

DISCUSSION FORUM

Amitai Etzioni—Twenty years of ‘*The Moral Dimension: Toward a New Economics*’

This year, 2008, is the twentieth anniversary of the first appearance of Amitai Etzioni’s *The Moral Dimension: Towards a New Economics* (New York: The Free Press, 1988). The book was a major foundational text behind the inauguration of SASE, the Society for the Advancement of Socio-Economics, from which Socio-Economic Review originated. The editors have asked four scholars working on the relationship between economy and society to assess the book’s continuing importance. The Review Symposium concludes with a response from Amitai Etzioni.

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The road not taken: ‘*The Moral Dimension*’ and the new economic sociology

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The first time I read Amitai Etzioni’s *The Moral Dimension* (Etzioni, 1988) was as a graduate student in New York. This must have been about two years after the book was published. At this time I started to get interested in the relationship between society and economy, and *The Moral Dimension* was a captivating read for me. I had studied sociology and economics and was deeply interested in the question of a sociologically informed alternative to the depiction of the economy that I had been taught based on the neoclassical paradigm. I was primarily familiar with the connections between the two fields that came from

classical sociology, especially the works of Durkheim and Weber, and to some extent from contemporary sociological theory. What I wasn't aware of before reading *The Moral Dimension* were the many dissenting voices within contemporary economics upon which Amitai Etzioni based many of his arguments. I was first introduced to the works of Amartya Sen, Harvey Leibenstein and Lester Thurow when I read *The Moral Dimension*. By organizing these works around core questions like the relationship between the individual and the community, the concept of rationality, and a decision theory going beyond the economic concept of individual utility maximization, the book not only gave me many fresh insights but also helped me see the connection between these insights and ways to apply them in the context of social theory.

Retrospectively it is evident that the late 1980s were a time when several roads were being built that could potentially lead the way for a new sociological approach to the economy. It was the time when crucial new developments in the economy and in economics began to take shape. A period of profound change in economic policies ensued. During the Reagan era, deregulation, the privatization of large public industries, discussions about the retrenchment of the welfare state, and the rise of the coordinated market economies in Japan and Germany provided puzzles in social and economic development that were calling for sociological investigation. Marxist approaches had exhausted themselves by then. In economics, approaches that attempted to bring some realism back into the assumptions underlying model building gained influence, such as information economics and the new institutionalism with their introduction of information asymmetries and transaction costs. No one was talking about behavioural economics yet, but the first experimental studies showing the role of altruism and fairness in economic decision making had been published and were cited in *The Moral Dimension*.

From the perspective of sociology, the development that later proved to be the most influential was the emergence of the 'new economic sociology'. In the 1980s, works we now consider to be the classics of the new economic sociology, such as Viviana Zelizer (1979), Mark Granovetter (1985), Harrison White (1981), Wayne Baker (1984) and Richard Swedberg (1987), had already been published, but they did not yet constitute a field of their own. The anthologies that became so important for the constitution of the new economic sociology were not published until the early 1990s (Zukin and DiMaggio, 1990; Granovetter and Swedberg, 1992; Swedberg, 1990; Smelser and Swedberg, 1994). Though the seeds for the rapid expansion of economic sociology were planted at this time, it was not possible to foresee the powerful development that would take place in the 1990s.

Amitai Etzioni's *The Moral Dimension* offered a platform that could have formed the intellectual basis for the engagement of sociology with economics and the economy. Yet it did not become that platform. Why it became the

road not taken one can only speculate. One guess is that the book closely intermingles two realms that today's 'professionalized' sociology tries to separate as much as possible: the analytical and the normative. *The Moral Dimension* is as much about how people act in the economy as it is about how we should organize the economy to create the conditions for what Etzioni calls the 'I&We paradigm'. A second guess is that the book, though undoubtedly deeply sociological, relies heavily on dissenting voices within economics to develop its arguments. To learn that so many insights for a sociological understanding of the economy have been developed by heterodox economists is not an especially motivating experience for sociologists. Even today discourse between heterodox economics and economic sociology is thin despite many obvious overlaps.¹ A third possible reason that applies especially to American sociology is that *The Moral Dimension* has a distinct Parsonian flair. The concern with the normative foundations of society, arguably the core of the sociological enterprise, has been received critically in American sociology since the late 1960s. It is noteworthy that many of the key contributors to the new economic sociology—among them Harrison White, Mark Granovetter, Michael Useem and Paul DiMaggio—have been teachers or students at the Harvard sociology department (Convert and Heilbron, 2007, p. 36), sometimes defining their approach in opposition to Talcott Parsons (Beckert, 2006). *The Moral Dimension* might have been too close to the tradition these sociologists tried to free themselves from.

The Moral Dimension was the road not taken by the new economic sociology. However, 20 years after its publication, with economic sociology being a consolidated field of American and, increasingly, of European sociology, one can ask whether it has missed something by sidelining the concerns addressed in the book. I would say it has, and I will use the remainder of this commentary to spell out three aspects the new economic sociology could have learned—and still can—from *The Moral Dimension*.

(1) The first point I want to mention is Etzioni's deep engagement with questions of action theory. The main theme of *The Moral Dimension* is a critique of the action theory of utility maximizing *hominum oeconomicum* that has defined economic modelling for over 100 years. This theory of action has even been radicalized from its eighteenth century sources through the notions of opportunism and 'interest seeking with guile' introduced by the new institutional economics. This action theory is intellectually simplistic. Nevertheless it is attractive to students precisely because of its simplicity and to mathematically oriented researchers as a basis for modelling. But is the theory empirically relevant? Possibly the most important contribution of *The Moral Dimension* is to show from a

¹See for instance the works by Geoffrey Hodgson (1988, 2004) or the topics discussed in post-Keynesian economics (Dequech, 2003, 2005).

variety of different perspectives that decision making even in contemporary economic contexts cannot be understood on the basis of selfish utility maximization. While this has been common knowledge in sociology at least since the writings of Emile Durkheim, it nevertheless remains a powerful argument in the sociological understanding of the economy. Etzioni develops this argument based on a discussion of economic approaches, mostly from the 1980s, that assume that individuals have more than one utility and that these multiple utilities comprise conflicting forces (Etzioni, 1988, pp. 36ff). I am not sure whether distinctions between preferences and meta-preferences are indeed very helpful conceptually, but the main point is a compelling one: Actors act not just based on their selfish interests, but take the norms and interests of the community to which they belong into consideration when making decisions. With the development of behavioural economics, this basic insight now also seems to be trickling down to economics, though it does so as an impoverished version, concentrating on the hard-wired mechanisms of neuroscience.

In the new economic sociology, there has never really been much discussion about which action theory is actually appropriate for the analysis of the economy, with some rare exceptions (Hirsch *et al.*, 1990; Beckert, 2003). In his influential programmatic statement on embeddedness, Mark Granovetter (1985) does not embark on a discussion of action theory. The embeddedness in social networks is to provide a structural explanation of economic outcomes, but the relationship between social morphology and the enactment of structures through agents is not seen as a problem. When Granovetter comes to discuss rational choice theory, he takes an accommodating position: '[W]hile the assumption of rational action must always be problematic, it is a good working hypothesis that should not easily be abandoned' (Granovetter, 1985, p. 506). And indeed several network analysts combine the structural approach with a rational choice theory of action (Burt, 1992).

I do not necessarily subscribe to the 'I&We paradigm' suggested by Amitai Etzioni, since it might indeed focus too strongly on social norms to be able to explain the integration of economic exchange in contemporary societies. But it is clear that a sociological conceptualization of the economy must be based on an action theory that is itself sociological. By this I mean a theory that explains social action based not on individual predispositions but on culturally anchored meanings, the intersubjective constitution of the actor and social macrostructures such as norms, institutions and social networks.

(2) The second challenge entailed in *The Moral Dimension* that is not taken up in the new economic sociology is seeing the economy as part of the larger social system. Etzioni discusses the economy from the perspective of social theory. In normative terms he calls for the type of social organization of the economy necessary to produce social outcomes that conform to the values of what he

called in the subtitle of a much later book the 'good society'. The economy is seen as a crucial part of contemporary society, but the normative standards by which its performance is to be judged cannot be—at least not exclusively—the criteria of efficiency. Instead the organization of the economy is judged by its contribution to making the world a livable place by arranging the production of wealth in a way that does not jeopardize the realization of the values of justice, freedom and fairness in society. Etzioni's discussion of 'encapsulated competition' (Etzioni, 1988, pp. 199ff) addresses exactly this point: to be viable, the market mechanism of competition must be 'encapsulated' by social bonds and government regulation.

The new economic sociology, by contrast, focuses on the economy in isolation from other social realms and is much closer to the efficiency perspective of economics. Research projects typically focus on the explanation of the operation of a market or an industry, without seeing its embeddedness in society writ large. This holds true when network analysis is used to investigate the social preconditions of the operation of any given market or organization. Cultural and institutional approaches in economic sociology do a much better job of defining the non-economic preconditions necessary for the functioning of markets. A prime example is Viviana Zelizer's (1979) study on the emergence of the life insurance industry in nineteenth century America, which shows the cultural transformations necessary for this market to come into existence. However, the new economic sociology hardly pays any attention to the social effects produced by the organization of the economy. Traditional sociological concerns of social inequality, alienation or exclusion have yet to find a prominent place in the research program. In its disregard for criteria other than efficiency (or survival) it even shares a joint perspective with economics, only in a more limited way. The normative perspective of economic theory emerges from the claim of an indissoluble connection between individual wealth maximization on the one hand and a harmonious social order on the other. Economic sociologists for the most part would not share this claim, but they do not offer an alternative normative perspective either. I maintain that they can afford to do so only by shielding themselves from questions about the social effects of the observed organization of the economy. Once the effects of markets come into focus, the economy is analysed within its societal contexts and a profoundly different perspective emerges because the centre of attention is no longer only the functioning of the economy as such, but also its role within society. It might not be hopelessly outdated to suggest that the task of sociology as a discipline is to understand societies at large and not just the operation of their functionally differentiated parts—though the careful analysis of the parts is the precondition for any enlightening social theory. It is only recently that these concerns have been expressed more directly in the new economic sociology (Fourcade and Healy, 2007; Zelizer, 2007). While *The Moral Dimension* might intermingle analytical

and normative concerns too closely, one can learn from it that the two dimensions cannot be completely separated either.

(3) A third learning opportunity for the new economic sociology provided by *The Moral Dimension* relates to the concept of performativity, which has received significant attention in recent scholarship (Callon, 1998; MacKenzie *et al.*, 2007). The assertion is, in a nutshell, that the function of economic theory is not so much to describe economic reality but rather to inform economic actors how they should act. The more actors in the economy make use of the templates provided by economic theory, the more likely it is that subsequent economic processes will indeed conform to the descriptions in economic theory. Empirical studies from commodities markets (Garcia-Parpet, 2007) and from financial markets (MacKenzie and Millo, 2003) provide detailed analyses of such processes. On a more abstract level the argument is that it is economic theory that makes the coordination of economic processes possible.

This claim presupposes that an economy can indeed operate the way neoclassical theory tells us it can. Amitai Etzioni (and many others before him) warns us about this by claiming that economic action in the form propagated by economic theory potentially undermines the social preconditions necessary for the functioning of the economy. As Etzioni writes: '[C]ompetition is not self-sustaining; its very existence, as well as the scope of transactions organized by it, is dependent to a significant extent upon contextual factors [...] within which it takes place' (Etzioni, 1988, p. 199). In his congenial tableau of intellectual positions regarding the social effects of capitalism, Albert Hirschman (1986, p. 109) has called this position the self-destruction thesis. Capitalism would undermine its own basis if it did not reproduce the social and moral preconditions on which it rests. One chief reason for this process, according to observers of capitalism, is the destruction of religious values leading to increasingly hedonistic and selfish action orientations.

These two perspectives—the performativity thesis and the self-destruction thesis—do not necessarily contradict each other in an empirical sense, but they do constitute a paradox worth exploring: While economic theory provides a focal point in economic practice for coordination games, this focal point is at the same time inherently unstable because it does not consider the non-economic preconditions of economic exchange.

Amitai Etzioni's *The Moral Dimension* is the road not taken by the new economic sociology. Twenty years after the book's publication, with the new economic sociology having developed into a consolidated approach, it is worthwhile contemplating whether to set out on this journey again. Opening up interesting, unexpected vistas, a new road can take us beyond the insights gained by economic sociology thus far. As Robert Frost wrote: To take the road 'less traveled by [...] has made all the difference'.

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'The Moral Dimension' and its meaning for economic ethics

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1. Preliminary remarks

When Etzioni published his book *The Moral Dimension: Towards a New Economics* (Etzioni, 1988) 20 years ago, he was already considered—mostly because of his book *The Active Society: A Theory of Societal and Political Processes* (Etzioni, 1968)—one of the most important sociologists in the USA. In this book from 1968, he had developed a very ambitious alternative to the dominant approach in social theory, that of Talcott Parsons. Etzioni took up some elements from Talcott Parsons and connected them with elements from systems theory and cybernetics as well as phenomenological and interactionist ideas and ideas