they suddenly embraced it ( Sombart 1930; Block 2000). Since this time, however, the economists have made quick strides forward. As a result, the leading academic scholars on the subject of capitalism are no longer sociologists but economists.

In this unit an effort will be made to present an agenda for a sociological study of capitalism. There are two reasons why this type of study may be called *an economic sociology of capitalism*. First, the main emphasis is not on the social effects of capitalism, but on capitalism as an economic system in its own right-on the firms, the banks, the markets, and the other economic institutions that make up the core of the economy. This is where the "economic" in "economic sociology" comes in. Second, of the several economic theories of capitalism, it is important to understand the one which sufficiently takes the social dimension of the capitalist machinery into account and this is where the "sociology" in "economic sociology" comes in.

A study of capitalism as an economic system should consist of two parts. First of all, studies of individual, middle-range phenomena need to be made. Indeed, this constitutes by far the most important task of an economic sociology of capitalism and cannot be replaced by macro-level studies of capitalism. Related to this, they also show how the study of the various parts of the economy needs to be interrelated. In studying each individual part of the capitalist system it is furthermore important to be clear about what drives the system as a whole. And finally, as already the classics were well aware of, there exists an overall logic to capitalism as an economic system, which the individual actors are not aware of. Through the logic of unintended consequences capitalism not only produces individual wealth but also social wealth (Smith), not only advances for some but also setbacks and hard times for others (Marx, Weber).

### **A Basic Model of Capitalism**

The reference to Adam Smith, Marx, and Weber lays a ground for an economic sociology of capitalism. This consists of the proposition that *interests* drive the actions of the individuals, and that these interests come together in a very specific way in capitalism. The actors in society are driven by a variety of interests--political, economic, legal, and so on. It is important to insist here on *the plurality of interests* since this makes the analysis realistic as well as flexible. Interests of the same type, as well as of different types, may reinforce each other, counterbalance each other, and block each other and so on. Interests, very importantly, are what supply *the force* in the economic system-what make millions of people get up in the morning and work all day. Interests also explain why banks, financial markets, and similar institutions are so powerful: they can mobilize and energize masses of people into action through their control over economic resources.

At this point it should be noted that sociologists have often tended to ignore interests and focus exclusively on social relations and the impact that these may have. This exclusive emphasis on social relations can to some extent be explained as the professional myopia of the sociologist. It is matched, in the economic profession, by a similar overemphasis on the purely economic side of things-on economic interests and their effects, *minus* social

relations as well as other types of interests. A hard-hitting economic sociology would attempt to draw on the best of sociology and economics, and to *unite* interests and social relations in one and the same analysis. Interests, in all brevity, are always socially defined, and they can only be realized through social relations.

Our definition of institutions can be used to exemplify this need for drawing on both interests and social relations in the analysis. Institutions are often defined in sociology- especially in the approach that has been developed by various experts on organization theory in exclusively social terms, that is, as rules, models, social constructions, and so on. Everything, from this perspective, can be an institution, from a handshake and a dance to the state and the firm. The individuals with their interests are somehow abstracted away, to make room for a vision of institutions as pure and empty structures which are imitated, duplicated, and so on in a fairly effortless manner.

In contrast to this approach, institutions will here be defined as *durable lock-ins or amalgamations of interests and social relations*. This view of institutions is currently being developed, but still has some way to go (, Swedberg, 2003b). According to this perspective, the interests of individuals as well as of corporate actors must always be explicitly taken into account. A business firm, for example, does not exist unless you also include the capital of the firm and the interests that are associated with this. Similarly a family does not exist unless you take into account the forces (interests) that draw the members together- be they emotional, sexual, and/or economic. To this may be added that there is not only a time dimension to institutions- they tend to last for some time but also a normative element: they tell you *how* interests should be realized in society, be they family, political, economic, or some other type of interest. The more legitimate an institution is, the more this normative element tends to be taken for granted- and this gives the institution legitimacy and makes it stronger. Finally, as a sign of the importance of institutions to society, they are typically also regulated in law.

A basic model for capitalism will now be presented which draws on a mixture of sociology and economics. Our general point of departure is the conventional definition of economics as consisting of production, distribution, and consumption. To cite a well-known textbook: "Economics is the study of how men and society end up *choosing*, with or without the use of money, to employ *scarce* productive resources which could have alternative uses, to produce various commodities and distribute them for consumption, now or in the future, among various people and groups in society" (Samuelson, 1970: 4).

This definition describes the economy as a process: all economies start with *production*, continue with *distribution*, and end with *consumption*. Now all economies can be organized in what amounts to two fundamentally different ways. Weber expressed this with the help of his two categories "house holding" (*Haushalten*) and "profit-making" (*Erwerben*): you produce either for consumption or for profit (Weber, 1978: 86-100). Marx alluded to the same phenomenon when he spoke of "use value" versus "exchange value" (Marx, 1906: 42-43).

The key to the different ways of organizing the economy is found in the way that the economic product is *distributed* in the sense of being passed on in the economic process. Here is the point where the term distribution depart from the way it is often used in economics as the division of what has been produced and instead focusing on the different social mechanisms through which what has been produced is being passed on.

To show the fruitfulness of this approach, one may refer to Polanyi's three concepts of *redistribution*, *reciprocity*, and *exchange* (Polanyi, 1971). Following Polanyi, it is clear that one way of distributing or passing on what has been produced is through *redistribution*. The agent who does the redistribution is typically the state or some other political authority. The modern socialist state is an example of an economic system that is primarily based on redistribution. Other examples can easily be found, for example, in antiquity. What has been redistributed is then consumed. Some part of what has been produced is always set aside for future production; the size of this part is decided by the political authority. An economy which is primarily based on redistribution is capable of growth but not the dynamic type of growth that is characteristic of capitalism. It is a growth that rather follows and mirrors political decisions than an internal and independent logic.

The second way of distributing or passing on what has been produced, according to Polanyi, is through *reciprocity*. This means some horizontal form of distribution, as is common in a family or in a kin-based economy. Again, some part of what is being produced is always set aside for future production. And, again, the result of proceeding in this manner is not going to lead to a dynamic economy. An economy which is based on reciprocity tends toward traditionalism and some form of equity.

Only the third way of distributing or passing on production through *exchange* can leads to a truly dynamic economic system, with an ever growing economy. The reason for this is that this system is driven not exclusively by the eternal human interest in consumption but also by the powerful interest of *profit*. The latter activates people in a very different way from what redistribution or reciprocity do. And on the assumption that the profit is also reinvested in production, dynamic economic system *capitalism* will now come into being.

What is unique about capitalism, as compared to economic systems based on redistribution and reciprocity, is that it alone is primarily driven by the profit motive. The two most important social mechanisms in capitalism are consequently *exchange* and *the feedback of profit into production*. Complexity is added to the capitalist type of economy by the fact that it also contains several sectors or local (but interconnected) economies, which are based on reciprocity and redistribution. What can be called *the state economy* is, for example, based on redistribution, while *the household economy* is based on a mixture of redistribution and reciprocity. *The nonprofit economy* is based on exchange but does not aim at profit. The only sector that is squarely based on exchange and profit is consequently *the corporate economy*.

Following this model, the modern capitalist economies can be said to consist of several sectors or local (but interconnected) economies. There is, first of all, the corporate economy, where exchange dominates. There is also the nonprofit sector, which is based, among other things, on redistribution. The state accounts for a huge part of GNP (30-50 percent), and

what can be called the state economy is primarily based on redistribution. The household economy is based on a mixture of redistribution and reciprocity.

### **The meaning of capitalism model for Economic Sociology**

The rest of this unit is devoted to an attempt to spell out what it would mean for economic sociology to set this model of capitalism at the center of its analyses. It is clear that this would have important consequences for what may be seen as the central task of economic sociology namely to produce studies of production, distribution, consumption and profit-making (in this section of the unit). In addition to these, the impact of *law*, *politics*, and *culture* on the economic process are discussed. For all of these topics it is also imperative to investigate how they can *speed up*, *slow down*, or *block* economic growth. Still, our model obviously remains highly simplistic and is in its current shape silent on a number of important economic phenomena, from savings to the dynamics of the business cycle. The focus in this unit is on the macroeconomic level of the economic process. The reasoning, on which the model is based, however, may also be used to capture essential aspects of what happens in the economy on the micro- and meso-level.

Finally, there exist a number of theories of capitalism in social science; how these can add to the approach that is being presented in this unit will be explored in the next section. Special attention will be paid to the works of Marx, Weber, Schumpeter, Douglass North, and advocates of the varieties of capitalism-approach. The unit ends with a discussion of some ways to bring more complexity to the model of capitalism which is advocated here.

### **The Sociology of Distribution**

The capitalist system consists of three basic processes which are all interdependent and shaped by the fact that they are parts of a dynamic system. These are production, distribution, and consumption. One of these important processes is distribution in the form of exchange on the market. This represents the reason why it is preferable to start with distribution rather than with production, which otherwise comes first in the economic process.

Once it has been decided to start with distribution in the form of exchange, it immediately becomes clear that there exists an important precondition for exchange to take place in the first place, namely private property. From a sociological perspective, Weber explains, property can be conceptualized as a specific form of a closed social relationship. More precisely, it represents a relationship that allows the actor to exclude other actors from the opportunity to use some item or some person. This right is also alienable and can be inherited. Property is typically legally protected, which means that if it is infringed upon, a state will use coercion to restore it (Weber, 1978).

This view of property is close to the economists' view of property as a collection of enforceable property rights (Barzel, 1989). The main difference is that the element of social relations is given a much more prominent and visible form in the sociological view of property. There nonetheless exists a basic compatibility between the economic and

sociological view of property. This can be illustrated by the fact that during the last few years a number of sociological studies have appeared which draw on the notion of property rights (Campbell and Lindberg 1990).

What is crucial about private as opposed to collective property is that the former appeals directly to the individual, and in doing so, it activates him or her in a manner that collective property is unable to do. Some might argue that people should in principle be as motivated by the prospect of acquiring and using collective property as they are by the prospect of acquiring and using private property. The reason why this is rarely the case, however, has much to do with the free rider problem (Olson, 1965). It is also very easy for a few individuals to misuse or destroy collective property.

Once private property exists, exchange becomes possible. The driving force in an exchange is always that both parties will be better off by trading with each other than by not doing so. Actor A may value his/her bike at \$50 and Actor B at \$70; and if an exchange takes place both will be better off and social wealth will have increased by \$20. For an exchange to take place, it is not necessary that one party becomes better off while no one is worse off (Pareto optimality). What rather needed is that both parties become better off by X, without a third party being worse off by more than X, according to the so-called Kaldor-Hicks concept of efficiency. This latter concept of efficiency is often used in economics because its demands are less stringent than those of Pareto optimality. The reason for referring to it here, however, is that it explains the nature of exchange very nicely; especially what drives the two parties to engage in an exchange in the first place.

Sociologists and economists have developed different approaches to markets-to the role that these play in the economic process, to what is typically regulated in a market, and so on. To economists, markets are primarily processes for price formation, in which the price helps to allocate scarce resources in an efficient manner. By tradition, economists have neglected the institutional dimension of markets, such as rules for exchange, the enforcement machinery, and so on (North, 1977).

Sociologists, on the other hand, tend to emphasize the role of social relations and institutions in markets. Today's sociologists will typically analyze the networks which are created by interacting market actors (Baker, 1984). Weber noted that markets consist not of repeated acts of exchange, but also of competition among the actors for who will be the one to sell and who will be the one to buy. This idea of "competition for opportunities of exchange" is perfectly compatible with a networks approach, as Ronald Burt has shown in his theory of structural autonomy (Weber, 1922).

Given the fact that economists and sociologists each hold half of the truth, so to speak, when it comes to markets, it seems natural that they should try to coordinate their efforts. Economists need to better understand the role of the social relations in the market, and sociologists need to better understand how prices are formed and what effects these have on the economy. Prices drive many economic changes in capitalism, as Douglass North has made clear but they do so via a social structure in which interests are embedded, and where quite a bit else is going on as well (North and Thomas 1973).

An economic sociology of markets should also study what changes in the exchange mechanism make the capitalist wheel spin faster as well as what slows it down and makes it grind to a halt. According to the theory of transaction costs, lower costs for market deals are a sign of a more efficient exchange mechanism. This is true indeed, and there are economic reasons for it. Lower transaction costs in this context, however, are typically accomplished through changes in social relations and in social mechanisms-and this is where the sociologist can be of help (Swedberg, 1998). Take, for example, the clause of bona fide or the fact that if the buyer is in good faith it does not matter if the seller did not acquire the goods in question in a proper manner. Bona fide naturally lowers the transaction costs-but is also a fact of such social complexity that the sociologist may be better equipped than the economist to analyze it. The same is true for many other forms of trust in economic life (Fukuyama, 1995).

But economic sociology is not only interested in what makes the wheels of capitalism spin faster; there is the equally challenging question of what makes them slow down or grind to a halt. Again, Weber's work can be used for illustrations. If bureaucrats in a firm gain power at the expense of the entrepreneur, for example, profit-making will be slowed down since bureaucrats are by nature somewhat alien to the idea of profit-making. One reason for this, Weber says, has to do with the fact that people on a fixed income often find it dishonorable to be swayed exclusively by economic considerations. But there is also the fact that if individual firms and capitalists are not stopped in their attempts to create monopolies, capitalism may wither away because there will be no competition to keep it alive (Weber, 1922). Recent scandals in corporate America have also shown how dishonest and false accounting can slow down economic growth and block new investments.

All in all, the market is *the* central institution in capitalism. To this should immediately be added that this is only true on condition that most of the production passes through the market. In the great majority of societies throughout history, markets have indeed played a role, but usually a marginal one. It is only since the late nineteenth century, in countries such as England and the United States, that the great bulk of production-food, clothes, and so on has been produced in the form of commodities which are exchanged in the market. In 1790, for example, 80 percent of all clothing in the United States was made in the home, while a century later 90 percent was made outside the home (Boorstin, 1974).

When most of production passes through the market, it can be added, the competition for exchange that Weber speaks about as characteristic of the market will also dominate what happens in the economy *outside* of the market. That is, instead of just bringing a few surplus items to the market, as peasants often did in the Middle Ages, the producers in a modern capitalist economy must start the competition and think about the market long before they enter the market. When one speaks of a market economy, in other words, what is meant is an economy where the market is not only used for exchange; it also dominates production (and consumption, as we shall soon see).

**The role of money in capitalist economy:** Before leaving the topic of distribution, something also needs to be said about *money* since this is the place in the economic process



where money enters into the picture. There are primarily two reasons for this: money is the medium of exchange and it is also a facilitator of credit (Ingham, 2004). The historical step from barter to exchange with money extended the number of goods that could be exchanged against each other enormously. Money, more generally, also helps the process exchange to proceed smoothly and lowers the cost of exchange. Many other financial innovations such as the bill of exchange, certificates of deposit and so on have similarly helped to lower transition costs and were developed in close touch with markets.

While money, like any other economic phenomena, has a cultural dimension (a point we shall return to), it is its place within the overall economic process that is of most interest to economic sociology. In economies based on reciprocity, money often plays a subordinate role since other values than "the cash nexus" decide who should get what. In economies based on redistribution, money is often in use, as recent examples of state socialism are a reminder of. Political interests, however, dominate the operations of money in this type of societies, and socialist states have usually failed in their attempts to simulate effective market or exchange prices.

In capitalism, in contrast, money and markets are protected by the existence of "credible commitments" from the political rulers, that is, by assurances of the rulers that they will not unduly intervene in the workings of the market. Money, in brief, is allowed to operate "freely" and can therefore help the market to operate more smoothly and cheaply. Money also plays an important role in the capitalist process in the form of capital, that is, as resources devoted to profit-seeking. Money and markets, in brief, belong together and therefore need to be studied together.

## **The Sociology of Production**

The next major area within the economic sociology of capitalism is that of production. No society can live without production, and all production involves social coordination—a sociological element. Nonetheless, an economic sociology of production may want to start from the following well-known economic premise: that production consists of combinations of some or all of the traditional factors of production such as land, labor, capital, technology, and "organization" (Marshall, 1961). The sociologist may want to add that all of these factors of production have their own distinct sociological profiles before they enter into production as well as once they interact in the firm. In relation to the basic model of capitalism, the factors of production can be conceptualized as inputs into production.

It should also be emphasized that it is not the organizational form itself (or capital or technology) that is the sole determinant of productivity. It represents a common error among organization theorists, for example, to think that organizations are what matters the most just as Marxists think that labor is the key to all production, engineers (and many economic historians) that technology is the cause of all economic growth, and so on. *All* of these factors contribute to productivity, individually as well as in combination.

This is also where entrepreneurship in its Schumpeterian sense comes in. Entrepreneurship is classically defined by Schumpeter as the putting together of "new

*combinations*" (Schumpeter 1934: 65-66). An innovation may consist, for example, of a new kind of commodity or some novel way of lowering the price, and it will typically result in high profit for the entrepreneur. Soon, however, there will be more entrepreneurs and lower profit, until a stage is reached where over investments are made. When this happens to a number of innovations, according to Schumpeter, a business cycle is set off which works itself out in the economy until there is a new wave of innovations and the whole process is repeated.

## **Factor of Production**

### **1. Labor**

When factors of production were discussed in the nineteenth century, land was usually assigned a prominent place. In today's capitalism, however, land is of much less importance for the economy as a whole, and the average household is not dependent on working the land for its livelihood. Land as a factor of production will therefore be passed over in this unit, and the unit shall proceed directly to labor, which has retained its central importance for the process of production.

Labor as a modern factor of production typically passes through two stages. There is the first stage, which takes place *before* labor enters into production; it is followed by the stage once labor has entered the market and the workplace. Two institutions which are central to labor before it enters into production are the home and the school. In the home children learn values, discipline, and how to interact (what some analysts refer to as social capital and others as cultural capital). They also get to live in a household economy and become influenced by its values. In school, various skills are taught, some of which are of value in production, from reading, writing, and elementary mathematics in school to engineering, computer programming, and nuclear physics at the university (what some analysts refer to as human capital; for a discussion of the different forms of capital (Bourdieu, 1986).

According to a well-known strand of sociological theory, when labor is distributed via the market it tends to form into large and loose groups of people with similar economic interests and life-chances (*classes*). When there is no market, or the market is being controlled by, say, a profession, labor instead tends to form into small and cohesive groups centered around honor and consumption or *status groups* (Weber, 1922). Whatever the exact relationship is between class and status, on the one hand, and class and labor, on the other, it is imperative for economic sociology to attempt to theorize the link between the economic process and the formation of classes and status groups in society. This is where economic sociology needs to connect with stratification theory and perhaps also where stratification theory can get some inspiration from economic sociology.

At this point it is important to make clear that for many people who are part of the capitalist process the economy basically represents pain and difficulties. While profit-seeking brings excitement and wealth to the successful entrepreneur, a large number of people suffer from the everyday workings of capitalism. Max Weber and Pierre Bourdieu have tried to theorize this situation with the help of the concept of theodicy ("why is there

suffering in the world, and why do some people suffer more than others?" (Weber, 1946; Bourdieu et al. 1999). Weber, for example, refers to what he calls "the theodicy of good fortune" or the fact that people who are successful also want to feel that they deserve their good fortune, and therefore develop and seek out various accounts to this effect. There also is the equivalent "theodicy of suffering" which explains to those who are misfortunate why they suffer and why they should put up with a harsh world. While the concept of theodicy originally was religious in nature, it has become secular in the works of Weber and Bourdieu as well as increasingly applicable to the world of the economy.

In modern capitalist society labor tends to form into three broad categories: workers, professionals, and managers. Sociology is by tradition skillful in tracing the structure of groups as well as the mentalities of their members, while economists often tend to use a non-differentiated concept of labor and emphasize the crucial role played by the productivity of the worker (according to the standard formula of marginal productivity theory).

To what extent can labor, before as well as after entering the process of production, add to, slow down, or block the wheels of capitalism? What happens in the home and the school, in terms of creation of values and skills, is clearly of great relevance for an answer to this question. And so are what happens at the workplace, where informal norms and groups are formed and where trade unions may be active. It is also important if the element of status or class predominates. Status groups, Weber argues, are inherently anti-capitalist since they set honor and other non-economic values before profit-making. They are antagonistic to the market since the market disregards the values that its members hold dear. The more labor feels the impact of the market, on the other hand, the more the element of class will be predominant. In this situation individual actors typically accept the logic of the market: the need for efficiency, profit-making, and constant reinvestment. Honor of the type that exists in a status group can be characterized as an ideal interest but an ideal interest that is closely allied with material interests.

## **2. Capital**

Economists pay by tradition much attention to the role of capital in the process of production; while sociologists, if they study capital at all, tend to analyze its role outside of production, in the form of so-called wealth (Keister, 2000). Again, the two approaches may want to draw on each other's insights in order to get a full picture of what is going on. To this can be added that the groups in society who control the economic resources have different attitudes to wealth-how it should be acquired, what it can be used for, and so on. Aristocrats, for example, have traditionally had contempt for merchants, and so have warriors. There is also the fact that certain groups of merchants take larger risks than others, and this will naturally have an important impact on the generation of wealth and capital. Merchants furthermore deal in different types of goods, as exemplified by the historical appearance of *the businessman*-a term that was first used in the U.S. in the 1830s to denote a new type of merchant, who traded not only in goods but also in land and whatever else could result in a profit (Boorstin, 1974).

Control over capital is often delegated by the owner to some other actor, and this creates for the owner the well-known problem of corporate control. A flexible type of analysis that economists use to handle this type of situation is agency theory, which is based on the idea that the owner (the principal) has a different interest from that of the one to whom he or she assigns some specific task (the agent). This means that something has to be done about the divergence of interest. One solution is direct observation of the agent (monitoring); another is to give the agent an incentive to act in the interest of the owner (alignment of interests). The former is less easy to carry out when it comes to managers as opposed to workers; there is also the problem of "who will monitor the monitor" (Alchian and Demsetz, 1972).

Agency theory can enrich economic sociology by adding to its analyses, especially when it comes to the question of how the owner can maintain control over his or her capital, once a manager is in place. According to Harrison White, for example, the advantage of agency theory is that "it is intensely social in its mechanisms, since it gets one person to do something for another vis-à-vis a third person but only with heavy reliance on the lay of the social landscape" (White, 1985). James Coleman has a similarly positive view of the sociological potential of agency theory, as is clear from the following quote from *Foundations of Social Theory*: "once a transaction has been made, in which the principal satisfies interests of the agent (for example, through a monetary payment) in return for the agent's using his actions to pursue the principal's interests, a social system has been created" (Coleman, 1990).

A corporation can acquire capital in a variety of ways—from banks, venture capitalists, the capital market, and so on. Each of these institutions has its own distinct social structure and history which sociology can help to analyze. Pension funds and other mutual funds which have become key players in the modern capital market are often managed by single individuals; very little is currently known about these. Agency theory, in combination with economic sociology, represents one way of approaching this type of issue.

The way that capital is brought to production will also affect the generation of economic value. Risk taking, as already mentioned, is a crucial factor at this point of the process, closely related to the profit level. But risk taking itself is also affected by social relations, as for example the historical emergence of venture capital in the United States a few decades ago illustrates. What characterizes venture capitalists is typically an intimate knowledge of the business in which they invest, often in combination with some form of control over the firm that is being targeted. Together, these two measures make risk taking more manageable and thereby also increase the chance to make a high profit. Again, this is a topic where economic sociology can be of assistance.

### **3. Technology**

Contemporary capitalism is heavily dependent on technology, primarily because it helps to increase productivity (Rosenberg and Birdzell, 1986). Exactly how this is done, however, is something that neither economists nor sociologists understand very well. The concept of productivity, for example, is in need of much clarification. Economists realize well the

importance of technology in this context, but have difficulty in theorizing it (Solow, 2002). Another difficulty with the economists' view of technology is that they often see technology as the one and only reason for growth in productivity. While innovations in technology may well be *the* major reason for growth in productivity in modern capitalism, it is by no means the only one, and it most surely could not operate in isolation. Social organization, in particular, affects productivity, a fact that industrial sociology made clear many decades ago (Dickson, 1939).

Sociologists differ from economists in that they rarely note that technology is of great importance to productivity and the generation of profits. Sociologists of science of the old school view science primarily as a public good, which may once have been true but is less so today. Modern sociologists of science, on the other hand, argue that science and technology essentially are to be understood as forms of social construction, a position which may well be true from a philosophical perspective but which is of limited relevance to an understanding of the role science and technology play in the economic process.

From historians of technology we know that economically relevant technology for a long time emerged in a slow, evolutionary manner--as evidenced by the history of boat, the ax, the plow, and so on. At the time of the Industrial Revolution, and even more so during the second half of the nineteenth century, however, a historical meeting took place between capitalism and science. This alliance has continued till today and has become ever more important to the dynamic growth of capitalism.

It has often been pointed out that social organization can accelerate or impede the emergence of new technology, which in turn will affect the economy. In his study of religions in India, for example, Weber notes that the caste system blocked innovations by forbidding changes in the tools of the artisans (Weber, 1921). Since the penalty for a change of this type was religious, Weber's example also illustrates how a religious interest (in this case successful reincarnation) can be used to block an economic interest (in this case improved productivity). In today's society, to use a more contemporary example, we are witnessing an important change in the property rights to science, which has helped to speed up production. While science until recently was seen as a common good, ways are now increasingly found to turn it into a private good (Mirowski and Miriam-Sent, 2002). The forces that have caused this change are obvious enough. A new pharmaceutical drug can, for example, be worth billions of dollars in profit. It currently also costs some 800 million dollars to develop a new drug.

#### **4. Organization**

Alfred Marshall sensed the limits to the economics of his days and argued, in *Principles of Economics* [1890], that not only land, labor, and capital but also "organization" should be considered as a factor of production. By organization Marshall meant a number of phenomena, including the individual firm as well as a dynamic collection of firms in the same geographical area, which he termed "industrial district". The insight that organization is crucial to profit-making is also at the heart of what is known as

organizational economics, which draws on a mixture of agency theory, game theory, transaction cost analysis, and law and economics but not on sociology.

Nonetheless, sociologists have developed a series of conceptual tools that can be used to analyze the way the factors of production come together in the profit-making firm. Sociologists, however, are to a certain extent held back from making the contribution they should be able to make by their belief that the central unit of analysis is the generic organization and not the corporation (Davis and McAdam 2000). When sociologists do research on firms, this is typically translated into knowledge about organizations in general. The following facts about the modern firm are consequently ignored: (1) that the firm has its own institutional history; (2) that the firm is treated differently from other organizations in laws and regulations; and (3) that firms in modern society control more economic resources than any other type of organization, except for the state.

Regardless of this critique, it is clear that several of the concepts and middle-range theories that have been developed in organization theory can be of considerable help in analyzing corporations, and to some extent they have already been used for this purpose. This is true, for example, for population ecology and for resource dependency (Hannan, 1995). Networks are another helpful tool which can be used, for example, to trace the relations between corporations that are a result of their attempts to make a profit (Ebers, 1997). There is also the insight that work groups can develop norms that go counter to the goals of the corporation, so-called opposition norms (Nee, 1998).

It is obvious that the way a corporation is organized will speed up, slow down, or block profit-making. What was once thought to represent the ideal design for a firm—the huge, bureaucratically organized firm with much of the knowledge and power to decide concentrated at the top (Weber, Chandler) has fallen out of favor. It is indeed true that certain new technologies as well as new ways of appealing to the interests of the employees can replace monitoring with interest alignment, and that this has led to changes in the old type of corporation. What modern firms strive for, however, is not to so much to create a decentralized or a less formal corporation per se, but to do what it takes to make a profit.

## **The Sociology of Consumption**

Consumption, to cite *The Wealth of Nations*, represents the end product of production: "consumption is the sole end and purpose of all production" (Smith, 1776). From the viewpoint of the model of capitalism that has been presented in this unit, however, things are not that simple. For one thing, how income at the end of the process is divided between consumption and profit is of crucial importance. The more profit that is taken out by the owners and fed back into production, the faster the wheels of capitalism tend to spin.

There is also the fact that consumption will affect the productivity of labor. Adequate food and some amount of leisure, fueling body and mind, are examples of this. Education that is paid by private means would be another.

But even if consumption does have an indirect effect on production, as just exemplified, its main contribution to capitalism is that it takes place in the first place. The fact that human beings must satisfy their material needs may sound like a triviality. And so it is except that consumption always has to increase in capitalism, in contrast to economies based on redistribution or reciprocity. If this does not happen, profits stagnate and capitalism loses its vitality. This means that efforts always have to be made, as part of the process of *production*, to encourage consumption as much as possible. Advertisement is one way to accomplish this, but there are many more. In modern capitalist society whole settings in the form of shopping centers and the like have been created, precisely for this purpose. One observer refers to these as "means of consumption" (Ritzer, 1999).

Consumption can be speeded up, slowed down, or blocked through the impact of various forces and thereby affect the capitalist machinery. The United States, for example, has for a long time been a commercial society, with a population with a strong desire for democratic "comfort" as opposed to aristocratic "luxury"; this clearly greases the wheels of capitalism (Tocqueville, 1945). Immediately after September 11, to use another example from the United States, shopping was nearly proclaimed a patriotic duty so that the economy would not slump. Examples also exist of societies which have tried to block consumption. One example is Florence in the fifteenth century, when the city was ruled by Savonarola, who staged the famous "bonfires of vanities"-public burnings of expensive dresses, sensual paintings, and the like which were judged to detract from a pious life (Hunt, 1995).

### **The Sociology of Profit**

The fact that the level of profit is directly related to how much is set aside for consumption has already been mentioned. To this can be added that profit, according to economists, can in principle not be affected by social forces. Sociologists, however, see things differently. To sociologists productivity is notoriously difficult to measure, and the theory of marginal productivity is very hard to apply empirically. It is also clear, as noted earlier, that the social relations of an employee will affect productivity. A worker may, for example, be more or less productive depending on the work group he or she is part of (Granovetter, 1988). The size of the wages, of course, also affects the profit level and depends, among other things, on the strength of the unions.

Regardless of the actual size of the profit, however, it is *the opportunity for more profit* that drives the capitalist process forward. According to Weber, capitalism is primarily characterized by "the pursuit of profit, and forever *renewed* profit" (Weber, 1958). Marx expressed the same idea in his well-known formula M-C-M', where M stands for money, C for commodity, and M' for money plus an increment, equaling surplus value (Marx, 1990: 247-57). In a similar vein, the capitalist process is set in motion by the search for profit and equally important kept in motion by the continuous reinvestment of profit in production.

It is clear that while the size of the profit in relation to consumption is one thing, how much of the profit is reinvested is another. It is also obvious that the level of reinvestment is influenced by social forces. In a discussion of Latin America in the 1960s, S. M. Lipset noted, for example, how successful businessmen in Chile, Argentina, Paraguay, and some

other countries often withdrew their earnings from industry and invested it in land, to acquire the status of landowners (Lipset, 1988). Puritan businessmen in Weber's *Protestant Ethic*, on the other hand, used very little of their profit for their own consumption and reinvested the bulk. They had contempt for the aristocrats and their consumption of luxuries. The religion of the Puritans allowed them to make a profit since this meant that God looked favorably at their activities. They were not, however, allowed to indulge their senses just as they were not allowed to enjoy sex, even if they were allowed to procreate.

According to Weber, accounting grew out of the need to calculate profit, as exemplified by the need to know exactly how much was due to each party in a commenda (Weber, 1923). To this can be added that profit is a social construction, in the sense that what is presented as profit in, say, an annual report may differ quite a bit from what is reported to, say, the tax authorities. The way that accounting rules are applied will also affect the level of profit. "Aggressive accounting" is the term currently used for accounting practices in the United States which are in the gray zone between legality and illegality, and which are used to artificially increase profits.

Among the factors that may block profit and profit-making, religion is of special historical importance. Most religions have been negative to business, since profit-making has been seen as negative to the attempt to lead a life according to religious principles. "You cannot serve both God and Money" (Matthew, 6:24). But exceptions also exist not only where religion and profit-making have coexisted, but where religion has actually *encouraged* profit-making. The most famous case of this is obviously ascetic Protestantism, as analyzed in *The Protestant Ethic*. One may possibly also add contemporary America, since the United States both is a very religious country and has the most vigorous capitalism. One can say "possibly" because neither sociologists of religion nor economic sociologists have addressed this issue squarely, so we consequently do not know what role religion really plays in contemporary American capitalism (Inglehart and Baker, 2000).

## **Other Factors of Production**

### **1. The Role of Law**

In addition to the factors that make up the basic model of capitalism, which is discussed in this unit, a few more must be added: *law*, *politics (including the state)*, and *culture*. Law is typically part of the political machinery, but it deserves to be singled out and treated separately. One reason for this is that law introduces an extra layer, so to speak, between political decisions and their execution (Edelman and Stryker, 2005). To become reality, political decisions often have to be translated into legal language and interpreted by legal experts. Individual actors also need to orient their actions to the law itself and comply with it, in order for it to have an effect on their behavior. Another reason why law deserves to be treated separately from the state is that courts can be more or less independent of the rest of the state. American courts, for example, are to a large extent peopled by judges who have been elected, as opposed to courts in Europe, where judges are appointed and essentially civil servants. Furthermore, all laws in the United States are subject to judicial review and



can in principle be overturned. The European Union, it can be added, seems to be moving in a similar direction.

The basic relationship between law and the economy is as follows. Since private property is a precondition for a capitalist economy, so is the law about private property. Conflicts always emerge in society, including the economy, and law represents a legitimate way to settle conflicts. Law also helps to ensure predictability, which is essential for an advanced capitalist economy. In general, the economy thrives on peace, and law is essential for there to be peace in society.

Sociologists have often noted that law is necessary to *prevent* certain economic actions from taking place. Law, for example, is used to stop the formation of monopolies and discrimination against women and minorities in the labor market (Edelman, 1992). Sociologists have also pointed out that law can be used to *punish* economic actors who engage in the wrong type of behavior, from petty thievery in the work-place to the kind of economic wrongdoing (Tucker, 1999).

What has not been much explored by sociologists, however, is that law can play an *enabling* role in the economy (Swedberg, 2003a). Law can, for example, help to "release [economic] energy," Judges can be encouraged to use wealth maximization as a guide in their legal questions. In general, contracts also provide actors with a new tool through which they can create economic relations of their own (Weber, 1978).

From what has just been said it is clear that law can further the capitalist process and make it operate in a more efficient manner. It is also clear that it can block economic development, by forbidding certain kinds of economic actions. One historical example of this is the labeling of certain loans as usury. To this should be added, however, that businesspeople often choose to disregard the law they often ignore it, whether it operates in their favor or not (Macaulay, 1963). Another elementary insight from the sociology of law is that major economic transformations can take place without any equivalent change in the legal system (Renner, 1949).

## **2. The Role of Politics including the State**

The role of politics and the state in the economy is complex. In general, the state in a capitalist economy has less power over the economy than does the state in a redistributory one. In the latter the state controls the great bulk of the economic resources and also decides what rules to follow; in a capitalist economy the state has the power only to set the rules and to channel certain resources from one point in society to another, not to decide how economic resources are to be used for purposes of production. This last situation, as has often been pointed out by economists, is actually more complex than it may at first appear. The capitalist state has to solve what has been called "the fundamental political dilemma of an economy," namely that the state has to be strong enough to enforce private property rights but still refrain from using its strength to expropriate private property (North et al, 2000: 21).

That the capitalist state has no or little say over the use of the economic resources when it comes to production does not mean that it is without economic power. No state can exist without economic resources of its own, especially the modern capitalist state, which has a number of tasks to fulfill: defense, education, health care, welfare, regulation, and so on. The capitalist state finances its expenses primarily by seizing part of what has been produced, from what otherwise would have gone to consumption or to profit. The decision to tax consumption or profit is an important political question. The sociological study of the generation and spending of the state's resources belongs to a much neglected field of study, known as fiscal sociology (Schumpeter, 1991).

A question which has been much discussed in contemporary social science is the relationship between democracy and capitalism. Several different opinions exist on this issue. There is assertion that prosperous countries tend to be democratic, which has led to a huge amount of research (Lipset, 1960). One insight which has grown out of the discussion of Lipset's thesis is that it is very difficult to pinpoint the exact social mechanisms that account for the relationship between prosperity and democracy. Weber, in contrast, considers the relationship between capitalism and democracy to be much more problematic, and he has recently been backed up by various studies (Weber (1916; Barro 2000). A third theory states that countries which have been industrialized under the leadership of the bourgeoisie tend to become democratic, in contrast to countries which have been industrialized under the leadership of a class of landowners (Rueschemeyer et al., 1997).

Democratic or not, it is clear that the capitalist state can steer the economy in various ways. Two traditional ways of doing so are through fiscal and monetary policy—two topics on which economists, as opposed to sociologists, are knowledgeable. To this should be added that the state can also influence the economy through regulation and industrial policy, and that especially the former is extremely important in modern society. While economists worry that these last two ways of influencing the economy may sap capitalism of its vitality, sociologists tend to see them as positive and much needed (Stigler, 1971). Regulations as well as industrial policy, in brief, can be used to speed up the economy as well as slow it down and so can monetary and fiscal policy.

### **3. The Role of Culture in the Economy**

Culture is a difficult and complex topic for economists as well as sociologists. In sociology, the traditional concept of culture draws heavily on Weber and essentially covers two topics which are overlapping but not identical: *valuation* and *sense-making* (Weber, 1904). Or to put it into more concrete language, the cultural element of an economic action has to do with the fact that (1) anything economic is typically viewed as being either positive or negative, and (2) economic phenomena, like all human phenomena, have somehow to be pieced together in the human mind in order to make sense and acquire a distinct

To cite one of Weber's examples that deals with the first point, profit-making can be seen as negative in a religion (e.g., Catholicism) or as positive (e.g., ascetic Protestantism). And to cite one of Weber's examples which illustrates how people make sense of an economic

phenomenon with the help of culture: the act of passing around little pieces of metal only becomes an exchange of money under certain conditions (Weber, 1907).

It can be added that whether trade in money is seen as positive or negative is also a question which involves culture, from a Weberian perspective. In nearly all cultures this type of activity has been looked down upon and been associated with various outcast groups, such as the Jews in medieval Europe. This is much less the case in modern capitalism where nonetheless traces of these earlier beliefs still linger on, as illustrated by the instinctive hostility to someone like Soros or to financial capital more generally.

Attempts have recently been made to import some insights from cognitive psychology into the sociological concept of culture. To what extent this will succeed is too early to tell. What remains true, however, is the fruitfulness of the Weberian approach, namely of equating culture with values as well as with sense-making. A series of studies of economic culture, from Tocqueville's analysis of nineteenth-century America to Clifford Geertz's analysis of Indonesia in the twentieth century, testify this.

Some of these studies also describe how economic culture can speed up the economic process. This, for example, is what Tocqueville claims that American culture did for the economy in the nineteenth century or, for that matter, what Weber claims that ascetic Protestantism did for certain parts of Western Europe a few centuries earlier. Indeed, Tocqueville's *Democracy in America* can be seen as a sequel to *The Protestant Ethic* in this respect, and his theory of the role played in the U.S. economy by religion (tempering immediate interest into "interest properly understood") parallels Weber's ideas about the impact of the Puritans.

That economic culture also can dampen and block capitalist development can similarly be illustrated by referring to the works of Tocqueville and Weber. The culture in the American South, according to *Democracy in America*, devalued labor by associating it with slavery, and this led to a stagnant economy. The same was true according to Weber for societies with a dualistic economic ethic, according to which members of the in-group should be treated fairly, while dishonesty and trickery were allowed in dealing with outsiders. This attitude made it hard for rational capitalism to emerge.

Finally, special mention should be made of a recent attempt to revive a classical cultural concept in the analysis of capitalism, namely Weber's notion of "the spirit of capitalism. Luc Boltanski and Eve Chiapello look at the major types of ideologies that have been used to justify capitalism, from the nineteenth century till today. Their definition of the spirit of capitalism is as follows: "we have labeled as a 'spirit of capitalism' the ideology that justifies people's commitment to capitalism, and which renders this commitment attractive" (Boltanski and Chiapello 2002). During much of the twentieth century the spirit of capitalism was centered around big organizations and stability, but it is now in the process of being replaced by a new spirit of capitalism. The heart of this new spirit, they argue, mainly consists of arguments that justify and glorify a decentralized economic world in which flexibility and networks play a key role. Running a corporation is seen as conceiving

and executing a never ending series of "projects," each of which has its own network (the "Project World").

## **UNIT FIVE: ECONOMIC SYSTEMS: DISTRIBUTION AND EXCHANGE**

### **Introduction: Economic Systems**

The two predominant economic systems today are capitalism and socialism. Between these two opposite extremes lies a continuum of variations on the models.

#### **Capitalism**

Three key principles define the economic system of capitalism:

- Private ownership of production and distribution of goods and services
- Competition, or the laws of supply and demand directing the economy
- Profit-seeking, or selling goods and services for more than their cost of production

*Laissez-faire* (French for “hands off”) capitalism represents a pure form of capitalism not practiced by any nation today. The ideology driving today's capitalism says that competition is in the best interest of consumers. Companies in competition for profit will make better products cheaper and faster to gain a larger share of the market. In this system, the market—what people buy and the laws of supply and demand—dictates what companies make, and how much of it they make. Workers are motivated to work harder so they can afford more of the products they want.

Supporters of a capitalist system point to the higher production, greater wealth, and higher standard of living displayed by capitalist countries. Critics, however, charge that while the standard of living may be higher, greater social inequity remains. They also denounce greed, exploitation, and high concentration of wealth and power held by a few.

#### **Socialism**

Three key principles also define the economic system of socialism:

- State ownership of production and distribution of goods and services
- Central economy
- Production without profit

The ideology of socialism directly rejects the ideology of capitalism. In a socialist economic system, the state determines what to produce and at what price to sell it. Socialism eliminates competition and profit, and focuses upon social equality—supplying people with what they need, whether or not they can pay. The ideals driving socialism come from Karl Marx who saw all profit as money taken away from workers. He reasoned that the labor used to produce a product determined the value of that product. The only way for a company to arrive at profit is to pay workers less than the value of the product. Thus, wherever profit exists, workers are not receiving the true value of their labor.

Just as nations do not adhere to pure capitalism, neither do nations adhere to pure socialism. In pure socialism, all workers would earn exactly the same wage. Most Socialist countries do pay managers and professionals such as doctors a higher wage. But, because the state employs all members of the society, thereby controlling the wages, far less disparity exists between highest and lowest wage earners.

Supporters of socialism, then, point to its success at achieving social equality and full employment. Critics counter that with central planning's gross inefficiency, the economy cannot produce wealth and all people are poorer. They also object to what they see as unnecessary control of personal lives and limited rights—exploitation.

### **Democratic Socialism and State capitalism**

Contrastingly, critics of both capitalism and socialism accuse each system of exploitation. Consequently, some nations have carved out systems more in the middle of the continuum between the two.

One hybrid is democratic socialism, which is an economic system where the government maintains strict economic controls while maintaining personal freedom. Scandinavian nations, Canada, England, Italy, etc. all practice democratic socialism. Sweden provides the most common example in which high taxation provides extensive social programs.

**State capitalism** is another economic hybrid. In this economic system, large corporations work closely with the government, and the government protects their interests with import restrictions, investment capital, and other assistance. This economic system commonly exists in Asian countries such as Japan and South Korea.

### **Economic Distribution and Exchange**

When goods and services are given away, purchased, sold, or traded, there are potentially two components of the exchange—pure economic gain and social gain. Both of these motives usually occur at the same time in non-market economies. However, in market economies, the social component is often missing except when the exchange is between relatives or friends. With strangers, the social gain is usually sacrificed for efficiency and speed.

Important exchange items in non-market economies include many more things than just food and manufactured objects. The most valued gifts are likely to be courtesies, entertainment (e.g., songs, dances, and speeches), curing, military assistance, women (to be wives), and children. In the modern world today, the idea that women and children could be given away as gifts is not encouraged. Well into the 19th century, the heads of royal and wealthy families gave their daughters and sometimes sisters in marriage in order to establish or solidify economic and political alliances. Men giving female relatives to potential male allies have been a powerful bonding tool throughout most of the world.

## 1.1 Reciprocal Exchanges

Gift exchanges are usually reciprocal. That is to say, if you receive a gift, you are obliged to repay it with another gift. Reciprocity typically results in a continuing sequence of giving, receiving, and repaying gifts. Breaking this obligation to continue the reciprocity is commonly seen as a slight or even a rejection of the other person involved in the exchange. Reciprocity is a binding mechanism in that its continuance helps to hold friends and families together. Reciprocal exchanges generally do not redistribute a society's wealth in a way that causes some people to become richer than others. Rather, they usually result in a circulation of goods and services. There is not a net economic loss for individuals because they ultimately receive gifts in return.

Reciprocity requires adequacy of response but not necessarily mathematical equality. For instance, when adults give a gift that cost some amount of money to a child, they do not expect that the child will reciprocate with a gift that also cost the same amount of money. If the child reciprocates with a small painting he or she made in school, it is usually considered to be a more than adequate response.

### Types of Reciprocity

Reciprocal exchanges are not all alike. In 1965, an anthropologist named Marshall Sahlins observed that there are three distinct types of reciprocity that occur in human societies around the world. These are generalized, balanced, and negative reciprocity.

**Generalized Reciprocity:** generalized reciprocity is gift giving without the expectation of an immediate return. Generalized reciprocity refers to transactions that are putatively unselfish, transactions on the line of assistance given and, if possible and necessary, assistance returned. It involves indefinite or giving without the expectation of return, is associated with the family. Malinowski's "pure gift" is the ideal type of generalized reciprocity. Other indicative ethnographic formula are "sharing," "hospitality," "free-gift", help" and "generosity."

Generalized reciprocity is an informal gift giving for which no accounts are kept and no immediate or specific return is expected. It involves an exchange between closely related people in which the giver expects nothing concrete in return. It is not necessarily classified as altruism, but resembles sharing by social contract. Generalized reciprocity is demonstrated by most egalitarian forager groups including the! Kung people who do not say *thank you* up on receiving gifts because it is expected that at a later time, the act for good will be reciprocated. It is also shown in most cases between parents and children.

**Balanced Reciprocity:** balanced reciprocity refers to direct exchange. It involves of exchanges of equal value between people, and is the return and the goods received should be equal in value. Perfectly balanced reciprocity, the simultaneous exchange of the same types of goods to the same amounts, is not only conceivable but ethnographically attested in certain marital transactions, friendship-compacts, and peace agreements. Balanced

reciprocity is more loosely applied to transactions that stimulate returns of commensurate worth or utility within a finite and narrow period. It is less “personal” than generalized reciprocity, and is “more economic”. The pragmatic test of balanced reciprocity becomes an inability to tolerate one-way flow.

In the case of balanced reciprocity, the social distance between giver and recipient increases relative to generalized reciprocity. It is a direct exchange where the two parties involved seek to arrive at a mutually acceptable price or exchange for goods or services. It involves an exchange outside the immediate family, and the giver expects something in return. If there is no reciprocation, the relationship between the two parties will be strained.

With balanced reciprocity, there is an explicit expectation of immediate return. Simple barter or supermarket purchases involve this understanding. If you walk out of a store without paying for the goods that you have taken, you very likely will be stopped by the store employees and possibly arrested because you failed to immediately reciprocate with the appropriate amount of money. Christmas gifts in the Western World are also usually a form of roughly balanced reciprocity. If you go to the home of relatives or close friends on Christmas and give them Christmas gifts, there is an expectation that you will receive gifts in return at the same time. If you do not receive them, you are likely to infer that your relatives or friends either made a social mistake or do not care about you. On the other hand, giving a birthday present is more like generalized reciprocity because you do not expect a gift in return when you give one. However, you may expect to get one from the recipient of your gift later in the year when your birthday comes along.

**Negative Reciprocity (the unsociable extreme):** Negative reciprocity is the attempt to get something for nothing. Indicative ethnographic terms include “haggling”, “bargaining”, “gambling”, “chicanery”, “theft”, and other variety of seizure. It involves economic in which people seek to gain all at the expense of others, and is associated with dealings with strangers or people outside the community. It is the most impersonal sort of exchange. The participant in “barter”, say for instance, confronts each other as opposed interests, each looking to maximize utility at the other’s expense.

Negative reciprocity is an exchange between enemies or strangers in which each side tries to get the better end of the bargain. It happens when one person in an exchange tries to get something for nothing or for less than its recognized worth. Hence, it is an exchange relationship in which parties do not trust each other and are strangers. The giving must be reciprocated immediately and there is very little communication, if any, between groups.

Negative reciprocity occurs when there is an attempt to get someone to exchange something he or she may not want to give up or when there is an attempt to get a more valued thing than you give in return. This may involve trickery, coercion, or hard bargaining. For instance, your neighbor may be offered a new job in a distant city starting in two days. She desperately needs to sell her car before she leaves. It is nearly new and it cost her \$22,000. You offer her \$10,000 which she reluctantly accepts because there is no other choice. Your taking advantage of her situation resulted in negative reciprocity.

## 1.2 Redistributive Exchanges

Redistribution is the mechanism whereby a politically or economically powerful individual (or group) collects goods and services from the members of society and reallocates them among the society's members. In redistribution, products move from the local level to a hierarchical centre, are recognized, and sent back down to the local level. Redistribution is the main form of exchange in chiefdoms and some industrial states, and works with the market system. An example of redistribution is the collection of taxes from citizens earmarked for designated purposes at a local level, including social services, education, medication and road building.

Redistribution is a centralized movement that involves collection from members of a group, often under one hand, and re-division within this group. According to Polanyi (1957), the key features of redistribution ("appropriation movements towards a center and out of it again"), was its centrality of organization. He believed that 'centrality' was natural to all human societies. He further broadly applied the concept to a wide range of behaviors, including the distribution of meat in hunting bands, the Kwakiutl potlatch, the workings of the medieval minor, and the massive collection and storage of grain in ancient Egypt and Mesopotamia.

Pooling is a within relation, the collection action of the group, where as reciprocity is a between relation which involves the action and reaction of two parties. While redistribution is the compliment of social unity—"centricity", reciprocity is simply social duality and "symmetry". And hence, pooling stipulates a social center where goods meet and flow outwards. It also stipulates a social boundary within which persons are cooperatively related. But, reciprocity stipulates only two sides, two distinct social-economic interests. It can establish solidarity relations, in so far as the material flow suggests assistance or mutual benefits.

Redistribution, broadly speaking, can serve two purposes, either of which may dominate in a given instance: 1) in the practical, logistic function: redistribution sustains the community or community effort, in a material sense; 2) at the same time, or alternatively, it has an instrumental function: as a ritual of communion or subordination to central authority, redistribution sustains the corporate structure itself, that is in a social sense.

Some economic exchanges are intended to distribute a society's wealth in a different way than exists at present. These are referred to as redistributive exchanges. They usually function as economic leveling mechanisms. In the Modern World, charity and progressive income tax systems are examples of redistributive exchanges. Progressive income taxes are intended to make people with greater wealth give at higher rates than those at the bottom of the economic ladder. Some of the tax money is then allocated to help the poorer members of society. The intended net effect is to reduce or prevent extremes of wealth and poverty. When wealthier individuals in a society make charitable donations, it can have a similar effect. What the donors get in return may be a tax advantage, a relieved social conscience,



or increased social status and recognition. Indeed, one of the main reasons that some very wealthy individuals make sure that their large charity donations are publicized is because of the public recognition that results.

Redistributive exchanges are not unique to certain societies. In fact, some of the most elaborate ones that we know of have been in small-scale societies with non-market economies. The potlatch among the Indian cultures of the Northwest Coast region of North America is a good example. This was a complex system of competitive feasting, speechmaking, and gift giving intended in part to enhance the status of the giver. While potlatches were important traditions of Indian communities from Oregon to Southern Alaska, they are most well known among the Kwakiutl people of northern Vancouver Island and Queen Charlotte Strait in Western Canada. For the Kwakiutl, potlatches were important social gatherings held to celebrate major life events such as a son's marriage, the birth of a child, a daughter's first menses, and the initiation of a sister's son into a secret society. They also were used to assert or transfer ownership of economic and ceremonial privileges. It sometimes took years to accumulate the things needed for a big potlatch. Loans (with interest) had to be called in from relatives for this purpose. When all was ready, high ranking, influential people from the local and other communities were invited for several days of feasting and entertaining. Guests were seated according to their relative status. The host made speeches and dramatically gave gifts of food, Hudson Bay Company blankets, canoes, slaves, rare native copper artifacts, and other valuable items to the guests. The guests with higher status received more. The host sometimes also destroyed money, wasted fish oil by throwing it on a fire, and did other things to show that he was willing to economically bankrupt himself in order to increase his social status. The acceptance of the gifts was an affirmation of the host's generosity and subsequently of his increased status. The feast and the gifts essentially placed the guests in debt to their host until they could at some future time invite him to their own potlatch and give him more than he gave them--in essence a return on an investment. The potlatch served as a tool for one-upmanship for important Kwakiutl men.

During the 19th century, there was a continuous cycle of potlatches among the Kwakiutl in which the amount of wealth given away progressively escalated. The Canadian government outlawed potlatches in 1884 partly out of the mistaken belief that the Kwakiutl were bankrupting themselves. In fact, very little wealth was being lost. What was happening was a redistribution of perishable goods and items of high value throughout the society. Men who voluntarily gave away their wealth in potlatches were later the recipients of many potlatch gifts. The Canadian government finally lifted their ban on potlatches in 1951. Potlatches are again occurring openly among the Kwakiutl and some other indigenous peoples of the Northwest Coast. Today, they are used to commemorate important family and clan events such as baby showers, weddings, school graduations, special anniversaries, and in memory of dead relatives.

Among many of the indigenous societies of New Guinea, elaborate redistributive exchanges similar to the potlatch have been very important cultural traditions. In order to increase personal status and become a respected "big man," senior men often spent years

accumulating pigs and other valuable, exotic items such as cassowaries (large birds similar to emus and ostriches) in order to give them away at elaborate ritual feasts. As in the case of the potlatch, recipients of pigs and other valuable things were obliged to return gifts of greater value at some time in the future. Failure to do so would be unthinkable because of the loss of respect and status that would result. Perhaps the most well known of the New Guinea pig give-away traditions was among the Kawelka of the Central Highlands. As a result of trade with the outside world, the Kawelka pig give-away events had grown in scale by the 1970's to include motorbikes, trucks, and tens of thousands of Australian dollars. At times, the total value of the goods given away reached hundreds of thousands of dollars. This was an extraordinarily large fortune for essentially subsistence base horticultural societies. It is important to keep in mind that most of this wealth actually circulated within the society. As a result, there was very little net loss. However, a small number of the pigs were eaten and the cassowaries were usually killed for their feathers.

### **1.3 Market Exchange**

**Explain the idea of "market economy reflects the rational decision making in the economic transaction".**

Market economy is an economic system in which the production and distribution of goods and services take place through the mechanism of free markets guided by a free price system. In a market economy, businesses and consumers decide of their own choice what they will purchase and produce. Technically, this means that the producer gets to decide what to produce, how much to produce, what to charge to consumers for those goods, what to pay employees, etc. These decisions in market economy are influenced by the pressures of completion, supply and demand. The following principles more or less explain market economy.

The market principle describes the buying and selling of goods and services based on the laws of supply and demand (things cost more the scarcer they are and the more people want them), and often involves bargaining. It is associated with industrial societies and involves a complex division of labor and central government. According to M. Sahlins and K. Polanyi, an example of market exchange would be the stock market in the U.S. which operates in both New York and East Asia, in which investors seek to maximize profit. This shows that buyer and seller do not need to meet in order to exchange. The wide variety of consumer goods available also demonstrates the market economy operating.

### **Decision Making**

Generally market economies are bottom-up in decision making as consumer convey information to producers through prices paid in market transactions.

### **Market Externalities**

Examples of situations considered market externalities include negative externalities, monopolies, lack of provision of public goods, and social disparities such as extreme poverty. Market failures are the result of the market not receiving enough or appropriate information through signals such as prices. The perceived inefficiency of market failures is

one reason some have thought that limited government intervention is desirable or necessary.

### **Government Intervention**

The proper role for government in a market economy remains controversial. Most supporters of market economy believe that government has a legitimate role in defining and enforcing the basic rules of the market. Different perspectives exist as to how strong a role the government should have in guiding the economy and addressing the inequalities the market produces. For example, there is no universal agreement on issues such as protectionist tariffs, government control of interest rates, and welfare programs.

### **Market Freedom**

Advocates of market economy state that economic freedom is a necessary condition for the creation and sustainability of civil and political freedoms. They believed that this economic freedom can only be achieved in a market-oriented economy, specifically a free market economy. They do believe, however, that sufficient economic freedom can be achieved in economies with functioning markets through price mechanisms and private property rights. They believe that the more economic freedom that is available the more civil and political freedoms a society will enjoy.

### **Commerce between Small-scale Societies**

As the scale of societies gets larger, they increasingly become involved in commercial exchanges with other societies.

During the last two centuries, international commerce resulted in an enormous redistribution of wealth to the industrialized nations located mostly in the northern hemisphere. This process essentially began with Western European nations draining the surpluses from their colonies in Asia, Africa, and the Americas. The colonies provided raw materials at low prices for European factories, and the colonists bought the products of those factories at elevated prices. The net effect of this institutionalized negative reciprocity has been that the majority of the former European colonies are still underdeveloped poor nations.

As the old colonial empires collapsed over the last half century, multinational corporations and large banks continued the process of draining the surpluses from underdeveloped regions and funneling them mainly into Western Europe, North America, Korea, Japan, Taiwan, Hong Kong, Singapore, and a few oil rich nations (especially around the Persian Gulf). China and India are in the process of joining this club of major international creditors. It is not likely that this progressive redistribution of global wealth to a few rich nations can go on forever without serious consequences for the global economy. Trade imbalances can cripple economies in debtor nations when their debts become larger than they can repay. It is reasonable to realize that the largest national debt in the world is owed by the United States. In fact, the U.S. has had a massive trade shortfall every year for nearly 30 years. It is unlikely that the U.S. or any other nation can continue to be a net importer of goods for long without major negative impacts on its economy. The U.S. still

has the largest economy in the world. Consequently, an economic crisis in the U.S. can cause extremely serious problems globally--there can be a domino effect which would devastate international trade.

Commerce among small-scale societies in the past usually involved more institutionalized balanced reciprocity than is found in the international trade system today. In addition, commerce generally involved considerably more social gain. An example of such inter-societal commerce among small-scale societies was the Kula Ring of the Southwest Pacific Ocean. This was an extensive network of inter-island trade to the east and northeast of New Guinea. The Kula Ring was studied firsthand among the Trobriand Islanders during World War I by an anthropologist named Bronislaw Malinowski. At that time, it still operated largely in its purely indigenous form.

The Kula Ring was a closed trading system in which only established senior male trading partners from each island could participate. The trade was carried out with large outrigger sailing canoes. Long, dangerous sea voyages were undertaken for the purpose of this trade. On the surface, it appeared to be primarily an exchange of gift items and ceremonial feasting organized to reinforce bonds between senior trading partners. The trade network was essentially circular. If a trader was traveling in a clockwise direction around the circuit, he would give long necklaces of red shells (*soulava*) as gifts to his trading partner. If he was traveling in a counterclockwise direction, he would give armbands of white shells (*mwali*). These necklaces and armbands were the kula items.

The way in which traders greeted each other on arriving at an island and carried out their trade was prescribed by tradition. While the senior trading partners formally greeted each other and reinforced their friendship and authority by giving kula gifts, the younger men usually unloaded more practical trade items on the beach to be bartered. These were mostly surplus luxury items from their home islands. The kula gifts were exchanged with the assumption of generalized reciprocity. The regular trade goods were mostly traded in a manner that resulted in balanced reciprocity. If asked why they were undertaking these long distance trading expeditions, the Trobriand Islanders would very likely emphasize the social rather than the economic gain. However, both were the result.

## **Section Two: Market Uncertainty and the Social Character of Economic Exchange**

### **2.1 Market Uncertainty and Organizational Responses**

Simon, Herbert A. Organization scholars have long been interested in organizational responses to the uncertainty surrounding transactions (Simon, 1957; Thompson, 1967). Most researchers in this area have argued that organizations respond to uncertainty by removing transactions from the market and placing them in a more hierarchical context. Though this response is most clearly articulated in the transaction cost framework (Williamson, 1975, 1985), resource dependence theorists assert similarly that organizations manage transaction-related uncertainty by transforming exchange relations into power relations and thus implicitly removing them from the "pure" market context (Selznick,

1949; Pfeffer and Salancik, 1978). Chandler (1977) also contended that the increasing complexity and uncertainty brought about by the historical expansion of markets catalyzed the replacement of the market's "invisible hand" with the "visible hand" of managerial hierarchy.

In order to avoid the problems posed by market uncertainty and forestall market failure, organizations adopt a more social orientation, taking the social structural position of potential exchange partners as cues and adhering to a principle of exclusivity in selecting exchange partners. There are two manifestations of this relationship between uncertainty and exclusivity. First, the greater the uncertainty, the more likely it is that organizations will engage in exchange relations with those with whom they have transacted in the past. Second, the greater the uncertainty, the more likely it is that organizations will enter into exchange relations with other organizations of similar status. A study of exchange relations in the markets for investment grade and non-investment-grade debt examines this hypothesized relationship between uncertainty and exclusivity.

The relationship between uncertainty and exclusivity has important implications for at least two market outcomes. First, it has implications for market concentration. The more that high-status actors restrict their exchanges to others of high status, the wider are the niches that are available to the low-status actors. Second, this analysis affords insight into a market outcome that economic approaches to the market rarely consider: who exchanges with whom. Rather than abstracting from or taking exchange pairs as a given, it is important to see the actual pattern of exchanges as a central market outcome to be explained. As a consequence, boundaries within the market, and not just boundaries between market and hierarchical forms, are opened to theoretical analysis and empirical inquiry.

## **2.2 Exchange and Uncertainty**

Social scientists have traditionally attributed an asocial orientation to market action. As Weber (1978) observed, "the market community as such is the most impersonal relationship of practical life into which humans can enter with one another. . . . The reason for this impersonality is its matter-of-factness, its orientation to the commodity and only to that." Weber believed the perceived value of an exchange opportunity to be contingent only on what is offered, not on who makes the offer. This asocial orientation is an ideal type; however, appearing only among actors having full information about what is exchanged. Whether an asocial orientation can be maintained under uncertainty is problematic. Almost by definition, when the quality or value of commodities potentially exchanged is difficult to discern, actors cannot compare exchange opportunities by focusing on the commodities themselves. In an uncertain context, actors begin to shift their orientation from what is exchanged to the social structural positions of their potential exchange partners, where position is defined by an actor's previous pattern of exchange relations.

There are two consequences of this orientation to social structural position under uncertainty. First, the greater the uncertainties in the market, the more that actors restrict

their range of possible exchange partners to those with whom they have had prior interactions. There are several theoretical justifications for this hypothesis, but one of the most straightforward explanations derives from March's (1988) work on "satisfying" search behavior. In a context of comparatively high uncertainty and risk, in which optimal exchange partners cannot be discerned easily, actors consider first those potential exchange partners about whom they have the greatest knowledge and then choose the best partner from this restricted set, because prior interactions are an important source of this type of information. Satisfying search behavior will generally result in actors relying more on previous partners and cultivating enduring exchange relations.

## **Section Three: Barter Economy**

### **3.1 History**

Contrary to popular conception, there is no evidence of a society or economy that relied primarily on barter. Instead, non-monetary societies operated largely along the principles of gift economics.

While one-to-one bartering is practiced between individuals and businesses on an informal basis, organized barter exchanges have developed to conduct third party bartering. The barter exchange operates as a broker and bank and each participating member has an account which is debited when purchases are made, and credited when sales are made. With the removal of one-to-one bartering, concerns over unequal exchanges are reduced.

Modern trade and barter has developed into a sophisticated tool to help businesses increase their efficiencies by monetizing their unused capacities and excess inventories. The worldwide organized barter exchange and trade industry has grown to an \$8 billion a year industry and is used by thousands of businesses and individuals. The advent of the Internet and sophisticated relational database software programs has further advanced the barter industry's growth. Organized barter has grown throughout the world to the point now where virtually every country has a formalized barter and trade network of some kind. Complex business models based on the concept of barter are today possible.

Bartering benefits companies and countries that see a mutual benefit in exchanging goods and services rather than cash, and it also enables those who are lacking hard currency to obtain goods and services. To make up for a lack of hard currency, Thailand's township, Amphoe Kut Chum, once issued its own local scrip called *Bia Kut Chum*: Bia is Thai for cowry shell, was once  $\frac{1}{6400}$  Baht, and is still current in metaphorical expressions. Running afoul of national currency laws, the community changed to barter coupons called *Boon Kut Chum* that bear a fixed value in baht, which they swap for goods and services within the community.

### **3.2 Trade Exchanges**

A trade or barter exchange is a commercial organization that provides a trading platform and bookkeeping system for its members or clients. The member companies buy and sell

products and services to each other using an internal currency known as barter or trade dollars. Modern barter and trade has evolved considerably to become an effective method of increasing sales, conserving cash, moving inventory, and making use of excess production capacity for businesses around the world. Businesses in barter earn trade credits (instead of cash) that are deposited into their account. They then have the ability to purchase goods and services from other members utilizing their trade credits – they are not obligated to purchase from who they sold to, and vice-versa. The exchange plays an important role because they provide the record-keeping, brokering expertise and monthly statements to each member. Commercial exchanges make money by charging a commission on each transaction either all on the buy side, all on the sell side, or a combination of both. Transaction fees typically run between 8 and 15%, most of the time.

The first exchange system was the Swiss WIR Bank. It was founded in 1934 as a result of currency shortages after the stock market crash of 1929. "WIR" is both an abbreviation of Wirtschaftsring and the word for "we" in German, reminding participants that the economic circle is also a community. Only small and medium enterprises can join WIR. Its purpose is to encourage participating members to put their buying power at each others disposal and keep it circulating within their ranks, thereby providing members with additional sales volume.

### **Corporate Barter**

Corporate barter focuses on larger transactions, which is different from a traditional, retail oriented barter exchange. Corporate barter exchanges typically use media and advertising as leverage for their larger transactions. It entails the use of a currency unit called a "trade-credit". The trade-credit must not only be known and guaranteed, but also be valued in an amount the media and advertising could have been purchased for had the "client" bought it themselves (contract to eliminate ambiguity and risk).

### **Barter Markets**

In Spain (particularly the Catalonia region) there is a growing number of exchange markets. These barter markets or swap meets work without money. Participants bring things they do not need and exchange them for the unwanted goods of another participant. Swapping among three parties often helps satisfy tastes when trying to get around the rule that money is not allowed.

According to the International Reciprocal Trade Association, the industry trade body, more than 400,000 businesses transacted \$10 billion globally in 2008 — and officials expect trade volume to grow by 15% in 2009.

### **Limitations of barter economy**

- Presence of double coincidence of wants
- Absence of common measure of value
- Indivisibility of certain goods
- Lack of standards for deferred payments
- Difficulty in storing wealth

## UNIT SIX: CULTURE AND ECONOMIC DEVELOPMENT

### Modernization to Globalization

#### Section One: Definition of Major Concepts: Culture, Modernization, Globalization, and Economic Development

Incorporating “modernization” and “globalization” into the analysis compounds the definitional dilemma. Modernity was a project of global conquest originating in Europe. There are two ways to understand this. There is an obvious Euro-centric position, which holds that because of the exceptional characteristics of European culture and rationality, the people were able to transcend their limitations and extend their influence across the world. The second is a less crude, but indirectly similar position, which conceives of Europe, while not the normative centre of modernity, having priority as the historical point of reference in any process of change from the 15<sup>th</sup> century onwards (Jameson and Miyoshi, 1998). The intellectual portrayal of modernization was as a political and economic proposition coming to the fore following World War II that equated the intellectual, cultural and technological advance of victorious nations as something that needed to be imitated by the “poorer, less civilized” peoples of the world; (this reflects the theory of modernization, which is ethnocentric basically).

World historians, especially, are aware of the fact that the “shrinking” of the world started as early as 1492. Indeed, mass migration, cross-cultural trade, warfare, and colonization have economically, culturally, and politically been changing the shape of world history over the past five centuries. So in that sense there is nothing new about “globalization”. Today, globalization is a word that points to a phenomenon identified interchangeably as a process, an historical event, or the end result of shifting “ethno-, techno-, media- finance-, and ideoscapes” (Appadurai, 1996: 32). Accordingly, it replaces the unavailing verb, modernization, because modernists and their opponents depended on outmoded dualistic analyses such as “centre-periphery”, “north-south”, “First World-Third World”, “developed-developing”, and other noted Cartesian distinctions.

The concept of modernization was very much tied to the idea of re-creating the world in the image of American and Western European principles and culture. More recently, discussions of globalization (culturally) describe a process by which the world is becoming increasingly interconnected and unified, subject to homogeneous and uniform processes of cultural unification.

Others would argue that relatively autonomous cultures co-opt (Jordon, 1997) global phenomena and re-construct them for local consumption. To be successful, cultural products such as music, sport, food, business, literature, etc., often require the approval of globalized audiences. It is also true that “global culture” is, and always has been, filtered by every local group, assemblage, or social formation to make it meaningful within particular social and historical circumstances. Media ethnographers have explored the culturally specific interpretations given to American popular cultural goods and note how producers and



marketers of these goods are well aware of the necessity for local variations in commodity distribution. It is also true that global audiences appreciate being able to identify the “local” in cultural products they import. Global advertising campaigns display a marked consciousness of cultural heterogeneity, often involving marketing strategies that are slotted into larger campaign packages to appeal to, or to promote, specific cultural localities.

We proceed in the following section to define our terms, before proceeding to pursue the relationship between “culture and economic development” as analytical concepts during the past 50 years. This is done by examining the usage of the terms during two major conceptual epochs, the first being that of “modernization” and the second presently under way, that of globalization. We conclude that the emphasis on the causality of one or the other concept is based on analytical laziness and the refusal, or inability, to confront complexity and multi-causality.

## **Definition of Major Concepts**

### **Culture**

#### **How do you define culture?**

The total complex pattern of customary human behavior, social forms and material traits embodied in thought, speech, action, and artifacts and dependent upon the human capacity for learning and transmitting knowledge, and systems of abstract thought. This will include beliefs, morals, laws, customs, opinions, religion, superstitions, and art.

### **Economic Development**

An increase in the ability to “choose and make decisions” for the maximum number of people, during the maximum length of time, that will result in a sustainable increase in material and social welfare given allowances for both interpersonal and intergenerational criteria.

### **Modernization**

A conceptual framework that articulated a common set of assumptions about the nature of modern society and its ability to transform a world perceived as both materially and culturally deficient (Latham, 2000). Specifically, modernization theorists posited a sharp distinction between traditional and modern societies. They took for granted that economic development, from traditional to modern, preceded along a single straight, unambiguous line. Finally, modernization advocates expected that contact with vital modern societies would accelerate progress in stagnant traditional societies.

### **Globalization**

Globalization includes a spatial reorganization of production, an increasingly common interpenetration of industries across borders, the spread of financial markets, the diffusion of identical consumer goods, massive transfers of population, resultant conflicts between

immigrant and established communities in formerly close-knit communities, and an emerging world-wide preference for less statism and more democratic decision-making.

We should be reminded at this point that this extremely fertile and intellectually searching debate and dialogue, as to the institutional and cultural privileges and foundation for economic development has been simply ignored by most of those in the economics profession. Discussions of culture in general or the alternative propositions of class, colonialism, imperialism and racism or sexism were, and are, not seen by mainstream professionals as being within the parameters of economics. This and many other crucial debates with respect to economic development have had little if any impact on the discipline. Therefore, you will find, even today that most of the dialogue with respect to economic development will be within the discourse of anthropologists, political scientists or sociologists. Of greater concern is that most recently the sub-discipline of economic development is losing support within the profession as a viable economic subject worthy of attention. Consequently, those economists consulted with respect to issues of economic development totally ignore (or worse, justify) the negative political and social consequences of their advice.

## **Section Two: Modernization: Culture & Economic Development**

The first issue of the first journal on development economics, *Economic Development and Cultural Change*, came out in 1952. At that time there were existed only a handful of scholarly works specifically devoted to the subject. The prevailing view was that for poor countries to achieve capital formation, productivity and consumption, comparable to those in developed countries, it was necessary to duplicate the cultural institutions of the latter. Ethnocentric ‘growth’ and development theories and the establishment of a number of global development institutions such as the World Bank and International Monetary Fund propelled one another as part of the Cold War.

One of the more strongly argued positions that poor nations must imitate rich nations, was that of Walt Whitman Rostow (1960), who argued loudly for intervention in Vietnam. The general proposition taken by Rostow, and others, was that in order to produce and consume like the wealthy, one had to change “traditional” cultural attributes and proceed in orderly fashion to achieve a “take-off” into sustained development. The Alliance for Progress, the Peace Corps, and the strategic hamlet program in Vietnam were all policies that drew their conceptual frameworks from modernization theory. The characters promoting these policy initiatives were some of the more prominent academic proponents of modernization, notably Walt Rostow, Lucian Pye, Eugene Staley, and Lincoln Gordon. Under Kennedy, these and like-minded professors were not just advising or speaking to the incumbents of power, they got to put their hands on the levers.

There are fundamental historical roots for the ideology of modernization, which permeated the Kennedy administration that can be traced back in the American psyche to “Manifest Destiny”. In 1845, a democratic leader and influential editor by the name of John L.

O'Sullivan gave the movement its name. In an attempt to explain America's thirst for expansion, and to present a defense for America's claim to new territories he wrote:

.... the right of our manifest destiny to over spread and to possess the whole of the continent which Providence has given us for the development of the great experiment of liberty and federative development of self government entrusted to us. It is a right such as that of the tree to the space of air and the earth suitable for the full expansion of its principle and destiny of growth (Brinkley, 1995).

Although the movement was named in 1845, the philosophy behind Manifest Destiny always existed throughout American History. It conveyed the idea that the rightful destiny of the United States included imperialistic expansion (University of Groningen, 2001). The war with Mexico and appropriation of the Southwestern United States was just one of a series of aggressive acts. An article in the *Democratic Review* in 1845 included the observation that: "Imbecile and distracted, Mexico never can exert any real governmental authority over such a country...Anglo-Saxon emigration has begun to pour down upon it armed with the plow and the rifle, and marking its trail with schools and colleges, courts and representative halls, mills and meeting houses" (University of Groningen 2001).

During the Mexican Revolution at the beginning of the 20<sup>th</sup> century President Woodrow Wilson established a working agreement with Francisco (Pancho) Villa, one of the most powerful leaders of the Mexican revolutionaries. Wilson offered Villa the full support of the American government on the condition that Villa pledge to incorporate a cultural appreciation for private property and the same kind of democratic principles as existed in the United States into his goals. Given Villa's unequivocal agreement, in December 1913, Wilson publicly expressed his high regard for the Mexican revolutionary. In fact, Villa gave his support to the American invasion of Vera Cruz, Mexico on April 21, 1914 to put down the resistance of civilians and naval cadets against American occupation and use of the port (Katz, 1998: 311-312, 336). The commander of the U.S. forces along the southern border with Mexico, General Hugh C. Scott, later to become chief of staff of the U.S. Army had fought on the "Indian frontier", participated in the Spanish-American War, fought against the Moro's rebellion against U.S. interests in the Philippines, and been an administrator of the U.S. military government in Cuba. He firmly advised Wilson that "only enlightened Westerners could guide these people toward modernization and civilization" (Katz, 1998: 318). Rudyard Kipling, Nobel Laureate in Literature in 1907 (Kipling, 1899) had much more poetically urged the United States to help the inferior people of the world adjust:

*Take up the White Man's burden--  
Send forth the best ye breed---  
Go, bind your sons to exile  
To serve your captives' need;  
To wait, in heavy harness,  
On fluttered folk and wild--  
Your new-caught sullen peoples,  
Half devil and half child....*

Those who viewed underdevelopment as a direct consequence of a country's lack of sophisticated psychological and cultural traits, also believed that traditional values were not only mutable but could--and should--be replaced by modern values, enabling these societies to follow the (virtually inevitable) path of capitalist development. The causal agents in this developmental process were seen as the inhabitants of rich, developed nations that would stimulate the modernization of "backward" nations through economic, cultural, and military assistance (Lerner, 1958; Weiner, 1966). According to Latham (Latham, 2000) Cold War intellectuals were lost in a fog of ethnocentrism and nationalism.

### **Reaction to Modernist Theory**

Then came the ideological, political, and economic earthquake of the 1960s and culture was conceptually pushed aside as the social sciences came to be strongly influenced if not dominated by Structuralism, Institutionalism, Marxism and Dependency Theory. "Modernization" theory was not only criticized, it was ultimately pronounced dead (Wallerstein, 1976). The post-war version of modernization theory had seriously neglected external factors, such as colonialism and imperialism, as well as the newer forms of economic and political domination.

The emerging neo-Marxist and world-systems theorists emphasized the extent to which rich countries exploited poor countries, locking them into positions of powerlessness and structural dependence (Frank, 1966; Chase-Dunn, 1989; Chirot, 1977; Chirot, 1994; Wallerstein, 1974). "Culture" was replaced with the specificity of class, race and gender in the developmental process, all of which are still prominent in the social sciences as analytical constructs. From this perspective, culture is a diversion from the allegedly real processes in the contemporary world (is simply a purposeful cover for capitalist, racist, and sexist oppressors).

Marshall Sahlins was also of significant cross-disciplinary importance as well with the publication of his book *Stone Age Economics* (Sahlins, 1974). He alerted us to the fact that our prevailing belief that industrialization frees us from much of the drudgery found in non-industrial societies is largely a myth. This provided a yet another antidote to the "modernization" school's implicit assumptions of Western technical and moral superiority. This crack in the mythology of modernization may be of less surprise today, cross-culturally, given the epidemic of stress disorders in workplaces throughout the world (Schor, 1991).

## **Section Three: Globalization: Culture & Economic Development**

### **Overview**

Lawrence Harrison's 1985 book, *Underdevelopment is a State of Mind*, was an opening ideological ambit in the resurgence of the concept of culture. Since then there have been a number of collective manifestoes proclaiming the rehabilitation of "culture" in the analysis of economic and political development. Recently, Samuel Huntington (1998) strongly affirmed the importance of culture as the primary variable for both development, and the conflict generated by that development. He asserts that the world is divided into eight

major “cultural zones” based on cultural differences that have persisted for centuries. These zones were shaped by religious traditions that are still powerful today, despite the forces of modernization. The zones are Western Christianity, the Orthodox world, the Islamic world, and the Confucian, Japanese, Hindu, African, and Latin American zones. What we have here is a marker for a significant shift in scholarly opinion.

The leading article in Harrison and Huntington (2000) is probably the most significant in setting the tone of the debate. David Landes begins with the pithy and concise sentence “Max Weber was right.” Weber (1958), trained in law and economics, was one of the earliest social scientists who asked prescient questions about the relationship between economy and culture.

He argued that European capitalism was predicated upon a unique and accidental combination of a particular institutional matrix and certain cultural values (or “spirit”). In subsequent works on India, China, and the ancient Hebrews Weber presented contrasting cases of situations in which either the institutional or cultural environment was not conducive to the development of rational capitalism. There has been a return to the scholarship of Weber by a number of social scientists that commonly refer to themselves as “neo-Weberians” (Mann, 1986; Holton and Turner, 1989; Swedberg, 1998). What Landes didn’t mention is that while all neo-Weberians stress the importance of culture, they do not consider culture as either a separate, or isolated, “box” apart from social, political, and economic life (Bilig, 2000:771). Not at all intellectually timid, Landes also maintains that Francis Fukuyama (1992) is correct about the end of history, and that Samuel Huntington (1998) is correct about the coming of a clash of civilizations between the west and the rest. For Landes the key to the success of the West has been its exceptional values and institutions, which were and still are lacking in the rest of the world. Thus, Landes refers to China as a culturally and intellectually homeostatic society that had indifference to technology, lacked institutions for learning, abhorred mercantile success, showed deliberate introversion, isolationism, risk aversion, irrationality, xenophobia, arrogance, haughtiness, stunned submissiveness, self-defeating escapism, and so on.

Michael Porter (2000) turns the Landes argument around taking a global perspective. Rather than arguing that particular culture traits are a pre-requisite for economic development, he argues that it is the “international economic culture” that is pushing every society toward productivity and values that are conducive to a global homogenous culture. Jeffrey Sachs noted for his crash through or crash advice to transitional economies (Blanchard, et.al., 1994; Sachs, 1990) in his chapter for Harrison and Huntington, generalizes the culture thesis, proposing that “capitalist institutions”, such as respect for property rights, a rule of law, and efficient markets, are the key factors in economic development. This is similar to an earlier argument put forward by Cox (1993) that tied globalization to world capitalism, as a materialist product of its dictates and compulsions; and not excessively different from Friedman’s proposition (1999) that culturally speaking, globalization is largely Americanization – from Big Macs to iMacs to Mickey Mouse.

Hardly coincidentally, since democracy and capitalism are often discussed together, a large group, Francis Fukuyama (1996) and Seymour Martin Lipset (1981) most notably, also view culture as a determining factor for the achievement of democracy (culture being more or less synonymous with the concept of “social capital”). Finally, the on-going debate (Krugman, 1997; Ling and Shih, 1998; Pye 1991) over the role of culture in the economic ascendancy of eastern Asia was sharpened. This debate has raged now for over two decades, both on the scholarly level (the issue of so-called post-Confucian values as a factor making for economic success) and on the level of political rhetoric (Asian values propagated with a pronounced anti-Western animus by the “Singapore school”, Mahatir Mohamed of Malaysia, and other defenders of authoritarian regimes in the region).

One of the few dissenters in the Harrison and Huntington book was Richard Shweder, an anthropologist. He described himself as the token designated skeptic and issued a detailed disagreement from the view that cultures should be looked at in terms of their contribution or non-contribution to “progress.” Elsewhere, Andre Gundar Frank (1998) has accused Landes, and others, of a blatant Euro-centric historiography and social theory that concentrates inquiry through European and American rose-colored spectacles, blacking out the evidence from the rest of the world and distorting that of the West itself. Frank sees this type of scholarship as racist ideology, masquerading as analysis. It was not Europe but Asia, and particularly Middle Kingdom China, which remained predominant in the world until at 1800. The subsequent Decline of the East and the shift of the centre of gravity to the West were more globally than locally determined temporary processes that have run their historical course and are already coming full circle with the contemporary renewed rise of East Asia and particularly of China.

A fascinating, non-Euro-centric, historical analysis has been written by Andre Wink (1990), in which he examines the complex and intimate involvement between the Islamic Middle East and India for a millennium, up to the 18<sup>th</sup> century. Profound cultural changes in both the Middle East and India were largely a function of the trade and commerce opened up by Mughal conquest (Wink, 1990: 360). The conquest and Islamisation of the northwestern part of the Indian sub-continent, far from being minor and peripheral as most textbooks of Indian history treat it, was, according to Wink, an important crucial step leading to the integration of India into an intensifying world trading pattern. Economic development, important for both was the dynamic force that brought about historical change in this part of the world.

Elliott and Harvey (2000) argue in a case study on Jamaica that: “...development problems will never be solved by policies that ignore the fundamental underlying problem: the vast inequities in power arising from...political, social, and economic history.” The implied causation between economic progress and cultural values that promote pro-market, pro-private property-based institutions is due in large part to a neoclassical economic perception of Western European development. Not only is such an interpretation of the industrial and commercial revolutions open to debate, but also, the circumstances of poor nations are hardly similar to those of eighteenth and nineteenth century Europe. Slavery, absentee ownership, and colonial status, along with the specific geography of the island of

Jamaica, combined to create the plantation economy, not value-weakness (Elliott and Harvey, 2000: 398). Not surprisingly, this historical pattern created vast inequities in terms of the ownership of the island's productive assets and income and a legacy of racism.

The agricultural land base was monopolized and a new low-wage urban worker was created (Bakan, 1990). Once wide disparities are created the basic structure of society tend to reinforce differences, but elites will also take conscious steps to preserve their status. Because they dominate the government, the economy will work to serve the needs of the rich, rather than the masses. And when economic activity is not directly concerned with maintaining class position, the existence of inequality leads both elites and the impoverished to seek status via conspicuous consumption. "The most significant current problem is the monopoly of power held by Jamaican elites. They control economic activity, and they have no immediate incentive to do any more than work to maintain the status quo. The roots of this inequity go back 300 years" (Elliott and Harvey, 2000: 399).

In this sense the classical Marxist perspective on capitalism continues to provide an explanation that remains quite convincing, despite its own Euro-centric limitations. That is that capitalists expand their accumulative activities and overcome thereby all geographic, cultural and political barriers that obstruct their path.

Hand in hand with this centralization, or this expropriation of many capitalists by few, there develops, over an ever-extending scale, the cooperative form of the labor process, the conscious technical application of science, the methodical cultivation of the soil, the economizing of all means of production, the entanglement of all peoples in the net of the world-market, and with this, the international character of the capitalist regime (Marx, 1987: 714-715).

### **Empirical Evidence Leads to Complexity**

There exists strong empirical evidence that economic development is associated with shifts away from absolute norms and values toward values that are increasingly rational, tolerant, trusting, and participatory (Inglehart and Baker, 2000). The shift from pre-industrial to industrial society wrought profound changes in people's daily experiences and prevailing worldviews (Bell, 1973; 1976; Inglehart, 1988; Inglehart, 1997). Pre-industrial life, Bell (1976: 147) argues, was a "game against nature" in which "one's sense of the world is conditioned by the elements, the seasons, the storms, the fertility of the soil, the amount of water, the depth of the mine seams, the droughts and the floods". Industrialization brought less dependence on nature, which had been seen as inscrutable, capricious, uncontrollable forces or anthropomorphic spirits. Life now became a "game against fabricated nature", a technical, mechanical, rationalized, bureaucratic world directed toward the external problem of creating and dominating the environment. As human control of the environment increased, the role ascribed to religion and God decreased (Bell, 1973).

The emergence of post-industrial society seems to be stimulating further evolution of prevailing worldviews, but it is moving in a different direction. Life in post-industrial societies centres on services, and hence life becomes a "game between persons" in which

people “live more and more outside nature, and less and less with machinery and things; they live with, and encounter only, one another”. More effort is focused on communicating and processing information. Thus, the rise of post-industrial society leads to a growing emphasis on self-expression (Inglehart, 1997). Furthermore, the historically unprecedented wealth of advanced industrial societies, coupled with the rise of the welfare state, mean that an increasing share of the population grows up taking survival for granted. Their value priorities shift from an overwhelming emphasis on economic and physical security toward an increasing emphasis on subjective wellbeing and quality-of-life (Inglehart, 1997).

Inglehart and Baker (2000) identify a mainstream cultural version of pre-industrial societies. All of the pre-industrial societies for which they have data show relatively low levels of tolerance for abortion and divorce most of them place strong emphasis on religion; a tendency to emphasise male dominance in economic and political life; deference to parental authority, and the importance of family life; and a politics that is relatively authoritarian. Advanced industrial societies tend to have the opposite characteristics. A survival/self-expression dichotomy is also expressed with trust, tolerance, subjective wellbeing, political activism, and self-expression emerging in post-industrial societies with high levels of security. At the opposite extreme, people in societies shaped by insecurity and low levels of wellbeing, tend to emphasize economic and physical security above all other goals, feel threatened by foreigners and ethnic diversity, and are risk averse towards change. This leads to an intolerance of gays and other out-groups, an insistence on traditional gender roles, and an authoritarian political outlook (Inglehart and Baker, 2000).

The more uncertain survival, either politically or economically, the more is cultural diversity threatening. In their opinion, economic development impacts powerfully on cultural values. Interestingly, rising levels of existential security are the key factor underlying intergenerational value change. Intergenerational value differences are greatest in the societies with the highest life expectancies. Across 61 societies, the correlation between 1995 life expectancy and the size of the intergenerational difference in traditional/secular-rational values is significant (Inglehart and Baker, 2000).

But this evidence must not be essentialised as a one-way process because the broad cultural heritage of a society, be it Protestant, Roman Catholic, Confucian, Hindu, Rastafarian, Islamic or Communist, leaves an imprint on values that endures despite modernization, globalization and economic development. Different societies follow different trajectories even when they are subjected to the same forces of economic development, in part because one or more of the multitude of situation-specific factors, such as culture, geography, technology, weather, etc. also shape how a particular society develops.

The issue is one of probabilities, not determinisms. Economic development tends to transform a given society in a predictable direction, but the process and path are not inevitable.

## **Relative Autonomy**



Osborne (2001) is exemplary as one of those who takes a different tack against the prevailing winds by showing, in the case of India, that “caste” as a cultural proposition, has remained a useful ideological and political construct neither significantly affecting, nor being significantly affected by economic development. As one might expect, economic analysis, within the discipline of economics, of the caste system is scarce. Akerlof (1976) and Scoville (1996) are two examples worth reading that have spent time examining the economics of caste and its labour market underpinnings. But with respect to the cultural role of caste and its positive or negative correlation to economic development Osborne is breaking new ground.

Osborne (2001) shows that the caste system facilitates the formation of pressure groups on a government that has many rents to dispense and many factionalized citizens eager to seek them. The logic of the power of pre-existing factions in India is quite simple. Once an aggressively interventionist government exists, the choice facing citizens is whether to obtain rents via caste or some other means. Given that caste-membership requires little in the way of organizing costs and is easy to verify, so that it is difficult for members of one group to “pass” as members of another, the continuance of these identities becomes a powerful cultural force in Indian society. What is also evident is that the traditional social cleavages of caste and ethnicity are far more important than economic interests, or class specificity and organization (Kaviraj, 1997; Mencher, 1992; Thakur, 1995).

An issue that has confounded “modernization” theorists, that is the incompatibility of caste structures with urbanization and development, is clearly explained by Osborne. The political economy of caste, culture, and the material enhancement of economic development are relatively autonomous. As long as the government remains open to rent-seeking as liberalization proceeds, it remains rational and efficient for citizens to adopt more reliable forms of factional organization.

Another school of thought pushes the position of Osborne one step further, arguing that a large number of traditional values and components of culture are impervious to economic and political change (DiMaggio, 1994). The independence of culture from economic change is reflected in the love affair with weaponry in the United States that would give the Taliban a run for its money, as well as summer breaks from formal education, incest taboos, patriarchy, etc. Osborne and DiMaggio leave Porter’s attempt to demonstrate a ‘consuming’ international global culture somewhat at odds with the evident differences in cultural traits at both the macro- and micro-level of human interaction.

It may also be possible that the globalization discourse itself may well be flawed and based upon a mixture of poor social science, hyperbole, exaggeration and corporate desire. Possibly, this is most likely why it works. That is, it works because it has a highly receptive audience within the offices and boardrooms of the international business community and is, in this sense, a self-affirming and self-propagating proposition. It articulates a belief within management circles that something is changing in the global economy and needs to be responded to by rethinking the way in which business is organized. Thus it too becomes

both an explanation and a programme of action which all must follow in the competitive drama (Leyshon, 1997).

## **Conclusion**

The main problem with the debate over the causal relationship between culture and economic development is the inadequacy of human psychology, or analytical laziness, when confronting complexity. The tendency to seek easy, single-factor explanations of success or failure is to avoid the difficult mental labour of identifying and analyzing the intricate historical and structural interconnections amongst a labyrinth of variables.

Those who view culture as the major factor in the production of material wealth often choose to ignore historical trends, or have never been sufficiently educated given the emphasis on disciplinary specialization. For instance, the first major interaction between Eurasian and the peoples of America involved the Inca emperor Atahualpa and the Spanish conquistador Francisco Pizarro in 1532. Pizarro, with only 62 soldiers mounted on horses and 102 foot soldiers, slaughtered Atahualpa's forces of 80,000. This was not due to the fact that the Incas were culturally incompetent, but because they lacked horses and guns. Historically, those American tribes that was able to resist European conquest, for any length of time, were those able to steal and master a sufficient number of horses and guns.

By 1700, guns had become the main tool in conquest and slavery, and the conquest of Atahualpa illustrates the set of proximate factors that resulted in colonization and wealth accumulation by European. We should be reminded that firearms had reached Japan in 1543 and the Japanese had very sophisticated gun technology by 1600. However, given their vision of war as an art, guns were despised as a barbarian's tool and severely restricted for use by the governmental authorities (Diamond, 1998).

This is not to negate the influence of particular elements of culture on the development process but huge interpretations of culture like those of Landes or Huntington are to be rejected. Culture presents many facets. There is no single culture that emerged from earlier traditions or from the hegemonic power of the West. Broad generalizations are counterproductive, bordering on racism; the Southeast Chinese are not homogenous, and neither are the Malays, much less the Americans, Australians or British. Though it affects economic development, culture itself is never a constant but evolves jointly with economic opportunities. Huntington's (1998) pessimistic view of a global future of cultural clashes may do more to inflate military budgets than to generate intellectual enrichment.

Economic Development, culture, modernization and globalization are better interpreted as the complex processes resulting from the interaction of many different variables, than as a distinctive causal processes in their own right. It is not intellectually helpful to explain specific events and phenomena in terms of the macro processes or structures, and pointless to subsume anything or everything under the umbrella of any single causal agent or process (Jessop, 2000).

A lesson to be remembered when confronted by the elicitations of cultural supremacy is the lesson learned the hard way by the peoples of the Fertile Crescent, China, Islam and the British Empire. Circumstances change, and past primacy has never been a guarantee of future dominance. There are many possible solutions of how to make sense of the world. They compete one with another, and we feel compelled to join this or that stance or look for our own. While that choice is always ours, the complexity of the things around and beyond us challenges the validity of those options.

### Activity 9

1. Dear learner, cultural element of world societies should be similar to assure economic development? Justify your answer.

---

---

---

2. What is your reaction to the idea of modernist theory that "all underdeveloped societies should imitate the way of the developed ones to develop economically".

---

---

---

### Summary

Many theories have been proposed (some leading directly to policy), but very few developing countries have succeeded in breaking the bonds of underdevelopment. Social theorists from Karl Marx to Daniel Bell have argued that economic development brings pervasive cultural change. Others, from Max Weber to Samuel Huntington, have claimed that cultural values are an enduring and autonomous influence on society. Empirically we find evidence of both massive cultural change and the persistence of distinctive cultural traditions. The relationship of “culture” and “economic development” during the past fifty years can be, and has been, viewed variably as causal, correlative or relatively autonomous.

The relationship between culture and economic development is extremely complex. Notice however, that this assumes, to start with, collective agreement upon the meanings of the terms (culture and development) is possible. Or indeed, that when agreement is achieved, the terms are not so general that they become tautological or lose all applicability. Working definitions will be provided below but the fact is that the concepts of culture and

development are both opaque, making them impervious to meaningful discourse. Eagleton (2000) reminds us that “culture” has been used differently in various historical and structural circumstances.