

Post Classical Political Economy*
Polity, Society and Economy in Weber, Mises and Hayek

By

Peter J. Boettke
Department of Economics
George Mason University
Fairfax, Virginia

email: pboettke@gmu.edu

&

Virgil Henry Storr
Department of Economics
George Mason University
Fairfax, Virginia

email: v@steitz.com

September 2000

* To be presented at the SCANCOR workshop on “Crossing Boundaries: Economics, Sociology and Organization Theory” at Stanford University September 30-October 1, 2000. We would like to acknowledge the insightful comments of Mie Augier on an earlier draft. In addition, we acknowledge the financial support of the J. M. Kaplan Fund and SCANCOR. The usual caveat applies.

Introduction

Increasingly, scholars are becoming dissatisfied with economic theories that fail to consider the social, political, historical and cultural context in which actors find themselves and that fail to endow individuals with customs, values and beliefs. Economic anthropologists, for instance, have been deeply critical economics' "vain search for generalizations" and have instead stressed the superiority of ethnographic over statistical data and of context-specific analysis over attempts of universal theorizing.¹ Although economic anthropologists have done a great deal of meaningful and important work,² this methodological attack, at least as it is often articulated, runs the risk of throwing the epistemological baby (the insights to be gained from economic theorizing) out with the methodological bath water (the naïve psychology of *homoeconomicus* and the fiction of a frictionless, institution-less, culture-less economic environment).³

The economic sociologists, on the other hand, have attacked economics not for its attempts at theory making (theorizing is entirely consistent with the sociological perspective) but because it ignores the social and institutional context in which all human activity (including economic activity) takes place. In so doing, they have articulated a compelling alternative to the text-book neo-classical framework. While text-book economics "assumes that actors are not connected to one another," economic sociology "assume[s] that actors are linked with and influenced by others" (Smelser and Swedberg 1994, 5).

¹ See Hill (1986), Halperin (1994) and Wilk (1996) for excellent reviews of economic anthropology's critique of economics.

² See especially Malinowski([1922] 1961), Geertz (1963), Gudemann (1986), Bird-David (1992).

³ Recent efforts in economic anthropology have shown encouraging movement away from the a priori rejection of universal theorizing.

Economic sociologists, particularly those rooted in the Weberian tradition, have also articulated a far more sophisticated form of methodological individualism than that employed by most neoclassical economists. In standard economics, methodological individualism often degenerates in an atomized conception of the individual. When utilized by economic sociologists, however, it becomes a method of infusing their analysis of the social structures that influence individual activity with ‘meaning.’ “Sociology,” Weber argued, “is a science concerning itself with the interpretive understanding of social action and thereby with a causal explanation of its course and consequences.” To Weber, concrete human action is intelligible to the sociologist because of the subjective meaning that actors themselves place on their behavior. Economic sociologists, following Weber, must understand that “Action is ‘social’ insofar as its subjective meaning takes account of the behavior of others and is thereby oriented in its course” (Weber 1922, 4). Sociological analysis strives not for prediction, but understanding, and this understanding is achieved by tracing all social phenomena back to the purposes and plans of the actors whose actions resulted in the phenomena to begin with. Weber, in fact, argued the sociological knowledge was privileged in comparison with the natural sciences, “namely the subjective understanding of the action of the component individuals” (1922, 15). We can never understand the behavior of cells, but we have access to interpretive understanding in the sciences of human action because we are what we study.

Unfortunately, standard economics techniques seem to be unable to aid us in gaining an appreciation of these subjective meaning aspects of social action. And, in spite of their compelling critique of mainstream economic thought and the clear improvements

over the rarified neoclassical mode of theorizing that they have articulated, economic sociology's effort to replace standard economics with their alternative framework remains an incomplete project. One reason is that the "new sociology of economic life" (modern economic sociology) has failed to evolve "a sophisticated sociology of money and markets" (Swedberg 1991, 270). Another is that many of the insights of Weber's cogent formulation have been lost. A third, and perhaps the most damaging, is that economic sociology has failed to find the necessary allies within the disciplinary borders of economics.

Rational choice sociology in the tradition of Gary Becker and James Coleman offers a bridge between economics and sociology, but not one that leads to a correction of either the institutional or behavioral deficiencies which economic sociologists have sought to address in their critique of standard economics. As an alternative to strict rational choice economic sociology, "New institutionalists" economists, following in the tradition of Ronald Coase, Douglass North, Herbert Simon, and O.E. Williamson, represent the most likely intellectual accomplices in a shared research program for the study of the sociology of economic life. It is our conjecture, however, that the Austrian economists (Menger, Mises, Hayek, Schutz, Lachmann, and Kirzner) are far more natural intellectual fellow-travelers along the road to constructing a sociology of economic life that is able to successfully meld the study of individuals, institutions and the interpretive meaning attributed to both (see Boettke 1998). While the Austrians construct their economics on a socially embedded foundation from which institutional questions naturally evolve, the "new institutionalists," often referred to as transaction cost economists for their stressing that institutions evolve to reduce the cost of doing business

in a world of uncertain and unknowable futures, tend to graft a theory of institutions (and institutional evolution) onto the neo-classical frame.

It is worth reviewing, at least briefly, how they pursue this hybridization.⁴ As North (1995, 17) has asserted, they accomplish it by retaining and building on “the fundamental assumption of scarcity and hence competition” while abandoning “instrumental rationality – the assumption of neo-classical economics that has made it an institution-free theory.” In a world of instrumental rationality, North (ibid.) continues, “institutions are unnecessary; ideas and ideologies don’t matter: and efficient markets – both economic and political – characterize economies.” The “new institutionalists,” however, recognize that the “information [available to actors] is incomplete and [that individuals possess a] limited mental capacity by which to process [that incomplete] information” (ibid.). “Human beings, in consequence, [must and do] impose constraints on human interaction” (ibid.). Although a considerable improvement over the frictionless and, so, institution-less world employed in economics’ text books, the “new institutionalists” still present what some have characterized as a “thin” account of how norms and values affect human (particularly economic) action and, thus, of how society and polity affect the economy.⁵

⁴ For a survey of new- and neo-institutionalist contributions see Eggertsson (1990). Eggertsson makes a distinction between new and neo-institutionalism on the basis of the behavioral foundations of the respective approaches. New institutionalism utilizes the bounded rationality approach, while neo-institutionalism employs the maximizing approach. Furubotn and Richter (1998) present a survey of the literature in which the maximizing paradigm and the *imperfect rationality* of agents are not contrasted, but instead blended together in the basic framework of institutional analysis. New institutionalism is envisioned in this presentation as a broad framework that incorporates the developments in economic thought on imperfect information, transaction costs, opportunism, property rights, moral hazard, corporate culture, contract theory, and modern political economy. Kasper and Streit (1998) provide a more textbook treatment of the New Institutionalism which attempts a hybrid of Austrian and German *Ordo-Liberalism* with recent developments in institutional analysis.

⁵ See especially Granovetter (1985, 505). Granovetter argues “the main thrust of ‘new institutional economist’ is to deflect the analysis of institutions from sociological, historical, and legal argumentation

Although the “new institutionalists” are indeed allies in the intellectual battle against the rarified economics of the text-book and the isolated, disembodied *homoeconomicus* for in work, economic sociology is not entirely compatible with the “new institutionalist” approach to sociological matters. In Williamson’s description of the research agenda of New Institutionalism, he argues that literature on social embeddedness is lacking theoretical specification and thus the identification and explication of the mechanism through which institutional change occurs at this level of analysis. Furthermore, since in the Williamson classification scheme these questions deal with institutions which change very slowly (on the order of centuries or millennia), it is valid for most social scientists to treat these institutions as part of the *given* background to the analysis (Williamson 2000, 596). But to treat as given that which must be explained in social action artificially truncates the progress that can be made.

It is our contention that in the Austrian School of Economics and with Mises and Hayek, the recognized heads of that school, in particular, economic sociologists will not only find a scholarly tradition that shares many of the same intellectual forebears but that is a more comfortable bedfellow than the New Institutional Economics.⁶ It is our further contention that the Austrians have retained much of value from Weber’s *Sozialökonomik* that modern economic sociology (“the new sociology of economic life”) has lost and that

and show instead that they arise as the efficient solution to economic problems. This mission and the pervasive functionalism it implies discourage the detailed analysis of social structure that I argue here is the key to understanding how existing institutions arrived at their present state.”

⁶ Schumpeter was trained in the Austrian tradition under Bohm-Bawerk and Wieser, but in his technical economics he pursued the “functionalist” approach as developed in the work of Walras instead of the “genetic-causal” approach first laid out by Menger. Schumpeter’s theoretical endorsement of equilibrium economics, as opposed to the process theory of the Austrians, and his methodological stance, led him (and the other Austrian economists) to distance themselves from one another. However, whenever Schumpeter stepped beyond the bounds of technical economics to the realm of social theory the imprint of his Austrian training is evident. On the differences between functionalist and genetic-causal approaches to economics see Cowan and Rizzo (1994).

forging a closer alliance, that is, encouraging a closer reading of Austrian texts by economic sociologists and *vice versa* would, therefore, be a useful effort.⁷ Particularly since the Austrians also have much of value to say about methodology, markets and money; areas where in Swedberg's (1991) opinion a "sophisticated sociology" has yet to evolve. Before defending our claims, however, it is essential that we locate (carve out a space) for the Weber-Austrian approach in the modern discourse on the intersections between economy, polity and society. We, therefore, begin with a consideration of the Granovetter's (1985) pivotal article.

The Problem of "Single" Embeddedness

Swedberg (1991, 268) has identified Mark Granovetter's "Economic Action and Social Structure: The Problem of Embeddedness" as a key article in the "new sociology of economic life." This article, according to Swedberg (*ibid.*), was a "recognized . . . trendsetter," that "contained a sophisticated and elegant argument for the use of networks in the analysis of the economy" and that "strengthened the confidence that sociologists could solve a number of problems that by tradition only economists had done work on."

By embedding the individual in a context of "ongoing social relations," Granovetter calls attention to the organizational and institutional context in which individuals act while overcoming the problems of the *under-* and *oversocialized* view of the individual that is evident in standard economics and standard sociology. As

⁷ Although this presentation will focus primarily on the benefits of reclaiming Weberian insights and of infusing economic sociology with Austrian themes, we believe that an alliance would not be one-sided but mutually beneficial. For one, Austrian economics would benefit a great deal from economic sociology's healthy attitude toward "thick" empirical work. On the potential importance of the *analytical narrative* approach for social theory see Boettke (forthcoming).

Granovetter (1985, 483) argues, the standard economics starts with an atomized individual with purely pecuniary motives and places her in a problem situation where the problems of society and polity, “of social structure and social relations,” on economic activities (that is, on production, distribution and consumption) are assumed away. More often than not, economists discuss actors as if they have no families, are citizens of no countries, are members of no communities and are believers in nothing at all except the pursuit of “hedonistic” utility. Individuals, in the hands of economists, are typically *undersocialized*, isolated creatures, unaffected by society or polity. Deviations from this position introduce problems in the analysis which often are taken as evidence of economic inefficiencies. In the presence of interdependencies, for example, voluntary choice alone cannot be trusted to produce efficient outcomes.⁸

When economists do take social influences seriously, Granovetter argues, they end up at the other extreme; with an *oversocialized* conception of individuals like many sociologists. They assume “that people follow customs, habits or norms automatically and unconditionally” (ibid.). According to Granovetter, “nearly all economists’ treatment of ‘norms’ has this flavor and [their] discussions of ‘conventions’ also run the risk of sliding into an oversocialized treatment” (ibid.).⁹ It is noteworthy that Granovetter’s criticism of both these misconceptions of human action (the *under-* and *oversocialized* views) echo sentiments found in Weber and amongst the Austrians; Granovetter,

⁸ George Stigler states the point clearly: “Economic relationships are never perfectly competitive if they involve any personal relationships between economic units” (1946, 24). “Traditional equilibrium theory,” Frank Hahn points out, “does best when the individual is of no importance – he is of measure zero. My theory does best when all the given theoretical problems arising from the individual’s mattering do not have to be taken into account” (1973, 33).

⁹ It is important to stress that since 1985 the topic of norms and conventions has become an important area of research for scholars working within a rational choice framework. This research has been aided by the use of game theory as well as the invisible hand methodology of classical political economy.

however, fails to connect his criticisms to either of these traditions.¹⁰ It is also noteworthy, that like Weber and the Austrians, Granovetter overcomes the pitfalls of positing either an *over-* or *undersocialized* view of the individual by maintaining that their behavior is *affected* by, *influenced* by, even *directed* by social structures and relations but not *determined* by them. Granovetter (ibid., 487): “Actors do not behave or decide to behave as atoms outside a social context, nor do they adhere slavishly to a script written for them by the particular intersection of social categories that they happen to occupy.”

Although Granovetter stresses that action is embedded in social relations (and, by implication, that economic activity takes place within society), he does recognize, albeit superficially, that the arrow of influence also runs in the opposite direction, that is, from the individual to the social context and from the economy to the society. “That business relations spill over into sociability and vice versa, especially among business elites,” Granovetter argues, “is one of the best-documented facts in the sociological study of business” (ibid., 495). And, in a more recent presentation of his theory of embeddedness, he states that “economic institutions do not emerge automatically in response to economic needs. Rather, they are *constructed by individuals* whose action is both

¹⁰ This is not entirely true. In a more recent statement of his embeddedness argument, Granovetter (1992, 4) recognizes, albeit briefly, that his approach and the approaches of his contemporaries is consistent with Weberian insights. “The more recent generation of economic sociologists, who constitute what I call the ‘New Economic Sociology’, have looked much more at core economic institutions, and are closer to such intellectual forebears as Emile Durkheim and Max Weber – who regarded economic action as a subordinate and special case of social action – than to the accommodationist stance of mid-century sociologists.” Still, no effort is made to crystallize those connections or to cite and expound on Weber’s contributions to our understanding of embeddedness. His exegesis of the theoretical agenda of economic sociology, however, is quite encouraging. In it, Granovetter (2001) draws substantially from the Austrian literature on entrepreneurship, particularly Kirzner and Schumpeter, and repeatedly references Weber’s contributions to our understanding of the sociology of economic life.

facilitated and constrained by the structure and resources available in social networks in which they are embedded” (Granovetter 1992, 7; *emphasis added*).

It is our contention that these statements by Granovetter do not go far enough in recognizing the multiple levels of embeddedness. Noting that “business relations spill over into sociability,” for instance, is a weak acknowledgment of that fact that some social relations are *economically conditioned*. And, although Granovetter’s work emphasizes economic institutions are “constructed by individuals,” he insists on placing that construction in an ever expanding, all encompassing, web of social networks. How these social networks come to be established and what meaning individuals attach to them are questions that are not considered. This silence results not because economic sociology is incapable of dealing with these issues but instead because the “new sociology of economic life” is inadequately rooted in Weberian traditions.¹¹

¹¹ An alternate thesis is that Granovetter fails to consider the origins of and the meanings individual attach to them because he thinks them as a necessarily subordinate step. Granovetter (1985, 506): “I should add that the level of casual analysis adopted in the embeddedness argument is a rather proximate one. I have had little to say about what broad historical or macrostructural circumstances have led systems to display the social-structural characteristics they have, so I make no claims for this analysis to answer large-scale questions about the nature of modern society or the sources of economic and political change. But the focus on proximate causes is intentional, for these broader questions cannot be satisfactorily addressed without more detailed understanding of the mechanisms by which sweeping change has its effects. My claim is that one of the most important and least analyzed of such mechanisms is the impact of such change on the social relations in which economic life is embedded. If this is so, no adequate link between macro- and micro-level theories can be established without a much fuller understanding of these relations.” But, insisting that how institutions come to be established and modified and the meaning that individuals attach to institutions can somehow be practically separated from how those institutions affect individual choice, is we believe an unconvincing argument. Even if we were to accept his arguments, however, we are still left with a vacuum to fill after proximate analyses are carried out. Rather than a corrective, Weber and the Austrians become a necessary compliment to the “new economic sociology” and their considerations remains vital.

Weber's Sozialökonomik: Toward a Richer Conception of Embeddedness

Weber has described “social economics” as the study of (a) economic phenomena, (b) economically relevant phenomena and (c) economically conditioned phenomena.¹²

“The first of these categories covers economic phenomena in a strict sense, such as economic events and economic institutions; and Weber has little to say about this category except that it includes phenomena ‘the economic aspects of which constitute their primary cultural significance for us’” (Swedberg 1999, 19). *Economically relevant phenomena* describes events and institutions that are not economic in the strict sense but which do have economic consequences. Protestantism, to the extent that it impacts the work ethic of its adherents, would be an *economically relevant phenomena* according to this schema.¹³ As would, to the extent that they shape economic motives, many of the sociological categorizations employed by the social sciences like family, community and society. Granovetter’s work on embeddedness, similarly, falls into this category of Weber’s *Sozialökonomik*.

The third of Weber’s categories, *economically conditioned phenomena*, is what distinguishes his notion of embeddedness from what we have hitherto referred to as “single embeddedness” (the conception of embeddedness articulated by Granovetter and the “new economic sociologists”). By *economically conditioned phenomena*, Weber

¹² See Weber “Objectivity.” See also Swedberg (1998, 1999).

¹³ Remember Weber’s argument in *The Protestant Ethic & The Spirit of Capitalism* ([1930], 1998). “The emphasis on the ascetic importance of a fixed calling provided an ethical justification of the modern specialized division of labour. In a similar way the providential interpretation of profit-making justified the activities of the business man. The superior indulgence of the *seigneur* and the parvenu ostentation of the *nouveau riche* are equally detestable to asceticism. But, on the other hand, it has the highest ethical appreciation of the sober, middle-class, self-made man” (ibid., 163).

means to describe, “behavior in non-‘economic’ affairs [that] is partly influenced by economic phenomena” (Weber “Objectivity” cited in Swedberg 1998, 193).¹⁴ The public choice arguments articulated by the Virginia School of Political Economy (e.g., the work of Buchanan and Tullock) would fall into this category, where politicians and public servants motivated by a desire for power and votes engage in pork-barrel spending, log-rolling and rent-seeking activities. And, although Weber would reject the tenor of Marx’s historical materialism, particularly since it leaves no room for anything but *economically conditioned phenomena*, arguments of that sort, albeit less sweeping, would also fall into Weber’s schema. Additionally, when the “new institutionalists” describe the development of institutions like property rights, contracts and contract law, and even norms and values as being a response to economic incentives, they are characterizing them as what Weber has called *economically conditioned phenomena*. Recognizing that these sorts of phenomena exists, along side the *economically relevant phenomena* considered in the embeddedness arguments, is merely a first step, however, in moving us beyond the concept of “single embeddedness” that we have criticized above.

Imagine three of circles of potentially different sizes representing the society, the polity, and the economy respectively. If we were to arrange these circles in a configuration that would reflect Granovetter’s embeddedness argument, for instance, we would have to conceive of the circle representing the society as the largest, the polity as the second largest and the economy as the smallest, located within the larger two (see **Figure 1**). Economic life, in this configuration, is always located within “concrete

¹⁴ Note that over time Weber broadened his conception of what constituted *economically conditioned phenomena* beyond the narrow conception expressed here. Swedberg (1998, 193): “in his later work it means roughly noneconomic phenomena that are directly influenced by economic phenomena.”

ongoing social relations;” it is always society that is influencing and constraining economic behavior. Note, however, that there is nothing that is logically inconsistent with imagining an entirely opposite configuration. We could, for instance, place the society within the economy. Indeed, this is precisely the configuration that Marx, when he conceived of the base and the profound and pervasive effect it has on the superstructure (society within economy), had in mind.

To a lesser degree, this is also how the “new institutionalists” conceive of the relationship between society and economy. Economic motives are extra-social. Institutions are constructed, organizations are established and relationships are developed in an endogenous manner so that economic life can be more efficient. Society is shaped by economic considerations. Consider, for instance, how they understand the evolution of property rights. “Changes in relative prices or relative scarcities of any kind lead to the creation of property rights when it becomes worthwhile to incur the cost of devising such rights” (North 1990, 51).¹⁵

Rather than privileging one or the other of these configurations, however, Weber’s analysis suggests a third way of conceiving the relationship between the society, the economy and the polity. Whereas the embeddedness argument suggests that we place the economy within the society and Marx’s materialist arguments suggest the opposite, Weber’s insistence that we consider both *economically relevant* and *economically conditioned phenomena* suggests that we view the economy, the society and the polity as three overlapping circles (see **Figure 2**). The society, the polity and the economy are

¹⁵ Although, North has revised this formulation to include the impact that special interests have had on property rights, the view presented here still serves as the foundation of his theory of institutional evolution.

elevated, if you will, to the same level of prominence and dual, and treble notions of embeddedness are conceived of and utilized. As such, discussing the economy becomes nearly impossible without discussing social mores and political and legal institutions. Similarly, discussing the society becomes nearly impossible without discussing the economy and the polity and discussing the polity is nearly impossible without discussing the other two.¹⁶ This is nowhere more evident than when Weber discusses “the spirit of capitalism,” protestantism, bureaucratization, the legal system, “capitalism and rural society in Germany,” and the caste system in India.¹⁷ This is what we meant when we conjectured that Weber had a richer conception of embeddedness than is found in Granovetter and in the “new economic sociology.” Why is Weber able to arrive at this richer conception of embeddedness when others are not? It is our conjecture that Weber avoids articulating a “single embeddedness” argument by embracing a sophisticated form of methodological individualism.

Verstehen: The Weberian Concept of ‘Understanding’

Weber hoped to construct an interpretive sociology, that is, a sociology that was oriented toward the reality as understood by the actors that dwell within it. Weberian sociology is a sociological research program that aimed at understanding the meaning that an individual attaches to his or her actions (Käsler 1979, 176; see also Lachmann

¹⁶ We use the term “nearly” to reflect our recognition that for certain purposes one can treat the other two as part of the “given” background to the analysis of the economy, society and polity. In this sense the circles intersect rather than completely overlap.

¹⁷ To take one example, consider Weber’s explanation for “Why No Capitalism in China?” It is not the monocausal theory often characterized, but instead one which blends the social, the political/legal, and the economic. As explained in his *General Economic History*, the move from arbitrary taxation to a fixed tax system is just as vital to the explanation as the spirit of enterprise – in fact, they are interconnected. See

1971). It is important to remember, however, that “‘meaning’ is intended in Weber’s schema as a determining factor in human action. “[T]his [is] the central premise of every interpretive approach . . . the actor attaches a ‘meaning’ to his or her action and this ‘meaning’ acts at the very least as a contributory determinant to the action” (ibid.). Social phenomena, social structures, social relationships and social actions are unintelligible without considering how actors subjectively perceive them. And so our analysis must necessarily begin with the individual because it is only at the level of the individual that we can attribute meaning to purposeful action. Advocating an atomistic individualism of the sort championed by many economists would be as dissatisfying as the ‘structural-functional’ explanations offered by Durkheim and others that stand in opposition to Weber’s interpretive sociology.

Just like the embeddedness arguments, a sophisticated methodological individualism situates the actor within a *context of ongoing social meanings* (Aggasi 1960 and 1975; Boettke 1989, 1990a and 1990b; and Prychitko 1989/90). In addition to being influenced and affected by the *context of meanings* in which he is located, however, the Weberian actor is also conceived of as the producer of, the creator of, that *context*. As such, a Weberian individualism neither proceeds with disembodied actors, unaffected by the social institutions within which their actions are embedded, nor with social structures and relations dissociated from the *web of meanings* that give them life. Society, polity and economy, as such, become difficult to isolate in Weber’s analysis. That is to say, what distinguishes social from political and economic phenomena is only the meaning

Boettke “The Political Infrastructure of Economic Development” in Boettke (2001) and the references therein.

that actors attach to them, and the context within which actions are attributed this meaning.

Consider, for instance, how Weber defines *economically oriented action* and the economy. Weber (1947, 158): “Action will be said to be ‘economically oriented’ so far as, according to its subjective meaning, it is concerned with the satisfaction of a desire for ‘utilities’ (*Nutleistungen*).” And, “an ‘economy’ (*Wirtschaft*) is autocephalous economic action” (ibid.). As Weber (ibid.) continues, “the definition of economic action must be as general as possible and must bring out the fact that all ‘economic’ processes and objects are characterized as such entirely by the meaning they have for human action in such roles as ends, means, obstacles, and by-products.”

Earlier we noted that social actions are actions that take “account of the behaviour of others and is thereby oriented in its course” (ibid., 88). Weber, therefore, sees the study of institutions (social structures) as critical to understanding this orientation process. As Weberian (and Austrian) economist Ludwig Lachmann (1977, 62) describes the role that institutions play in shaping human action and in Weber’s analysis, “there . . . are certain superindividual schemes of thought, namely, *institutions*, to which the schemes of thought of the first order, the plans [that individuals make], must be oriented, and which serve therefore, to some extent, the coordination of individual plans. They constitute, we may say, “interpersonal orientation tables,” schemes of thought of the second order.” Lachmann (1971, 141): “Institutions are at the same time instruments of, *and* constraints upon, human action.” But, institutions should not only be viewed as signposts (“interpersonal orientation tables”) to be considered when attempting to understanding human behavior, that is, as merely the *context of meaning* in which the Weberian actor is

embedded. Indeed, institutions only become understandable because the Weberian actor is placed in a complex problem situation; it is as impossible in Weberian *Sozialökonomik*, because of the sophisticated method individualism he employs, as it is in the real world, to predict the behavior of others with certainty.¹⁸ It is precisely because, absent a legal framework, parties would be unable to negotiate and conclude contracts that, for example, legal rules have evolved.

As noted earlier, the *quest for meaning* was always at the forefront of Weber's analysis. The 'structural-functional' brand of social theory misses this fundamental aspect of Weber's approach and even some of Weber's strongest advocates miss the critical role that Weber's institutional individualism played in his analysis.¹⁹ Weber's methodological individualism cannot simply be regarded as the curious and, for that matter, indirect method by which Weber arrived at his social theory. Indeed, it is our contention that it precisely because Weber strictly adheres to the method of *Verstehen* rather than because it occupies some minor place in his social theory as some have suggested (see Smelser and Swedberg 1994, 5), that Weber was able to construct a social theory that could

¹⁸ The Austrians further *problematize* the context in which they embed their actor by allowing time to pass. See O'Driscoll and Rizzo (1985, xiv), *The Economics of Time and Ignorance*, for a cogent expansion of the consequences of allowing time to pass and individuals to hold imperfect information. "To say that Austrian economics is the economics of time and ignorance is to say that it is the economics of *coping* with the problems posed by real time and radical ignorance. Although individuals are not paralyzed by these problems, they do not automatically or completely overcome them. The behavior generated by this predicament in which human beings find themselves is a source of market phenomena and institutions. It is also the source of prudential limits to our institutions, both markets and governmental."

¹⁹ Lachmann (1971, 74): "Weber was concerned with the meaning the actor attributes to his action. Most social-system theories ignore this aspect of action . . . most of the theories mentioned, by contrast, aim at establishing their 'systems' in terms of recurrent patterns of action *without* reference to the meaning such action has to the individuals acting. We believe we are making legitimate usufruct of Weber's legacy. It follows that we can hardly hope to draw benefit from social-system theories of the type characterized." The contrast between a Weberian approach grounded in subjective and intersubjective meanings, and the structural-functionalist approach was nowhere as evident than in the debate over Weber's intellectual legacy in sociological analysis involving Alfred Schutz and Talcott Parsons. See Grathoff, ed. (1978) for the correspondence between Schutz and Parsons.

conceive of the meaning that individuals attach to their actions and to social phenomena while avoiding atomism and naïve holism.²⁰ Additionally, we contend, that it precisely because of his strict adherence to the method of *Verstehen* that Weber was able to develop a concept of embeddedness that is substantial richer than the “simple” conception traditionally expressed. Weber’s *Sozialökonomik* and his adherence to the method of *Verstehen* should, therefore, be seen as a corrective to many of the theoretical shortcomings of the “new sociology of economic life.”

Having provided some textual evidence in support of the first of our conjectures, that the “new economic sociology” could be enriched by a direct engagement with Weber, we are now in a position to argue for another claim we made but have not yet explored: that the Austrians, particularly Carl Menger, Ludwig von Mises and Fredrich von Hayek, are the intellectual *heir apparents* of Max Weber and thus represent economic sociology’s natural allies within the disciplinary borders of economics.²¹ Indeed, not only do the Austrians avoid many of the pitfalls of their economic brethren (atomism, determinism, ahistoricism, reductionism, etc.), like Weber, they avoid some of the problems that plague the “new economic sociology” (particularly the problem of a

²⁰ The problem with standard economics is not methodological individualism but that they only superficially embrace it. A sophisticated methodological individualism ends up with a truly radical subjectivity and extends that subjectivity to the institutional context in which individuals choose.

²¹ Alfred Schutz is a major figure in the Weber/Austrian connection. First, Schutz was a student of Mises and his first work in the methodology of the social sciences was an attempt to reconstruct Weber’s argument in a manner which defended it against the criticisms made by Mises’s of Weber’s ideal type methodology for *general economic and sociological theory*. Schutz in this and other works developed the argument for the different levels of understanding and the method of typification. One of the puzzles he saw himself as addressing was how social cooperation could emerge with anonymous types, and in addressing this issue the role of knowledge (its discovery and its use) becomes prominent. Schutz also grounded his understanding of the individual in the “life-world” – the social setting within which we are all born. Thus, while anonymous types are employed in theory construction they are not disembodied actors, but social actors. A special issue of *The Review of Austrian Economics*, which is being edited by Boettke and Koppl, will appear as Vol. 14, no. 2-3 (2001).

“single-level” versus a “multiple-levels” conception of embeddedness) while delivering a sophisticated analysis of money and markets.²²

*The Weberian Approach of Mises and Hayek*²³

Weber and the Austrians have a deep and symbiotic relationship; they share many of the same intellectual forebears and a commitment to the same methodological approach. Not surprisingly, Weber was, in fact, deeply influenced by the Austrian School of Economics. Weber had read and appreciated Carl Menger’s and Eugen Böhm-Bawerk’s contributions to economic theory and methodology. He invited both Friedrich von Wieser and Joseph Schumpeter to contribute volumes to his encyclopedic project in social theory. And, in Weber’s magnum opus, *Economy and Society*, he, at key junctures in the development of his own arguments concerning monetary calculation and economic calculation (Weber 1922, 78, 93, 107), favorably references Ludwig von Mises’ *Theory of Money and Credit* (1912) and Mises’ (1920) essay on the problem of economic calculation under socialism. Mises, in turn, devoted considerable attention to the systematic, critical study of Weber, which is reflected in his *Epistemological Problems of*

²² Recall Swedberg’s charge that the “new sociology of economic life” is hobbled by their failure to develop a sophisticated sociology of money and markets. It is in describing markets and the role money that the Austrian economists first illustrated the strength of their unique approach to studying economic and social institutions (see Menger 1883). From the Austrians we learn, for instance, that “we must look at the price system as such a mechanism for communicating information if we want to understand its real function – a function which, of course, it fulfils less perfectly as prices grow more rigid. The most significant fact about this system is the economy of knowledge with which it operates, or how little the individual participants need to know in order to be able to take the right action. In abbreviated form, by a kind of symbol, only the most essential information is passed on and passed on only to those concerned. It is more than a metaphor to describe the price system as a kind of machinery for registering change, or a system of telecommunications which enables individual producers to watch merely the movement of a few pointers, as engineer might watch the hands of a few dials, in order to adjust their activities to changes of which they may never know more than is reflected in the price mechanism” (Hayek 1948, 86).

²³ That Mises and Hayek are two sides of the same coin is a view that is sometimes controversial but it is nonetheless the view assumed here. For a defense of that view see Boettke (1990c, 1998b).

Economics (1933) and *Human Action* (1949). As Ludwig Lachmann stated in his review of Mises' *Human Action*, "In reading this book we must never forget that it is the work of Max Weber that is being carried on here" (1977, 94).

Weber's connection to the Austrians was quite close, though this is not really appreciated by traditional sociologists.²⁴ In Richard Swedberg's (1990) interviews with the leading scholars at the edge of both disciplines, Max Weber's name is referenced 34 times, but Hayek is referenced only once and Mises not at all. Schumpeter is referred to 16 times, but Menger is referred to only twice, neither reference being substantive, and Lachmann (who wrote a book on the Weberian legacy in economics) is not referenced at all. Etzioni's *The Moral Dimension* (1988) cites neither Mises nor Hayek, though Machlup is cited a few times with respect to methodological points. Hayek's *Law, Legislation and Liberty*, on the other hand, makes the bibliography and warrants a few references to the concept of spontaneous order in James Coleman's *Foundations of Social Theory* (1990). But, Hayek's work does not play a prominent role in Coleman's theory construction, nor does Coleman deal with the intellectual history issue of Weber's connection to the Austrians. In the index of *The Handbook of Economic Sociology* (Smelser and Swedberg, 1994), Hayek is referenced 6 times, and Mises 2 times, while there are 36 references to Weber and 17 to Schumpeter. Even George Stigler is referenced more often than Mises and Hayek combined, namely 11 times. The Austrian economists have failed to make an impression on scholars working in the field of economic sociology.

²⁴ Though see the discussion in Holton and Turner (1989, 30-67). And, Swedberg's (1998) summary of Weber's economic sociology.

The relationship between the Austrians and Weber, however, was a mutually beneficial one in which both learned from the other and influenced the development of their respective work. This connection is apparent when we consider how economy, society and polity enter into their respective social theories and when we review the mode of analysis they employed. As argued above, Weber's commitment to methodological individualism results in an approach to the study of social phenomena that considers the meaning that individuals attach to their activities and that evolves a "rich" conception of embeddedness. The Austrians share Weber's commitment to the method of *Verstehen* and his conceptualizations of economy, society and polity and the relationship between them.

As noted earlier, many of the criticisms leveled against standard economics by the economic sociologists simply do not apply to the Austrians. The brush with which Granovetter condemns methodological individualism as necessarily atomistic, for instance, is entirely too broad. Like Weber, Mises, because of his commitment to *Verstehen*, rather than becoming atomistic, threads a similar path between the *under* and *oversocialized* views that Granovetter attempts. Mises (1949, 46):

Inheritance and environment direct a man's actions. They suggest to him both the ends and the means. He lives not simply as man *in abstracto*; he lives as a son of his family, his people, and his age; as a citizen of his country; as a member of a definite social group; as a practitioner of a certain vocation; as a follower of definite religious, metaphysical, philosophical, and political ideas; as a partisan in many feuds and controversies. He does not himself create his ideas and standards of value; he borrows them from other people. His ideology is what his environment enjoins upon him.²⁵

²⁵ For a similar statement from Hayek see *Individualism and Economic Order* (1948). "What, then, are the essential characteristics of true individualism? The first thing that should be said is that it is primarily a *theory* of society, an attempt to understand the forces which determine the social life of man, and only in the second instance a set of political maxims derived from this view of society. This fact should by itself be sufficient to refute the silliest of the common misunderstandings: the belief that individualism postulates (or bases its arguments on the assumption of) the existence of isolated or self-contained individuals, instead of starting from men whose whole nature and character is determined by their existence in society" (ibid., 6).

Individual actions are embedded in a context of “ongoing social relations.” Atomistic individualism is vehemently rejected. Notice, however, that “inheritance and environment” directs “a man’s actions” but does not determine it; man is not *oversocialized* either. Mises (ibid.; *emphasis added*): “man does *choose*. He *chooses* to adopt traditional patterns or patterns adopted by other people because he is convinced that this procedure is best fitted to achieve his own welfare. And he is *ready to change* his ideology and consequently his mode of action whenever he becomes convinced that this would better serve his own interests.”

Mises’ individualism was able to thread a path between the *under-* and *oversocialized* conceptions of individual action similar to Weber’s because their understanding of the implications of *Verstehen* were identical.²⁶ Compare Mises expression of methodological individualism to Weber’s. Mises (1949, 42):

It is meaning which the acting individuals and all those who are touched by their action attribute to an action, that determines its character. It is the meaning that marks one action as the action of an individual and another action as the action of the state or of the municipality. The hangman, not the state, executes the criminal. It is the meaning of those concerned that discerns in the hangman’s action an action of the state.

Weber (1947, 101; *emphasis added*):

. . . for the subjective interpretation of action in sociological work . . . collectivities must be treated as *solely* the resultants and modes of organization of the particular acts of

²⁶ Sciabarra (1995) has argued that Hayek and Mises, by implication, were able to avoid articulating an atomistic individualism not because they embraced a sophisticated individualism as we have argued here but because Hayek’s social theory was *fundamentally dialectical*. Sciabarra (ibid., 17): “It is a distortion to view Hayek’s approach as *either* individualistic *or* holistic. Hayek’s method is *fundamentally dialectical*, encompassing elements of individualism *and* holism, while repudiating all forms of reductionism, atomism, ahistoricism, and strict organicity. This claim is at once disorienting and provocative. Indeed, Hayek’s disciples on the free market right and his critics on the socialist left might view the very notion of ‘Hayekian dialectics’ as an oxymoron . . . yet, a more detailed examination of Hayek’s mode of inquiry suggests that the distinguished neoliberal social philosopher was highly dialectical in many significant ways.”

individual persons, since these alone can be treated as agents in a course of *subjectively understandable action*.

The effect that this shared commitment to *Verstehen* had on the sorts of social theory they applied is profound and, thus, understanding the implications of a sophisticated methodological individualism on social theory is critical if we are to really appreciate the differences between the interpretive sociology and economics of Weber, Mises and Hayek and the structural-functional theories of the received sociology and the atomistic, deterministic theories of the received economics.

Commenting on the implications of the Weber-Austrian commitment to methodological individualism, Holton and Turner (1989, pp. 42-43) have pointed out:

Weber and the Austrian School are not obliged to deny the reality of institutions or the idea that actors may act under institutional constraints, or that this constraint may be experienced as an external compulsive force or imperative. Nor need they hold to a social contract or design theory of institutions. Only two propositions are excluded. The first is that social life can be explained without reference to the causal consequences of the meaning individuals give to their actions. The second is that institutions act as organic, causally effective entities through the structural imposition of rules or constraints on unwilling actors, and irrespective of the actions of such actors.

Individuals, in the Weber-Austrian approach, are not assumed to maximize within an institutionless vacuum, nor are they assumed to be merely puppets of structural forces beyond their control. Reasonableness substitutes for hyper-rationality, and spontaneous ordering processes substitute for equilibrium end-states.

As stated earlier, this commitment to methodological individualism, methodological subjectivism and spontaneous ordering analysis, found in the Weber-Austrian approach, also results in a richer conception of embeddedness than is commonly articulated. That is, it results in a conception of embeddedness where the economy and

the polity do not merely form concentric circles located within the society but where the relationship between economy, polity and society is constantly reconsidered and recast.²⁷

Examples of Austrian Analytical Narratives Grounded in Embeddedness

A cogent example of this approach to the social sciences, where the complex relationship between polity, society and economy is recognized and embraced and a “rich” conception of embeddedness informs the analysis, is Chamlee-Wright’s (1997, 2000a, 2000b) studies of market women in Zimbabwe and Ghana. Consider, for example, her discussion of the social, cultural, political and economic barriers female entrepreneurs must overcome in order to succeed in Harare. As she informs, in Zimbabwe amongst the Shona people she studied, it is still quite common for male suitors to offer their intended’s family a *labola*, that is, to pay a bride price. Chamlee-Wright (2000a):

. . . the prospective husband is expected to make significant sacrifices to his wife’s natal family. Traditionally, a Shona marriage is a process that takes place over a long period of time, requiring the husband to give the bride’s family small gifts, indicating his intentions, followed by several substantial payments in the form of cattle in order to gain sexual rights and eventually the rights to the bride’s labor as she moves to the husband’s home.

This social convention, common in patrilineal societies throughout sub-Saharan Africa, has evolved, as Chamlee-Wright argues, because of the economic implications of

²⁷ An Austrian analysis of commuting, for instance, would have to view it simultaneously as social, political and economic. To the extent that commuting occurs because economies of scale are to be had by locating workers in the same geographic location it is an economic phenomena. To the extent that zoning laws, for instance, have resulted in geographic configurations where businesses and homes are located in separate parts of town, commuting should at least in part be considered a politically conditioned phenomenon. An Austrian discussion of commuting would insist on referring to both the economics and politics of the phenomena. See Boettke (1993 and 2001), Chamlee-Wright (1997, 2000a, 2000b) and Storr (2000a, 2000b) for Austrian analysis that combines considerations of economic, political and social factors in an empirical examination of phenomena. Also see Boettke’s essay “Putting the Political Back into Political Economy” (Boettke 2000) and the implications of the status quo and the compensation principle for political economy once embeddedness is taken into account.

marriage for the woman's family. Unlike in matrilineal societies, where after marriage it is still quite likely that a woman will continue to make economic contributions to her natal family, amongst the Shona the bonds between the bride and her family become secondary after the wedding. The *labola* sought and paid in Shona societies can, therefore, be viewed as compensation to the woman's natal family for the material loss they suffer when she is married off.²⁸

The social and political implications of this *economically conditioned phenomena* are profound. The woman's political and economic autonomy, her capacity to respond to abuse or neglect by her husband and her control over her resources and her children all diminish once the *labola* is paid and the marriage performed. The *labola* also acts, Chamlee-Wright informs us, as an impediment to the development of a dynamic class of female entrepreneurs.

Because Chamlee-Wright has embraced a "rich" conception of embeddedness, she is able to notice and identify both *economically relevant* and *economically conditioned phenomena* in her economic analysis. That is, she is able to conceive of the economic roots of a social convention like the *labola* and of the economic consequences of a social configuration like the relationship between a woman and her natal family after marriage in a patrilineal society.

Another example of how the economy, polity and society are embedded in each other can be found in an examination of entrepreneurship and privatization in the former

²⁸ Although the *labola* does vary with the earning potential of the woman (the families of college graduates receive a higher *labola*), the tradition should not be viewed as the purchasing of a bride as it does not establish outright ownership of the woman. It has, however, been used as a justification of male control.

Soviet Union.²⁹ Market exchange and entrepreneurship existed in the general sense throughout the Soviet period, and continues to exist in the post-Soviet period. The poor economic performance of either the Soviet system or the post-Soviet transition is not due to a lack of entrepreneurial spirit. Instead, we must recognize that the form that entrepreneurial activity takes depends on the social-cultural and political-legal nexus, as well as the array of economic opportunities, within which it takes place. To use a blunt example, both the market for milk and the market for cocaine are driven by an entrepreneurial spirit, but the manner in which individuals act entrepreneurially changes drastically depending on the context of their choice. The drug dealer and the milkman exercise their entrepreneurial skill to buy low and sell high. The point to stress is that the diverse character of these two markets is not a function of the particular commodity being traded, but the social (informal) and legal (formal) context within which that commodity is traded – change the context, change the nature of the behavior of the actors within that market. Behavior in turn, feeds back to shape the polity and society; which governs in an explicit and implicit manner the actions of individuals. We speak nervously of the drug culture in our inner-cities today, and yearn for a yesteryear when milk was delivered at our backdoor fresh every other day. What meaning are we to attribute to these

²⁹ Entrepreneurship can be understood at a theoretical level as an aspect of all human action. In this limited sense, entrepreneurship is simply the act of being alert to opportunities to better one's situation. Treating entrepreneurial action in this manner serves an important theoretical purpose in providing a theory of the path toward equilibrium in a hypothetical market economy (see Kirzner 1973). But this conceptualization of the entrepreneurial act is predicated by the text-book model of the economic system which it is trying to improve upon. Entrepreneurship is arbitrage and within the model is able to fill in a theoretical lucena that the model of perfect competition possesses – namely, how in a world of price takers do prices ever change to clear the market? Beyond that purpose, and this version of entrepreneurship must be viewed as “empty”. If entrepreneurship is a universal aspect of all of human action, then how can it aid us in forming an explanation of the extent and form that entrepreneurship takes in the real-world? It cannot, as Lavoie (1992) has argued, unless complemented by a theory of cultural influence. A rich understanding of entrepreneurship must recognize the cultural context which shapes the individual's perceptions of what opportunities for betterment exist. Culture, in other words, influences the “window” through which actors see the world and their place within it.

impressions? During the prohibition in the US, the speakeasy and gangs who trafficked in alcohol produced the same unease as our contemporary drug culture – we don't experience that unease in our local *Giant* food store today when we shop for beer or wine. Same commodity, different cultural context, and the social ties and networks, as well as the sort of entrepreneurial activities that dominate are transformed.

A helpful metaphor in the context of Russia is a three-legged bar stool – with each leg representing the society, the polity and the economy (see Boettke 2001). Unless all three legs are strong and reinforce one another, the bar stool will be weak and teeter when any weight is applied. Russia's problems in the post-Soviet period, have little to do with a lack of entrepreneurial spirit or the absence of the economic institutions of advanced capitalism. Russia's problems are instead, a consequence of social/cultural and political/legal contexts which directs economic activity away from realizing opportunities for mutual advantage and toward zero-sum transactions.³⁰ This is a legacy of the Soviet period, where the sociology of economic life was one of a shortage economy where there was little to no alternative supply network. In such an environment, the everyday experience with markets would be an unpleasant one – one which enabled one to obtain the goods desired, but at terms dictated almost exclusively by the seller. It is this experience which helped form the “tacit presuppositions” of everyman within the political economy of the Soviet-type system (see Buchanan 1997, 93-107). The implications of this argument, is that absent a certain specified institutional setting (both formal rules and informal norms) and the transactions that transpire (while being

³⁰ On the general theme of how human progress follows from transitioning from zero-sum to positive-sum games of life see Robert Wright (2000).

mutually beneficial to the parties involved) may generate destructive consequences for social cooperation for the broader community. Transitional political economy cannot be content with policies designed at getting the prices right, nor with wise council about getting the institutions right, but must somehow tap into and shift the culture of everyday life in a way which reinforces the institutional changes required for a market economy to operate effectively to guide resource use and spur the discovery of new and better ways to utilize resources to satisfy the demands of others within the economy.

Finally, the point about the cultural shaping of entrepreneurship can be found in Storr's (2000a) discussion of lingering effect of Bahamian "pirate" culture and the potential impediment that represents to generalized economic development.

Development is largely a consequence of adopting institutions of governance which ward off both private and public predation, increasing the level of trust found in a community and giving entrepreneurs an incentive to engage in long term projects. In the Bahamas, however, there exists an institutional/cultural matrix that rewards and encourages piracy rather than more productive practices. As Storr (ibid.) argues, many of the stories Bahamians tell, histories Bahamians study, museums Bahamians visit and rituals Bahamians practice glorify and celebrate the Bahamas' "pirate" past. Buccaneers like Blackbeard and Ann Bonney loom large in Bahamian folklore and industries like gun-smuggling and rum-running are held up as sources of tremendous wealth and are touted as the reason why the Bahamas has enjoyed what little prosperity it has. Indeed, virtually all of the models of success to be found in the Bahamas' economic past have to be characterized as *piratical* in nature: piracy and privateering in the early 1700's, *shipwrecking* in the 18th and 19th centuries, blockade running (gun-smuggling) during the

American Civil War, rum smuggling during Prohibition, drug smuggling in the 1980's and off-shore banking (and the attending money laundering) in the 1990's.

As Storr (ibid.) has argued, the success of these “pirate” industries and the celebration of the Bahamas’ “pirate” past in ritual and folklore has profoundly affected the kinds of enterprises Bahamians pursue and has “created” an entrepreneur who is acutely “alert” to opportunities to profiteer. Rather than investing in goodwill, promoting customer service, attempting to innovate and compete or growing their enterprises, for instance, Bahamian businessmen tend to offer poor service, to *price gouge*, and to pursue “rents” rather than profits. As Storr’s (ibid.) effort demonstrates, development economics can not be satisfied with approaches that refuse to locate the entrepreneur at the heart of the development process and that fail to consider how actors are affected by and affect their cultural, historical and social contexts.

Conclusion

The cross-fertilization of Weberian sociology and Austrian economics promises a way back from scientific models of irrelevance in the social sciences, and a return to the “life-world” of human existence. Similarly, reexamining the way that the society, the economy and the polity enter into their analysis not only moves us beyond the conceptions of embeddedness found in economic sociology but puts an emphasis on the “meaning” that actors attach to their actions and to social phenomena. Individuals are neither disembodied from the institutions that shape and influence individual choice nor are institutions dissociated from the *web of meanings* that give them life. The excesses

of both economism and historicism can be avoided, while the benefits of analytical structure and narrative detail can be exploited to render social phenomena intelligible.

Embracing the form of methodological individualism advocated here reveals the theoretical shortcomings of both standard economics and sociology. While sociology asks the interesting questions, it remains hobbled by a lack of analytical structure. And, while economics possesses an analytical structure, it remains hobbled by an undue restriction of the questions that it can ask. Both Weberian sociology and Austrian economics, however, overcome these deficiencies. Using criticisms of neoclassical conceptions of man, for instance, to dismiss Mises and Hayek's understanding of the progressive influence of markets in social development simply does not engage the issue. Nor, do critiques of naïve holism "stick" to Weber's sociological conceptions.

The obstacles that prevent engaging the issues in the current dialogue over the economics and the sociology of the Weber-Austrian approach must simply be overcome. So too, the obstacles that hinder the (re)infusing of Weberian and Austrian themes into the "new economic sociology." Indeed, the Weber-Austrian connection promises to avoid many of the pitfalls that plague their economic brethren and the "new sociology of economic life" and may represent what has appeared so elusive in the 20th century: a social theory which is at the same time logically coherent, empirically useful, humanistic in its method, and humanitarian in its concerns.

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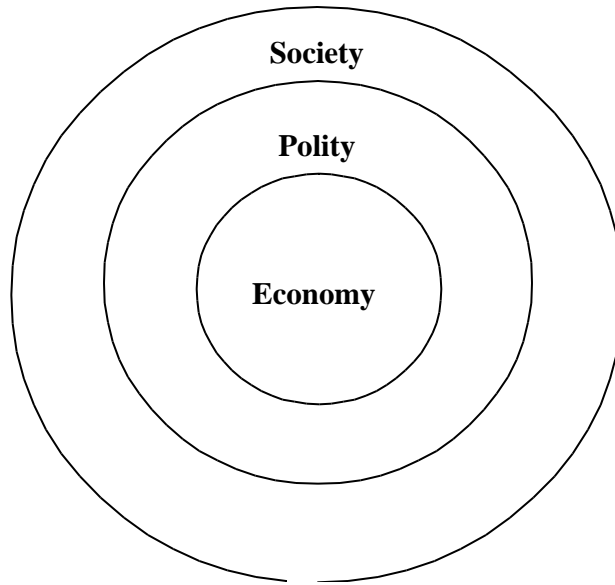


Figure 1: Single Embeddedness. The configuration envisioned by Granovetter and others where economic life is always located within “concrete ongoing social relations;” it is always society that is influencing and constraining economic behavior.

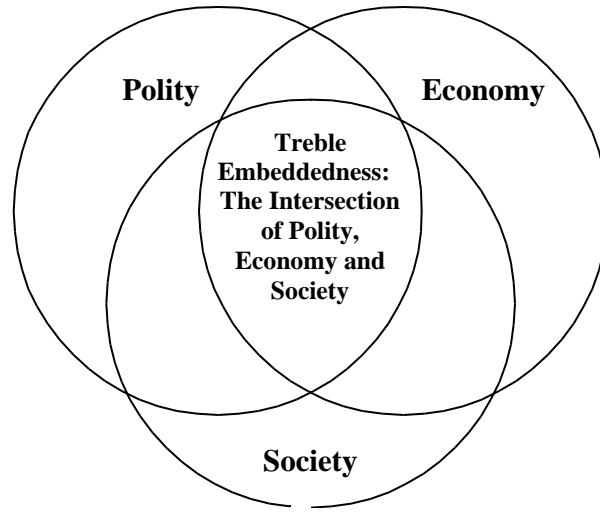


Figure 2: The Weberian Conception of Embeddedness. The society, the polity and the economy are elevated, if you will, to the same level of prominence and dual, and treble notions of embeddedness are conceived of and utilized.
