

Economics within Social Sciences. On the “Imperialism of  
Economics” Debate and its Scientific Roots

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## Abstract

We are currently in times in which an increased discussion on interdisciplinarity is on the agenda. Economics tends to go into directions of sociology, history, and psychology, taking topics of their domains. If economics changes the portrait so significantly, one may ask if this is still the form of economics, which many people have come to know through the study of textbooks. Where is economics coming from and where is it going to, what is the domain of economics and to what extent do different approaches in economics coexist? The question of what is the matter of economics has a long tradition. The often quoted statement by Jacob Viner “economics is what economists do” (quoted in Barber 1997: 87) was already completed by Frank Knight when he added “and economists are those who do economics” (quoted in Buchanan 1964: 213). Looking at activities of economists shows that the domain of economics is always in transition. Since no clear borders exist, which provide rational marks for the area of economics, even such a current understanding is not much further than it was at the time of Viner or Knight.

With respect to the definition of what economics is and how it is organized into different subfolders, two trends overlap each other. (I) We have a long-term trend of the development of economics in which the discipline increasingly gained firm ground and recognition and in which a process of differentiation started to evolve. This trend took part within the last one and a half centuries. The field of economics also started to become a professional system with clear curricula, degrees, academic societies and university departments with an increasing number of publications and related journals. (II) Parallel to the consolidation process of economics, the subject formed borderlines to neighboring fields, which were formerly an extended part of economics. Looking over the course of the last hundred years, topics of economics have modified and multiplied.

Bringing a complex development to a very brief denominator, much of 20th century development in economics involved the establishment of neoclassic thought, which is taught as textbook knowledge to undergraduate students and which dominates wide parts of the non-university public and public policy. “Pure economics” proved to be a program of abstractness, which had problems when it was confronted with competing empirical material, since pure economics was related to an economy in a vacuum. This type of thought emerged and became a predominant paradigm of thought during the 20th century, which in its nucleus served to be a kind of academic religion (Nelson 2001).

In recent years, economics has been moving increasingly in the direction of social topics and sociological ground. The “imperialism of economics”, which is criticized by Granovetter (1993) and claimed by Lazear (2000), is moving ever closer towards the traditional academic fields of history, psychology, and sociology. Which domains can economic sociology, economic psychology and economic and social history claim as being their exclusive ground? Answers to these questions have to identify a broader landscape of academic division. The paper will explore observed trends in detail in order to conclude that the division of work between different social sciences is changing, but contemporaries differ in giving comments, making judgements, and providing forecasts.

## 1. *How Economics forgot History and Sociology*

Talking about economics and related further academic domains refers to the question of what economics actually is. First of all, we have to acknowledge that economics has experienced serious changes and shifts during the last 150 years or so. Where is economics coming from and where is it going to, what is the domain of economics, and to what extent do different approaches in economics coexist? The question of what is the matter of economics has a long tradition. The often quoted statement by *Jacob Viner* “economics is what economists do” (quoted in Barber 1997: 87) was already completed by *Frank Knight* when he added “and economists are those who do economics” (quoted in Buchanan 1964: 213). Looking at activities of economists shows that the domain of economics is always in transition. Since no clear borders exist, which provide rational markers for the area of economics, even such a current understanding is not much further than it was at times of Viner or Knight.

The divisional order of economics is characterized by a practice, which mirrors the multiplicity of academic production and a somehow occidental development rather than a systematic reasoning about how to design an academic subject. With respect to the definition of what economics is and how it is organized into different subfolders, two trends overlap each other. (I) We have a long-term trend of the development of economics in which the discipline increasingly gained firm ground and recognition and in which a process of differentiation started to evolve. This trend took part within the last one and a half centuries. The field of economics also started to become a professional system with clear curricula, degrees, academic societies and university departments, with an increasing number of publications and related journals. (II) Parallel to the consolidation process of economics, the subject formed borderlines to neighboring fields, which were formerly an extended part of economics. Looking over the course of the last hundred years, topics of economics have modified and multiplied.

Historically, the rise of modern economics was closely connected to the rise of neoclassic *theory*, which had its foundations in the marginal utility theory. Related economists tried to establish a kind of economics, which was defined as being theoretical and – in this sense – universal and general. “Pure” economics (Walras [1874] 1954) was a credo trying to do economics in the same way other natural sciences were practicing too, having clear procedures and the aim to arrive at laws. In order to apply economic discussion to modern

capitalism in general statements, formulated relationships had to be abstract and formalistic in the understanding that they could be used for all modern capitalist economies independently of concrete time and space. Achieving a level of abstraction was seen as being closely connected to the utilization of mathematics. Due to this understanding, the rise of neoclassic economics was very much a rising import of mathematics as a tool to formalize statements. This mathematization of economics was clearly expressed when e.g. looking at Jevons, who wrote in his introduction “It is clear that Economics, if it is to be a science at all, must be a mathematical science” (Jevons 1871: introduction). The battle of methods between old institutional economics (OIE) represented by Gustav Schmoller and associates in Europe and by Thorstein Veblen and many others in North America was historically won by the marginal utility theorists, who provided the foundation stone for later neoclassic thought in economics.

Bringing a complex development to a very brief denominator, much of 20<sup>th</sup> century development in economics taken up by the establishment of neoclassic thought, which is taught as textbook knowledge to undergraduate students and which dominates wide parts of the non-university public and public policy. “Pure economics” served as a program of abstractness, which had problems when confronted with competing empirical material, since pure economics was related to an economy in a vacuum. This type of thought emerged and became a predominant paradigm of thought during the 20<sup>th</sup> century, and in its nucleus served to be a kind of academic religion (Nelson 2001). Economics had started to forget history (Hodgson 2001), but also sociology and psychology. The attempt was to establish economics as a genuine science with a narrower domain but a wider and universal approach and impact simultaneously in order to become in every culture and universally applicable. Dimensions of time, space and social relations were not only neglected, but were consciously treated as axiomatically given. Lazear (2000, 99-100) expressed it clearly when advocating in favour of economics and claiming an “imperialism of economics”: “The ascension of economics results from the fact that our discipline has a rigorous language that allows complicated concepts to be written in relatively simple, abstract terms. The language permits economists to strip away complexity. Complexity may add to the richness of description, but it also prevents the analyst from seeing what is essential.”

Neoclassic thought also tended to ignore issues of economic (and social change) and discussed the economy as if a capitalist economy is generally not in transition. Therefore, the theoretical attempt of neoclassic thought increasingly became a snapshot of economics, not taking into consideration its inherent dynamics. Of course, there is never and was never just one single type of economics (for the U.S. see Dorfman 1946-1959), but the portrait of the mainstream in economics developed in such a direction, which became textbook knowledge. Still today, when young people decide to study economics at university, they start to learn neoclassic economics as state of the art, although many other positions coexist (Backhouse and Fontaine for the process of the social sciences and Backhouse for economics), and even though it proves to be a difficult enterprise to work on historiographies (Backhouse and Fontaine 2014).

## II. *The Explosion of Scientific Knowledge*

The recent question about the relationship between economics and neighboring disciplines such as sociology, psychology or history has sometimes been discussed very silently, sometimes more explicitly. While Max Weber, who was a professor of national economics, published a book entitled „Economy and Society“ (1921) with which he addressed both items equally, suggesting a coexistence between economy and society, the process of scientific differentiation within the following decades changed academic practice, its division and related questions. In the 1950s, Parsons and Smelser wrote in their book „Economy and Society“ (1956) that only few authors being competent in sociological theory have "any working knowledge of economics, and conversely ... few economists have much knowledge of sociology" (Parsons und Smelser 1956).

Through the explosion of new academic publications in sociology and in the different branches of economic sciences, internal lines of differentiation and segmentation emerged. The subjects multiplied in a vertical and a horizontal direction, and within the course of constantly new subjects new own universes of discourse emerged, having separate research organizations, global conferences, journals, curricula, academic career opportunities, as well as patterns and publication routines. Finally, a vulcanization of the research landscape in social sciences was revealed, indicating a variety of new islands of knowledge, which had increasingly less reciprocal ties and active links of information and communication. With

this organizational cell division, an academic autism started, which gave proof of Max Weber's statement given in his famous article „Science as Vocation“ ([1919], 1922), namely that the individual can achieve something really substantial on academic ground only if it is in a situation of increased specialization: “In our time, the internal situation, in contrast to the organization of science as a vocation, is first of all conditioned by the facts that science has entered a phase of specialization previously unknown and that this will forever remain the case. Not only externally, but inwardly, matters stand a point where the individual can acquire the sure consciousness of achieving something truly perfect in the field of science only in case he is a strict specialist” (Weber 1922, 526).

Compared to the situation in economics, the situation in sociology was somehow the same, although slightly different between North America and Europe. While Emilé Durkheim wrote in the introduction to the first issue of the journal *Année Sociologique* under his editorship that it is the destiny of sociology and economics that they will merge in the long run, the opposite was true. The subjects separated, although a few major authors in historical sociology like Wallerstein, Bendix, Elias, and Mann continued to work in both fields. For the most part, long-term processes were forgotten and scientific analysis was based on short-term observations. Much later and initially in the U.S. academic context, positions came up arguing that observations over longer time periods are a necessity for methodological reasons: “First, those shifts formed the context in which our current standard ideas for the analysis of big social structures, large social processes, and huge comparisons among social experiences crystallized. Second, they marked critical moments in changes that are continuing on a world scale today. Understanding those changes and their consequences is our most pressing reason for undertaking the systematic study of big structures and large processes. We must look at them comparatively over substantial blocks of space and time, in order to see whence we have come, where we are going, and what real alternatives to our present condition exist. Systematic comparisons of structures and processes will not only place our own situation in perspective, but also help in the identification of causes and effects” (Tilly 1984, 10-11).

Today, it is even difficult to speak about sociology in a general understanding, since we observe a coexistence of many sociologies. Sociology has proven to become a field which

reminds us of a patchwork rug with diverse own „universes of discourse“. Now, the *International Sociological Association* (ISA) has nearly 60 independent Research Committees, which have their own organizational life under the roof of sociology without feeling the need to contribute to a common project of grand theory. Looking *at* sociology from the outside, sociology is almost identified as sociological *theory*, which is just one research committee within the I.S.A.. Even sociological theory is not a unique and common field, but is segmented into many competing approaches in which stakeholders follow their own practices and routines. For example, the fact that Jonathan Turner’s „The Structure of Sociological Theory“ (2004) has 36 chapters, each one portraying a separate theoretical approach, shows the heterogeneity of sociological theory. There is no stratified unique sociological theory, but diverse camps. Today, sociology is a cosmos of knowledge and working islands regarding quality, quantity and address labels. There is not necessarily any communication between them.

Figure (1) Pedigree of Economics within Social Sciences

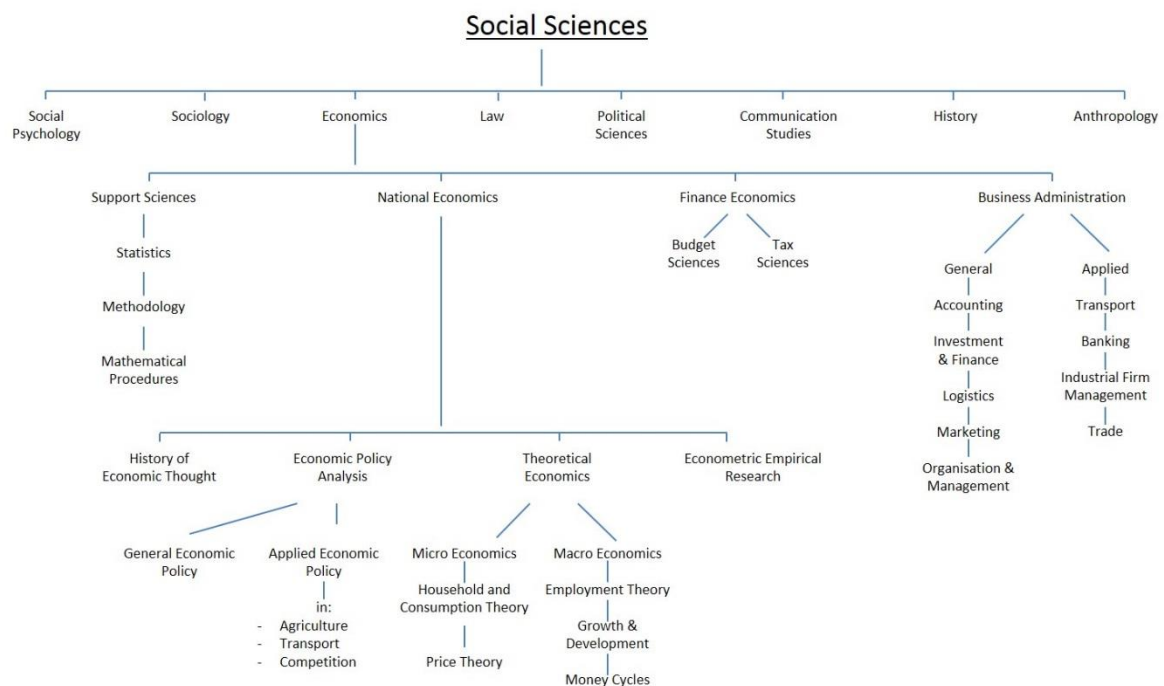


Figure (1) (analogue to Winkel (1980, 17)) indicates diverse academic subjects within social sciences. What we find regarding the current situation in sociology holds true in the same way for economics. During the last 150 years, a variety of new academic subjects has emerged and economics has – as previously discussed – cut many former links to history, sociology or psychology, but multiplied in itself. First, economics has split into national economics and business administration and those divisions created many further special areas. Nowadays, one is usually studying, working and pursuing a career in just one of these sub-subjects. Simultaneously, a variety of new special fields of economics have been founded, which did not exist decades before, among them e.g. industrial economics, labor economics, small business economics, household economics, and economics of aging. Many further new areas have evolved and serve as impressive fields of the general trend of academic specialization and differentiation. The more complex economics proved to become, the smaller the real terrain of neoclassic theory remained, although the general image of economics, especially when looking *at* the field from the outside, is still neoclassic orthodoxy. The 21<sup>st</sup> century looks back at this scientific period of development, differentiation and consolidation as a feature of the 20<sup>th</sup> century.

### III. *Economics between Mainstream and Innovation: Increasing Social-Scienciation*

Mainstream economics was increasing abstractness and formalism, which went along with an ongoing trend that even the history of economic theory was forgotten. History of economic theory (HET or, in German, *Dogmengeschichte*) is or was a teaching subject within economics for a long time, but seems to have been abolished or pushed to different disciplines (philosophy or science theory). One could argue with Hodgson that „prowess with formal technique has replaced the broader intuitive, methodological and historical intellectual grounding required of the great economist. Such qualities were emphasized and personified by both Alfred Marshall and John Maynard Keynes. Today, economists are no longer systematically educated in economic history, the philosophy of science or the history of their own discipline“ (Hodgson 2007, 19). So, the payoff is that recent graduates of economic studies are more competent in the application of mathematics and statistics and ambitious computer simulations, as they have a working knowledge of the history of specific



subject. In mathematics the small multiplication table is a precondition for the larger multiplication tables, but in modern economics one can skip the elementary steps within the history of economic ideas. In other words: „Recruitment and professional advancement are generally on the basis of technical competence, rather than knowledge of the real economy or of the evolution of economics as a discipline. This bias towards formalism has become deeply ingrained and institutionalized in the academy. It is compounded by the fragmentation of the profession into technical specialisms, often lacking the generalist background that enables communication and synthetic advance“ (Hodgson 2007, 19). There is nothing to be held against recent ambitious statistics and econometrics (Weintraub 2002, Morgan 2012), but tools shall not degenerate to become ends within themselves, and data generation processes have to be brought back to genuine theoretical questions.

“Mathiness” – as Romer (2015) puts it recently – is a trend when economic science has become colonized by sometimes uncontrolled mathematics. “At a symposium on the state of economics held in 1986, sponsored by the National Science Foundation, many participants put forth the view that economics as taught in graduate school had become too divorced from real world questions” (Krueger 1991, 1035).

Against this scenario we observe several new trends, which may be called innovation through new ideas. These new perspectives have one common denominator, all of them stand for an increasing *social-scienciation of economics* in a way that – formerly forgotten – links to history, sociology and behavioral sciences are seemingly rediscovered or *reopened*. Among the new turns, which economics is undertaking, or experiences during the last three decades, three overlapping but separate tendencies can be mentioned: (1.) increasing awareness of institutional dimensions and economic dynamics towards an institutional and evolutionary and cultural economics, (2.) increasing awareness that motivation of human agents is a research field, which is becoming increasingly challenging, and (3.) the integration of research on social capital and networks of individual and organizational actors is becoming a visible tendency, which combines macro with micro perspectives and sheds light on real life processes of economic life and processes. Taken together, these – at least – three tendencies stand for a new paradigm, which, *de facto*, *reintegrates* sociological, historical, and psychological perspectives. Therefore, all disciplines must be prepared to

analyze those ongoing paradigm shifts in order to discuss possible consequences for each respective academic discipline.

#### IV. Upgrading institutional dimensions and evolutionary change

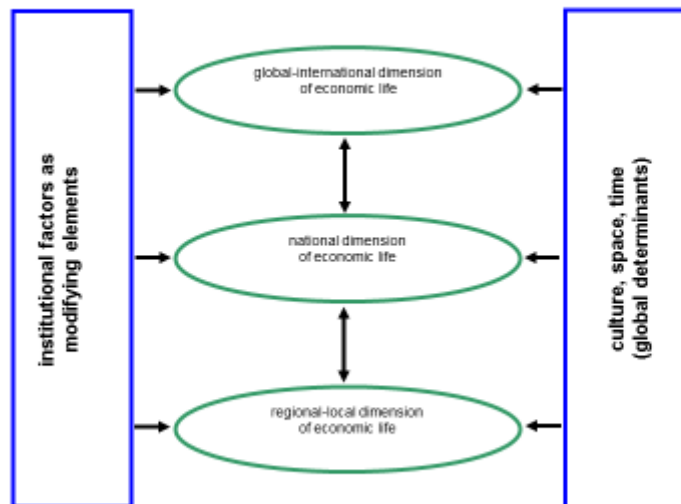
The interesting issue is that it wasn't authors belonging under the roof of heterodox economics (Bögenhold 2010) who came up with those explicit positions arguing against the mainstream of textbook knowledge, but instead authors came up with those positions who were regarded as being part of so-called mainstream economics and who were often awarded with Nobel prizes for their achievements. The seemingly paradoxical situation is that, on the one hand, textbook knowledge is taught, which is very much concerned with neoclassic economics, and on the other hand, economists are awarded the famous Nobel prizes, for criticizing principles of neoclassic thought. Robert M. Solow (Nobel Laureate 1987) belonged to this last category: „All narrowly economic activity is embedded in a web of social institutions, customs, beliefs, and attitudes.... Few things should be more interesting to a civilized economic theorist than the opportunity to observe the interplay between social institutions and economic behavior *over time and place*“ (Solow 1985, 328–329). A few years later Douglas G. North (Nobel Laureate in 1993) argued in the same direction by sharpening the awareness for historical research: “Improving our understanding of the nature of economic change entails that we draw on the only laboratory that we have--*the past*. But "understanding" the past entails imposing order on the myriad facts that have survived to explain what has happened--that is theory. The theories we develop to understand where we have been come from the social sciences. Therefore, there is a constant give and take between the theories we develop, and their application to explain the past. Do they improve our understanding--is the resultant explanation broadly consistent with the surviving historical evidence?” (North 1979, 1).

What, among many other authors, Solow or North explain is the trivial fact that each economy is integrated into a permanent flux of changes. They both confirm what Schumpeter had expressed much earlier: “The essential point to grasp is that in dealing with

capitalism we are dealing with an *evolutionary process*. ....Capitalism, then, is by nature a form or method of economic change and not only never is but never can be stationary” (Schumpeter 1942, 82). When history was forgotten by wide parts of economics, works by Solow or North clearly *rediscovered* history for specific reasons. There is nothing else which provides empirical facts on capitalism, other than the history of capitalism. Even to undertake future forecasts, one has to refer backwards. That economic activities are embedded in social institutions, customs, beliefs, and attitudes is a simple credo that culture matters, which implies that sociology matters.

If culture makes a difference, capitalism does not exist in a vacuum, but in a context with specific social regimes of living, producing and exchange. Institutionalist approaches have no other aim than to highlight that different social organizations and institutions (including religion, language, law, family structures and networks, systems of education and industrial relations) make differences when trying to come up with statements regarding general principles of capitalist societies and economies. As we know, capitalism in Singapore differs from capitalism in Zimbabwe, which differs from capitalism in Switzerland. Accepting the idea that economies and societies are not filled by abstract but by real entities, one has to refer to concrete coordinates of time and space (Ostrom 2005). If economics rediscovers history, economic theory goes far beyond *abstractivism*. Taking culture as an analytic variable indicates different settings of norms and related behavior (North 2005, Jones 2006). Culture will serve as framework of rational behavior and is the factor which indicates real societies as opposed to abstract ones. Historian David Landes put it concisely when he said: “Culture makes almost all the difference.” (Landes 2000, 2). Figure (2) illustrates how institutional factors and time, space and culture determine and frame economy and society.

Figure (2): Institutional Factors framing the economy



## V. Motivation: The Missing Element in Macro-Economics

Another area where mainstream (neoclassic) economics has been attacked fundamentally within its own discipline have been the classic assumptions related to the actor of an *homo oeconomicus* with inherent strategic-utilitarian goals. Nobel laureate (1978) Herbert Simon coined the famous formulation of bounded rationality. The term has evolved to become a kind of program for diverse arguments against the neoclassical conception of a *homo oeconomicus*. Simon conducted theoretical studies as well as empirical works and he was one of the first to use large datasets with the aid of computer simulations. Simon contributed widely to decision theory. His principle matter of investigation may be described by the following question: “How do human beings reason when the conditions for rationality postulated by neoclassical economics are not met?” (Simon 1989, 377). Simon criticized a neoclassic model of decision processes, which is based upon the assumption of *homo oeconomicus*. In contrast, the term of bounded rationality takes into account that (I.) agents often act in ways, which could be characterized as non-rational behavior driven by emotions. (II.) The use of bounded

rationality emphasizes that the access to information is limited, since people do not share the same bits of information necessary for deciding among the alternatives in order to achieve the optimal result. (III.) Even in a situation of equally shared information, human beings are characterized by cognitively diverse and also limited skills in evaluating the single best solution in any given situation with the information provided. Although human agents want to come up with rational decisions they are limited in their capabilities to find and to execute them so that bounded rationalities will take place (Simon 1971). The processes of decision taking are governed by psychological issues to which dimensions such as risk, uncertainty and complexity contribute (Simon 1972). Lastly, a major source of the phenomenon of bounded rationality is the limited information capacity and the speed limit of information processing. The environment contains too many bits of information so that people have to reduce complexity and related uncertainties in order to arrive at a final decision at all, given limited time to come up with responses (Simon 1962).

In a nutshell, Simon reflects upon traditional economic theory dealing with conceptions of the “economic man” who is “economically engaged” and in the same sense also “rational”. And Simon is guided by the idea that the same is true for the brother of the “economic man”, this being the “administrative man”, who should also be revised and reformulated (Simon 1955, 99). The evolution of organizations is a necessary effect of complex environments, which have overloading capacities of information. Within organizational settings, issues such as specialization, standardization, authority, identification and communication belong to the factors, which limit and portray the “administrative man” (Simon 1971, 102-103). Simon argues in favor of a more appropriate understanding of learning processes, but also of the evolution of behavior processes. Simon has become popular as an author since, very often, his implications are treated as the core messages of his writings: Economics is too often based on ideas of rational behavior, which is an oversimplification. Instead, restrictions of simple “clean” economic models should be put into contexts of complexity. According to Simon, “the task is to replace the global rationality of economic man with a kind of rational behavior that is compatible with the process of information and the computational capacities that

are actually processed by organisms, including man, in the kinds of environments in which such organisms exist” (Simon 1955, 99).

Although Simon was awarded a Nobel prize in the 1970s, several years had to pass until some of Simon’s essential messages became a kind of common knowledge. Simon’s suggestion “to turn to the literature of psychology” (Simon 1955, 99-100) was not really taken up on a greater scale until Douglass C. North, Nobel prize recipient in economics in 1993<sup>1</sup>, came up with nearly the same pragmatic formulations: “Although I know of very few economists who really believe that the behavioral assumptions of economics accurately reflect human behavior, they do (mostly) believe that such assumptions are useful for building models of market behavior in economics and, though less useful, are still the best game in town for studying politics and the other social sciences. I believe that these traditional behavioral assumptions have prevented economists from coming to grips with some very fundamental issues and that a modification of these assumptions is essential to further progress in the social sciences. The motivation of these actors is more complicated (and their preferences less stable) than assumed in received theory. More controversial (and less understood) among the behavioral assumptions, usually, is the implicit one that the actors possess cognitive systems that provide true models of the worlds about which they make choices ...” (North 1990, 17).

More than a decade later, it was Akerlof, Nobel laureate in economics in 2001, who took up once more the notion of motivation in order to discuss the topic in a framework of macroeconomics. Akerlof works at the level of macroeconomics and discusses motivation in a broad framework related to Keynesian ideas. Rationality of human beings and policy stakeholders, stable systems of preferences and consumption affairs, unintended consequences of social action and the evolution of behavior are topics, which are discussed in Akerlof’s works. Programmatically, Akerlof (2007) claimed that economics should provide an increased acknowledgement of motivation as a key to the question of why people do what they do. Keynes (1936) referred widely to issues of psychology and social psychology in order to explain economic life in a more sound and appropriate way, and discussed expectations, uncertainties and spirits as crucial social

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<sup>1</sup> For a history of Nobel laureats and their programs see Vane and Muehlhearn 2005.

dimensions with impact, while Akerlof took up questions about norm regulations and other forms of commitments. In this context, Akerlof explicitly saw a strong impact of sociology to highlight those thematic areas: “Sociology has a further concept that gives an easy and natural way to add those norms to the utility function. Sociologists say that people have an ideal for how they should or should not behave. Furthermore that ideal is often conceptualized in terms of the behavior of someone they know or some exemplar who they do not know” (Akerlof 2007, 9).

It has been argued that economics should be open to the integration of behavioral and cognitive elements (Akerlof 2007; Akerlof and Kranton 2000; Akerlof and Shiller 2009) in order to assist the movement of economics from the world of abstract modeling to real world phenomena. These voices have evolved to be a credo for a new economics. Kahneman is a further Nobel laureate in economics (2001), who also has an academic background as a psychologist. Kahneman explains that social action must be interpreted as a kind of choice between alternatives (Kahneman 2003). The word “rational” stands for reasonable in everyday speech, but for economists and decision theorists rational has a different meaning. “The only test of rationality is not whether a person’s beliefs and preferences are reasonable, but whether they are internally consistent. A rational person can believe in ghosts so long as all her other beliefs are consistent with the existence of ghosts. A rational person can prefer being hated or being loved, so long as his preferences are consistent. Rationality is logical coherence – reasonable or not” (Kahneman 2012, 411). It is also interesting to note that Kahneman distinguishes between experience and memory. We experience endless billions of bits of experience, but keep only a small minority of them in our memories. All this discussion recollects debates already conducted by the French sociologist Maurice Halbwachs, who discusses memory as a very selective apparatus of registration.

Human beings have motives, which may be viewed as rational *or* irrational by observers (Lauterbach 1962; Rabin 1998), and people have emotions by which they are governed positively or negatively (Elster 1998, 1999, Scherer 2011). Love, hate or envy are expressions of human activity that are real. Human beings love human beings, yet they kill people on occasion, they take part in lotteries, or they present gifts and cheat

elsewhere (see for emotions Turner and Stets 2009; Stets and Turner 2007). In short, already Akerlof referred to cultural contexts providing different norms. So, religion and religious identity give us a good example of such norms (Akerlof 2007, 10), which link the discussion more widely to the issue of culture. Cultures within related times and spaces provide a differing calculus of individual rationality (González 2012).

Human action differs from processes in the physical world in so far that action in the social world is driven by motivation. Motivation is embedded in a social framework of social goals and related preferences. Rationality has its origin in the Latin *ratio*, which is considered as another term for pure reason. Statements of reason can differ according to different social logics within a single society and between societies, in recent as well as in historical times. Philosophy dealt with that question and Karl Popper, in particular, discussed the relativity of rationality in great depth in his so-called critical rationalism (Popper 1959). In so far, even philosophy could be discussed as a reasonable contributor for many of the substantial recent questions of modern economics. An appropriate understanding of the functioning processes of norms and conventions could possibly be fostered by integrating philosophical perspectives. Reasoning about the question of why people do what they do can generally be understood as the terrain of sociology. If Nobel Laureates in economics now ask concretely about motivation, sociology may take up these challenges, because economics proves to take a turn towards sociology.

As far as Simon's "bounded rationality" seems to be on the right track, advance can only be measured as a comparison between old and new pieces of discussion. "Animal Spirits" (Akerlof and Shiller 2009) is taking up several questions which were raised by J. M. Keynes earlier. What sounds very convincing and very evident with everyday life observations may seem revolutionary for those who practiced orthodox (neoclassic) economics during most of the 20<sup>th</sup> century. The idea that the functioning of the whole capitalist system is heavily based upon sociopsychological foundations has serious implications for the order of academic areas since, then, sociopsychology should be a key driver for economic policy. Simon's notion of different types of social action and related rationality indicates diverse areas of earlier careful discussion, which now seem to be neglected. In this way, reformulations sometimes come to be celebrated as new



inventions. Frank Knight (1921) is one of the economists who has already operated with different types of individuals, and who asked for a differential discussion of personalities. Furthermore, he introduced a concept of complexity as a source of indifference and uncertainty. That was also a central point in Hayek's approach (1945), when rationality was set in relation to modes of certainty and uncertainty and issues of complexities in organizations as well as in economies and societies. Whoever talks about bounded rationality nowadays would appear to be well advised to go back to those classic authors.

The growing convergence between economics and psychology should not hinder an acknowledgement of the relevance of sociology and history. In sociology, Max Weber was one of the first authors who conceptualized different sources, providing sense to social action. While Karl Marx and especially Marxist thinking idealized thought and consciousness as a kind of reflex to material conditions in society, which is determined as a one-to-one fit with the relations of production, Max Weber (1972) was led by the idea that consciousness is never right or wrong, but it always has a (relative) autonomy from the status signaled by the regime of the material world. Cultural factors including religion and related dispositions are factors influencing the rationality of social behavior according to Max Weber. He came up with a typology of social action based upon different sources of legitimation, which are: traditional social action (actions carried out on the basis of tradition and cultural norms), affective social action (actions ultimately based upon emotions), instrumental and purposeful social action (“*Zweckrationalität*”) and value rational action (“*Wertrationalität*”), where the end justifies the means. According to that typology, there is no single type of rationality, but four different types can each be distinguished as an *Idealtypus*; in practice, they overlap each other and behavior has different compositions of elements of rationality. Although M. Weber had already argued that economics operated with an unrealistic human being analogous to a mathematical *Idealtypus*, economics continued to use the model as a kind of assumption and starting-point for further reflections. Those who really start with Max Weber will regard Simon as less spectacular than narrow economists did, who had newly learned something. Thinking of rationality as a driver of social action, the implication is not that people can always decipher the individual elements of the forces by which they are

driven. Sociology uses the term of habituation, which refers to deeply internalized routines of action, which help to economize everyday life without repeatedly asking for the argumentative legitimation of one's own doing. In that way, habituation acts as an economy measure, since people do not have to newly seek instructions every time, in order to come up with decisions (Berger and Luckmann 1966). In contrast to sociology, psychology refers to the subconsciousness as a separate sphere, which influences people's behavior without giving full control to actors' decisions, as Sigmund Freud first explained (Freud 1995). With respect to preferences in combination with life-styles, needs and behavior, Maslow (1954) as a social psychologist developed a scheme of different steps, setting goals for human behavior, which he ranked in the form of a pyramid. According to Maslow, people try to meet the satisfaction of basic needs first, and, subsequently, they try to cope with more elaborate needs. Given the fact that human behavior has proven to be more complex than what can be expressed in the monocausal and linear assumptions of a rational man who has no social context and who lives without being captured by institutions and related norms, constraints and opportunities, without having social attributes such as age, biography and life history, family, gender, occupation and education and without belonging to a specific concrete time or space, the rationality concept remains a vague and empty term.

One way out of the dilemma was taken by Gary Becker when considering that "behavior is driven by a much richer set of values and preferences" (Becker 1995, p. 385) but – according to Becker – ultimately *all* decisions – even seemingly non-rational ones – are based upon rational decisions of selfishness. Becker put a lot of effort into explaining his idea in many examples like choices of marriage, sports, restaurant visits, or decisions regarding the own family or career, but at the end an understanding of rationality seems to become somehow self-referential, since all actions prove to be outcomes of a rational decision. If all emotion tends to be part of rationality, the term tends to make itself obsolete, and the traditional meaning of *ratio* could be replaced by behavior.

## VI. Social Embeddedness: Society respectively sociology matter

Scientific progress is often contingent and never rational in a sense that it follows arithmetic rules of combinations. The “market” for ideas is not precisely an efficient or perfect market. Academic progress is also related to a series of mistakes by which intellectual resources are wasted, and as a consequence, there are indeed intellectual gems lying unexploited and waiting for someone to grasp (Boettke 2000). Fourcade et al. (2015) have discussed the “insulation of economics” and relationship of academic disciplines also by throwing light at the different segments within the individual disciplines.

Discussing the seminal ideas by Simon we should try to acknowledge more explicitly the obvious links to social network analysis, which has a strong anchor in the field of sociology, but which has diffused and evolved increasingly towards many further neighboring fields. Bounded rationality is very much to be understood in relation to asymmetric information and complexity. Bounded rationality mirrors the fact that societies, organizations and economies are fragmented, they are organized along different lines and zones of contact, familiarity and information exchange. In our view, modern economics could benefit significantly by integrating recent network concepts, which are a fantastic tool to bridge micro and macro perspectives (Bögenhold 2013). “Network models of advantage use structure as an indicator of how information is distributed in a system of people” (Burt et al. 2013, 529). And social network analysis continues to develop many themes enunciated by pioneering social psychologists. “At its best, social network analysis draws from traditions of research and theory in psychology, sociology, and other areas to describe how patterns of interpersonal relations are associated with diverse behavioral, cognitive, and emotional outcomes. Looking for the future, we are deepening interest in the psychological underpinnings of why some people more than others engage and benefit from the networks of contacts within which they are embedded” (Burt et al. 2013, 543).

Markets are always in transition, they come up, they go down, and they change. These markets are carried out by actors having sets of people they know and whom they trust,

while other people may be regarded as hostile competitors. However concrete markets may look, they always have very social traits, and economics would fall short if it did not ask about those issues. Competition processes must also be analyzed and understood as ongoing social processes, which are involved in social structures and which are permanently in processes of reorganization (Burt 1995). The presently existing, largely categorical description of social structure has no solid theoretical grounding; furthermore, network concepts may provide the only way to construct a theory of social structure (White/Boorman/Breiger 1976: 732). In many respects, network analysis is an excellent exemplification of what the term of *social embeddedness* can deliver. Network analysis furnishes those popular formulations which have become “economic sociology’s most celebrated metaphor” (Guillén/Collins/England et al. 2002: 4).

Different capital structures correspond with different network designs and vice versa. Divergent network arrangements provide different opportunities to communicate, to receive information and to create different structures of cultural capital. Network analysis explores modes and contents of exchanges between different agents when symbols, emotions or goods and services get exchanged. On an aggregated level one finds social capital as a sum of social network contacts. Most recently, many new studies have evolved here (Christoforou and Davis 2014, Som 2014, Lin et al. 2014, Ostrom 2010) and the term has also become a policy instrument. It refers to political economy and some further distinct thematic areas, but all of the applications are grounded on the premise that the procedures of a complex economic and social life have serious social roots that together constitute a powerful plea for an integrated *socioeconomics* in research and in teaching, which can only be understood as part of an institutional interpretation linking different academic areas.

A point of initial discussion was that up-to-date economics is increasingly willing to open up for topics of cognitive structures and motivation. Economic sociology and economic psychology share many of the motives behind those trends, since the arguments in favor of these trends form the foundations of their own academic identity, but one should be curious as well as careful when meeting those new tendencies. Nothing should be taken for granted, but one should always try to see if pieces of the puzzle fit.

As ideas about an economy and society *in concreto* are increasingly accepted again, so the relative autonomy of culture and its specification in different historical variations is also increasingly accepted. In case that one agrees on the formulation that culture matters, one has to agree on the formulation that sociology as the academic domain widely dealing with culture also matters. A plea for the academic existence of sociology must be the ultimate consequence. In particular, historical and comparative sociology, socioeconomics and economic sociology and, of course, social network research, prove to be innovative, when highlighting national and international variations and specifics.

The concept of the “social embeddedness” (Polanyi 2001) of institutional actors and human behavior is a common label for approaches that attempt to deal with the interplay of individual and corporate actors in a dynamic and joint process. The impact of such a perspective is that modern economics could be linked with a constructive view that provides a new division of work between economics and the other social sciences (Granovetter 1993). Granovetter’s formulation of a “social embeddedness of economic behavior and institutions” (Granovetter 1985) has subsequently become widely known. Granovetter focuses explicitly on the work of Polanyi and his argumentation is based upon three premises, namely, firstly, that economic action is a special case of social action, secondly, that economic action is socially situated and embedded, and thirdly, that economic institutions are social constructions. A synthesis is sought between conceptions of over-socialized and under-socialized human beings in order to articulate a theorem, which takes into account both the determination of society and the relative openness of human activities as a process (Granovetter 1993, 2002). These perspective was already practiced or theoretically reasoned by Max Weber and especially Joseph A. Schumpeter when he argued in favour of a universal social science (Bögenhold 2014).

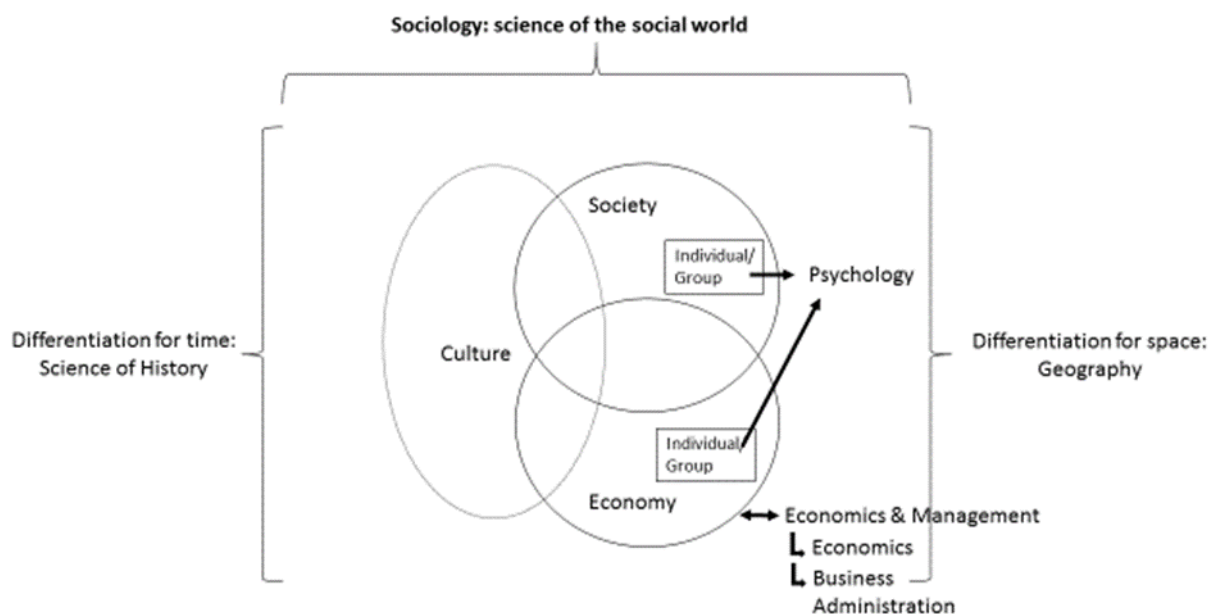
## VII. Conclusion and Final Thoughts

In general, one can also argue that history, economics, business administration and sociology should increasingly try to reintegrate, because their topics are among the items in a complex web of reciprocal thematic interaction. The concept of the “social

embeddedness” of institutional actors and human behavior is a common label for approaches that attempt to deal with the interplay of individual and corporate actors in a dynamic and joint process. Very many phenomena in economic life are due to social issues and “really fundamental problems of economic growth are non-economic“ in nature (Buchanan and Ellis 1955, 405). Social networks, communication patterns, family structures, trust and fairness but also distrust and crime, all these dimensions matter when trying to analyse economies appropriately.

Figure (3) (see Bögenhold 2015) gives an idea how the interplay of different academic disciplines is, respectively, has to be designed in order to arrive at a more modern and pluralistic attempt to cover recent difficulties of monodisciplinary studies:

Figure (3): Interplay of different academic disciplines



Economics is moving increasingly in the direction of social topics and sociological ground. The “imperialism of economics” which is criticized by Granovetter (1993) and claimed by Lazear (2000) goes increasingly towards traditional academic fields of history, psychology, and sociology. However, at least two psychologists (H. Simon, D. Kahneman) and an economic historian (R. Fogel) have received Nobel prizes in economics. The public image of sociology may have declined during recent decades, but the strategic use and importance of (economic) sociology has never been greater, even if many stakeholders in sociology are not aware of this. Economic sociology seems to have become an upgraded discipline since social networks, communication processes, institutions and culture are increasingly considered as core dimensions. The reciprocal integration of economy, society and culture must be better acknowledged in academic reflections of a science of science so that disciplinary authorities will be defined accordingly.

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