

Beckert, Jens

**Article**

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# Economic Sociology in Germany

by

Jens Beckert  
Free University of Berlin  
beckert@zedat.fu-berlin.de

Economic sociology has some of its most prominent roots in Germany. Karl Marx and sociologists Max Weber and Georg Simmel undoubtedly belong to the internationally recognized canon in economic sociology. Moreover, at the time of Weber and Simmel economics in Germany was still deeply interested in sociological issues. It was only in the 1930s that the significance of the German historical school receded. Reminiscences to the mutual interest of sociologists and economists in each others domain can be seen up until the mid 1930s for instance in Apolph Lowe's Economics and Sociology - A Plea for Co-operation in the Social Sciences and in Karl Mannheim's Man and Society in the Age of Reconstruction. Both books were published in 1935 when the authors were already living in exile.

This strong tradition in economic sociology was not continued in German post-worldwar sociology. Although some work was done under the explicit labeling of economic sociology during the 1970s and 80s (Hans Albert and Klaus Heinemann for example) the field played only a marginal role in German sociology. This does not mean that economic issues were of no importance. Since the 1950s, however, the continuation especially of Weberian economic sociology took place under the heading of industrial sociology which touched also on neighboring fields like labor market sociology and sociology of education. Studies by Horst Kern and Michael Schumann, Werner Sengenberger, Walter Müller-Jentsch, and Arndt Sorge, among others, found national and international recognition. In the 1970s the agenda of industrial sociology followed increasingly the normative goal of improving workers' situations in industrial relations. Also in the 1970s interest grew, as elsewhere, in the field of Marxist political economy. Meanwhile, industrial sociology and political economy have lost most of their influence. This has left a void which could be filled increasingly by economic sociology.

Today, the field of economic sociology in Germany presents itself as very heterogeneous and so far little organized. Although there exists an economic sociology section as part of the German Sociological Association only few of the leading German economic sociologists are organized in it. The reason for this is, at least in part, that most economic sociologists come from the background of general sociological theory or industrial sociology and did not yet seek to organize with an identity as economic sociologists. Despite the heterogeneity of economic sociology four areas of scholarly interest can be identified. Each of them I will briefly discuss. I will concentrate on very recent publications and it should be reminded that the list of mentioned books and articles does not intend to be complete.

## 1. Sociology of Money

One of the main interests of German economic sociologists lies in the investigation of money. Background to this attention is the work of Weber and Simmel in the field but also Parsons' conceptualization of money as a generalized media of communication. The latter has become influential in German economic sociology mainly through the work of the late Niklas Luhmann (1988) and through Jürgen Habermas' (1981) distinction between system and

lifeworld. For Luhmann the media of money is a crucial social device which facilitates social coordination by helping to overcome the problem of double contingency. This is achieved by reducing relevant communication in economic exchange to the question whether the exchange partner is willing to pay a certain amount of money for a good or not. All other considerations become irrelevant. Money helps to dissociate economic exchange from personal attributes of the exchange partner, and from moral considerations. Hence money is the central device for the differentiation of modern economies, a point which had already been emphasized by Weber.

Luhmann's economic sociology has found quite some resonance in Germany - affirmative and critical. Among the most creative supporters of a systems-theoretic perspective in economic sociology is Dirk Baecker, a former student of Luhmann. His research focused, among other topics, on the operation of markets (1988) and on banks (1991). But Luhmann has provoked also critical responses. One example for a book in economic sociology which takes a critical stance against Luhmann's conceptualization of money is Heiner Ganßmann's (Free University of Berlin) Geld und Arbeit (1996) which analyzes the connection between money and labor in capitalist economies. Ganßmann proceeds from the central role of money for the organization and functioning of modern economies but argues against conceptualizations which abstract from the historical rooting of money in the "real economy." An early version of parts of his argument have been published in English in an article in Economy and Society (1986).

Another highly original book on the sociology of money has been recently written by Christoph Deutschmann (University of Tübingen). Deutschmann (1999) suggests to base the understanding of capitalist dynamics on the operating principles of money. Money is not just "useful" for the purchasing of objects but the possession of money is the anchor for individual freedom. Based on Simmel's notion of money as an "absolute means" Deutschmann draws an analogy between money and God stating that both can only strive for themselves as ultimate ends. Money is an end in itself. The purpose of money can only be to be increased which necessitates its recursive investment. Two consequences follow from this. One is that religion is not just seen, as in Weber, as being instrumental for the development of capitalism. Instead, capitalism itself is seen as an essentially religious experience. The second consequence is to view money as the crucial device for the explanation of capitalist dynamics. The necessity for profitable investment of money demands a continuous process of product innovation. The economy switches between situations of great uncertainty combined with chances for high profits and relatively calculable situations with low profits. This movement finds its explanation in the cycle of "creative destruction" which creates uncertainty. The uncertainty actors face can be temporarily reduced in the process of social interaction through the emergence of mediating social structures. In discussing processes of institutionalization Deutschmann's approach takes up findings of institutional organization theory. Deutschmann systematically connects the discussion of money with the concept of uncertainty as a constitutive problem for economic sociology.

## **2. Politics, institutions, and the economy**

A second focus of German economic sociology is located at the interface between economy and politics. Work done at the Max-Planck-Institute in Cologne (Wolfgang Streeck, Fritz Scharpf) but also much of the work by Claus Offe (Humboldt University Berlin) can be summarized under this category, though the authors themselves do not usually use this label to categorize their work. I will comment only briefly on this important line of economic sociology because it is probably the area which has found most international resonance and is

widely available in English. Wolfgang Streeck analyzes the influences of regulatory political systems on economic performance. The focus lies on the investigation of effects of intermediary institutions like collective bargaining systems, trade union organization, and employer associations but also on the effects of legal regulation at large. This institutional approach has been applied not only to the analysis of industrial relations and welfare state politics in Germany but increasingly also to problems surrounding the integration of the European Union and to the understanding of globalization processes.

Claus Offe, who shares much of this theoretical approach, has in recent years looked mainly in the opposite geographic direction, i.e. to the East. Immediately after the collapse of communist regimes in Eastern Europe Offe (1994) became fascinated with the sociological understanding of the transformation process of East European economies and political systems. Indeed some of the crucial concepts referring to the relationship between democracy and the development of capitalist economic structures have been introduced by him.

Understandably enough, the transformation process of East Germany has created quite some interest in German economic sociology. It is not possible to give a summary of this extended research here, two examples must suffice. One is Paul Windolf's and Sebastian Schief's (University of Trier) network study on ownership structure and interlocking directorates in larger East German firms (1999). The empirical investigation showed that most of the firms are owned by Western owners and that the network of interlocking directorates is dominated by West German managers. This creates "structural holes" in the network of East German companies which are bridged over by West German managers, exposing East German firms to structural external influence from the West. Another example is Michael Thomas' and Rudolf Woderich's (1997) analysis of East German small scale entrepreneurs. Their empirical study came to the result that the self-employed persons they interviewed had hardly any attributes in common with the model of the Schumpeterian entrepreneur. The self-employed East Germans were not interested in expanding their companies through risk taking (credits) but chose instead defensive survival strategies. The decision to become an "entrepreneur" in East Germany largely reflects missing opportunities in the labor market which explains why the mentality of the investigated entrepreneurs resembles closely the cultural attitudes of employees.

### **3. Sociology and Economics**

Still another approach of German economic sociology is represented by authors who proceed from problems posed by microeconomic theory, explore the limits of economic explanations and attempt to find sociologically informed answers to the stated problems. Sociologically informed are answers to economic problems if they do not refer only to relative prices. On the other hand this does not imply the general rejection of economic arguments because combinations between sociological and economic answers can be especially fruitful. As it has turned out, the two most interesting issues from the sociological perspective are external effects and principal agent problems. Johannes Berger (University of Mannheim) (1999) has, among other areas of investigation, analyzed external effects of the economic system on the natural environment. As long as negative environmental effects are not reflected in prices the market cannot regulate optimal levels of environmental pollution. Berger suggests to add social norms, i.e. environmental consciousness, as one factually relevant parameter for the explanation of environmental behavior of companies and the state. Principal-agent problems have entered the economic discourse especially through the unfolding of the new microeconomics. But "moral hazard" is a problem which sociological theories have been aware of for quite a long time. An example is the labor extraction problem in Marx' labor

theory of value. Berger (1999) addresses this problem in an interesting article entitled "Why do workers work?" He concludes his discussion of utilitarian and Durkheimian approaches to the question not simply by stating the importance of moral resources but by asking for the preconditions within the social context of action which allow actors to expect that their co-operative move will not be exploited.

I would position my own work under this heading as well. In an article from 1996 I asked for the specifically sociological contribution to the investigation of economic problems. An important sociological tradition sees the role of values as central to the sociological analysis of economic phenomena. The article departs from this tradition and argues that uncertainty poses the crucial constitutive problem for economic sociology. While the neoclassical tradition in economics reformulates situations of uncertainty as situations of risk (this allows for maximizing decisions based on probability calculation) sociology is interested in the consequences once actors are pictured as not having a basis for calculating optimal decisions. It is due to the problems posed by uncertainty that actors must rely on social mechanisms like institutions, habits, networks, and power for structuring interaction in economic contexts. This perspective has been enlarged later through the introduction of cooperation and innovation as two further action situations whose understanding depends on transcending the maximizing assumption of economic theory (Beckert 1997).

#### **4. Sociology of Markets**

Recently the sociological analysis of markets has become a further accented field of economic sociology in Germany. One example is the book Der Markt der Gesellschaft (1997) by Klaus Kraemer (University of Münster). Kraemer's book is largely influenced by Georg Simmel's model of sociation (*Vergesellschaftung*) and the role which exchange plays in it. He is asking for the social and cultural consequences which derive from the expansion of market-regulated exchange relations in modern societies. Kraemer is investigating the consequences of the market for several sociologically relevant issues: Power-relations in society, the use of natural resources, and the identity-constructions of market participants. His discussions shall contribute to the sociological understanding of the cultural effects of markets, a question largely ignored in economics.

Kraemer's book stands in the tradition of macrosociological analysis of economic institutions. In their analysis of financial markets Urs Bruegger and Karin Knorr Cetina (University of St. Gallen and University of Bielefeld) proceed from a microsociological perspective. Knorr Cetina is, of course, well known for her studies on the microstructure of scientific research processes. The article "Global Microstructures: The Interaction Practices of Financial Markets" (forthcoming) attempts to shed light on the role which face-to-face (or face-to-screen) interaction between traders play for the constitution of globally operating financial markets. Bruegger and Knorr Cetina investigated the activities of traders in foreign exchange markets on the trading floor of a Global Investment Bank in Zurich. The analysis focuses mainly, but not exclusively, on the computer protocols of "conversations" between traders which document offers and agreements to a deal. The conversations between traders are not face-to-face but face-to-screen. The equivalence in communication structure makes conversation analysis (Goffman) nevertheless a useful tool in understanding the constitution of the investigated financial market from a microsociological perspective. The market itself becomes, for those engaged in it, a co-present other. The main point Bruegger and Knorr Cetina are making is that the "diminishing relevance of the physical setting in defining global domains cannot be taken to imply that microsocial processes in general are becoming increasingly irrelevant." The seemingly paradoxical formulation of "global microstructures"

indicates the authors' contention that microstructures can be disembedded from local contexts and be relevant in settings which are characterized by their worldwide scope.

Recent work in economic sociology in Germany demonstrates the renewed interest in the field and indicates a promising perspective for further developments. The current interests in economic issues are at the core and more first rate scholars should find this an attractive sociological field to work in. The unfolding of economic sociology in the United States but also in European countries will have positive repercussions for further developments also in Germany.

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