

## **A Socio-Economic Framework of Interpretation and Analysis**

**Piet Keizer**  
**Utrecht School of Economics**  
**Vredenburg 138**  
**3511 BG Utrecht**  
**The Netherlands**  
**Telephone: 0031 – 30 – 2539954**  
**Fax: 0031 – 30 – 2537373**  
**Email: [p.keizer@econ.uu.nl](mailto:p.keizer@econ.uu.nl)**

## ABSTRACT

During a long period of time a gentleman's agreement of non- co-operation and non-intervention seemed to exist between economists and sociologists. However, their respective objects of research, namely the economy and society, have a considerable overlap and are highly interrelated. Fortunately there is growing interest in the institutions of the economy on both sides of the borderline. This article aims to show that economics and sociology when interpreted as two different research programmes with the same object of research need each other to get a more realistic picture of the functioning of an economy.

Orthodox economics is about the **economic aspect** of human life, while theoretical sociology focuses on the **social aspect** of human action. Before the Second World War sociology was largely of a macro-character and tried to find the laws of motion that determined the developments in modern society. In fact these laws were not of a typical social character, but described the interactions between knowledge, economy and society, being real life institutions. After the war a growing number of sociologists tried to find laws of a different character. By studying the interactions between persons in a group and by analysing the patterns of action that emerge from group-interaction, they tried to explain the rise and decline of cultures and the way group interaction takes place. On the basis of micro-sociological interaction analysis we can formulate a sociological paradigm imagining a social motive, namely status maximisation. The context consists of groups and groups of groups. Their interactions are actually battles that take place in arenas, where the choice of instruments is restricted by rules of a moral character.

Now we have two paradigms that try to explain human behaviour in economy and society. Both describe a force that sets people in motion. So every human action is the result of these two forces. In this article the two frames of interpretation are integrated. This gives us a shared paradigm that makes it possible to develop an integrated analysis of human life, on micro as well as macro level.

## CONTENT

1. Introduction
2. Economic Orthodoxy
  - 2.1 Introduction
  - 2.2 The Character of Economic Laws
3. Sociological Orthodoxy
  - 3.1 Introduction
  - 3.2 The Character of a Social Law according to Classical Sociology
  - 3.3 The Character of a Social Law according to Micro-Sociology
4. A Socio-Economic Approach
  - 4.1 Introduction
  - 4.2 Aspect-systems versus Subsystems
  - 4.3 Paradigmatic Integration
  - 4.4 A Socio-Economic Framework of Analysis
5. Conclusions

## 1. Introduction

For a long time a code seemed to exist arranging a sort of labour division between economists and sociologists. Economists were supposed to study the economy while sociologists were supposed to analyse society. No one bothered much about a careful distinction between the concept “economy” and the concept “society”; it worked like a gentleman’s agreement, leading to a long period of peace.<sup>1</sup>

In the period after the Second World War we have observed a growing amount of literature in which the economic approach is applied to traditionally non-economic areas.<sup>2</sup> Some called this development ‘economic imperialism’. During the last fifteen years we have observed a development that could be called ‘sociological imperialism’: sociologists apply the typical sociological approach to the economy, including market behaviour.<sup>3</sup>

Notwithstanding these mutual interventions we observe hardly any co-operation between theoretical economists and theoretical sociologists.<sup>4</sup> Both approaches pretend to explain the same set of concrete human activities. Therefore we must find out whether they are rivals or complements that need each other. This article tries to argue in favour of the second option. Theoretical economics and theoretical sociology must finally be integrated to explain concrete behaviour of people in society, of which the economy is an important subset.

As already said, there is growing mutual intervention, but these developments take place without growing co-operation between persons of each camp. Each group has its own journals, conferences and professional associations. This mutual isolation promoted the development of stringent scientific norms, which deviate significantly from each other. In our case these norms are related to what ought to be the paradigms with respect to content as well as to form of scientific research. This article will show how a more integrated socio-economic approach could be developed.

In the following section we will present a short and concise treatment of the orthodox economic approach. In a third section we will do the same for a strict sociological approach. In section four we will discuss the interrelationships between the social and the economic aspect of human activity, leading to an integrated socio-economic framework of interpretation. In the final section we will evaluate the results of our analysis and draw some conclusions.

## 2. Economic orthodoxy

### 2.1 Introduction

---

<sup>1</sup> A number of exceptions were accepted like industrial sociology. But a large number of sub-disciplines like financial sociology, the sociology of markets, the economics of religion or the economics of crime hardly existed.

<sup>2</sup> Familiar examples are public choice, family economics and the economics of marriage.

<sup>3</sup> The article of White (1981) might be considered as path breaking. Here he argues that the economic theory of markets is actually a theory of exchange, not of markets. See also Smelser, Swedberg, 1994; Granovetter, Swedberg, 2002; Fevre, 2003)

<sup>4</sup> Empirically oriented economists and sociologists have been co-operating with each other for a very long time. Up to now it has led to a vast amount of research that tries to establish stable and predictable relationships between different types of variables reflecting concrete activities of people. Without paradigm and analysis, however, it is impossible to reach the level of explanation and understanding.

As the history of economic thought shows, the roots of economics are to be found in **moral philosophy**. Social and political views were developed which led to a philosophical foundation of three modern currents, namely conservatism, socialism and liberalism (Achterhuis, 1988; Beauchamp, 1991; Wolff, 1996; Norman, 1998). One of the **liberal** philosophers, Adam Smith, did not stop by analysing the nature of economy, society and polity. He also tried to analyse the functioning of it (Campbell, 1981). In the first of his two famous books, *The Theory of Moral Sentiments* (1759), he analyses the way in which the functioning of moral sentiments hold society together (Smith as a sociologist *avant la lettre*). Here he analyses the way in which an imaginary neutral arbitrator organises the communication in society on its culture. In the second book, *The Wealth of Nations* (1776), he analyses the functioning of an economy and the role of the government in this respect (Smith as an economist *avant la lettre*). Here he imagined the invisible hand of an auctioneer, who uses the price level as a means to co-ordinate supply of and demand for scarce goods. Smith and his followers were called the Classical Political Economists (Ekelund, 1996).

A century or so later, other economists started to blame Political Economy for not being scientific. According to them economists had not to study the concrete activities of landowners, manufacturers, merchants and workers. Genuine scientists had to look for universal and eternal laws<sup>5</sup>. This meant a shift from the study of the functioning of economies – interpreted as real life systems – to the study of the economic aspect of all human activity. This aspect is supposed to be about the omnipresent phenomenon of **scarcity**. For an economic actor everything of value is scarce. This means that he must always choose which scarce resources must be spent to satisfy which needs. The economic system that is explained by this approach is not the economy; it is an economic aspect-system.

The first economists trying to formulate laws that rule an economic aspect-system were John Stuart Mill, Stanley Jevons and Carl Menger (Robbins, 1932). But before them Leon Walras already formulated a general equilibrium model describing an economic aspect-system (Schinkel, 2001).

Austrian economists such as Menger formulated a demand theory and Marshall formulated a supply theory and analysed the functioning of a competitive market by confronting demand and supply with each other. In other words, by bringing the law of demand and the law of supply together, he appeared to be able to develop a law of the market, or in other words the law of one price. What Adam Smith was doing for the economy as a real life system, did Marshall for the economy as an economic aspect-system<sup>6</sup>. The paradigm that is focussing on the economic aspect more than on the economy as a set of concrete activities is called the **neo-classical paradigm**. This approach became the dominant way of thinking. In 1932 Robbins formulated the economics research programme in a way that was recognised by many economists as the genuine economic approach. In the next subsection we will explain this paradigm more precisely.

## 2.2 The Character of Economic Laws

---

<sup>5</sup> The so-called Institutional Economists disagreed with this research strategy. They developed a different methodology and focussed their research on the development of empirical data that could be of interest in a better understanding of the institutional richness of the different economies. A familiar nickname was low-brow economics as against the high-brow economics of the neoclassical economists.

<sup>6</sup> Marshall was well aware of the difference between the economy as a real life system and the neoclassical aspect approach. He advocated more realism and his publications about real life trade and real life labour markets show this awareness clearly (Stanohar, 1990).

As already said, a number of economists built a theoretical framework to find universal and eternal theoretical laws. Therefore they abstracted from factors that could explain differences in human behaviour in the various real life economies and societies. They focussed on something that all societies have in common, that is their struggle against the omnipresent scarcity phenomenon. By defining carefully what is scarcity they hoped to get that universal picture.

Scarcity can be defined as the relationship between needs and the resources that can satisfy those needs. A lower level of scarcity can be realised by decreasing the level of needs and/or by increasing the level of valuable resources. The first option, the decrease in the level of needs, is a Buddhist type of strategy. The second option fits modern Western culture. By increasing our technical knowledge we can improve the relationship between the necessary inputs on the one hand and the level of output that results from a transformation process on the other hand.

Part of the goods might be represented by services offered by other people. But also in such cases these “goods” are only valued in terms of their scarcity. It means that there is no difference between social and economic relationships. All relationships are of an economic character. To isolate the scarcity phenomenon from other kinds of problems, the strategy of the orthodoxy was to construct a perfectly rational and socially independent actor. This is an actor who knows his preferences with respect to all the goods available perfectly well and can rank them in order of priority without any problem of transitivity. This person has reflected upon these preferences time and again and now they are stable. So there are three basic axioms that frame the world of economics:

- (1) There is scarcity, also called the axiom of non-satiation;
- (2) All goods are perfectly assessed in their capacity to satisfy the needs of the agent, also called the axiom of perfect reflexivity or completeness;
- (3) The hierarchical ranking is perfect in the sense of absence of any intransitivity.

Agents meeting these axioms are called economically rational agents.

To understand why the founding fathers of neo-classical economics constructed such picture of man, it is illuminating to see that this economic man is a person without any psychic or social problem. By leaving psychic problems to psychologists and social problems to sociologists, they created a kind of niche in the market of scientific knowledge, focussing their analyses on just the problem of co-ordination between activities of psychically perfectly rational and socially completely independent actors. This actor is framed as being surrounded by resources. In this world the state of production technology determines the relationship between inputs and outputs. Thus, given the inputs, technological progress determines the pace of economic growth and the speed with which the scarcity problem can be solved. If we take the physiological-psychological laws determining the satisfaction of needs on the one hand and the physical-chemical/biological laws determining the production of valuable resources on the other hand, the economist can derive his laws about the processes of co-ordination.

Pareto and Walras achieved fame as economists by formulating conditions for a maximum of economic efficiency. When all economic agents are free in their decision making an equilibrium system of markets exists that produces an optimal allocation of scarce resources. This framework of interpretation is an isolated abstraction, which

means that as long as persons are economically rational, a free market system will induce a perfectly optimal system of allocation.<sup>7</sup>

This research strategy presumes a labour division between different sorts of scientists. While economists fully admit that increasing control over physical-chemical/biological processes leads to an increase in wealth, they are at a loss for a reaction on developments in knowledge of a psychosocial kind. The assumption of perfection with respect to the self-control of persons (perfect reflection) and the human understanding of each other (perfect communication) is far from realistic. Recognition has far-reaching consequences for the explanation of the real life economy and society<sup>8</sup>.

### 3. Sociological Orthodoxy

#### 3.1. Introduction

When classical political economy transformed into neo-classical economics, other scientists began to search for so-called **social laws** (Aron, 1965; Ritzer, 1996). While classical Political Economy analysed the economy, the first sociologists tried to explain society, interpreted as a real life system. Comte, Marx and Durkheim wanted to discover laws of motion, which should give us an explanation of the historical development of society<sup>9</sup>. Now we call their contributions classical sociology, which can methodologically be characterized as collectivistically and historically oriented.

After the Second World War, however, there was growing discontent with respect to the methodology on which classical theories were based. Sociologists started to analyse human interaction on a micro level. They discovered that small numbers of persons who regularly have face-to-face contact are inclined to develop a common understanding of their situation, also in terms of shared values and norms. In the next subsection we will discuss macro as well as micro theory. Then we will formulate the essential characteristics of a social law.

#### 3.2 The Character of a Societal Law according to Classical Sociology

Comte is generally considered to be the founding father of sociology. He wanted to discover **laws of motion**. These laws describe the driving forces behind the ongoing change in the structure of society. A distinction was made between the characteristics of the prevailing production technique, the structure of the economy and the structure

---

<sup>7</sup> Pareto was fully aware of the partial character of his optimum criteria. He also became a well-known sociologist, analysing society from a social point of view; and so with Walras (Aron, 1965). Walras called his system “*économie pure*”, to distinguish it from a real life system “*economy*”. His famous law is about the general equilibrium of a system of markets. General economists are used to call an analysis of one market a partial analysis, while calling an analysis of all markets taken as a whole a general analysis. They deviate in this respect from the use of the systems language used in other sciences. If we apply common usage, economic analysis is a partial analysis. Within this partial analysis we can distinguish between a partial specific analysis (one market) and a partial general system of markets. So the general equilibrium analysis based on Walras’ law is still a partial analysis. To make this analysis more integral we have to introduce systematically psychological and social factors into this partial general system.

<sup>8</sup> See for a sophisticated treatment of the methodological discourse on realism in economics: Lawson (1997).

<sup>9</sup> Notice that the classical sociologists developed their theories in more or less the same period as the Institutional economists. Both presumed to deal with real life economy and society. Nevertheless they were different groups in the sociological sense of the word.

of society. The problem then was to find a pattern of interaction between these elements.

Most sociologists were of the opinion that for a modern industrial society technological progress was the driving force behind structural economic and social developments. Their explanations were primarily based on the following axioms.

1. During the early stages of their life children are subject to a process of **socialisation**. The same is true for the early stages of groups if one starts a firm for instance. They learn how to behave and what kinds of values and norms do belong to which group. For the discovery of the laws of society it is an acceptable abstraction to assume perfect socialisation of all members of society.
2. Society consists of groups; the institutional structure of society results from group interaction. Given an explanation of group behaviour we can understand individual behaviour by referring to the group to which that particular individual person belongs. This method of analysis is called **methodological collectivism**.
3. Individual members of groups have learned to identify themselves with the group to which they belong and have learned to understand the **interests of the group**. This means that individual interests are identical to group interests. Different groups have different interests. In other words, group relations are always characterised by **conflict**. In a power game each group tries to serve its own interests. As long as the environment of the game does not change a stable pattern of group interaction might emerge. It is a common interest to maintain the status quo as long as the parameters of the game do not change. Rules of behaviour are developed to convince people not to try to change the status quo. The values and norms that are necessary to serve this common interest are called **culture**<sup>10</sup>.

When taking these axioms as a whole we have a picture of society as a group of groups.<sup>11</sup> Technical-economic developments highly affect the outcome of group inter-action. Political developments might function as a countervailing power. In figure one we have presented a scheme of the basic relationships between knowledge, economy and society. All classical (political) sociologists have in common that they tried to formulate laws of motion with respect to society in terms of these relationships. They differ with respect to the significance of different feedbacks and feed forwards. Moreover, some stressed the relevance of conflict, while others stressed the relevance of consensus between the different interest groups as a necessary condition for societal progress.

Behind these historical motions a group motive is supposed. Every person has learned to act according to group interest. We can also formulate this as follows: every person has learned that it is in his own interest to serve group interest. For everyone the group interest is known and every person is perfectly motivated to act in compliance with the interest of the group. By means of this framework of interpretation more specific analyses are developed that could be used to explain actual developments in society, of which the economy is an important part. In this

---

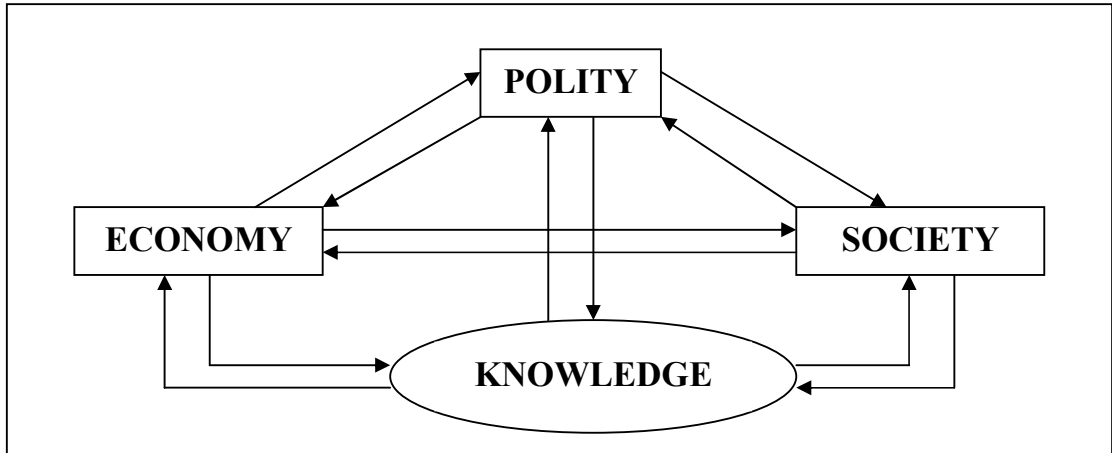
<sup>10</sup> As soon as the parameters of the game are going to change culture becomes a valuable asset for those whose interest is the maintaining of the status quo.

<sup>11</sup> Actually society is an extremely long chain of groups of groups of groups....The modern network approach is based on this insight.



view classical political economists are specialists in one part of sociology. Marx, Malthus and Ricardo, for instance, developed laws of motion ruling economies.<sup>12</sup>

**Figure 1 The Societal System as a Real Life System**



In conclusion we must say that classical sociology is about the laws of societal development more than about the social aspect of human life. The laws of motion refer to society as a real life system. But they are based on a particular idea of the social character of human beings. By using extreme assumptions with respect to processes of socialisation, they made it possible to talk about the mega trends in society. However, two main problems were not tackled.

- (1) The way in which the economy is constantly adjusting to the irreversible trend of growing technical knowledge – while belonging to the subject-matter of classical sociology – was completely left to classical (political) economists, who were a separate group of people;
- (2) The way in which society is constantly adjusting to changes in knowledge and economy was not analysed; actually this problem was ‘solved’ by assumption.<sup>13</sup>

In the next subsection we will discuss some principal developments within sociology after the Second World War.

### 3.3 The Character of a Social Law

#### What is ‘social’?

After the Second World War an increasing number of sociologists felt uneasy with the complete absence of any role for individual persons. The dominant methodology gave only room for theoretical tools that implied complete adjustment on micro-levels to trends on macro levels. Therefore they started to study behaviour of persons in their mutual inter-action on the micro-level. Homans found that especially small numbers

<sup>12</sup> Malthus made an analysis in which he linked the growth of the population with the level of the wage rate. This made it impossible to achieve higher levels of prosperity per capita. Ricardo assumed that a growing population made it necessary to use land of decreasingly low fertility. Continuously rising food prices would make it impossible to reach higher levels of prosperity per capita. Smith’s idea of progress was less gloomy. He considered a process of ongoing specialisation as the source of increasing wealth of a nation, also in terms of prosperity per capita (Ekelund, 1996).

<sup>13</sup> The solution by assumption is also applied by the equilibrium theory part of neoclassical economics.

of people who are quite similar or homogeneous tend to develop codes of behaviour, that are increasingly respected by the people involved in a process of inter-action (Homans, 1961). Different kinds of rules emerge, dependent on duration and kind of inter-action. Micro-interaction leads to the evolution of groups and their culture. This approach is called micro-inter-actionism and it aims to explain the way in which communication between people takes place. By using the term **communication** we mean social interaction. The term 'social' has a specific meaning in this context. It refers to **interaction between beings who are recognising each other as humans**. The study of micro-interaction must make it possible to derive a type of logic of social action meant as a counterpart of the logic of economic action.<sup>14</sup>

According to Homans' law a process of group formation is characterised by the emergence of a common understanding of the situation<sup>15</sup>. The communication is about values and norms. When values are interpreted as morally coloured goals and norms as morally coloured instruments, a common understanding of the situation consists of a set of social maps, including final destinations and roads that led to these destinations. If goals, instruments and maps are perfectly the same for all group members the situation is characterised by **perfect communication**. The group is stable as long as the environment of the group does not change. A socially stable group implies a stable hierarchy. The position of a person in the ranking is defined as his **status**. The **prestige** of a person is directly linked to the status and can be interpreted as a flow of social recognition or social utilities. Besides social processes between persons in a small group, we can also analyse social processes between groups. Group-interaction leads to social structures, which are characterised by common norms and values and a more or less stable ranking. Within the cultural boundaries groups rival with each other (Bauman, 1990).

Perfect communication between persons within a group and between groups on a higher level in society creates **perfect solidarity and perfect rivalry**. The analysis can be made less abstract by the introduction of the assumption of imperfect communication. Now rivalry can also take place within groups, while solidarity can also be realised between members of different groups. In such case the degree of group-internal solidarity appears to be inversely related to group-external rivalry (Bauman, 1990). In the evolution of groups and group structures there is a common culture rising and declining; and so with the solidarity and rivalry between members of groups. Norms of behaviour that are necessary for the survival of the group are getting a stronger or weaker moral character, depending on the extent to which survival is threatened<sup>16</sup>. Other groups can be shown to have built their cohesion on different norms. This is perceived as a threat to the survival of the group. This threat turns other groups into rivals (Bauman, 1990).

### **What is a social law?**

---

<sup>14</sup> The term social action must not be confused with the term collective action as is used in economics, nor with the term social action in economic game theory. The players are differently framed compared with the players in our social game! Of course there are significant differences between the various types of sociologists studying social inter-action. Besides micro-interactionism, micro-sociology also consists of the exchange and the rational choice approach. In terms of language these approaches are quite different; in terms of content the differences are smaller than they look at first sight.

<sup>15</sup> Other terms that are regularly used in this respect are framework of interpretation, conception of control and (social) map.

<sup>16</sup> Modern empirical research confirms the results of Homans (De Cremer, 1999, De Kramer, 2000).

So if we define society as a set of groups which are related to each other in a positive or a negative way, the social structure of that society can be interpreted as the outcome of a permanent power struggle within and between groups. This “game” is about the distribution of everything of value, decision-making power. The most important rules are about the question which person or group has the authority to establish rules. Although social rules are meant to dampen rivalry being a matter of interest, it is evident that the way in which rivalry is dampened is not neutral in its outcome.

Now an important question is what we mean by **social structure**. Most typically it is the hierarchy as perceived by higher as well as by lower ranked groups in terms of status. As already said, the position in the ranking is called status. In the picture as sketched, the factor determining the ranking is the **relative power** of the groups involved in the struggle, that is the relative amount of resources that can be used in this respect. Imagine the battle starts as a free fight: there are no limiting rules, except the rule that tells the fighters who is highest in the social ranking. During the fight the relative positions are constantly announced. Then, to survive, the players begin to communicate about rules that should limit the number of instruments. There is a morality growing defining what is sports-like and what is unfair: **culture**. Now there are two forces that affect the outcome of the status battle. In the first place, persons are supposed to dispose of a restless desire to rival with each other (Hobbes, 1651; Girard, 1978; Achterhuis, 1988; Keizer, 1999)<sup>17</sup>. This force inside people keeps them in motion to maximise status, also by constantly trying to change the rules of the game in their own benefit<sup>18</sup>. We will call this force **moral resentment**. In the second place, there is a countervailing force inside people. Persons are supposed to have the capacity to develop **moral sentiments** (Locke, 1691; Hume, 1751; Smith, 1759). These sentiments make that people are inclined to look down the hierarchical ranking and develop feelings of sympathy with the lower ranked. So the mechanism that steers the drive towards maximisation of status consists of two forces: moral resentment fuels status battles and moral sentiments dampen the rivalry.

By explaining the mechanism behind the social process of grouping and rivalling we had to open the black box of a person. This is exactly what the micro-inter-actionists were doing. Meade, Cooley and others borrowed from analytical psychologists like Freud and Jung. Freud’s analysis of the psyche, in which he distinguishes between the ego, the superego and the sub-conscious, has become famous, also in sociological circles. The function of the ego is to keep balance between the opposing forces of the superego or conscience and of the subconscious (Bauman, 1990; Turner, 1998; Sydie, Adams, 2002).

Now we can imagine two sorts of ties between persons and between groups. On the one hand there are ties between the superegos of persons and groups reflecting the presence of solidarity. On the other hand there are ties between the subconscious of persons and groups reflecting the presence of rivalry. Both types of ties are “fed” by the assumed existence of a collective conscience and of a collective subconscious.<sup>19</sup> The collective conscience is located in the individual superegos and represents a stock

---

<sup>17</sup> The Greek Heraclitus has become famous with his “panta rei”. He wanted to show to impossibility to describe (social) life in terms of equilibrium. The factor time makes everything constantly changing. See Copleston (1985) for a more detailed treatment.

<sup>18</sup> This is in line with Bauman (1990) where he describes processes of survival, enhancement and aggrandizements.

<sup>19</sup> For economists these concepts are easily interpreted as collective goods.

of moral sentiments. The collective subconscious is located in the individual subconscious and represents the stock of moral resentments.

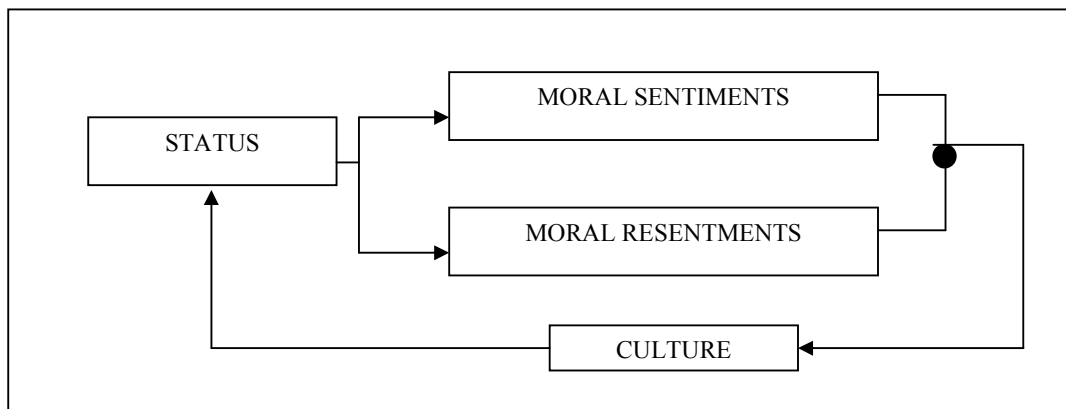
Now we can say that social laws are about processes of solidarity and rivalry within groups and between groups; processes that are fuelled by moral resentments and are dampened by moral sentiments, creating some common set of values and norms.

Now we have basically answered the most important question: what do we consider as the typical social aspect of human life? The question can function as the counterpart of the typical economic aspect of scarcity and answered as follows<sup>20</sup>.

- (1) Every person or group is everywhere and always aware of the fact that there are other human beings and groups in their neighbourhood.
- (2) This awareness means that social relationships are omnipresent like the phenomenon of scarcity. Social ties can be weak or strong and positively or negatively loaded.
- (3) Processes of socialisation strengthen the positively and negatively loaded ties.
- (4) Social relations have a moral aspect, which means that they are never morality-free.
- (5) There is a positive moral force, which is fed by the stock of moral sentiments, located in the superego.
- (6) There is a negative moral force, which is fed by the stock of moral resentments located in the subconscious.

Social laws must formulate conditions that determine the social process to become more or less rivalling. In this 'model' the stocks of moral sentiments and resentments are decisive in the determination of the course of social processes. In figure two we have presented a simple scheme with the relationships just sketched.

Figure 2 Status Maximisation within Moral Constraints



This picture represents the social aspect of society. The implicit assumption is that the resources necessary for social action are abundant and form no restriction in the battle. In other words, there is no scarcity in the sense of economics in our social world. The social world is ruled by forces, like the gravitational force in physics,

<sup>20</sup> Parsons made a clear distinction between social and societal (Parsons, 1937). In his later work he elaborated on his societal system (Parsons, 1951).

setting people in motion. It is the task of sociologists to find social laws, which describe the functioning of the forces that shape the ideal-typical social world.

In the next section we will bring the economic and social forces together to get an integral picture of forces determining human behaviour.

## 4. A Socio-economic Approach

### 4.1 Introduction

In section two we have sketched what must be considered as the typical economic aspect of things. In section three we have formulated what must be regarded as the typical social aspect of things. Both approaches presume to deal with economy and society interpreted as real life systems<sup>21</sup>.

It is very important to be clear about the distinction between aspect-systems and subsystems made in systems theory. Therefore we will define these concepts in more detail in the next subsection. We will present two schemes of interpretation: one typical for the economic aspect-system; and another, which is typical for the sociological aspect-system. In a third subsection we will integrate these two frames of interpretation. This must give us a socio-economic framework that makes it possible to analyse real life processes of human action (see subsection five).

### 4.2 Aspect-systems versus Subsystems

In clarifying different types of abstraction the language of the systems approach is very helpful (In't Veld, 1988). The following distinctions play a role in this respect.

In the first place, we can distinguish between **reality** and a **real life system**. The first concept refers to what people experience as real and must be explained. By explaining it we hope to gain control over our reality to make life more meaningful. Reality itself is only an unstructured thing. To get control over it we must make a simple structure of it. This structure must reflect the most important relationships. This simple structure reflecting the essence of reality is called a real life system.

Now we can distinguish between two different strategies of specialisation. In the first strategy the whole system is called a **general system**, which can be divided in a number of **subsystems**, each of them structuring more **specific** sectors of our life.

Thus, we can consider society as a real life system and the sector “families” or the sector “firms” or the sector “economy” as a subsystem. Being a subsystem of a more general system means that specific actors of the general system are taken into account and that other actors are ignored. However, all aspects of the relationships that are accounted for in the general system are included in the analysis of the specific sector.

In a second strategy a whole system is called an **integral system**, which can be divided into different **aspect-systems**. In an aspect-system all actors of the whole system, but not all aspects of the relationships are taken into account; only one aspect, i.e. one ideal-type of relationship. Thus, a real relationship is considered too complex to be analysed integrally. To make a simple start we must first distinguish between different aspects of a particular relationship. For instance, we can distinguish between the economic aspect and the social

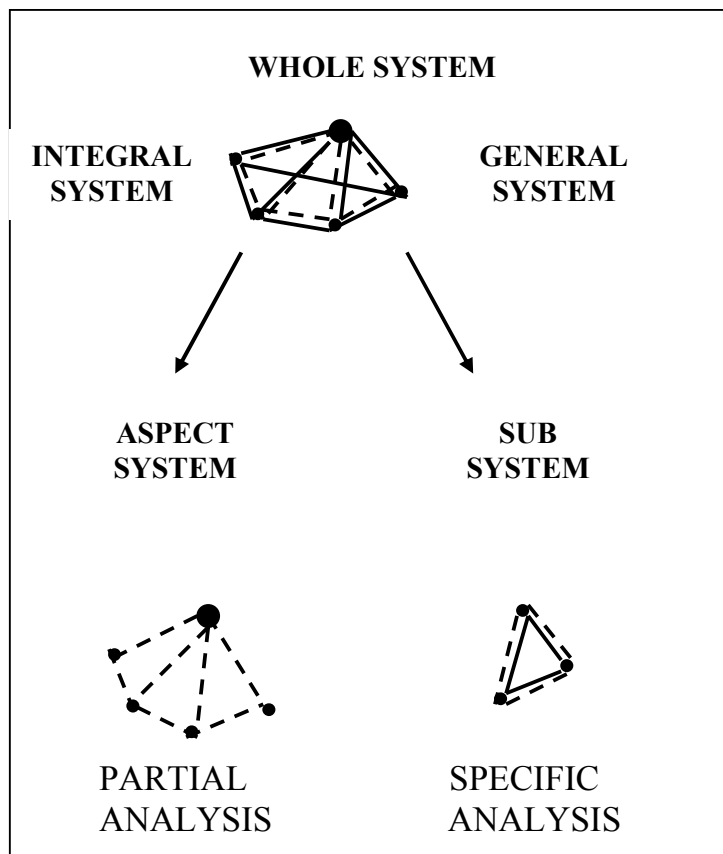
---

<sup>21</sup> At the moment Institutional Economics revives. From economics as well as from sociology there are impulses to study the functioning of institutions in a more theoretical way compared with the Original Institutional Economists (OIE). Important theoretical contributions of especially an evolutionary kind are from Hodgson (1988, 1996) and Williamson (1991, 1996) and methodological contributions are from Lawson (1997).

aspect. An economic aspect-system frames the scarcity dimension, while a social aspect system focuses on the status aspect.

In figure three we have presented a picture that clarifies the difference between an aspect-system and a subsystem. The analysis of an aspect-system is called a **partial analysis**. When we have integrated all relevant aspects we call the analysis an **integral analysis**. When we have developed a series of aspect-systems, we must find a way to integrate these systems. As long as we are not able to construct an integral analysis, it is impossible to have a real life system that can form the theoretical basis for empirical research. If we, however, have a satisfactorily integrated analysis, we can apply it on a more general or on a more specific level, leading to a more general or a more specific analysis. The choice depends on the degree of heterogeneity of the real life system with respect to the phenomena to be studied.

Figure 3 Aspect-system and Subsystem



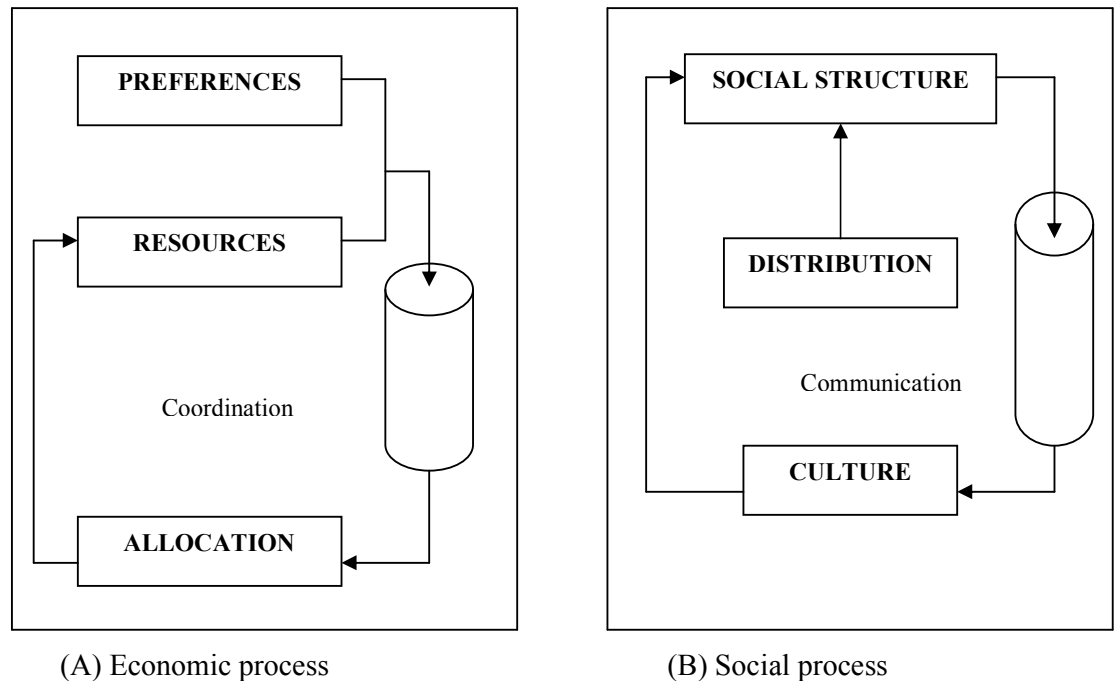
In the history of science we see a large number of specialisation fields. Most of the fields are a mix of aspect- and subsystem. For instance, agrarian economics is a subsystem (agriculture) of an aspect-system (economics). When we look at this field as it functions in practice, it appears not to be a perfect aspect-system. Social and political factors play a role, although mostly ad hoc. So with industrial economics, development economics, industrial sociology and family sociology: they are all mixes of different kinds of systems with a large proportion of ad hoc solutions. For the development of a sound scientific foundation, however, knowledge of the character of our systems is of the utmost importance.

#### 4.3 Paradigmatic Integration

As already said, economics is about the scarcity aspect of everything. It is focussed on an explanation of the relation between man and nature. It does not make any further distinction between different sorts of things – human beings, animals, plants and other natural things. Scarcity is defined as a confrontation between human needs and the resources that can satisfy those needs. To focus on this relationship, it is necessary to abstract from the psychic and social influences on the given needs and resources. The isolation of the economic problem from psychic and social problems is achieved by assuming a rational and independent unit of decision-making. Every

typical economic process is always a confrontation between **preferences** and **resources** by potential buyers and sellers. The abstract location where sellers and buyers co-ordinate their decisions, is called **market**. The result of all **co-ordination** taken together is called **allocation**. The allocation of scarce goods has an effect on the total amount of resources in the beginning of the next period. In figure 4A we present the economics frame of interpretation.

Figure 4. Scheme of Economic and Social Processes



As stated earlier, sociology is about the **social structure**, which reflects the hierarchical ranking in society. The position or status can be determined by everything that is valued by people: material richness, artistry, intelligence and beauty. In other words, sociology is about the **distribution** of what is socially valued. Sociologists interpret individual persons always in terms of group ‘membership’. Status battles always run via group characteristics. Because there are no objective yardsticks, it is necessary to develop a common understanding of the criteria that determine the social ranking. The dominating yardsticks are defended by the highly ranked insiders and by those lower ranked insiders who expect to have chances to gain prestige in the established setting. Outsiders challenge the dominating groups, in an attempt to gain prestige along this way. Social interaction is a matter of **communication**. Via many different ways people tell other people about their ranking. Some instruments of communication are quite subtle; other instruments can be very rough and violent. Within groups especially solidarity is communicated; between groups especially rivalry is communicated.

As explained in section three, social man possesses a drive to be solidary with members of the same group and a drive to rival with members of an antagonistic group. The first drive means that every person knows in general what are the basic needs of a person and that every person must help every other person if necessary and



possible to fulfil his basic needs. During a process of upbringing and socialisation, every person is taught on a more specific level the behavioural implications of this golden rule. Because circumstances differ highly between people the content of the consciences of people can differ significantly. The second drive leads to ongoing rivalry between antagonistic groups.

The process of socialisation also makes clear in which ways people can rival with each other in a non-disastrous way. **Cultures** define the basic values and norms that must keep society intact. These prescriptions are internalised in members of groups and of society. The rules, including the moral ones, are (collective) **resources** in the social process. They must guarantee the basic values of social life. The basic values are a matter of taste, that is, they have the character of **preference**.

In the course of time social subjects discover that their ranking might not be in compliance with what is justified. This creates social dissatisfaction and/or stocks of frustration or resentment<sup>22</sup>. These stocks are the motivational basis to:

1. Spend more resources on the status battle;
2. Change the instruments used;
3. Change the objectives that were aimed at;
4. Change the map.

So strategies are, as a matter of control, constantly evaluated and eventually adjusted to the situation. In figure 4B we have presented the sociology frame of interpretation.

Now we are going to integrate both schemes, we must realise that every concrete activity is the result of combined functioning of two forces. In the first place, we have the economic motive of maximisation of (economic) utility derived from the possession of resources. In the second place we have the social motive of maximisation of (social) utility derived from the status that people attach to each other as member of a prestigious group. In figure 5 we present these two mechanisms that force people to behave in a particular way.

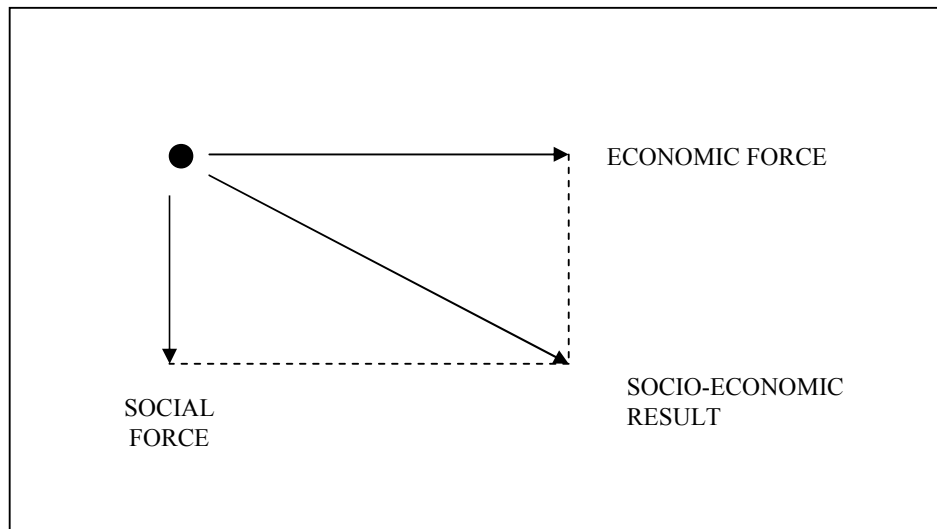
#### **4.4 A Socio-economic Framework of Analysis**

The hard core of economics is about the activities of people, assuming that there is no social aspect. It is like a real macro model that assumes a perfect accommodation of the amount of money in circulation. In such model money neither stimulates nor restricts economic activity. So in a strict economic analysis activities are not socially motivated; in other words, these activities are neither stimulated nor limited by social considerations. The same holds true for the hard core of sociology. It is about the activities of people, assuming that there is no economic aspect. In this model activities are not economically motivated; in other words, these activities are neither stimulated nor limited by economic considerations.

---

<sup>22</sup> The terms dissatisfaction and frustration indicate psychic disequilibrium. Without digging deeper into psychic structures and mechanisms, we need this concept as soon as persons are going to play a role in the explanation of social mechanisms. In economics we have the same problem: rational economic agents make the wrong choices because of imperfect information. In our social world the same happens. As soon as communication is imperfect, rational social agents make mistakes. Morally motivated frustration leads to behavioural adjustment in case rivals do not stick to rules as was expected.

Figure 5 Motivational Forces



When connecting these two hard cores, we must realise the following.

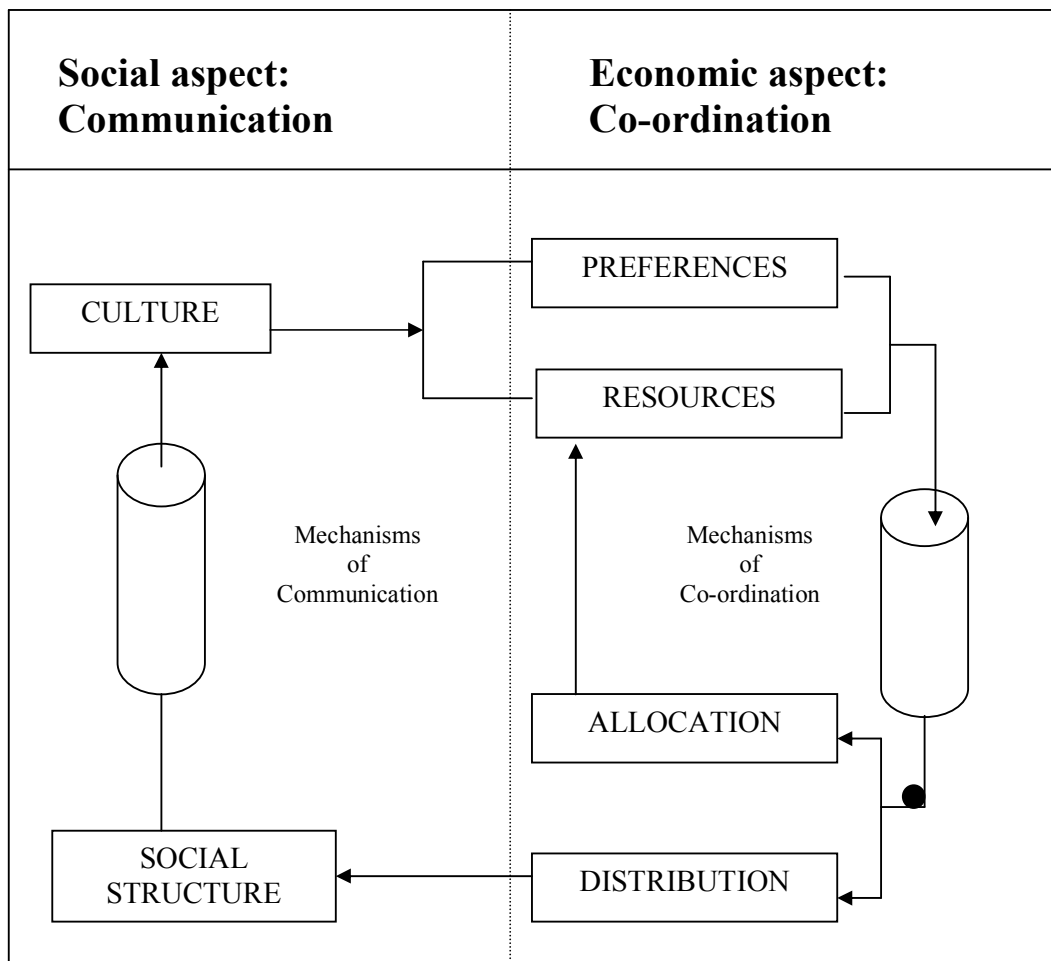
- (1) In reality, described by a real life system, human activities always have an effect on the allocation as well as on the distribution of valuable things. Allocation and distribution are two sides of the same coin. While allocation is about the division of scarce inputs over valuable outputs, distribution is about the division of valuable outputs over the owners of scarce inputs.
- (2) A second important thing is that preferences as well as resources in the economic core model are socially affected. In other words, decision-makers are always bi-motivational. Moreover, the restrictions actors face, are partly of a social, in casu of a cultural character.
- (3) Both core models have a political component. Economists are accustomed to distinguish between analyses under the assumption of perfect and imperfect information. In the case of perfect information nobody makes mistakes and any control function is superfluous. Now we must remember that economists always implicitly assume that property rights are perfectly guaranteed. But as soon as we assume imperfect information, the decision-maker must always evaluate the outcome of the economic process and eventually change its strategy to keep control over the process. Sociologists consider the political component as an extension of the social element. Actors must constantly evaluate the effects of their actions and change their strategies if necessary. Actors can also decide to transfer authority to another person or organisation. In that case another subject is authorised to take measures to regain control over social processes if necessary.
- (4) In economics control is about preferences and resources; that is about ends and means. Because the neo-classical picture of the economic aspect-system has always been the only frame of the economic aspect of life, imperfectly informed decision makers are always assumed to use the typical neo-classical model that relates target variables to instrumental variables. Expressed in sociological terms it means that economists always let economic subjects use the neo-classical frame or map. In sociology, however, different frames of

control are used. The political function is about the control over the effects of social action on the distribution of status. If the results are not in compliance with the intentions or plans, social strategy must be adapted. This means that the social actor can try to change its culture, implying that objectives, instruments or maps are subject to change.

When we integrate both paradigmatic schemes, we must take into account that the new socio-economic man uses a typical socio-economic map to outline new policies. Given the fact that there is not just one sociological map, we cannot assume that there is just one socio-economic map. It implies that changing maps is a possible strategy in a typical socio-economic approach.

In figure 6 we have presented an integrated analysis schematically.

Figure 6 Scheme of a Socio-Economic Process



The right panel presents the economic or co-ordination stage and the left panel shows the social or communication stage. The scheme as a whole shows the relationship between the social and the economic aspect of every act, that is every unit of action. We can distinguish our historical time into a series of periods. At the beginning of every period the actor evaluates the results of his actions. This evaluation takes, by

assumption, no time. The actor is supposed to be rational in the sense that he has perfect control over the self and is able to weigh costs and benefits in whatever way within his framework of interpretation. This framework represents the relationships between the targets and the instruments that are chosen. In the evaluation the social and the economic aspect are taken into account. After the evaluation eventual change in targets, instruments and maps will change the patterns of action. The scheme shows the **logical stages** of the evaluation process and the effects on allocation and distribution. The next period starts with the following evaluation and eventual adaptation of strategy and the effects on allocation and distribution. In this way we can describe the actions of people as an **evolutionary process** on the basis of two aspects or motives of life, namely status and wealth<sup>23</sup>. In the human drive towards a position in the hierarchical ranking as high as possible, people accept rules of the game that are based moral sentiments. In the human drive towards a level of prosperity as high as possible people must accept the scarcity of their resources. When describing real life systems we assume that people always act upon the basis of a mix of these two drives, making actual action to be the result of two vectors. In figure five we have presented a picture of the vectors. We must be aware that the strength of the drives – in the picture reflected by the length of the vectors – are not constants over time.

A final remark must be made about the impossibility of a reduction of different categories of utilities to one and the same denominator. We can distinguish between three sorts of utilities: economic, social and moral utilities. Especially the moral utilities are of a different kind and cannot be substituted by other kinds of utilities. Just try to imagine the outcome of one unit of moral utility plus two units of social utility plus three units of economic utilities. Because the different sorts of utilities are categorically different, the calculation is impossible. In practice, however, every person is making these calculations consciously or unconsciously all the time.

## 5. Conclusions

The basic message of the article is that human action is always the result of different motives driving people to act in particular ways. When studying the economy two motives play a dominant role, namely the economic and the social motive. The first motive explains economic action - which is not the same as economy. The second motive explains social action – which is not the same as society. Observable action then is the result of the simultaneous working of the economic and the social force. These forces are intertwined and cannot be observed separately.

The economic motive originates from the omnipresent needs of a biological and psychological character, which can be satisfied via consumption of valuable goods. It means that people want to maximise their prosperity under the constraints of the stock of resources available. The social motive originates from the omnipresent desire to ‘dominate other people’, which can be satisfied by challenging higher-ranked and by distinguishing from lower ranked people. It means that people want to maximise their status, although under the constraint of moral sentiments.

The economic world is ruled by the condition of efficient allocation, while the sociological world is ruled by the condition of an acceptable distribution. Inefficient allocation can start a process of social and economic reactions that makes the

---

<sup>23</sup> Because flows of income and prestige affect stocks of sentiment and resentment and the strength of the two drives the model has an evolutionary character; not just a dynamic one.

imbalance larger, economically as well as socially. But a distribution that is considered unfair by powerful groups can also be the beginning of a series of economically and socially motivated actions that might bring the economy out of balance. If we study systems of behaviour based on one motive only, the analysis can only deliver semi-finished products. To make our analysis of the economy more realistic we must integrate the two motives. Then we can analyse the checks and balances of the real life system “economy”.

The main objective of the socio-economic approach of the economy is to improve the quality of economic analysis; not to substitute it by a completely different alternative. The sociological part must be a complement of the orthodox approach because the economic motive matters very much when studying the functioning of the economy (1) and because the analytical techniques of orthodox economics are quite sophisticated (2). Hopefully this article is a contribution to the synthesis that is so urgently needed.

## References

- Aron, R., *Main Currents in Sociological Thought*, 1 and 2, Penguin Books Ltd, 1965.
- Beauchamps, T.L. *Philosophical Ethics: an Introduction to Moral Philosophy*, second edition, McGraw-hill, Inc., 1991.
- Bauman, Z., T.May, *Thinking Sociologically*, Second Edition, Blackwell Publishers, 1999.
- Becker, G. S., G.J.Stigler, *De Gustibus non est Disputandum*, *American Economic Review* 67, no.2 (March 1977): 76-90.
- Campbell, T., *Seven theories of Human Society*, Clarendon Press, 1981.
- Collins, R. *Four Sociological Traditions*, Oxford University Press, 1994.
- Copleston, F., *A History of Philosophy, Volume I: Greece and Rome*, An Image Book Doubleday, New York, 1985; ch.5. *The Word of Heraclitus*.
- De Cremer, D., M. van Vlugt, *Social identification effects in social dilemmas: a transformation of motives*, *European Journal of Social Psychology* 29, 871-893 (1999).
- De Cremer, D. *Trust and Fear of Exploitation in a Public Goods Dilemma*, *Current Psychology* 18:2, 1999.
- Ekelund, R.B., and R.F.Hebert, *A History of Economic Theory and Method*, Fourth Edition, McGraw-Hill Companies Inc., 1996.
- Hobbes, Th., *Leviathan*, London, 1651.
- Hodgson, G. M., *Economics and Institutions, A Manifesto for a Modern Institutional Economics*, Polity Press, 1988.
- Hodgson, G.M., *Economics and Evolution, Bringing Life Back into Economics*, The University of Michigan Press, 1996.
- Hodgson, G.M., *Evolution and Institutions*, Routledge, 1999.
- Hollis, M., *The Philosophy of Social Science: an Introduction*, Cambridge University Press, 1994.
- Homans, G., *Social Behavior, Its Elementary Forms*, Routledge, 1961.
- Hume, D., *Enquiry concerning The Principles of Morals*, 1751.
- In 't Veld, J., *Analyse van organisatieproblemen*, 5de druk, Leiden, 1988.
- Kramer, R.M., Jane Wei, *Social Uncertainty and the problem of trust in social groups: the social self in doubt*, ch. 6.
- Lawson, T., *Economics and Reality*, Routledge, 1997.
- Locke, J., *An Essay concerning Human Understanding*, 1689.
- Norman, R. *The Moral Philosophers, An Introduction to Ethics*, Second Edition, Oxford University Press, 1998.
- Parsons, T., *The Structure of Social Action*, New York: McGraw-Hill, 1937.
- Parsons, T., *The Social System*, Glencoe, Ill.: Free Press, 1951.
- Ritzer, G., *Sociological Theory*, Fourth Edition, McGraw-Hill, 1996.
- Robbins, L., *An Essay on the Nature and Significance of Economic Science*, Macmillan, London, 1932.
- Sargent, T.J., *Macroeconomic Theory*, Academic Press Inc., 1979.
- Sargent, T.J. *Rational expectations and Inflations*, Second Edition, Harper Collins, College Publishers, 1993.
- Schinkel, M.P., *Disequilibrium Theory*, Universitaire Pers Maastricht, 2001.
- Smith, A., *The Theory of Moral Sentiments*, Liberty Fund, 1982 (orig.1759).

- Smith, A., *The Wealth of Nations*, The Modern Library, New York, 1994 (orig. 1776).
- Smelser, N., R.Swedberg, *Handbook of Economic Sociology*, Princeton University Press, 1994.
- Turner, J.H., *The Structure of Sociological Theory*, Sixth Edition, 1998.
- White, Harrison C., Where do markets come from, *American Journal of Sociology*, 87: 5, 14-47.
- Williamson, O.E., Strategizing, Economizing and Economic Organization, *Strategic Management Journal*, 12, p.75-94, 1991.
- Williamson, O.E., Efficiency, Power, Authority and Economic Organization, in: *TCE and Beyond*, J.Groenewegen (ed.), Kluwer Academic Publishers, 1996.
- Williamson, O.E., *The Economist*, 1998.
- Wolff, Jonathan, *An Introduction to Political Philosophy*, Oxford University Press, 1996.