

Economy and Society



OVERVIEWS IN
ECONOMIC SOCIOLOGY

Edited by

**Alberto Martinelli
and Neil J. Smelser**



Economy and Society: Overviews in Economic Sociology

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Neil J. Smelser



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Economy and Society

This volume, while the responsibility of the editors and authors, is in many respects a product of the Research Committee of Economy and Society of the International Sociological Association. Both of us were among the founders of that Committee, and both of us have served as Chair during the past ten years. We would like to think of the book as an expression of the mission, work and future of that Committee.

The idea for a kind of state-of-the-art volume occurred to us about the time of the World Congress of the ISA in Mexico in 1982. We discussed it among colleagues at that time, and received a generally positive response. As is almost always the case with international projects, the gestation, planning, commitment, writing, defaulting, substituting, delaying, editing and negotiating process took many years. We would not boast that we have set a record for in-embryo existence, but we have come close. It is for others to evaluate this book, but we are satisfied that its final appearance will help to consolidate the growing tradition of international research on problems of economy and society, and to contribute modestly to the quality of that tradition.

We would like to thank many for their co-operation and assistance. Our first debt is to the authors, for both their performance and their forbearance. We thank the Publications Committee of the ISA for making it an official Association publication; Stephen Barr of Sage Publications for his positive reception of the manuscript and his intelligence and sensibility in negotiating its publication; and Christine Egan, assistant to Neil Smelser, who facilitated everything with her attention to the mountains of correspondence and processing of multiple manuscripts.

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**ECONOMIC SOCIOLOGY:
HISTORICAL THREADS AND ANALYTIC
ISSUES**

Alberto Martinelli and Neil J. Smelser

Throughout its history sociology has shown a tendency to be complex and diversified in content, without notable consensus with respect to its paradigmatic organization, and permeable at its boundaries. At the same time certain themes have continued to arise and rearise, thus lending a continuity to the discipline. Among these themes are inequality and stratification, social integration, the nature of community, the nature of society, and societal development. Central among these recurrent themes is the relationship between economy and society. Few classical sociologists failed to give this motif a central place in their theories, and it continues to be the focus of a vital concentration of research and debate in contemporary times. That focus is also notable because it has occupied a place for economists as well, though in many cases their thought about this relationship has taken the form of implicit assumptions rather than explicit analysis. We divide our introduction to this state-of-the-art collection of essays on economy and society into two parts: a review of some classical theoretical formulations at the macroscopic level and a statement of some central analytic issues in economic sociology.

**Part I: Major Formulations of Economy–Society
Relations**

Modern Capitalism and Classical Political Economy

As the second part of this introduction will indicate, it is possible to treat the relations between economy and society in analytic terms, without special reference to distinctive historical eras or types of society. In its historical origins, however, the economy and society is closely linked with the rise of industrial society and

with its attendant, largely middle-class democratic revolutions beginning in the second half of the eighteenth century. Its rise as a distinctive preoccupation of social thinkers can be understood as conditioned by two basic developments associated with those revolutionary changes: (1) the growing differentiation of economic structures from social structures and relations — for example the differentiation between economy and state in the early, laissez-faire stages of capitalistic development, the dissociation of kinship from economic production under the factory system. This separation permitted the development of a culturally separated field of economics, with sociology and its sub-branches emerging and consolidating later; (2) the problem of social order (integration) as this preoccupied the emerging social commentators and social scientists; in particular, the potential for capitalist economic structures and processes to generate inequalities and injustices, disrupt community life, and to foster social instability became the foci of attention. In these senses the study of economy and society arose from those intellectual attempts, modelled after the scientific mode of enquiry, to grasp the fundamentals of modern capitalist society.

The rise of the relevant modern social sciences, then, represents a kind of double differentiation: first, the differentiation of distinct social structures (economic production, banking, markets and distribution structure, urban structure, modern kinship structure) from one another, thus making them more visible and accessible to study; and second the differentiation of the social-scientific mode of enquiry from existing philosophical, religious and historical thought, carrying forward some of the themes of that thought but simultaneously emulating the logical-experimental methods as these had developed in the natural sciences.

The starting point of our illustrative historical account is classical political economy, the first coherent and systematic attempt to understand economic and social relations in a modern scientific sense. Adam Smith's political economy is based on the postulate of *homo oeconomicus*: a simplified set of assumptions about human action, seen as the result of the behaviour of isolated individuals, each pursuing his or her own interests and making free and rational choices after having calculated the prospective costs and benefits. (The economic actor is thus an 'exceptional statistician', as Arrow ironically defined him later.)

On the basis of a further set of assumptions and calculations, Smith came to regard the equilibrium of the market and social order as the spontaneous outcomes of the profit-maximizing activities of individuals.¹ The market dynamics by which this result was attained followed from Smith's special solution of humanity's relation to the natural environment and to each other as flowing from maximizing behaviour in satisfying their wants and in choosing the means to satisfy them. The attendant processes were presented as the natural laws of economics, applicable not only to early capitalist society but presumably over a wide historical and comparative sweep.

The first creative simplification of classical economics, then, was the simplification of human psychology by adopting the view of people as instrumental, rational, maximizing materialists. While this simplification excluded most of the rest of psychological nature, an argument might still be made for it on theoretical and methodological grounds as necessary for creating an analytical model for scientific analysis.² (It was a 'model' in a second sense, for it contained a set of idealized criteria for evaluating the correctness or incorrectness of existing economic arrangements and for guiding social policy.) There was a second creative simplification, too. By focusing more or less exclusively on economic motivation, behaviour and interaction, other features of social action and social structure were left out of sight or reduced: the dynamics of culture were frozen into fixed tastes and preferences; collective action was expressed as an aggregation of individual actions, without an internal social dynamic; the polity was represented passively, with little attention to the processes of political conflict and negotiation leading to policies; and aspects of personal interchange other than the economic were left out of account. In its classical formulation, in short, the classical solution was as near as might be imagined to a pure economic solution; it is difficult to say much about economy *and* society within the confines of such an extreme formulation, because so many aspects of that relationship were resolved by simplifying assumptions.

The unreality and the evident limited applicability — limited, that is, to a certain model of capitalist society — has been addressed and in some ways overcome by developments along two lines: first, economists themselves have altered the specific assumptions of the classical school and extended its applicability,

as we will illustrate later. Second, as time went on, the social sciences — dealing directly with those parts of the society that the economists had simplified — began to develop, and take the form of major social science disciplines we know at present, mainly as sociology, anthropology, and political science, but more specific bodies of knowledge as well, such as demography, information science and organization theory.

The rise of the other social sciences — and here we have sociology most in mind — was also conditioned in large part by the conditions of early industrial capitalism.³ As indicated, the social changes initiated by the commercial and industrial revolutions involved a series of differentiations that produced new institutions — the modern family, the urban community, new agencies of social control such as the police — that became more clearly visible as objects of study. In addition, the urban and industrial changes produced a whole new range of social problems — crime, addictions, broken families, poverty — which demanded explanation and amelioration. But above all, the pace of change, the instabilities, the strains and contradictions of the economic revolution led to the erosion if not destruction of many traditional integrative institutions, such as the monarchy, the church, the local community, the artisan guilds, and the extended peasant family; much of the agenda of the emerging new social sciences was thus concerned with the problems of integration, or the problem of ‘how is society (or social order) possible?’

Those social scientists working on the edges of the already developed economic sciences adopted a range of strategies in relation to them. Pareto, for example, took economic explanations as more or less adequate to analyse one kind of social action, and invented other constructs (for example ‘derivations’, ‘residues’) to deal with other aspects of reality (Pareto, 1935); Weber took the mentality of modern society (‘rational calculation’) as a phenomenon to be explained, and laid out the ideal-type institutional conditions under which it was possible (Weber, 1947); and Marx and Polanyi (1944), while addressing some of the problems of classical economics directly, looked outward and raised questions about phenomena (for example, class conflict, group hegemony, political instability) that were outside the analytic realm of classical political economy.

Whatever the historical origins of the rise of economics and sociology as separate disciplines, their emergence as such poses

three sets of questions: first, what are the *formal* relations between them with respect to logical structure, types of hypotheses, explanatory models, and so on? second, what are the distinctive ranges of empirical data each calls into question and generates findings about? and third, how can the substantive findings of one modify the parametric assumptions of the other and vice versa?

In the remainder of Part I we will consider the thought of several general theories in the tradition of economic sociology — Karl Marx, Max Weber, Joseph Schumpeter, Karl Polanyi, and Talcott Parsons and Neil Smelser — each of whom attempted to work out alternative and more comprehensive frameworks for the study of economy and society than those generated by the classical political economists.⁴ Each attempted to address issues associated with the three questions posed in the last paragraph, though with varying degrees of completeness.

Karl Marx. In his own programme, Marx had in mind neither revising classical political economy from within nor forming a new social science completely distinct from it; he was aiming to generate no less than a new theory of society. While he incorporated most of Ricardo's theoretical insights, he 'historicized' them by regarding the 'natural laws' of political economy as relevant only to a specific phase of a world-historical evolutionary process, the phase of bourgeois capitalism. The larger set of laws within which political economy (and other forms of knowledge specific to other economic phases) is the definite sequence of historical phases through which human society passes. Each phase has its own dominant modes of production and distribution, and its own set of principles of functioning. The other item on Marx's agenda, of course, was the idea of revolution, which referred both to the mechanism of transition from one phase of economic development to another, and to the purposes to which his own knowledge was to be put in the revolutionary destruction of capitalism.

Marx's conception of the relations between economy and society parallels his distinction between two pairs of key concepts in his theory: productive forces vs. social relations of production and structure vs. superstructure. His most succinct statement of the former is the following: 'in the social production of their existence men enter into necessary relations, independent of their will, which correspond to a given stage of development of

productive forces' (Marx, 1913). By this assumption Marx replaced the classical economists' assumption of free and rational choice with a more deterministic one: forces rooted in the mode of production impose themselves upon individuals. The real, or structural basis of society is the complex of productive forces (machines, labour, technical knowledge) and the corresponding social forces (property rights, authority, class relations). Resting on this structure is the superstructure, constituted by legal and political institutions and by culture, and determined by and expressing the material conditions inherent in the structure.

Marx's theory of social change — which replaces the naturalistic materialism of classical economics — is rooted in a process of dialectical materialism. This conception regards society as never static but as totalities in the making. The engine of change is contradictions between the structural and the superstructural forces. The fundamental type of contradiction — analysed most completely with reference to capitalist society — is the changing division of labour, which generates inequalities, as well as asymmetries of power and class conflict. Applying the method of dialectical materialism means identifying the primary contradiction of vital ruptures in society, including the forces that are rising to negate the existing relations. Marx regards the crucial contradictions in the dialectical process as material, not cultural. This is what is meant by the famous dictum that Marx turned Hegel upside down; to regard real, economically based class interests and conflicts, not ideas, as the driving force of civilization.

Capitalism is like all other phases of history in that it contains the germs of its own destruction. But in capitalism the process is particularly accelerated:

The bourgeoisie cannot exist without continuously transforming the means of production, hence the relations of production, hence the whole of social relations. . . . The continuous revolutionizing of production, the unceasing shaking of all social conditions, the eternal uncertainty and movement distinguish the bourgeois epoch from all previous ones. . . . Everything which is solid melts into the air. . . . (Marx and Engels, 1964: 7)

The basis for this dynamism — and the resulting precariousness and ephemerality — of capitalism is found in the mechanisms that propel it forward. It is driven by an intense competition between firms in the market, which makes for an accelerating

process of improvement of the bases of productivity, mainly by the application of superior technology to the means of production. This process of improving technology, moreover, is simultaneously a means of exploiting the labouring class further through an accumulation of greater surplus value; as such it intensifies the inequality of owners and workers, and increases the conflict between them. Through this complex process involving competition, the intensification of contradictions, the concentration of capital, the falling rate of profit, overproduction, and recurrent crises, capitalism speeds toward self-destruction. This is realized through the process of increasing worker class consciousness and ultimately worker revolution, which serves to destroy the capitalist system and replace it with a communal mode of production.

In developing this theory Marx widened the scope of the economy as it is found in other versions of social theory — as a system more or less isolated from society as in classical economics, or as one cognate system among many as found in some functionalist theories. For Marx, the forces emanating from the economy radiate throughout society and continuously transform it through the generation of contradictions. (This view of economy and society as found in Marx is a more accurate rendition, we believe, than a static 'reductionist' or 'deterministic' reading.) Taking classical political economy as a starting point, Marx expanded its horizons in two directions: first, instead of taking its basic character as a given, he developed a theory of social change that gave an explanation for its historical appearance; and second, at the other 'end' of the economic consequences, he regarded some of the consequences which the economists regarded as the 'end of the line' (for example distribution of the shares of income) and treated them as a phenomenon (a class system) with an entire dynamic (class conflict) and outcome of its own.

To look at this matter of widening the scope of the economy in yet another way: like the political economists, Marx took as his starting point the analysis of exchange relations. But instead of taking these as given, he moved 'behind' them, as it were, and attempted to account for them not in terms of their internal laws (supply and demand) but in terms of the double significance of human labour as a good and as a source of economic value. This formulation is, of course, the labour theory of value associated

with Marxian economics. And while this theory has generated the greatest storm of criticism and debate as to its verifiability and its validity, it stands — from our special perspective here — as a broadening of the classical economists' vision of economy and society.

In addition to its status as an economic theory, Marx's work has a sociological core. This core is his focus on social classes as the actors in the dynamics of social change. In the first instance, of course, classes are 'deduced' from the economic categories of labour, surplus value, wage and profit. But above and beyond this Marx develops a theory of the process by which class groups become more than social categories (*Klasse für sich*). While the dynamics of the dialectic posit a certain inevitability in this transformation, there is at the same time a conception of agency in the theory. Geographical concentration and proximity in the work place, processes of communication and the development of common consciousness, the appearance of leaders, and their fashioning of an organized collectivity — these are the mechanisms by which a class comes to form its own purpose and destiny. This view of a sociological process that develops within a framework generally determined by economic relations and forces also strikes us as a sounder rendition of Marxist theory than of static determinism.

The evolving history of capitalist societies has indicated that Marx's sociology of class formation and class action is more complex than he foretold, and for that reason the fate of capitalism as a whole has differed, too. His view of an industrially based proletariat has been complicated by the rise of armies of service workers and the barriers to class consciousness and class action that accompany this development. In some cases, too, the very instruments that would be regarded as arms of the proletarian struggle — unions, parties, and so on — have proved historically to be bases for integrating workers into the system and dulling the revolutionary impulse. The development of other institutions as capitalism moves forward — specifically, extensions of the democratic franchise and the development of systems to safeguard the security and welfare of workers — have had the same kind of effect. Yet, different as these outcomes are to what Marx originally envisioned, they stand in one sense as proof of the strength of those underlying forces of economy and class that shaped them. For these reasons, Marx's theory must be regarded

as one of the fundamental contributions to the analysis of the relationship of economy and society, because it reintroduced the economy into the social system, identified some of the major contradictions of industrial capitalism, and laid the groundwork for a sociology of classes and class action.

Max Weber. Many historical commentators have tended to stress the differences between Marx and Weber, especially in relation to Weber's sometimes antagonistic dialogue with Marx on the relative importance of material and cultural factors in history. Genuine as this difference is, it is equally important to point out their affinities. First, both succeeded in widening the view of the relations between economy and society from that of the classical economists. Second, they both 'historicized' capitalism through their historical and comparative studies. Third, they took as contingent rather than fixed the relationship between economic and social forces — Marx regarding that relationship as dialectical and Weber as mutually conditioning. And finally, both stressed the intrinsically contradictory and conflictual character of all social systems, including above all that of rational bourgeois capitalism.

But to return to the differences. Marx's main avenue for understanding the capitalist mode was to root it in a general theory of historical development, of which it was the most advanced form. Marx strove to understand the anatomy of capitalism, in short, through the laws of its evolution. By contrast, Weber selected certain aspects of capitalism, identified certain correlations, congruences and conditional relations between those aspects, and attempted to verify these by drawing comparison with non-capitalist societies — without, however, attempting to formulate a general theory of change of philosophy of history. It is true that Weber had a number of very recurrent preoccupations, especially to discover the key to the character of western rationalism and to focus on the relations between fundamental religious beliefs and economic structures and processes; but even in these efforts Weber focused on certain central relationships and did not develop — indeed, remained hostile to — a fully-fledged model of explanation or historical evolution.

In addition to this cautious — relative to Marx — methodology of explanation, Weber was more reluctant to establish a definite link between scientific (theoretical-empirical) analysis and moral