

INTRODUCTION

ALTHOUGH sociology and economics have ignored one another for decades, developments in both disciplines during the past twenty years suggest that cautious rapprochements are beginning to crack the solid lines that have separated them. Catch phrases like those advanced by the American economist James Duesenberry (1960: 233)—that “economics is all about how people make choices; sociology is all about how they don’t have any choices to make,” are no more valid as a description of the relationship between the two fields today than they were when first pronounced.

Ever since the early 1970s, starting from criticism of the restrictive assumptions of the general equilibrium theory and developments in game theory, economics has clearly been opened to problems and subjects that had previously been ascribed essentially to the domain of sociology. These include developments in the economics of information, the transaction cost theory, principal-agent approaches, the new historical economy, and the incorporation of bounded rationality into game theory. No matter how varied these modeling strategies are, they all agree that more consideration should be given to psychological and social constraints, and that studies need to investigate how equilibrium models change when the heroic assumptions of information and structure of the standard models of economics are loosened.

Meanwhile, in the 1960s and 1970s, sociology moved away from functionalist and structuralist theoretical approaches and became increasingly devoted to approaches based on theories of action. Criticism of functionalism led especially to projects intended to make social structures and processes intelligible in reference to social action, without being tied to the rational-actor model for its behavioral typology. On this background, a renewed interest in socioeconomic problems has developed since the 1980s. In the 1950s and 1960s, economic sociology dealt with problems that were marginalized by economics. But the “new economic sociology” claims to be able to demonstrate on the ground of the substantial core areas of economic theory how economic functions can be understood better through sociological conceptualizations. Even though the objectives of the new economic sociology must be seen in the context of the repudiation of economic imperialism, it nevertheless reveals an opening to economics because sociology starts dealing with social phenomena that had long been considered the exclusive domain of economics.

In the mutual debate over the issues and approaches of each other’s discipline, sociology and economics intersect. Thus, some of the modeling

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strategies, especially transaction cost theory and Douglass North's work in the field of economic history, were adopted with critical candor by economic sociology. In economic theory, those approaches also express at least a cautious opening to sociology. Historical data are included along with the possibility of "irrational" action on account of cognitive constraints, and the spread of inefficient equilibria on account of informational limitations, so that the field is partly dissociated from the assumption of universal efficiency of economic institutions.

While these developments in economics and the new economic sociology indicate an entente between the disciplines, they still remain separated from one another at the demarcation line of the rational-actor model. The central assumption of the maximization of utility has been both criticized and expanded by the theory of bounded rationality and by attempts to integrate altruistic behavioral motivations, yet the paradigmatic core of economics is defined by the action-theoretical notion of an individualized, universal maximizer of utility. Ever since the establishment of modern economics in the eighteenth century, the moral-philosophical justification for the behavioral model of *homo oeconomicus* has consisted of the expectation, expressed in the metaphor of the invisible hand, that action directed at self-interest leads to a desirable allocation of economic goods, both collectively and individually. Pursuit of private interest is the basis for the emergence of the common welfare. This link between behavioral expectations and institutional structure is also the basis of liberal economic policy: the demand for unlimited markets by removing trade barriers and restraining government regulation is justified normatively by the expected increase of wealth.

The new economic approaches developed as criticism of equilibrium theory with respect to its assumptions about market structures and the supply of information of market participants. They show that, often, under realistic premises, either no unequivocal equilibria exist or that stable equilibria with inefficient resource allocation develop. This results in market failure. But market failure calls into question the central link of economic theory between rational individual action, unlimited markets, and optimal distribution of economic goods; the claim of the superiority of rational individual action cannot be generally maintained under the more realistic assumptions. The close connection between self-interested action and economic efficiency becomes precarious.

In this book I try to explain how sociology can contribute to understanding the bases of economic efficiency. The decisive consideration here is that the discrepancy of the connection between rational action and efficient results asserted by economic theory forces the revision of the action theory that underlies the understanding of economic action. To substantiate this hypothesis, I shall demonstrate in the first part of the book why

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the emergence of efficient equilibria cannot be generally explained from the behavioral model of economic theory and, thus, that removing limits on markets does not per se lead to the increase of economic efficiency. Three central action situations can be identified for the functioning of the economy in which economically rational actors either achieve inefficient results or in which no rational strategy for the allocation of resources can be identified. These situations are cooperation, action under conditions of uncertainty, and innovation.

The critical discussion of the first part of the book raises two questions: how we can understand how actors in the three action situations arrive at efficient results, and how they make decisions when they cannot know what the optimal behavioral strategy is. The most important systematic starting point of a sociological concern with the economy is located in these two questions. They are central not only for determining the relationship between sociology and economics but also for the empirical understanding of economic structures and processes in market economies.

In the second part of the book, to get to an answer, I systematically examine conceptions of economic action in the tradition of sociological theory. Ever since sociology was founded, it has used both empirical and theoretical arguments against the economic theory of action and the notion of the emergence of social order from the behavior of actors pursuing their own self-interest. The discussions were linked both to the intensive debate with socioeconomic questions and often to the demand for the limitation of the market. Conceptions of economic sociology in sociological theory are particularly well suited for discovering designs for understanding the three action situations. They also fill a gap in the “new economic sociology,” because the significance of considerations of economic sociology, especially in the classics of sociological thought, becomes more accessible in the field.

The choice and order of the concepts of economic sociology discussed are oriented toward the action situations in question. The projects of Émile Durkheim and Talcott Parsons prove to be especially fruitful for understanding cooperative relations but not for the problematics of uncertainty and innovation. On the other hand, Niklas Luhmann’s systems theory is especially significant when acquiring the capacity to act under extremely contingent conditions. Yet understanding innovations demands a conception of creative action that can be derived from the new approaches of constitution theory; here works of Anthony Giddens are discussed as an example.

These studies represent debates with individual authors who all engage in the systematic debate of the assumptions of action theory for overcoming the specified limits of the economic model of action in explaining economic efficiency. Parallel to that, I pursue a second line of questioning:

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how does consideration of the economy develop in the history of sociological theory? Whereas the debate with economics had a central significance for the founders of the discipline, in modern sociological theory it plays a much smaller role. This development also results in a shift between the four studies: in the investigations of Durkheim and Parsons, their conceptions of economic sociology are central; on the other hand, particularly in the last chapter on Giddens, the systematic aspect of action-theoretical considerations predominates.

Following the four studies, I shall compile the products of the analyses and discuss their significance for a theoretical underpinning of economic sociology, and also discuss the question of the social embeddedness of economic structures as a central condition of economic efficiency. A proper understanding of the significance of cultural, social, and cognitive structures for the efficiency of market economies can be achieved only when we go beyond the market as a universal institution for the allocation of economic goods and supersede the rational-actor model.