BOOK REVIEWS

THE FUTURE OF ECONOMICS FROM THE SOCIOLOGICAL POINT OF VIEW

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Granovetter, M.: Society and Economy. Framework and Principles

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The reviewed book *Society and Economy* is appreciated as the most important writing of modern economic sociology. Mark Granovetter, Professor of Sociology at the Stanford University, focuses on the role of norms, trust, power and institutions in economic life and its functioning in society. The fundamental importance of social structures for economic organization is proven.

Although this is a book by a renowned sociologist, it can also bring interesting information for economists, because its approach widens the visual field of economic issues and shows a possible path for economic analysis and its future development. This book by M. Granovetter is highly topical today in the context of institutional influence¹ and behavioural renaissance² attacking the neoclassical mainstream.

This ambitious writing shows various ways in which society and economy connect and interrelate. Economy is not a sphere divided from other human activities, as Professor Granovetter writes. Man is deeply dived into social relations, is subject of his emotions, thoughts and restrictions, and object of emotions and thoughts of others. Some actions can be explained and understood through categories of traditional economic analysis, where people behave rationally and calculate ways leading to targets set. However, some human behaviour can hardly be explained within this framework. Agents follow social norms of the society; sometimes they act swiftly and passionately in their affairs, without any considered calculus. They act without an apparent reason at first sight. The internal force of the individual has a great impact on economic outcomes, although this force comes from non-economic resources.

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1 Kaufman, B. (2010). Institutional Economics and the Minimum Wage: Broadening the Theoretical and Policy Debate. *Industrial and Labor Relations Review*, 63 (3), 427–453, <https://doi.org/10.1177/001979391006300304>.

2 See, e.g., Thaler, R. (2016). *Behavioral Economics: Past, Present, and Future*. American Economic Association annual meeting, SSRN, <https://doi.org/10.2139/ssrn.2790606>; Etzioni, A. (2011). Behavioral Economics: Toward a New Paradigm. *American Behavioral Scientist*, 55 (8), 1099–1119, <https://doi.org/10.1177/0002764211412355>.

People depend on social norms and relations, culture and surrounding social environment, however complicated it may be. Professor Granovetter explains how people improvise in solving everyday problems to achieve pragmatic solutions. He goes through arguments from psychology, social network studies, historical and political analyses. His references to literature show wide literature knowledge, ranging from philosophy, sociology and history to economics. The author shows a way to a more complex and subtle explanation of the dynamics and fine nuances of social and economic life.

The book is divided into six chapters, including an introduction. The first chapter *Introduction: Problems of Explanation in Economic Sociology* is contemplated as an introduction to economic sociology, which has undergone a remarkable development in the last 30 years. The author declares his intention to contribute to the understanding of economy by elimination of frontiers between scientific disciplines. He discusses general conditions, a theoretical framework in which social sciences exist: important elements of his description are the social norms and mental constructs that form the environment for economy, competition and cooperation.

Professor Granovetter explains three levels of economic phenomena: first are individual economic actions. They are conducted to satisfy the needs in a situation of scarce resources and limited alternatives. The author refers to G. Becker, who broadened economic actions to include marriage, divorce or criminality. But the author's aim is not a parallel of "sociological imperialism", while it is to understand the economy by different means. The second level of economic analysis is focused on economic outputs which are results of individual decision making. The third level is covered by economic institutions (p. 2). *The null hypotheses*. This is an inevitable starting point, an initial framework to understand how society is organized and how people behave in it. The null hypotheses of economists and sociologists differ fundamentally according to Granovetter. The majority of economists explain human behaviour according to their individual interest and motivations. *Homo economicus* is an atomized individual, rational calculator. *The rational choice model* describes the behaviour of agents on the market who have their preferences, set their scales, and maximize their utility. Complicated social factors are not suitable for simple and elegant economic models where the social environment is an external factor. The starting point of an economic model is methodological individualism that suppresses the influence of other agents.

According to sociologists, individuals are constituted, created by the social environment; they absorb perceptions from the environment and other people. The sociological portrait of an individual is led by social influences, social norms and ideologies, by the social class he belongs to, social institutions based on a complex of culture, religion, economy or politics. This creates the *social capital* of a human being (p. 10). *Social networks*. Sociologists, on the other hand, see inclusion of other people as an important element, because they influence an individual's decisions. A person is always a part of a wider society, establishes relationships with others. His embeddedness into the social network influences individual economic action. Granovetter writes about creation of social networks in his previous book *New Economic Sociology* (1985). Cultural, political and religious influences

are enforced through social networks. Social networks play a central, intermediary role between the macro and micro level of research about society. How people evaluate their wage, whether they find it fair,³ depends on the absolute amount of wage and also on their consideration in comparison with other workers.

Individual motivations. The author distinguishes three aspects of behaviour motivation research: behaviour can be rational or not, it can be egocentrically oriented or not, and can be oriented economically or socially (p. 20). The first division includes a choice of specific instruments to achieve the aims. The rational choice model eliminates the possibility of altruistic behaviour: the person focuses only on achieving his or her personal aims. The third line examines whether the motivations are purely economic or wider, social or including a mix of both motives. A complex explanation of individual behaviour consists in a complex analysis of economic and non-economic motives according to Granovetter (p. 23).

Chapter 2: *The Impact of Mental Constructs on Economic Action: Norms, Values, and Moral Economy.* The second chapter focuses on the influence of mental concepts (norms, trust action and power in particular) on economic action. The discourse about social norms in economic actions is difficult to describe in terms of rational choice that “maximizes” on the base of preferences. Norms and values are mental concepts and they include understanding of the sense and meaning of the economic situation, they create a “good life” in a “good society” (p. 27).

The author poses many questions: What are the norms in economy like? Why do people follow them? How do they influence economic agents? Are they consistent with rational choice and methodological individualism? Is the concept of “*moral economy*” usable in economy? In the discussion based on a broad body of literature, the author seeks possible solutions rather than unanimous responses (p. 34).

Chapter 3: *Trust in the Economy.* “Trust” behaviour leads people to cooperation and forces them to be nicer to others, nicer than is prescribed by the pure logic of own interest pursuit. Cooperation saves costs and is therefore effective. How should we understand the word “trust”? The author offers several definitions: it is confidence; belief that another person I am in interaction with does not cause harm to me even though being in a position where he or she can do so. Other definitions are looser, e.g., positive expectations from the behaviour of others, or an expectation of beneficent reciprocity from others in uncertain or risky situations (p. 58). The author explains psychological sources of this trust.

Chapter 4: *Power in the Economy.* The author starts this chapter with differing understanding of economic power – from power in the concept of M. Weber or K. Marx to domination and economic concept of power in imperfect competition connected with dependence. The chapter deals with the relation of two subjects and it identifies the sources of economic power. The economic force of agents is also determined by their position

3 For the fair wage see Akerloff, G. A., Yellen, J. L. (eds., 1990). *Efficiency Wage Models of the Labor Market*. Cambridge, UK, Cambridge University Press, pp. 1–21. ISBN 9780521312844.

on a market, it can also stem from the place in the organization hierarchy as a consequence of the inheritance of institutions in market processes.

Chapter 5: *The Economy and Social Institutions*. Norms, trust and power are fundamental concepts, building stones of economic organizations. They respond to the level of individuals or small groups. The meso and macro level orientates the discussion towards particular aspects of social life – economic, political, social, ideological and other, while any of these sides has priority. The social institutions are understood as persisting sets of rules which define how specific social actions should be made.

Chapter 6: *The Interplay between Individual Action and Social Institutions*. In the last chapter, the author offers a discussion of the ways in which the agent uses institutions that he finds relevant in his situation and how these work. The last chapter is historic and comparative. It discusses three alternative ways of solving problems with the help of institutions: (1) identification of alternative approaches in different institutional environments and looking for the most suitable one for the respective situation; (2) search for a solution that is usually applied in a comparable institutional framework; (3) the use of a mix of various institutional approaches (p. 171).

Instead of a conclusion. The author himself mentions that conventional books include a conclusion as a last chapter where the principal arguments and approaches are summarized and the most important findings are presented. However, Professor Granovetter does not pretend to formulate a complex and coherent conclusion. He finds the contribution of his book in the fact that he brought a certain number of topics to the reader explained from a certain viewpoint and in certain specific connections. He presents paths that are not offered by standard theories.

The modern concept of economy needs to combine more approaches and research styles. It is therefore shown that the interdisciplinary approach can contribute to further development of knowledge and help direct future social science research. “If this book and its sequel encourage this kind of creative and synthetic activity, that is all I could hope for”, the author himself states.

I think that a smart reader would appreciate the wide range of stimulating ideas, coming from a broad approach to analysis of social phenomena, and would find enriching inspiration for his or her own research work in this book.