

Sociological Theory II

SOS3506

Erling Berge

Introduction

(Venue: Room D108 on 31 Jan 2008, 12:15)

NTNU, Trondheim

Spring 2008

The Goals

- The class will discuss some sociological topics relevant to understand system developments at the global scale focusing on the nature of capitalism and elements of systems theory
- The class will take its departure from recent assessments of the state of economic development (Naomi Klein) discuss how current social theory (Elster, North, Elias) may further a deeper understanding of the dynamic of the world seen as a social system and the consequences for individuals and local communities.
- The discussion will emphasise a perspective on what theory is and how it can be used. In writing term papers a focus on topics useful for MA thesis work is encouraged. Relevance to class goals are required.

The texts

- Elias, Norbert. 1991. *The Symbol Theory*. London: Sage.
- Elster, Jon. 2007. *Explaining Social Behaviour: More Nuts and Bolts for the Social Sciences*. Cambridge: Cambridge University Press.
- Klein, Naomi. 2007. *The Shock Doctrine. The Rise of Disaster Capitalism*. London: Penguin.
- Landa, Manuel De. 2006. *A New Philosophy of Society*. New York: Continuum.
- North, Douglass C. 2005. *Understanding the Process of Economic Change*. Princeton: Princeton University Press.

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The tasks

- **1. Book review**
 - The book review is due before or on 28 February.
- **2. Oral presentation**
 - The presentation in class is due either 13 March or 27 March
- **3. Term paper**
 - Deadline for the term paper is 9 May.

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Book review

Review of

- Klein, Naomi. 2007. *The Shock Doctrine. The Rise of Disaster Capitalism*. London: Penguin.
- The book review can be maximum 600 words.
- The book review is due before or on 28 February.

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Oral presentation

Presentation in class (10-20 min) of one topic taken from Chapter 4-26 in

- Elster, Jon. 2007. *Explaining Social Behaviour: More Nuts and Bolts for the Social Sciences*. Cambridge: Cambridge University Press.

The presentation is due either

- 13 March (selections from ch 04-14) or
- 27 March (selections from ch 15-26).

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Term paper

- Deadline for the term paper is 9 May.
- An abstract is due on 27 March

- The term paper should either be based on some topic from the class readings or discussions or a topic directly relevant to your MA thesis.
- It is expected to be some 5600-7500 words or 15-20 pages.

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Writing standards

- In writing the term paper you can follow the standard given by http://www.svt.ntnu.no/iss/studentinfo/vitenskape_lig_form_og_stil.pdf (in Norwegian).
- An alternative (in English) might be
- <http://www.sv.ntnu.no/thecommonsjournal/CurrentAuthorGuidelines.pdf>
- and for citation of literature
- <http://www.sv.ntnu.no/thecommonsjournal/CurrentAuthorGuidelinesChicagoStyle.pdf>

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Lectures 2-7

07 Feb	Explanations and mechanisms (Elster part I)
14 Feb	Understanding Economic Change I (North Ch 1-6)
21 Feb	Understanding Economic Change II (North 7-13)
28 Feb	The shock doctrine (Klein part 1-4)
06 Mar	Disaster capitalism (Klein part 5-7)
13 Mar	Explaining Social behaviour I (Elster part II-III)

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Lectures 8-12

27 Mar	Explaining Social behaviour II (Elster part IV-V)
03 Apr	Social complexity and assemblages (de Landa 2006)
10 Apr	The Symbol Theory I (Elias 1989, 1991) Introduction to Section V
17 Apr	The Symbol Theory II (Elias 1989, 1991) Section VI to Section IX
24 Apr	Summary and discussions of capitalism

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Starting point 1: A cross-disciplinary approach

Assuming we know sociology this means:

- From sociological theory to theories about society
- From a disciplinary perspective to a problem focused perspective
- From authorised theory to relevant and helpful theory
- Constructing models conforming to observed realities
- Testing theories on new evidence and new model based deductions

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Starting point 2 Focus shifts from persons to theories

- Emphasis on theories (plural) and explanations
 - Rationality, choice, systems, structures
 - Actors
 - Individuals, communities, states
 - Resources
 - Material, human, social, renewable, depletable, ...
 - Environments
 - Natural, social, ...
 - Non-linearity, interactions, complexity
 - Simple or strategic behaviour?
 - Two agents or an infinite number?
 - Equilibrium or chaos?
 - Richness or rigour?
 - Anarchy or control?
- Emphasis on models and mechanisms
 - Models are based on assumptions
 - Mechanisms are chains of verified causal relations providing explanations for a phenomenon

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Starting point 3

Learning and thinking are keys to understanding
choices and actions

- The way we think affects what we believe
 - Languages consist of classifications, distinctions, and categories
 - Values enshrined in language
 - Beliefs expressed in language
 - Reality defined by language
- Perceptions and interpretations are language dependent

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Starting point 4: The scientific method

- What is it?
 - Systematic doubt
 - Respect for evidence but also doubt about its quality
 - Sensitivity to how thought dependent facts may be
 - Sensitivity to the difference between model and reality
 - Core problems are selection and bias

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Reading Naomi Klein

- Ask what kind of argument this is
 - Is it about facts? What the world looks like?
 - Is it about causal links? How the world became like we see it?
 - Is it about political values? What the world ought to look like?
- Ask what is left out
 - By focusing on one topic you are un-focusing on a host of others
- Ask what the un-stated assumptions are
 - Arguments, models, reasoning, ... always has to take some basic assumptions as given, as taken for granted. No one starts from first principles, it is impossible
- Ask what the intended audience is
- Observe your own feelings as you read. Why do you like or dislike the argument?

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Reading Elster

- Mechanisms as causally effective chains of actions explaining an observed phenomenon
- Provides ways of thinking about rationality and ways of explaining irrational behaviour
- Emphasis on actors and their beliefs
- Emphasis on interaction and collective action
 - Game theory as tool for understanding interaction and collective action

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Reading North

- Institutions determine economic developments: what shapes the path of economic development?
- The role of uncertainty in human culture
- What is adaptive efficiency?
- What role do beliefs, knowledge, and cognition play in economic development?

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Reading North

- North 2005 may require some concepts from North 1990 such as
 - The distinction between organisation and institution
 - His political economy mechanism explaining path dependence
 - The difference between public and private goods
 - The role of transaction costs (including measurement and information costs) in shaping the impact of institutions
- North, Douglass C. 1990 "**Institutions, Institutional Change and Economic Performance**", Cambridge, Cambridge University Press.

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Institutions, Institutional Change, and Economic Performance

- **The goal**
- **In general** further the understanding of
 - Historical development, and
 - Economic and Social development
- **In particular** further the understanding of how institutions shape the use of resources and the path of economic development

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What is an institution?

- Broadly speaking: An institution comprise all that makes you feel that what you do is the right thing to do. You have the right to do it. What you do is **legitimate**. If anyone prevents you from doing it you feel wronged. Preventing you from doing it is illegitimate.
- The sources of this feeling are many.

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Organisation vs institution I

- The basic postulate is that organizations that work well do so by paying people to serve values, to try to be competent, to conduct their business with integrity
- An organisation seen as a working sustainable combination of resources and believable commitment can only be created if people believe that the institutional enforcers themselves believe the values.

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Organisation vs institution II

- The guts of institutions is that somebody somewhere really cares to hold an organization to the standards and is often paid to do that
- Sometimes that somebody, or his or her commitment, is lacking, in which case the center cannot hold, and mere anarchy is loosed upon the world

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INSTITUTIONS

- Rules of the game
- Humanly devised constraints
- Providing structure for human interactions (political, economic and social)

- The cost of detecting rule violations, and the enactment of punishments are essential parts of all institutions.

Organisations

- Games: rules and players
 - Institutions – organisations
- Organisations are groups of people bound by some common purpose to achieve objectives

Institutions evolve by incremental change in e.g.

- Conventions
- Codes of conduct
- Norms of behaviour
- Contracts
- Common law
- Statute law

ECONOMIC PERFORMANCE

- How is it possible to explain or understand the various developmental trajectories of e.g. North American and Latin American countries?
- Why is there no convergence of economic systems in comparisons of developing and developed countries?

Institutions determine the opportunities of a society.

- Organisations are created to take advantage of those opportunities.
- As organisations evolve they change the institutions. The path of change is determined by
 - A lock-in between institutions and the populations of organisations evolved to exploit the institutions
 - Feedback processes from perception of and reaction to changes in the opportunity set.

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Case 1: USA in the 19th century

- The constitution and the North West Ordinance
- Norms of behaviour rewarding hard work
- Political organisations (congress, local bodies, family farms, merchant houses, shipping firms)
- Economic growth led to demand for education, which led to public education.
- Changes in the organisational population and characteristics of organisations led to changes in institutions both formal and informal. (e.g. changing attitudes to slavery, the role of women, and temperance)
- Not all changes were in the direction of more efficient institutions. Changes usually will open opportunities both for productive activities and for activities reducing productivity.
- On balance: the institutional framework persistently

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Case 2: Some developing countries today or most states in known history

- Economic opportunities are also here a mixed bag, but on balance they favour activities that
 - Promote redistribution rather than production
 - Create monopolies rather than competitive conditions
 - Restrict opportunities rather than expand them
 - Rarely induce investment in education
- Organisations will become more efficient, but at redistribution rather than production
- These organisations will induce institutional changes making the economy even less efficient

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North Ch 4 -1

- Measurement costs are important because of asymmetric information (adverse selection, moral hazard)
- Measurement costs + enforcement costs = transaction costs
- Explains why property rights are not perfectly specified

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North Ch 4 -2

- Enforcement
 - Policing agents: increasing marginal costs of measuring and policing performance
 - The agent acquires certain property rights in their own labour
- First party: principal disciplining agent
- Second party: friends, associates, kin
- Third party: the state

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North Ch 5 -1

- Informal constraints:
 - 1) extensions, elaborations and modifications of formal rules, 2) socially sanctioned norms of behavior, and 3) internally enforced standards of conduct
- The same formal rules imposed on different societies give different outcomes
- Informal rules come from culture and language
- Primitive (stateless) society (not simple!) kinship ties important for sanctioning system
- Ideas, ideologies, convictions affect choices and matter more the lower the cost of their expression

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North Ch 5 -2

- Informal constraints
 - coordination rules are self-enforcing
 - norms of cooperative behavior need instruments of enforcement
 - Internal codes of conduct imply trade-off between wealth and other values (communism, religion)
- Payoff to honesty, integrity, reputation of trust poorly understood (a problem in the sociology of knowledge)
- How do we acquire, process, and utilize information?
- The cultural processing of information implies incremental change of institutions and path dependence of societies
- Changing formal rules do not immediately lead to changes of informal rules. Their interaction may lead to unexpected outcomes

North Ch 6 -1

- Formal rules: a matter of degree, often making informal rules more effective
- Existing rules define the wealth maximizing opportunities of the players, promoting some kinds of exchange but not all
- Parts of the resources of the players will be devoted to protect or change existing rules
- Formal rules usually designed
 - with private wellbeing as a goal
 - With compliance costs in mind
- Changes in technology and relative prices will alter the relative gains from devising rules

North Ch 6 -2

- Political rules leads to economic rules (and vice versa), but political rules have priority
- How do credible commitments evolve?
- Democracy gives greater political efficiency, but this is different from economic efficiency
- Democratic polities reduce transaction costs per political transaction but the volume increase
- Also increases in agency costs voter-parliament, parliament-government and rational voter ignorance affecting voting
- Inefficient property rights persist because powerful interest groups oppose changes, or because changes will lower tax returns
- Formal rules are incomplete – they depend on informal rules

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North Ch 7 -1

- Enforcement is neither constant nor perfect
 - Because of costly measurements, and because
 - Enforcement agents have their own agendas
- Contracts are self-enforcing when it pays all parties to live up to the promise (personal, small scale repeated deals will facilitate this)
- Impersonal exchange needs institutions providing
 - Information on the performance of contracting partners to determine when defection occurs
 - Incentives for some persons to actually carry out punishments

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North Ch 7 -2

- Institutions that facilitate exchange are costly and lowers the gain from trade
 - Dilemma: we cannot do without the state, but we cannot do with it either ...
 - With a wealth maximizing assumption not even a simple model of an efficient third party state can be constructed
- Are we a free people because of the constitution, or do we have this specific constitution because we are a free people?

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North Ch 8 -1

- Institutions and technology used in measurement and enforcement define transaction costs
 - Case study: Transfer of residential property in the USA
- Transaction costs also affect transformation costs (cost of monitoring output quality depends on and sometimes determine choice of transformation technology)
 - Case study: production of goods and services e.g. bargaining power of skilled labor, oil production
- The institutional structure of underdevelopment
 - See de Soto 2000

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North Ch 8 -2

- The institutional constraints that define the opportunity set of individuals are a complex of formal and informal constraints. They make up an interconnected web that in various combinations shapes choice sets in various contexts.
 - The complex is basically stable but change incrementally along several margins
- The institutional framework is the critical key to the relative success of economies, both cross-sectional as well as through time

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The failure of institutions (1)

- Institutions, and commitment to institutions, are essential to the creation of public goods
- Economic progress involve the production of public goods, including obvious ones such as roads or civil order, and not so obvious ones such as the willingness to discuss what we should do next in a spirit of honesty and compromise

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The failure of institutions (2)

- When the institutional means to create public goods are not available, welfare seems to people to depend on looking out for themselves and their immediate kin, rather than on trying to create greater welfare for all
- Some sorts of institutions undermine capitalist organizations, and do so by failing to provide integrity in the achievement of public goods

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North Ch 9

Organisations, learning, and institutional change

- Organisations develop a demand for knowledge and skills (and generate tacit knowledge of their own activities)
 - Property rights (patents) has helped create the innovation feature of western economies
 - Technological innovations are path dependent
 - Ideology and knowledge directs the attention of investigations but also develops by new insights

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Institutional change

- From the particular demands for knowledge
- Shaped by interactions of
 - Existing institutions,
 - Stock of knowledge and
 - Maximising behaviour of agents
- Incremental changes in informal constraints caused by maximising behaviour

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Adaptive efficiency

- Allocative efficiency (Pareto conditions)
- Adaptive efficiency concerned with development through time; willingness to
 - Acquire knowledge and learning
 - Induce innovation
 - Undertake risk and creativity
 - Resolve problems and bottlenecks

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North Ch 10 Stability and Institutional Change

Stability is furthered by

- Rules hierarchically nested
- Informal constraints
- Habitual behaviour

- In equilibrium no actor find it profitable to devote resources to rule changes

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Most change is incremental

From shifts in

- Relative prices
 - Ratio of factor prices, cost of information, changing technology,
- Preferences
 - Changing relative prices (e.g. work-leisure, price of expressing ideas) may induce change in tastes
 - Ideas (moral, ethical) about the world

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Discontinuous change

- Does the institutions allow incremental change?
- Does the preferences allow bargaining and compromise?
- Successful revolutions require coalitions making final outcomes uncertain
- Successful revolutions require ideological commitment to overcome free riding
- Discontinuous change is not so very discontinuous!

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North Ch 11 The path of institutional change

- Technological paths of development
 - “QWERTY”, gas engines not steam, alternating current vs. direct
 - Fuelled by **increasing returns, learning by doing**
- Self-reinforcing mechanisms
 - Large set-up or fixed costs (falling unit costs)
 - Learning effects (improved products, lower costs)
 - Coordination effects (several agents using the same)
 - Adaptive expectations (further belief in prevalence)

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Competing Technologies

Consequences of self-reinforcement

- Multiple equilibria (outcomes indeterminate)
- Possible inefficiencies (best T may have bad luck)
- **Lock-in** (once a solution is reached, exit difficult)
- **Path dependence**

In reality the competition is between organisations employing the technology (institutions)

The path of institutional change

- Increasing returns (self-reinforcement)
 - with increasing returns institutions matter and shape the long run path of economies. But with zero transaction costs the path is approximately efficient
- Imperfect markets (significant transaction costs)
 - With significant transaction costs the subjective models of actors as modified by imperfect feedback and ideology will shape the path
- Divergent paths and persistently poor performance may prevail

The North-West Ordinance

- Governance and settlement of the lands in the West
 - Fee-simple ownership, inheritance, territorial government – self-governing, territory admittance as a state, a “bill of rights”, prohibiting slavery, and more
 - The law generated incremental change reinforcing its basic properties, but it was not inevitable.
 - Network externalities, learning of organisations, subjective models of the issues
 - Adaptively efficient economic and political processes

Path dependence

- Entrepreneurs are constrained by existing institutions and by their imperfect knowledge
- Goals may not be reached
- Increasing returns of the institutional matrix means that even if specific changes may change history its direction remains the same
- USA vs Mexico: History matters