

Social embeddedness of the economy

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In this short review article different sociological approaches to economy are outlined. The cognitive, cultural, structural, and political aspects of the key term of the new economic sociology - the social embeddedness of the economy - are surveyed. The effects of social networks on economic action, institutions, and outcomes are emphasized. The new economic sociology and economic theory are briefly contrasted and compared.

Key words: SOCIOLOGICAL ASPECTS OF ECONOMY, ECONOMIC SOCIOLOGY, SOCIAL NETWORKS, EMBEDDEDNESS

If there is a key term for connecting the different currents of new economic sociology¹ and socio-economics² it is definitely the notion of embeddedness. It is well-known that this term originates from Karl Polanyi (Polanyi, 1957), the leading figure of the substantivist approach to economic anthropology ("old" economic sociology). According to Polanyi the different forms of economic integration are bound to certain structural and institutional conditions: the dominant forms of integration of primitive and archaic societies - reciprocity and redistribution - are embedded in non economic relations: networks of culture or politics, religious, moral or juridical sanctions, interpersonal relations. However, exchange, the third basic form of integration is based on a separate system of economic institutions, namely the system of price-making markets. According to the substantivist standpoint the character and scope of the social embeddedness of the economy fundamentally alters when market integration becomes predominant: while in precapitalist societies personal networks and non economic motives shaped the economic activities and institutions, in modern capitalism the dependence of the economy on social conditions practically came to an end. The representatives of neoevolutionism in sociology and of the moral economy approach in economic and social history have a similar standpoint, which Mark Granovetter calls the strong embeddedness position (Granovetter, 1992:28).

The other traditional approach is in the first place characteristic of neoclassical economic theory and the formalist approach to economic anthropology. According to this idea the predominance of market integration does not induce any important change in the scope of the social embeddedness of the economy, because non economic motives and conditions do not play a crucial role either in precapitalist, or in market economies. Therefore one does not have to take into account their effects when analyzing them. Such ideas as Hobbes's natural state or Rawls' original position - following the traditional economic models - make the same assumption: social networks do not (or only slightly) influence the rational, self-interest guided individual action.

Researchers of the new economic sociology doubt both views. It was Mark Granovetter who explicated more deeply the so-called weak embeddedness position (Granovetter, 1985;

¹ For the distinction of the classical, old and new economic sociology see: Swedberg (1987; 1991), and Granovetter (1990). For surveys of new economic sociology see: Friedland and Robertson (1990), Zukin and DiMaggio (1990), Granovetter and Swedberg (1992), Nohria and Eccles (1992), Smelser and Swedberg (1994).

² On socioeconomics see: Etzioni (1988), Etzioni and Lawrence (1991), and Coughlin (1991).

1990; 1992), in which he partly criticizes, partly develops the above mentioned ideas. In a critical development of the substantivist approach Granovetter distinguishes embeddedness at three different levels of economic phenomena: individual economic action, economic institution and economic outcome. He also defines the relational and structural aspects of embeddedness. The first refers to the effects of personal networks (Ego-networks) of the actors, the second refers to the effects of the structural characteristics of the entire network. On the other hand he shows that the level of embeddedness in precapitalist societies is lower, while in market economies higher than it is suggested by the strong embeddedness position. In his view, the level of the social embeddedness of the economy did not change fundamentally with the formation of modern capitalism, a similar view held by economists. At the same time his point totally differs from economics since he argues that the effect of social networks upon economic actions, institutions and outcomes must be taken into account at the analysis of any economic system. Economic sociology in this way may fruitfully contribute and improve economic explanations, offering an alternative framework. Granovetter's basic argument runs as follows: "(1) The pursuit of economic goals is typically accompanied by that of such non economic ones as sociability, approval, status, and power. ... (2) Economic action (like all action) is socially situated and cannot be explained by reference to individual motives alone. It is embedded in ongoing networks of personal relationships rather than carried out by atomized actors. (3) Economic institutions (like all institutions) do not arise automatically in some form made inevitable by external circumstances; rather, they are 'socially constructed'" (Granovetter, 1992:25).

New economic sociology distinguishes the cognitive, cultural, structural and political aspects of embeddedness (Zukin and DiMaggio, 1990:14-23), referring to the dependence of economic actions on cognitive, cultural, sociostructural and political factors. Cognitive embeddedness indicates those regularities of mental processes which systematically affect rational economic calculations. These limitations were revealed by cognitive psychology, behavioral economics and descriptive decision theory, emphasizing that the assumptions of economic models (perfect rationality, costless information, unlimited problem solving capacity etc.) do not fit reality. Uncertainty, the complexity of decision making processes, the cost of information searching and processing, limits of the human mind etc. are factors which support the assumption of bounded or procedural rationality of economic actors. Descriptive decision theory³ in the past twenty years thoroughly revealed the cognitive biases which can be observed in real-life decision making procedures and the rules of thumb or heuristics with which the real-life decision makers replace the behavior prescribed by normative decision theory.

By cultural embeddedness of economic actions we refer to the role of social norms and values in shaping economic ends and strategies. Culture limits economic rationality: it can prohibit people from commercing particular things, it can determine a rate of exchange which is different from what is economically rational, it can prescribe certain economic transactions, determining who can participate in it etc. Social norms regulating market exchange "force" people to behave in institutionalized and culturally accepted ways, even if they had the chance to cheat or behave opportunistically. Culture has a double effect upon the economy: (i) it forms particular constraints of egoistic economic actions; and (ii) it regulates market forces. According to socioeconomics, economic actors pursue two or more goals (utilities): seek pleasure, and seek to abide by their moral commitments. Actor's choices of means are largely based on values and emotions (Etzioni, 1988:254).

After Granovetter, the structural embeddedness of the economy denotes the effect of personal networks on economic activities and institutions. Economic sociologists emphasize the role of social relations and networks explaining individual and collective economic actions, economic institutions and organizations against the argumentation based on the atomistic

³ See for example: Kahneman and Tversky 1974, 1981.

("undersocialized") concept of the individual in economics and the normative ("oversocialized") concept of individual in sociology. Social networks, for example, highly influence market operation. In his exemplary empirical analysis Wayne Baker (1984) discovered in details the mechanisms by which social networks affect exchange rate in a stock options market. Karl Dieter Opp (1987) highlighted the role of social networks in market cooperation by pointing to the connections between social networks (macro variables) and individual cost-benefit calculation (micro variables). Social relations provide important channels of market exchange, and contribute to the emergence of collective action - both in market and non market circumstances.

Power relations and the legal framework of society, the accepted system of collective bargaining, the state and the actors of political life directly influence the economy."... /T/he political context of economic action is made up of a complex web of interrelations and expectations. The formation of strategies within industrial sectors, for example, takes account not only of prices, wages, demand, and competition, but also policies of the national and local state, the social balance between regional employers, and the willingness of local labor force to tolerate change" (Zukin and DiMaggio, 1990:20).

The notion of embeddedness challenges the orthodox economists' idea that impersonality is an important characteristics of market situations. While economic theory is based on the concept of a rational agent who can ignore her/his social ties on the market, sociology comprehends the actors of economic life as embedded in multiple social networks. Thus an important element of a sociological approach to the economy is the concept of social capital which can make it easier, cheaper or even possible for economic actors to achieve particular ends (Coleman, 1990:Ch.14). The social capital of economic actors can be as important as physical, financial or human capital: social ties can protect from uncertainty and risk.

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DRUŠTVENA UKORIJENJENOST EKONOMIJE

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U radu se izlažu obrisi različitih socioloških pristupa ekonomiji. Propitkuju se kognitivni, kulturni, društveni i politički aspekti težišne koncepcije nove ekonomske sociologije - društvene ukorijenjenosti ekonomije. Slijedeći Granovettera, autor raspravlja o utjecaju društvenih mreža na gospodarske akcije, institucije i rezultate. Nova ekonomska sociologija i ekonomska teorija sučeljene su i uspoređene.