

ФЕДЕРАЛЬНОЕ АГЕНТСТВО ПО ОБРАЗОВАНИЮ

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Введение в экономическую социологию:
основы социально-экономических знаний

Учебно-методическое пособие

Рекомендовано методической комиссией факультета управления и предпринимательства для
иностраных студентов, обучающихся по направлению “010400”
«Информационные технологии» (бакалавриат)

Нижний Новгород
2010

Бедный А.Б. Введение в экономическую социологию: основы социально-экономических знаний: Учебное пособие. – Нижний Новгород: Нижегородский госуниверситет, 2010. – 41 с.

Рецензент: кандидат философских наук, доцент С.С. Балабанов

Учебно-методическое пособие представлено в виде сжатого содержания курса лекций, практических заданий, списка литературы по предмету «Введение в экономическую социологию: основы социально-экономических знаний» для иностранных студентов, обучающихся по направлению «010400» «Информационные технологии» (бакалавриат).

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FEDERAL AGENCY FOR EDUCATION

Lobachevsky State University of Nizhni Novgorod

Alexander Bedny

Introduction to Economic Sociology:
Basics of Socio-Economic Science

Tutorial

Recommended by the Methodical Commission of the Faculty of Management and Business for
international students, studying at the B.Sc. programme “010400”
“Information Technologies”

Нижний Новгород
2010

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Введение

Результаты социально-экономических преобразований в странах с переходными экономиками зачастую заметно отличаются от исходных замыслов реформаторов. Этот факт свидетельствует о том, что основы социальной жизни, ценности и стандарты обыденного поведения, характерные для данных обществ, зачастую превалируют над новыми формальными правилами игры, устанавливаемыми реформаторами. Экономисты во все большей степени ощущают потребность в расширении своего инструментария с помощью социологической науки. Им на помощь пришло достаточно новое исследовательское направление – экономическая социология, которое осуществляет развертывание системы социологических понятий в плоскость хозяйственных отношений.

Данный курс ориентирован на иностранных студентов, обучающихся по направлению «информационные технологии». Структура и методика освоения материала учитывает возможность серьезных различий в уровне базовой подготовки иностранных предметов по общественным наукам, связанных со значительными отличиями в образовательных системах разных стран. В ходе освоения материала обеспечивается формирование у студентов минимально необходимого уровня знаний в области основ экономической социологии.

Introduction

The results of socio-economic reforms in developing countries, and in countries “in transition” often are quite different from the expectations of proponents and conductors of liberal economic reforms. This is a sign that the fundamentals of social life, norms, values and standards of routine behaviour characteristic for members of these societies are prevailing over the new formal rules of the game being established by the reformers, e.g. principles of democracy, new legislation, systems of market economy etc. The failure of the attempts to transfer the systems of market economy, which have been demonstrating their efficiency in the Western societies for ages, to the former socialist countries shows the need to supplement the principles of economic theory with the sociological approach. The integrated socio-economic approach allows revealing very important social factors strongly distorting the models of economic theory when applied to significant socio-economic changes. One of the key concepts of the socio-economic approach is institutional concept. It accumulates its central attention on institutions, as historically stable, regular, self-renewing systems of social interactions. Stability and self-renewing are the most important characteristics of institutions. Thanks to them institutions provide quite high level of predictability of partners’ behaviour, and help to decrease uncertainty in socio-economic interactions.

The main aim of this course is to study the basic principles of the modern economic sociology, revealing the new trends and perspectives based on integrated approach, which help to more efficiently deal with analysis of modern socio-economic processes in the world.

The course is targeted at international students majoring in Information technologies. It takes into account the substantial variations in the level of background knowledge in social sciences of international students preconditioned by different systems of secondary education in different countries of the world. The course intends to smooth these variations of students’ knowledge by providing them the basics of socio economic sciences in the retrospective of introduction to economic sociology.

Session 1. Course Overview

Course objective

To study the basic principles of modern socio-economic science, to reveal the new trends and perspectives

Subject of inquiry

Relations between socio-economic actors

Aspects to be covered

- Basic principles of classical economics
- Main sociological concepts
- Economic Sociology and Modern Integrated Approach:
- The application of the sociological perspective to economic phenomena
- Scientific Models:
 - + Economic human being
 - + Sociological human being
- Limitations of economic theory
- Economic action as a form of social action
- Social embeddedness of economic action
- Institutional approach
- Information technologies in socio-economic research

Principles of Successful Studying the Course

- Attend classes
- Be active: ask questions, participate in discussions
- Do your individual assignments (projects, presentations)

Practical assignment

Students are to prepare 10 minutes presentations covering the following issues:

- Where are you from?
- What is your background?
- Why have you decided to study abroad?
- What are your future career plans?
- Did you study any of the socio-economic disciplines before (examples, to what extent)?
- How do you evaluate socio-economic situation in your home country?
- What are the main problem points and their reasons?

Session 2. Introduction to Economic Theory

Discussion of the issue set up at the last class

Students make 10 minutes presentations of themselves, their home countries, and its socio-economic situation. The presentations are followed by questions and discussion.

Economics and its role

Economy is a specific sphere of social life with its rules, problems and contradictions. Economic potential of society is being formed here; various goods are produced to satisfy people's physical and social needs.

Economics as a science has to comprehend and to reflect this complex and contradictory process, find approaches on rational use of natural and human resources with the maximum benefit for the society. Economic analysis helps people to catch the sense in the surrounding discord.

Any economy is a complex and active system. That is why a science studying it has to be active and flexible too. Different countries have different names for economics. In any case this science considers *people's interaction for providing themselves with different goods of life*.

As Keynes (a great English economist of the first half of the XX century) mentioned "Economic theory is not a set of ready recommendations on what to do. It is a method, an intellectual tool, thinking technique" [1].

Ordinary people are forced to deal with economic problems:

- housewife
- engineer
- business man
- shareholder ...

Economic policy of a State, which is not based on the economic theory, will inevitably lead to crisis and social collapse

- Property rights – "Rules of the game" for an economy
- Crucially important in economics!

Mutual supplement of economics and social science

Studying and further practical implementation of principles of economics is definitely correlated with the socio-economic environment of the particular society, the particular country. That is why mutual supplement of economics and social science becomes of particular actuality. Socio-economic approach allows having an impartial image of socio-economic processes.

Practical assignment

Ordinary people are forced to deal with economic problems. Students are requested to give examples of 2-3 situations in their day-to-day lives which involve making economic decisions.

Session 3. Subject and Areas of Economics

Subject of Economics

To know the subject of a science is to know what it studies. People who start studying economic theory normally want to know short and clear definition of its subject. At the same time it is very hard to give a short description of the subject which could put clear borders between economics and neighbouring disciplines.

The term “*economics*” has Greek roots with meaning “an art of housekeeping”. A number of definitions of subject of economic theory exist:

“Social relations between people about production of goods”

“Peoples’ motives for actions”

“People’s and their groups’ behaviour in production, distribution and consumption of goods”

“Science about wealth”

The world of economics is very complex. It overarches interactions of millions of people, industries, enterprises, prices etc. That is why the diversity of definitions is so broad.

It is easier to say what Economics is not:

— It is not a science about housekeeping.

— It is not a science about company’s management, neither an art of earning millions.

— It is not a natural science.

However, economics closely touches upon those and other issues as well. It is interconnected with such disciplines as statistics, history, sociology, political science, psychology.

Modern economic theory pays much attention to studying such phenomena as

- market,
- money,
- credit relations,
- inflation,
- unemployment,
- profit,
- demand-supply.

As P. Samuelsson writes in his famous book:

“Economics is a science about the scarce production resources people choose for production of different goods and their future distribution for consumption” [2].

Although discussions about production and distribution have a long history, economics in its modern sense as a separate discipline is conventionally dated from the publication of Adam Smith's “The Wealth of Nations” in 1776 [3].

In this work he states that *political economy* has two distinct objects:

- To supply a plentiful revenue or product for the people
- To supply the state or commonwealth with a revenue sufficient for the public services.

Smith referred to the subject as 'Political Economy', but that term has been replaced in general usage to *Classical Economics*

Smith notably discusses the benefits of the division of labour as well as the subject of resource allocation. Just how individuals can best apply their own labour or any other resource is a central subject in the first book of the series. Smith claimed that an individual would invest a resource, for example, land or labour, so as to earn the highest possible return on it. Consequently, all uses of the resource must yield an equal rate of return (adjusted for the relative riskiness of each enterprise). Otherwise reallocation would result. This idea, wrote George Stigler, is the *central proposition of economic theory* [4].

A definition that captures much of modern economics is that of Lionel Robbins in his 1932 essay: "*the science which studies human behaviour as a relationship between needs and scarce means which have alternative uses*"[5]. *Scarcity* means that available resources are insufficient to satisfy all wants and needs. There is no economic problem in case of absence of scarcity and alternative uses of available resources. The subject defined involves the *study of choices* as they are affected by incentives and resources.

Areas of Economics

Microeconomics examines the economic behaviour of agents (including individuals and firms) and their interactions through individual markets, given scarcity and government regulation.

The theory considers aggregates of quantity demanded by buyers and quantity supplied by sellers at each possible price per unit'

Demand-and-supply analysis describes how the market may reach equilibrium as to price and quantity or respond to market changes over time.

Market structures, such as perfect competition and monopoly, are examined as to implications for behaviour and economic efficiency.

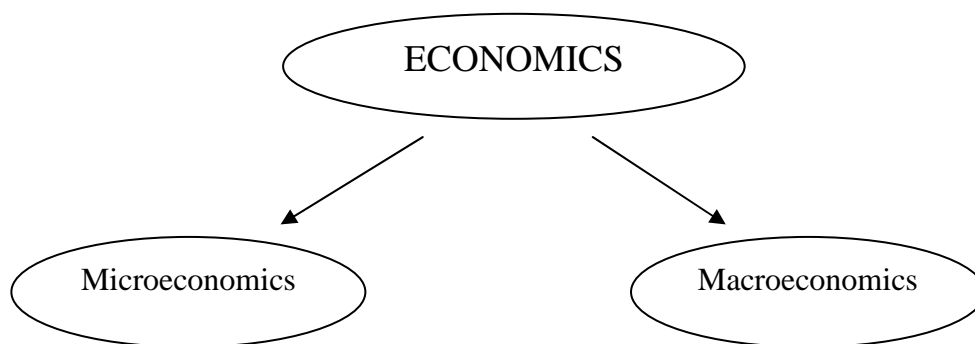


Figure 1. Areas of Economics

Macroeconomics examines the economy as a whole "top down" to explain broad aggregates and their interactions.

Aggregates include

- national income and output,

- the unemployment rate,
- price inflation,
- total consumption,
- investment spending,
- .. etc.

Session Four. Fundamental Concepts of Economic Theory

Supply and Demand Concept

Supply and demand describe market relations between prospective sellers and buyers of a good.

The supply and demand model determines price and quantity sold in the market. The model is fundamental in microeconomic analysis of buyers and sellers and of their interactions in a market. It is also used as a point of departure for other economic models and theories.

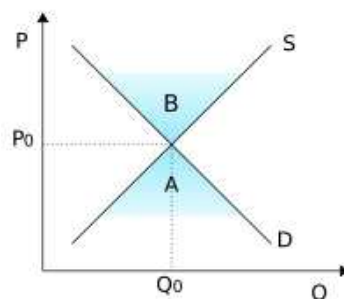


Figure 2. Supply and demand chart

In a competitive market, price will function to equalise the quantity demanded by consumers and the quantity supplied by producers, resulting in an economic equilibrium of price and quantity

The intersection of supply and demand curves determines equilibrium price (P_0) and quantity (Q_0)

Limitations

It is applied to a type of market called perfect competition in which no single buyer or seller has much effect on prices, and prices are known.

Assumptions

Atomicity:

- A large number of small producers and consumers on a given market.
- Each so small that its actions have no significant impact on others.
- Firms are price takers, meaning that the market sets the price that they must choose.

Homogeneity :

- Goods and services are perfect substitutes; that is, there is no product

differentiation (All firms sell an identical product).

Perfect and complete information:

- All firms and consumers know the prices set by all firms.

Equal access:

- All firms have access to production technologies, and resources are perfectly mobile.

Free entry:

- Any firm may enter or exit the market as it wishes.

Individual buyers and sellers act independently:

- The market is such that there is no scope for groups of buyers and/or sellers to come together with a view to changing the market price (collusion and cartels are not possible under this market structure).

Behavioural assumptions of perfect competition:

- Consumers aim to maximize utility.
- Producers aim to maximize profits.

Model's Principles

- The quantity of a product supplied by the producer and the quantity demanded by the consumer are dependent on the market price of the product.
- The law of supply states that quantity supplied is related to price.
- The law of demand is normally depicted as an inverse relation of quantity demanded and price.
- Everything else that could affect supply or demand except price is held constant.
- The respective relations are called the 'supply curve' and 'demand curve', or 'supply' and 'demand' for short.
- The laws of supply and demand state that the equilibrium market price and quantity of a commodity is at the intersection of consumer demand and producer supply.

Supply schedule

The supply schedule is the relationship between the quantity of goods supplied by the producers of a good and the current market price. It is graphically represented by the supply curve. It is commonly represented as directly proportional to price.

The positive slope in short-run analysis can reflect the law of diminishing marginal returns, which states that beyond some level of output, additional units of output require larger doses of the variable input.

In the long-run (such that plant size or number of firms is variable), a positively-sloped supply curve can reflect diseconomies of scale or fixity of specialized resources (such as farm land or skilled labour). Occasionally, supply curves do slope upwards: a well known example is the backward bending supply curve of labour.

Case: Backward bending supply curve of labour

Occasionally, supply curves do slope upwards. A well known example is the backward bending supply curve of labour. Generally, as a worker's wage increases, he is willing to supply a greater amount of labour (working more hours), since the higher wage increases the marginal utility of working (and increases the opportunity cost of not working).

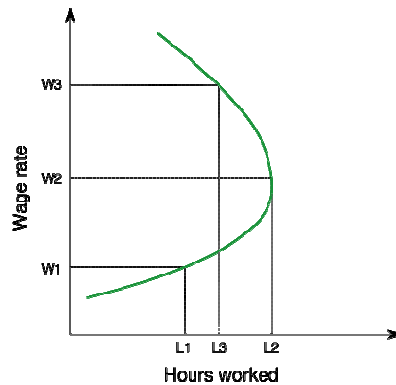


Figure 3. Backward bending supply curve of labour

But when the wage reaches an extremely high amount, the labourer may experience the law of diminishing marginal utility in relation to his salary. The large amount of money he is making will make further money of little value to him. Thus, he will work less and less as the wage increases, choosing instead to spend his time in leisure. The backwards-bending supply curve has also been observed in non-labour markets, including the market for oil: after the skyrocketing price of oil caused by the 1973 oil crisis, many oil-exporting countries decreased their production of oil [6].

Demand schedule

The demand schedule represents the amount of goods that buyers are willing and able to purchase at various prices, assuming all other non-price factors remain the same. The demand curve is almost always represented as downwards-sloping, meaning that as price decreases, consumers will buy more of the good

As described above, the demand curve is generally downward sloping. There may be rare examples of goods that have upward sloping demand curves.

Case: Veblen good

(a good made more fashionable by a higher price)

Changes in market equilibrium

Practical uses of supply and demand analysis often centre on the different variables that change equilibrium price and quantity, represented as shifts in the respective curves.

Demand curve shifts

An out-ward or right-ward shift in demand increases both equilibrium price and quantity.

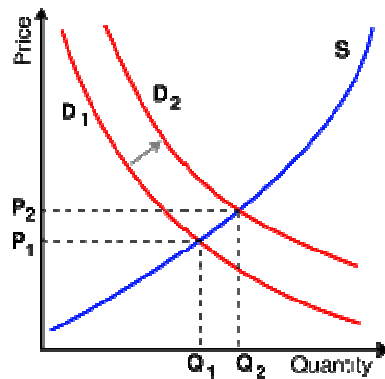


Figure 4. Demand curve shifts

Supply curve shifts

An out-ward or right-ward shift in supply reduces equilibrium price but increases quantity.

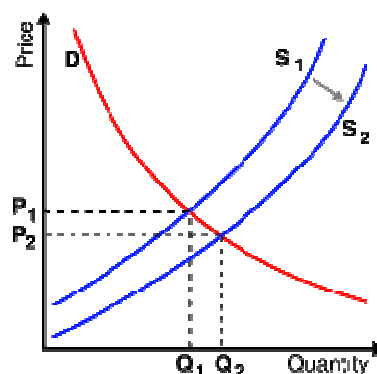


Figure 5. Supply curve shifts

Elasticity

A very important concept in understanding supply and demand theory is *elasticity*. In this context, it refers to how supply and demand respond to various factors. One way to define elasticity is the percentage change in one variable divided by the percentage change in another variable (known as arc elasticity, which calculates the elasticity over a range of values, in contrast with point elasticity, which uses differential calculus to determine the elasticity at a specific point). It is a measure of relative changes.

Often, it is useful to know how the quantity demanded or supplied will change when the price changes. This is known as the price elasticity of demand and the price elasticity of supply. If a monopolist decides to increase the price of their product,

how will this affect their sales revenue? Will the increased unit price offset the likely decrease in sales volume? If a government imposes a tax on a good, thereby increasing the effective price, how will this affect the quantity demanded?

Another distinguishing feature of elasticity is that it is more than just the slope of the function. For example, a line with a constant slope will have different elasticity at various points. Therefore, the measure of elasticity is independent of arbitrary units (such as gallons vs. quarts, say for the response of quantity demanded of milk to a change in price), whereas the measure of slope only is not.

One way of calculating elasticity is the percentage change in quantity over the associated percentage change in price. For example, if the price moves from \$1.00 to \$1.05, and the quantity supplied goes from 100 pens to 102 pens, the slope is $2/0.05$ or 40 pens per dollar. Since the elasticity depends on the percentages, the quantity of pens increased by 2%, and the price increased by 5%, so the price elasticity of supply is $2/5$ or 0.4.

Since the changes are in percentages, changing the unit of measurement or the currency will not affect the elasticity. If the quantity demanded or supplied changes a lot when the price changes a little, it is said to be *elastic*. If the quantity changes little when the price changes a lot, it is said to be *inelastic*. An example of perfectly inelastic supply, or zero elasticity, is represented as a vertical supply curve. (See that section below)

No strict rules determining price elasticity of demand exist. However, it is important to know the following considerations.

One of the most common to consider is *income*. How would the demand for a good change if income increased or decreased? This is known as the income elasticity of demand. For example, how much would the demand for a luxury car increase if average income increased by 10%? If it is positive, this increase in demand would be represented on a graph by a positive shift in the demand curve. At all price levels, more luxury cars would be demanded.

Another elasticity sometimes considered is the *cross elasticity of demand*, which measures the responsiveness of the quantity demanded of a good to a change in the price of another good. This is often considered when looking at the relative changes in demand when studying complement and substitute goods. Complement goods are goods that are typically utilized together, where if one is consumed, usually the other is also. Substitute goods are those where one can be substituted for the other, and if the price of one good rises, one may purchase less of it and instead purchase its substitute.

Cross elasticity of demand is measured as the percentage change in demand for the first good that occurs in response to a percentage change in price of the second good. For an example with a complement good, if, in response to a 10% increase in the price of fuel, the quantity of new cars demanded decreased by 20%, the cross elasticity of demand would be -2.0.

Supply and demand: criticism of the model

Criticisms of this model are not about the fact that there are too many

simplifications. What is criticized is that these simplifications are irrelevant and inappropriate to describe the kind of society, market, etc. the people using it are trying to describe (which are characterized by the decentralization of the decisions regarding the prices, by uncertainty). As these critics are often regarded as of too much consequences regarding the choice of most of the contemporary economists to be possibly without any valid answer those people also often like to notice that, quite ironically, the perfect competition model was actually the main base of the planification theory developed by socialist economists like Oscar Lange during the cold war [7]. It is actually the reason why this model is not only criticized by leftist economists like Marxists, Post-Keynesians, Feminists, Galbraithists, etc. but also "on its right" by libertarian economists like Ludwig Von Mises and Friedrich Hayek [8].

Session Five. Macroeconomics and Its Key Indicators

Macroeconomics is a branch of economics that deals with the performance, structure, and behaviour of a national or regional economy as a whole [9]. Along with microeconomics, macroeconomics is one of the two most general fields in economics. Macroeconomists study aggregated indicators such as GDP, unemployment rates, and price indices to understand how the whole economy functions. Macroeconomists develop models that explain the relationship between such factors as national income, output, consumption, unemployment, inflation, savings, investment, international trade and international finance.

While macroeconomics is a broad field of study, there are two areas of research that are emblematic of the discipline:

- The attempt to understand the causes and consequences of short-run fluctuations in national income (the business cycle).
- The attempt to understand the determinants of long-run economic growth (increases in national income).

Macroeconomic models and their forecasts are used by both governments and large corporations to assist in the development and evaluation of economic policy and business strategy

GDP

The *Gross Domestic Product*, or GDP, of a country is one of the ways of measuring the size of its economy. GDP is defined as the total market value of all final goods and services produced within a given country in a given period of time. It is also considered the sum of value added at every stage of production (the intermediate stages) of all final goods and services produced within a country in a given period of time, and it is given a money value.

The most common approach to measuring and understanding GDP is the expenditure method:

GDP = consumption + gross investment + government spending + (exports – imports)

Private consumption is a central concern of welfare economics. The private investment and trade portions of the economy are ultimately directed (in mainstream economic models) to increases in long-term private consumption.

If separated from endogenous private consumption, government consumption can be treated as exogenous, so that different government spending levels can be considered within a meaningful macroeconomic framework

Facts and Figures:

List of countries of the world sorted by their GDP (see Annex 1)

Unemployment

Unemployment is the state in which a person is without work, available to work, and is currently seeking work. Though many people care about the number of unemployed, economists typically focus on the unemployment rate. This corrects for the normal increase in the number of people employed due to increases in population and increases in the labour force relative to the population. The unemployment rate is expressed as a percent, and calculated as follows:

$$\text{Unemployment Rate} = \frac{\text{Unemployed Workers}}{\text{Total Labor Force}} * 100\%$$

International Labour Organization (ILO): "unemployed workers" are those who are currently not working but are willing and able to work for pay, currently available to work, and have actively searched for work [10].

The ILO describes 4 different methods to calculate the unemployment rate:

- Labour Force Sample Surveys are the most preferred method of unemployment rate calculation since they give the most comprehensive results and enables calculation of unemployment by different group categories such as race and gender. This method is the most internationally comparable.
- Official Estimates are determined by a combination of information from one or more of the other three methods. The use of this method has been declining in favour of Labour Surveys.
- Social Insurance Statistics such as unemployment benefits are computed base on the number of persons insured representing the total labour force and the number of persons who are insured that are collecting benefits. This method has been heavily criticized due to the expiration of benefits before the person finds work.
- Employment Office Statistics are the least effective being that they only include a monthly tally of unemployed persons who enter employment offices. This method also includes unemployed who are not unemployed per the ILO definition.

Eurostat, the statistical office of the European Union, defines unemployed as those persons age 15 to 74 who are not working, have looked for work in the last four weeks, and ready to start work within two weeks, which conform to ILO standards [11].

Facts and Figures:

CIA figures for world unemployment rates, 2006 (see Annex 2).

Unemployment: debate on causes

There is considerable debate among economists as to the causes of unemployment. Keynesian economics emphasises unemployment resulting from insufficient effective demand for goods and service in the economy (cyclical unemployment). Others point to structural problems, inefficiencies, inherent in labour markets (structural unemployment). Classical or neoclassical economics tends to reject these explanations, and focuses more on rigidities imposed on the labour market from the outside, such as minimum wage laws, taxes, and other regulations that may discourage the hiring of workers (classical unemployment). Yet others see unemployment as largely due to voluntary choices by the unemployed (frictional unemployment). On the other extreme, Marxists see unemployment as a structural fact helping to preserve business profitability and capitalism.

Some argue one of the main causes of unemployment in a free market economy is that the law of supply and demand is not really applied to the price to be paid for employing people. In situations of falling demand for products and services the wages of all employees, from president to errand boy, are not automatically reduced by the required percentage to make the business viable. Others say that it is the market that determines the wages based on the desirability of the job. The more people qualified and interested in the job, the lower the wages for that job become. Based on this view, the profitability of the company is not a factor in determining whether or not the work is profitable to the employee. People are laid off, because pay reductions would reduce the number of people willing to work a job. With fewer people interested in a particular job, the employees bargaining power would actually rise to stabilize the situation, but their employer would be unable to fulfil their wage expectations. In the classical framework, such unemployment is due to the existing legal framework, along with interferences with the market by non-market institutions such as labour unions and government. Others say many of the problems with market adjustment arise from the market itself (Keynes), or from the nature of capitalism (Marx).

Price index

A *price index* is a numerical measure designed to help to compare how the prices of some class of goods and/or services, taken as a whole, differ between time periods or geographical locations. Comparing price indices across time makes it possible to calculate the inflation rate. Comparing price indices across geographical regions makes it possible to calculate purchasing power parity measures.

Price index - potential uses:

- Measure the economy's price level and the extent to which there is inflation
- This information is useful to central banks as they plan out monetary policy
- Estimate changes in the cost of living
- Help to measure other economic statistics such as Gross Domestic Product
- Estimate changes in the cost of living
- Help to measure other economic statistics such as Gross Domestic Product
- More narrow price indices can help producers with business plans and pricing

Session Six. Introduction to Sociology

What is Sociology?

The social world is changing. The important point to grasp is: society does not remain unchanged over time. As will be discussed in more detail below, sociology has its roots in significant societal changes (e.g., the industrial revolution, the creation of empires, and the age of enlightenment of scientific reasoning). Early practitioners developed the discipline as an attempt to understand societal changes.

Some early sociological theorists (e.g., Marx, Weber, and Durkheim) were disturbed by the social processes they believed to be driving the change, such as the quest for solidarity, the attainment of social goals, and the rise and fall of classes, to name a few examples. While details of the theories that these individuals developed are discussed later, it is important to note at this point that the founders of sociology were some of the earliest individuals to employ so called sociological imagination: the ability to situate personal troubles within an informed framework of social issues. The sociological imagination goes beyond common sense. Most people believe they understand the world and the events taking place within it. Humans like to attribute causes to events and attempt to understand what is taking place around them. This is why individuals have been using religious ceremonies for centuries to invoke the will of the gods - because they believed the gods controlled certain elements of the natural world (e.g., the weather). It would be dishonest to say sociologists never sit around trying to figure out how the world works. But in order to test their theories, sociologists get up and enter the social world. They gather data and evaluate their theories in light of the data they collect. Sociologists do not just propose theories about how the social world works. Sociologists test their theories about how the world works using the scientific method.

Sociology, then, is an attempt to understand the social world by situating social events in their corresponding environment (i.e., social structure, culture, history) and trying to understand social phenomena by collecting and analyzing empirical data. Sociology is a branch of the social sciences. It is an effort to use systematic methods of empirical investigation and critical analysis to develop a body of knowledge about human social activity [12]. Its subject matter ranges from the micro level of face-to-face interaction to the macro level of whole political bodies, economic regimes, or

even world systems. Historically, sociology has paid special emphasis to modern, industrialized societies.

A *society* is a grouping of individuals which is characterized by common interests and may have distinctive culture and institutions. Members of a society may be from different ethnic groups. A society may be a particular people, such as the Saxons, a nation state, such as Bhutan, or a broader cultural group, such as a Western society.

The word 'society' may also refer to an organised voluntary association of people for religious, benevolent, cultural, scientific, political, patriotic, or other purpose.

Historical background

Sociology is a relatively new academic discipline. It emerged in the early 19th century in response to the challenges of modernity. Increasing mobility and technological advances resulted in the increasing exposure of people to cultures and societies different from their own. The impact of this exposure was varied, but for some people included the breakdown of traditional norms and customs and warranted a revised understanding of how the world works. Sociologists responded to these changes by trying to understand what holds social groups together and also explore possible solutions to the breakdown of social solidarity.

Historical background

The term sociology was coined by *Auguste Comte* (1798-1857) in 1838 from the Latin term *socius* (companion, associate) and the Greek term *logia* (study of, speech). Comte hoped to unify all the sciences under sociology; he believed sociology held the potential to improve society and direct human activity, including the other sciences.

While it is no longer a theory employed in sociology, Comte argued for an understanding of society he labelled '*The Law of Three Stages*'. Comte, not unlike other enlightenment thinkers, believed society developed in stages.

1st Stage: the theological stage where people took a religious view of society.

2nd Stage: metaphysical stage where people understood society as natural

3rd Stage: the scientific or positivist stage, which he believed to be the pinnacle of social development. In the scientific stage, society would be governed by reliable knowledge and would be understood in light of the knowledge produced by science, primarily sociology

"Classical" theorists of sociology from the late 19th and early 20th centuries include Vilfredo Pareto, Karl Marx, Ludwig Gumplowicz, Ferdinand Tönnies, Émile Durkheim, Herbert Spencer, Georg Simmel, Max Weber, and George Herbert Mead. Like Comte, these figures did not consider themselves only "sociologists". Their works addressed religion, education, economics, law, psychology, ethics, philosophy and theology. Their theories have been applied in a variety of academic disciplines

and beyond. Each key figure is typically associated with a particular theoretical perspective and orientation used to interpret and understand human behaviour.

Sociology: Development of the Discipline

- The first book with the term sociology in its title was written in the mid-19th century by the English philosopher Herbert Spencer [13].
- In the United States, the first Sociology course was taught at the University of Kansas, Lawrence in 1890 under the title Elements of Sociology.
- The first full fledged university department of sociology in the United States was established in 1892 at the University of Chicago by Albion W Small, who in 1895 founded the American Journal of Sociology.
- The first European department of sociology was founded in 1895 at the University of Bordeaux by Emile Durkheim (1896).
- In 1919 a sociology department was established in Germany at the Ludwig Maximilians University of Munich by Max Weber.

Sociological research methods

Methods of sociological inquiry vary. The type of methodology used researching sociology is predicated upon the theoretical orientation of the researcher(s). The basic goal of sociological research is *to understand the social world* in its many forms. Quantitative methods and qualitative methods are two main types of sociological research. Sociologists often use the *quantitative methods*, such as social statistics or network analysis to investigate the structure of a social process or describe patterns in social relationships. Sociologists also often use the *qualitative methods* such as focused interviews, group discussions and ethnographic methods to investigate social processes. Sociologists also use applied research methods such as evaluation research and assessment.

The following list of research methods is neither exclusive nor exhaustive. Researchers may adopt one or more than one type of research methodology for a research project. Types of research methods include the following:

- *Archival research*: sometimes referred to as "Historical Method". This research uses information from a variety of historical records such as biographies, memoirs and news releases.
- *Content analysis*: The contents of interviews and questionnaires are analyzed using systematic approaches. An example of this type of research methodology is known as "grounded theory." Books and mass media are also analyzed to study how people communicate and the messages people talk or write about.
- *Experimental research*: The researcher isolates a single social process or social phenomena and uses the data to either confirm or construct social theory. Participants (also referred to as "subjects") are randomly assigned to various conditions or "treatments", and then analyses are made between groups. Randomization allows the researcher to be sure that the treatment is having the effect on group differences and not any extraneous factors.

- *Survey research*: The researcher obtains data from interviews, questionnaires, or similar feedback from a set of people chosen (including random selection) to represent a particular population of interest. Survey items from an interview or questionnaire may be open-ended or closed-ended.
- *Life history*: This is the study of the personal life trajectories. Through a series of interviews, the researcher can probe into the decisive moments or various influences in their life.
- *Longitudinal study*: This is an extensive examination of a specific person or group over a long period of time.
- *Observation*: Using data from the senses one records information about social phenomenon or behaviour. Observation techniques can be either participant observation or non-participant observation. In participant observation, the researcher goes into the field (such as a community or a place of work), and participates in the activities of the field for a prolonged period of time in order to acquire a deep understanding of it. Data acquired through these techniques may be analyzed either quantitatively or qualitatively.

The choice of a method in part often depends on the researcher's epistemological approach to research as well as the researchers' theoretical perspective. For example, researchers who are concerned with a statistical generalization to assign to a population will most likely administer structured interviews with a survey questionnaire to a carefully selected sample population. By contrast, sociologists, especially ethnographers, who are more interested in having a full contextual understanding of group members' lives, will choose participant observation, observation, and open-ended interviews. Many studies combine several of these methodologies. Adopting three methodologies is referred to as "triangulation".

As is the case in most disciplines, sociologists are often divided into distinctive camps of support for particular research methodologies. This is based upon the researcher's theoretical orientation. In practice, some sociologists *combine* different research methods and approaches, since different methods produce different types of findings that correspond to different aspects of societies. For example, quantitative methods may help describe social patterns, while qualitative approaches could help to understand how individuals understand those patterns. This, however, does not mean that a qualitative approach cannot identify or define patterns of behaviour. Nonetheless, the method of analysis of the data obtained from a research methodology may be qualitative, quantitative or both.

Quantitative vs. Qualitative Sociology

Often a false dichotomy of Quantitative vs. Qualitative Sociology is offered, perhaps as a heuristic tool, but, too often, the false dichotomy is used to separate colleagues into schools based on the research methods used instead of the theoretical approach to both identifying and explaining social phenomena.

As in all sciences, the first step in the scientific method is *observation*. That is, one takes note that there is something "interesting;" be it by direct observation,

expressions by individuals, in professional journals, applied work, newspaper reports, or any other means of perceiving. That is, we note that, perhaps, a phenomenon or something happens systematically or needs explaining.

For the sociologically curious mind, these initial observations lead to a study of what is going on, why and when do individuals or groups behave as they do. Implied in "study" is a systematic collection of information which can include data gathered by others, histories or chronologies, newspaper clippings, etc. Although the "quantitative" types may immediately try to locate data in the form of as many measures or variables about as large a collection of "cases" as possible, more often than not both the quantitative and the qualitative type will review the literature, discuss the observations with colleges and generally explore the ideas before converting a "hunch" into a hypothesis for "testing."

Session Seven. The Multiplicity of Sociological Theories

Sociologists develop theories *to explain social phenomena*. A theory is a proposed relationship between two or more concepts. Sociological theory is developed at multiple levels, ranging from grand theory to highly contextualised and specific micro-rank theories. There are literally thousands of middle-rank and micro-rank theories in sociology. Because such theories are dependent on context and specific to certain situations, it is beyond the scope of the course to explore each of those theories. The students are to get acquainted with some of the more well-known and most commonly used grand and middle-rank theories in sociology.

As the dominant theories in sociology are discussed below, the student might be inclined to ask, "Which of these theories is the best?" Rather than think of one theory being better than another, it is more useful and informative to view these theories as *complementary*. One theory may explain one element of a phenomenon (e.g., the role of religion in society - structural-functionalism) while another might offer a different insight on the same phenomenon (e.g., the decline of religion in society - conflict theory).

It may be difficult, initially at least, to take this perspective on sociological theory, but each of these theories is particularly useful at explaining some phenomena yet less useful in explaining other phenomena. If the theories are approached *objectively* from the beginning, then it may be seen that there really are many ways to understand social phenomena.

Structural functionalism

Structural functionalism is a sociological theory that originally attempted to explain social institutions as collective means to meet individual biological needs (originally just functionalism). Later it came to focus on the ways social institutions meet social needs (structural-functionalism).

Structural-functionalism draws its inspiration primarily from the ideas of *Emile Durkheim*. Durkheim was concerned with the question of how societies *maintain*

internal stability and *survive* over time. He sought to explain social cohesion and stability through the concept of solidarity. In more "primitive" societies it was mechanical solidarity, everyone performing similar tasks that held society together. Durkheim proposed that such societies tend to be segmental being composed of equivalent parts that are held together by shared values, common symbols, or systems of exchanges. In modern, complex societies members perform very different tasks, resulting in a strong interdependence between individuals. Based on the metaphor of an organism in which many parts function together to sustain the whole, Durkheim argued that modern complex societies are held together by organic solidarity (think interdependent organs).

The central concern of structural-functionalism is a continuation of the Durkheimian task of explaining the apparent stability and internal cohesion of societies that are necessary to ensure their continued existence over time. Many functionalists argue that social institutions are functionally integrated to form a stable system and that a change in one institution will precipitate a change in other institutions. Societies are seen as coherent, bounded and fundamentally relational constructs that function like organisms, with their various parts (social institutions) working together to maintain and reproduce them. The various parts of society are assumed to work in an unconscious, quasi-automatic fashion towards the maintenance of the overall social equilibrium. All social and cultural phenomena are therefore seen as being functional in the sense of working together to achieve this state and are effectively deemed to have a life of their own. These components are then primarily analysed in terms of the function they play. In other words, to understand a component of society, one can ask the question, "What is the function of this institution?" A function, in this sense, is the contribution made by a phenomenon to a larger system of which the phenomenon is a part.

Structural-functionalism was the dominant perspective of sociology between World War II and the Vietnam War.

Structural functionalism: limitations

Structural functionalism has been criticized for being unable to account for social change because it focuses so intently on social order and equilibrium in society. Another criticism of the structural-functionalism perspective involves the epistemological argument that functionalism attempts to describe social institutions solely through their effects and, as a result, does not explain the cause of those effects. Another philosophical problem with the structural-functional approach is the ontological argument that society does not have needs as a human being does; and even if society does have needs they need not be met.

Another criticism often levelled at structural-functionalist theory is that it supports the status quo. According to some opponents, structural-functionalism paints conflict and challenge to the status quo as harmful to society, and therefore tends to be the prominent view among conservative thinkers.

Conflict theory

Conflict theory argues that society is not about solidarity or social consensus but rather about *competition*. Society is made up of individuals competing for *limited resources* (e.g., money, leisure, sexual partners, etc.). Broader social structures and organisations (e.g., religions, government, etc.) reflect the competition for resources in their inherent inequalities; some people and organisations have more resources (i.e., power and influence) and use those resources to maintain their positions of power in society.

Conflict theory was developed in part to illustrate the limitations of structural-functionalism. The structural-functional approach argued that society tends toward equilibrium. The structural-functional approach focuses on stability at the expense of social change. This is contrasted with the conflict approach, which argues that society is constantly in conflict over resources. One of the primary contributions conflict theory presents over the structural-functional approach is that it is ideally suited for explaining social change, a significant problem in the structural-functional approach.

The following are three primary assumptions of modern conflict theory:

- Competition over scarce resources is at the heart of all social relationships.
- Competition rather than consensus is characteristic of human relationships.
- Inequalities in power and reward are built into all social structures.

Individuals and groups that benefit from any particular structure *strive to see it maintained*. Change occurs as a result of conflict between competing interests rather than through adaptation. Change is often abrupt and revolutionary rather than evolutionary.

Conflict theory: limitations

Somewhat ironically, the primary limitation of the social-conflict perspective is that it overlooks the stability of societies. While societies are in a constant state of change, much of the change is minor. Many of the broader elements of societies remain remarkably stable over time, indicating the structural-functional perspective has a great deal of merit.

As it was discussed earlier, sociological theory is often complementary. This is particularly true of structural-functionalism and social-conflict theories. Structural-functionalism focuses on equilibrium and solidarity; conflict-theory focuses on change and conflict. Keep in mind that neither is better than the other; when combined, the two approaches offer a broader and more comprehensive view of society.

Symbolic interactionism

Symbolic interactionism is a theoretical approach to understanding the relationship between humans and society. The basic notion of symbolic interactionism is that human action and interaction are understandable only through the exchange of meaningful communication or symbols. In this approach, humans are portrayed as acting as opposed to being acted upon.

The main principles of symbolic interactionism are:

1. Human beings act toward things on the basis of the *meanings* that things have for them.
2. These meanings arise out of *social interaction*.
3. Social action results from a *fitting together* of individual lines of action

According to symbolic interactionism, humans are distinct from infrahumans (lower animals) because infrahumans simply respond to their environment (i.e., a stimulus evokes a response or stimulus - > response) whereas humans have the ability to interrupt that process (i.e., stimulus - > cognition - > response). Additionally, infrahumans are unable to conceive of alternative responses to gestures. Humans, however, can. This understanding should not be taken to indicate that humans never behave in a strict stimulus - > response fashion, but rather that humans have the capability of not responding in that fashion (and do so much of the time).

This perspective is also rooted in *phenomenological thought*. According to symbolic interactionism, the objective world has no reality for humans, only subjectively-defined objects have meaning. Meanings are not entities that are bestowed on humans and learned by habituation. Instead, *meanings can be altered* through the creative capabilities of humans, and individuals may influence the many meanings that form their society. Human society, therefore, is a social product.

It should also be noted that symbolic interactionists advocate a particular methodology. Because they see meaning as the fundamental component of human/society interaction, studying human/society interaction requires getting at that meaning. Thus, symbolic interactionists tend to employ more qualitative rather than quantitative methods in their research.

Symbolic interactionism: limitations

The most significant limitation of the symbolic-interactionist perspective relates to its primary contribution: it overlooks macro social structures (e.g., norms, culture) as a result of focusing on micro- shifted interactions.

Session Eight. Society

A *society* is a population of humans characterised by patterns of relationships between individuals that share a distinctive culture and institutions. More broadly, a society is an economic, social and industrial *infrastructure*, made up of a varied multitude of people. Members of a society may be from different ethnic groups. A society may be a particular ethnic group, such as the Saxons, a nation state, such as Bhutan, or a broader cultural group, such as a Western society.

The word society may also refer to an organised voluntary association of people for religious, benevolent, cultural, scientific, political, patriotic, or other purpose.

Sociology thus is the scientific, or academic, study of society and human behaviour.

Organisation of society

Human societies are often organised according to their primary means of subsistence.

Social scientists identify hunter-gatherer societies, nomadic pastoral societies, horticulturalist or simple farming societies, and intensive agricultural societies, also called civilizations. Some consider industrial and post-industrial societies to be qualitatively different from traditional agricultural societies.

Case: *Hunter-gatherer*

- Way of life based on the exploitation of wild plants and animals.
- Hunter-gatherers are relatively mobile, and groups of hunter-gatherers have fluid boundaries and composition.
- Men hunt larger wild animals and women gather and hunt smaller animals.
- The majority of hunter-gatherer societies are nomadic.
- Tend to have very low population densities as a result of their subsistence system
- Tend to have non-hierarchical social structures.
- Do not have the possibility to store surplus food.
- No hierarchy & bureaucracy.
- Prior to twelve thousand years ago, all human beings were hunter-gatherers.
- There are still some hunter-gatherer groups in existence today.

Case: *Pastoral*

- A society in which the primary means of subsistence is domesticated livestock.
- It is often the case that, like hunter-gatherers, pastoralists are nomadic, moving seasonally in search of fresh pastures and water for their animals.
- Pastoralist subsistence system often results in greater population densities and the development of both social hierarchies and divisions in labour as it is more likely there will be a surplus of food.
- Pastoralist societies still exist (in Australia, Kenya, Northern Africa).

Case: *Horticultural*

- Societies in which the primary means of subsistence is the cultivation of crops using hand tools.
- Cultivation of crops increases population densities and, as a result of food surpluses, allows for a division of labour in society.
- Horticulture relies solely on humans for crop cultivation.

Case: *Agrarian*

- Societies in which the primary means of subsistence is the cultivation of crops using a mixture of human and non-human means (i.e., animals and/or machinery).
- Agriculture is the process of producing food, feed, fibre, and other desired products by the cultivation of plants and the raising of domesticated animals.

- Subsistence agriculture is agriculture carried out for the production of enough food to meet just the needs of the agriculturalist and his/her family.
- In developed nations a person using such simple techniques on small patches of land would generally be referred to as a gardener.
- A farmer or industrial agriculturalist is usually defined as someone with an ownership interest in crops or livestock, and who provides labour or management in their production.
- Allows for a much greater density of population.
- Allows for the accumulation of excess product to keep for winter use or to sell for profit

Case: *Industrial*

- A society in which the primary means of subsistence is industry.
- Industry is a system of production focused on mechanized manufacturing of goods.
- The division of labour in industrial societies - the most notable elements of the society and can even function to re-organise the development of relationships.
- Industrial society brings people with similar occupations together, often leading to the formation of friendships through one's work.
- Industrial Revolution: the first known industrial revolution, which took place in Europe during the 18th and 19th centuries.

Case: *Post-industrial*

- A post -industrial society is a society in which the primary means of subsistence is derived from service-oriented work, as opposed to agriculture or industry.
- Increase in the size of the service sector.
- Outsourcing of or extensive use of mechanization in manufacturing.
- Increase in the amount of information technology.
- Information, knowledge, and creativity are seen as the new raw materials of the economy.

Functions of society

One common theme for societies in general is that they serve to *aid individuals* in a time of crisis. Traditionally, when an individual requires aid, for example at birth, death, sickness, or disaster, members of that society will rally others to render aid, in some form—symbolic, linguistic, physical, mental, emotional, financial, medical, or religious. Many societies will distribute largess, at the behest of some individual or some larger group of people. This type of generosity can be seen in all known cultures; typically, prestige accrues to the generous individual or group. Conversely, members of a society may also shun or scapegoat members of the society who violate its norms. Mechanisms such as gift-giving and scapegoating, which may be seen in various types of human groupings, tend to be institutionalised within a

society. Social evolution as a phenomenon carries with itself certain elements that could be detrimental to the population it serves.

Some societies will bestow *status* on an individual or group of people, when that individual or group performs an admired or desired action. This type of recognition is bestowed by members of that society on the individual or group in the form of a name, title, manner of dress, or monetary reward. Males, in many societies, are particularly susceptible to this type of action and subsequent reward, even at the risk of their lives. The phenomena of community action, shunning, scapegoating, generosity, and shared risk and reward occur in subsistence-based societies and in more technology-based civilizations.

Societies may also be organised according to their *political structure*. In order of increasing size and complexity, there are bands, tribes, chiefdoms, and state societies. These structures may have varying degrees of political power, depending on the cultural, geographical, and historical environments that these societies must contend with. Thus, a more isolated society with the same level of technology and culture as other societies is more likely to survive than one in closer proximity to others that may encroach on their resources. A society that is unable to offer an effective response to other societies it competes with will usually be subsumed into the culture of the competing society.

Shared belief or common goal

People of many nations united by *common political and cultural traditions, beliefs, or values* are sometimes also said to be a society. When used in this context, the term is employed as a means of contrasting two or more "societies" whose members represent alternative conflicting and competing worldviews.

Some academic, learned and scholarly associations describe themselves as societies (for example, the American Mathematical Society). More commonly, professional organisations often refer to themselves as societies (e.g., the American Society of Civil Engineers, American Chemical Society). In the United Kingdom and the United States, learned societies are normally non-profit and have charitable status. In science, they range in size to include national scientific societies (i.e., the Royal Society) to regional natural history societies. Academic societies may have interest in a wide range of subjects, including the arts, humanities and science.

In some countries (for example the United States and France), the term "society" is used in commerce to denote a partnership between investors or the start of a business. In the United Kingdom, partnerships are not called societies, but cooperatives or mutuals are often known as societies (such as friendly societies and building societies). In Latin America, the term society may be used in commerce denoting a partnership between investors, or anonymous investors; for example: "Provedor Industrial Anahuac S.A." where S.A. stands for Anonymous Society (Sociedad Anónima); however in Mexico in other type of partnership it would be declared as S.A. de C.V. or S.A. de R.L., indicating the level of commitment of capital and the responsibilities from each member towards their own association and

towards the society in general and supervised by the corresponding jurisdictional civil and judicial authorities.

Session Nine. Culture

Unfortunately, there is no simple answer to the question of what is *culture*. Culture (from the Latin '*cultura*' stemming from '*colere*', meaning "to cultivate") [14] is a complicated phenomenon to understand because it is both distinct from but clearly associated with society. Also, different definitions of culture reflect different theories or understandings, making it difficult to pin down exact definitions of the concept.

In 1952, Alfred Kroeber and Clyde Kluckhohn compiled a list of 164 definitions of 'culture' in "Culture: A Critical Review of Concepts and Definitions" [15]. But most commonly culture means an *excellence* of taste in the fine arts and humanities; an *integrated pattern* of human knowledge, belief, and behaviour that depends upon the capacity for symbolic thought and social learning; or the *set* of shared attitudes, values, goals, and practices that characterizes an institution, organization or group.

Generally speaking, the following *elements of social life* are considered to be representative of human culture: stories, beliefs, media, ideas, works of art, religious practices, fashions, rituals, specialized knowledge, and common sense.

Yet, examples of culture do not, in themselves, present a clear understanding of the concept of culture; culture is more than the object or behaviour. Culture also includes norms, values, beliefs, or expressive symbols. Roughly, *norms* are the way people behave in a given society, *values* are what they hold dear, *beliefs* are how they think the universe operates, and *expressive symbols* are representations, often representations of social norms, values, and beliefs themselves. To summarise, culture encompasses *objects and symbols*, the *meaning* given to those objects and symbols, and the *norms, values, and beliefs* that pervade social life.

Culture is not necessarily monolithic in a given society. As is the case with most elements of social life, culture is relatively stable (thus it is functional in the structural-functionalist sense) but at the same time contested (in the conflict sense). Culture is *in flux*, especially in our modern world in which different cultures are in constant contact with each other.

“High” Culture

Many people today use a concept of culture that developed in Europe during the 18th and early 19th centuries. This concept of culture reflected inequalities within European societies and their colonies around the world. It identifies culture with civilization and contrasts both with nature. According to this thinking, some countries are more civilized than others, and some people are more cultured than others. Thus some cultural theorists have actually tried to eliminate popular or mass culture from the definition of culture. Theorists like *Matthew Arnold* (1822-1888) believed that

culture is simply that which is created by "the best that has been thought and said in the world" [16]. Anything that doesn't fit into this category is labelled as chaos or anarchy. On this account, culture is closely tied to cultivation, which is the progressive refinement of human behaviour.

In practice, culture referred to elite goods and activities such as haute cuisine, high fashion or haute couture, museum-calibre art and classical music, and the word *cultured* referred to people who *knew about, and took part in*, these activities [17]. For example, someone who used culture in the sense of cultivation might argue that classical music is more refined than music by working-class people, such as jazz or the indigenous music traditions of aboriginal peoples.

People who use culture in this way tend *not to use it in the plural*. They believe that there are not distinct cultures, each with their own internal logic and values, but rather only a single standard of refinement to which all groups are held accountable. Thus people who differ from those who believe themselves to be cultured in this sense are not usually understood as having a different culture; they are understood as being uncultured.

Discussion: "High" Culture

- What do you think?
- Isn't it close to saying "some nations are more civilized and cultured?"
- What could be the consequences?

The Changing Concept of Culture

Most social scientists reject the cultured vs. uncultured concept of culture and the opposition of culture to human nature. They recognize that non-elites are as cultured as elites (and that non-Westerners are just as civilized); they are just *cultured in a different way*.

During the Romantic Era, scholars in Germany, especially those concerned with nationalism, developed a more inclusive notion of culture as worldview. That is, each ethnic group is characterised by a *distinct and incommensurable world view*. Although more inclusive, this approach to culture still allowed for distinctions between civilized and primitive or tribal cultures.

By the late 19th century, anthropologists had changed the concept of culture to include a wider variety of societies, ultimately resulting in the concept of culture outlined above - objects and symbols, the meaning given to those objects and symbols, and the norms, values, and beliefs that pervade social life.

This new perspective has also removed the evaluative element of the concept of culture and instead proposes distinctions rather than rankings between different cultures. For instance, the high culture of elites is now contrasted with popular or pop culture. In this sense, high culture no longer refers to the idea of being cultured, as all people are cultured. High culture simply refers to the objects, symbols, norms, values, and beliefs of a particular group of people; popular culture does the same.

Session 10. Integrated Approach of Economic Sociology

Development of economic sociology

Economic sociology as an independent field of studies appeared in XIX century. One of the first scientists, who called in question the ambitions of economic theory to be a universal one, was a famous economist John Keynes. His main point was that the postulates of economic theory are *applicable not to general, but to a particular case*, as economic situation under consideration by this science is an extreme point among possible states of equilibrium. The classical postulates of economics are only applicable to the states of full employment of resources, and they lose their analytical value as soon as the market moves away from this state.

Indeed, the economic theory has quite a “narrow” view at human nature. The ancient Greek philosopher Aristotle called human being a “*social animal*”. *Social* and *cultural* factors of human behaviour are not less important than economical ones. A human being is acting under the effect of socio-cultural factors, thus his economical choice is significantly *predetermined* by breeding traditions and stereotypes. This point is recognised even by the most active advocates of liberal economic theory such as F. Hayek [18]. Day-to-day life often forces a man to make choices. If he or she every time weighed the pros and cons trying to find the most profitable solution, then an actions’ paralysis would happen: this person would not be able to live and to work, endlessly trying to compare possible returns of various options, trying to find the most profitable of them. That is why in reality an individual normally follows his or her breeding principles, habits, traditions and stereotypes, which make his behaviour more a product of culture, than a product of choice. To a certain extent human subjection to traditions and stereotype can also be considered as a choice action, which is maximizing the individual utility: it is easier to follow socio-cultural prescriptions, rather than to analyse every new situation in life from a blank sheet. But most probably it can be confessed that the principle of maximization is moved back by socio-cultural imperatives of human behaviour.

- Economic sociology denies the initial principles of classical economics, such as:
- Existence of an isolated independent and rational «homo economicus» with sustainable preferences, who is guided purely by the interest of utility maximisation.
 - Immanent pursuit of an economy to equilibrium.
 - Absence of “the problem of economic knowledge”, i.e. receiving and using information for rational decision-making.

Institutional concept in economic sociology

Economic sociology considers *economic action as a form of social action*. “*Economic action*” is controlling over limited resources by non-violent methods in the interest of satisfying one’s needs. “*Social action*” is a form of activity which has internal meaningful unity, and by that meaning is correspondent with the actions of other people. Social action can take place when it is internally motivated only, and its subject is expecting a certain reaction from other people.

In this context social action is a foundation and internal element of economic action.

The specificity of socio-economic approach is determined by the following three interdependent statements:

1. Economic action is a form of social action.
2. Economic action is embedded into social structures.
3. Economic institutions are the central constructions.

This means first that economic sociology is not only interested in the behaviour observed, but also in the subjective attitude of economic actor, the motivation, definition of the situation, conceptions of control, i.e. the aggregate of meanings and senses, which allow for interpreting of what is going on around a person, and which explain his or her actions. Secondly, this means that the motivation of economic actor goes beyond the borders of purely economic aims. And social norms and constraints are acting as principle sources of economic motivation along with the economic interest itself.

This actually means that economic sociology is interested in both observed behaviour, and the individual position of economic actor, i.e. his or her motivations, definitions of the situation, the conceptions of control developed, which is an aggregate of meanings and senses that allows to interpret the things happening and to explain the individual actions. Secondly, it means that the economic actor's motivation goes beyond purely economic aims. And social norms and compulsion act as motivating factors for economic actions along with purely economic factors.

To understand this means to understand the principle of *social embeddedness of economic action*. Any economic action assumes the existence of relationships, which are regularly repeated and predictable links between the economic actors. And cultural and authoritative relationships are very important here.

As shown in the fundamental works of M. Weber and E. Durkheim, sociology concentrates its attention on the task of *explaining institutions* from the very beginning of its existence as a social science. Not surprisingly economics has made a *turn towards sociology*, which was caused by the difficulties in its attempts to explain institutions and institutional changes [19].

To summarise it may be said that the economists who are interested in studying institutions have concluded that the more they are dealing with institutional factors in economic development, the clearer it becomes for them that they need to address sociology to find answers to their questions. The modern economists confess that the further study of institutions on economic motivations of people and companies requires using *sociological variables* (shared beliefs, social norms and interrelationships).

Institutions: terminology

Sociology pays an exclusive attention to studying institutions. The term "*institution*" has a variety of meanings. It arrived to European languages from Latin "*institutum*", which is a structure, or a system. The sociologists have provided this term with new contents. However there is still no unity regarding the interpreting this

capacious term. The variety of phenomena which are marked as “institution” by economists and sociologists is very broad.

Institution is a *system of interconnected formal and informal elements*, including norms, values, shared beliefs, rules, *which manages social relations*, where actors persuade the interests and determine the limits of legitimacy [20]. This means that institutions are social structures, which act as a tool for transferring the collective action, organising actors’ interests and contributing to execution of principal-agent relationships. This definition actually means that institutional changes imply not only reconstruction of formal rules, but also reconstruction of interests, norms and authoritative disposition.

Structure and characteristics of institutions

According to the famous institutional economist Douglas North, institutions are the human made constraints, which structure political, economical, and social interactions [21].

One of the key assumptions of the socio-economic approach declares existence of the *formal* and *informal* elements of institutions.

Formal components of institutions comprise of the set of political (legislative and juridical) rules, economic rules and contracts. Political rules in a broader science determine hierarchy of a state, its main systems of decision-making and control in the society. Economic rules define property rights. Contracts define conditions and rules of exchange. The function of formal rules is to make economic and political exchange structured and easy for conduction.

Informal components of institutions cannot be defined and fixed as strictly as the formal ones are. Nevertheless they provide for flexibility of institutions filling with themselves the spheres, which are not regulated by formal rules, or (which often happens in the modern Russian society) substituting ineffective or not working formal rules. The informal nature of such constraints, their embededness in socio-cultural layer of the society, make them more sustainable in time.

Informal components of institutions are harder yielded to changes rather than formal ones. They help people to conduct practical interactions without thinking over each step, and without a detailed analysis of all shades of a transaction.

Norms are among the most important elements of an institutional environment, where economic actors interact. Social norms are standards of activities and rules of behaviour, which a group member or societies at large are expected to follow, and which are supported with sanctions.

The formal rules are defined and enforced by organisations, such as a state or a company, in order to resolve the problems of *collective action* through the system of sanctions from a third party. The informal rules are growing up from the networks of social interaction and are enforced by the means of existing social relations. As members of social networks on the one hand, and leaders of states and organizations on the other hand, can have different interests and preferences, the respective stuffing of informal norms and formal organizational rules can easily reflect opposite targets and values.

Unlike formal rules, the mechanism of monitoring of informal rules is built into the system of social relations and their enforcement is done informally, and is actually a by-product of social interactions. The assumption that the individuals collectively produce and maintain informal norms to be able to use the advantages of co-operation opens a new research direction which defines the relations between informal and formal constraints [22]. This assumption is matched with the assertion that group members in a work collective produce and sustain such norms that provide a maximized aggregated utility they derive from the routine relations with each other [23]. Informal norms are formed through a trial-and-error and are accepted by group members, when they become effective. The choice of the norms to be used is stipulated by the fact whether their enforcement is advantageous for the group members or not. The key assumption is that informal norms implement interests and preferences of the group members, which can only be realized by collective action.

One of the main tasks of the modern economic sociology is to study the mechanisms determining the interrelations between formal (laws and rules set and monitored by organizations and states), and informal (norms, values, common beliefs, characteristic for certain social groups) components of institutions [24]. The representatives of modern economic sociology points at the clear boundedness of the economic theory. As Douglas North confesses, economics “significantly undervalues the role of informal constraints, which are visible in the form of agreements and norms of behaviour” [25].

When formal and informal rules correspond to the preferences and interests of actors in subgroups, than formal and informal components are mutually complementing. Such sort of “cooperation” between informal and formal rules ensures effective work of organizations, or even whole economic systems. In case when formal and informal rules are congruous, it may be difficult to demarcate the borders between formal and informal social control. Such mutual complementing helps to monitor and enforce formal rules through informal norms.

Example:

If it is socially accepted to observe the law, it is much easier for the State to enforce it, rather than people are opposing themselves to the legal system and treating law-abiding as something which deserves contempt.

When formal rules do not correspond with the interests and preferences of the groups in the organization the gap appears between informal norms and practical actions on the one hand, and formal rules on the other hand. Such a divergence between formal constraints and informal norms allows organizations to maintain standardized legal formal structures, when their actual activities are defined by the practical considerations [26].

Informal norms turn into “opposing” if formal elements of institutions and organisational sanctions prove to be weaker than the contradicting interests of the social groups. The opposing norms are pushing the individuals towards a direct opposition to the formal rules. In the socialist societies, where state-controlled

economy was perceived by the public as a contradicting to the interests of economic actors, the opposing norms appeared which were laid as a basement of informal economy. Such situation is characteristic for any system, where formal rules contradict to the interests of economic actors. Appearance of opposing norms has a very negative influence on the efficiency of any economic system. Such norms cause organizational conflicts and moral breakdown.

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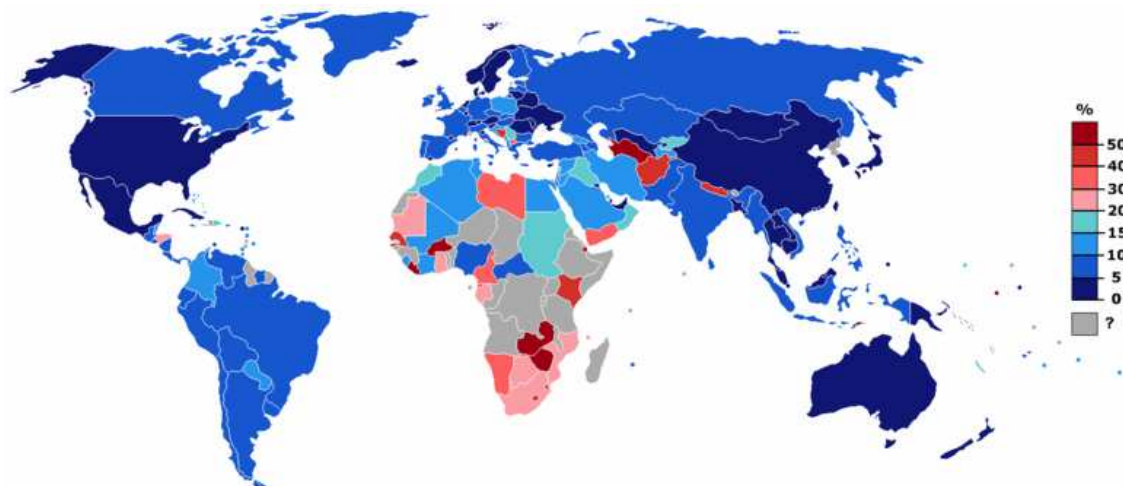
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List of countries by GDP (nominal)¹

Rank	Country	GDP (millions of USD)
—	 <i>World</i>	78,360,000
—	 <i>European Union</i>	18,930,000
1	 United States	14,330,000
2	 Japan	4,844,000
3	 China (PRC)	4,222,000
4	 Germany	3,818,000
5	 France	2,978,000
6	 United Kingdom	2,787,000
7	 Italy	2,399,000
8	 Russia	1,757,000
9	 Spain	1,683,000
10	 Brazil	1,665,000
11	 Canada	1,564,000
12	 India	1,237,000
13	 Mexico	1,143,000
14	 Australia	1,069,000
15	 South Korea	953,500
16	 Netherlands	909,500
17	 Turkey	798,900
18	 Poland	567,400
19	 Belgium	530,600
20	 Saudi Arabia	528,300
21	 Sweden	512,900
22	 Indonesia	496,800
23	 Switzerland	492,600
24	 Norway	481,100
25	 Austria	432,400

¹ Field listing - GDP (official exchange rate), CIA World Factbook

CIA figures for world unemployment rates, 2006²



² www.cia.gov