

Masterarbeit

# **The Moral Embeddedness of Economic Action**

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## 1. Introduction

Capitalism and morality have always been “uneasy companions” (Zelizer 2007: 8). On the one hand, capitalism appears to be as detached from the moral sphere as an economic system can possibly be. When it comes to securing its motivational and legitimacy resources, capitalism seemingly confines itself to appealing to people’s self-interest and the abstract utilitarianism of Adam Smith’s invisible hand. If neoclassical theorists are to be believed, then most of the time, and for most people, economic incentives – such as getting enough food or a third car – should do the trick of motivating people to do good (enough) work. In a complementary vein, neoliberal thinkers have relieved capitalist actors from any moral responsibilities other than to stay within the rules of the game. For any effort to superimpose additional moral obligations – such as caring for the poor or the environment – on them, would not only hamper economic efficiency, but also undermine the very foundations of a free society (Friedman 1970).

On the other hand, capitalism has had its fair share of moral criticism as well as countless motivation and legitimacy crises. A long history of strikes and anti-capitalist movements – both from the left and the right – testifies to the essential moral contestedness of capitalist forms of life. By the same token, justifications for capitalism were never as morally austere as some of its acolytes would make us believe. Smith’s invisible hand itself is a blunted version of the more general belief that capitalism would rein in the most destructive of human passions by pitting them against brawny economic interests (as opposed to of the more frail admonitions of reason) (Hirschman 2013a). And, in the end, even the most morally arid economists argue that purely self-interested actors contribute to unleashing the beneficent potential of the market – not in spite of but because of their moral indifference (Streeck 2007: 13-14). But then again, it seems obvious that the economic men and women of economics are neither full descriptions of human behavior nor mere reflections of human nature. Even after decades of biopolitical carving, ‘real economic men and women’ seem to have retained a whole range of traits that are a far cry from those of their textbook counterparts (Sen 1987: 11).

The question, of course, is whether these moral values, sentiments, and justifications actually affect economic actions on the micro- and meso-level, and economic processes on the macro level? And if yes, in what way and to what extent? In other words, does today’s capitalism really rest on “mechanical foundations” and is therefore no longer in need of its “spirit” (Weber 2007: 124)? Or is it possible that the capitalist spirit never actually left the ‘iron cage’, and still provides capitalist actors with orientation, motivation, and legitimacy

(Boltanski/Chiapello 2007; Nachtwey/Seidl 2017)? These are the questions that lie at the heart of this study. I will try to answer them in three steps.

In a *first* step, I will reconstruct key features of the philosophical and social scientific debate about capitalism and morality as they have unfolded since Adam Smith (Part I). More specifically, I will trace the contested separation of morality from the economy through the history of neoclassical economics (2.1), neoliberal political thought (2.2), and social scientific theory (3.). In discussing the work of some of each tradition's most eminent thinkers, I will point to the problems associated with such a view, but also to potential starting points for addressing them. In a *second* step, I want to draw on and bring together three more recent strands of research that have developed in relative isolation from each other but nevertheless point in similar directions (Part II). The first strand of research focusses on the micro-level of human (inter)action (4.1), the second on the meso-level of organizations (4.3), and the third on the macro-level of larger social processes (4.3). They all emphasize that – contrary to the accounts of moral disembedding discussed in an intermediary reflection (4.2) – it is next to impossible to fully understand economic (inter)actions, organizations or processes if one ignores norms and values or merely treats them as external factors.

Although many of the arguments developed there also bear much relevance to the study of morality and consumption, I will mainly focus on the supply-side of capitalist production, which seems to be the more interesting (and more controversial) problem. Consumers can always decide to spend more of *their* money on ethical goods and services, as long as they are able and willing to pay a little premium. This can have profound implications for the production process, and may well amount to what has been dubbed the “moralization of markets” (Stehr et al. 2006). Consumers, however, are not to the same degree subject to competitive pressures as producers. At least since Marx, it has been established social scientific wisdom that playing nicer than you have to – by paying more than the competitive wage, for example – is ‘penalized with ruin’ (Marx 2010 [1894]: 173). But is this really true in all cases? I believe that the answer to this question is no. Making a convincing case for it will prove to be the litmus test for any theory maintaining that the economic relevance of morality extends beyond shaping consumer preferences.<sup>1</sup> Therefore, in a *third* and final step, I will bring together key insights from step one and two, and broadly sketch how a theoretical framework capable of passing this litmus test could look like (Part III).

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<sup>1</sup> Although morality may affect all kinds of non-consumer related economic decisions, from collective bargaining to economic policy, I will focus here on the production process in a more narrow sense, i.e. on the significance of morality for entrepreneurial and managerial action.

## Part I: A Intellectual History of Capitalism and Morality

In tracing the intellectual history of capitalism and morality, there is no way around Adam Smith. Like no one else, Smith epitomizes the subtleties and ambiguities that have come to define the genealogy of this relationship, be it in its neoliberal, neoclassical, or sociological manifestation. Being a moral philosopher by trade, Smith is widely considered capitalism's most famous intellectual father. On top of that, he has a "strong claim to being both the Adam and the Smith of systematic economics" (Boulding 1969: 1). This makes him the ideal starting point for taking up the trail of neoliberal, neoclassical, and sociological thinkers that have concerned themselves with the relationship between morality and the economy. Whereas the path from Smith's work to today's neoliberal and neoclassical thought is fairly straightforward (2.), Smith's sociological reception follows more circuitous routes that lead beyond the narrower readings of Smith's roadmap (3.).

### 2. Neoclassical and Neoliberal Lines of Reception

In his *Inquiry into the Nature and Causes of the Wealth of Nations* (1776), Smith famously argued that "[i]t is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest" (Smith 1976: 26-27). And he added that it is not from some well-intentioned plan that we are to expect economic order and prosperity, but from the individual that, in pursuing its own interest, is "led by an invisible hand to promote an end which was no part of his intention" (Smith 1976: 456). Although such a metaphorically charged private-vices-public-virtues doctrine does not do justice to the complexities of Smith's view, the idea of a self-interested economic man and the concept of the invisible hand were readily taken up by economists in his wake. Two lines of reception can be *analytically* distinguished: a neoclassical line that is mostly concerned with the problem of self-interested behavior (motivation) (2.1); and a neoliberal line that is mostly concerned with the moral and economic prerequisites of a free society (legitimation) (2.2).

#### 2.1 Neoclassical Economics

The first line of reception revolves around the anthropological figure Smith introduced into economics: the economic man. Although Smith's economic man is a complex creature, it was primarily his "propensity to truck, barter, and exchange" (Smith 1976: 25) that appealed to neoclassical economists. Step by step, they carved Smith's "rather rounded character" (Morgan 2006: 22) into the rational utility-maximizer that we are so familiar with today

(Morgan 2006: 4-22). This – enormously influential – view was in important ways the (unintended) consequence of neoclassical economists *avoiding* or *evading* the complexities of human motivation (Sen 1977: 323).

### 2.1.1 Avoidance

The avoidance-approach is probably best exemplified by Kenneth Arrow's and Frank Hahn's seminal work on general equilibrium theory (Arrow/Hahn 1971). Following "a long and fairly imposing line of economist from Adam Smith to the present", Arrow and Hahn set out to show that a decentralized economy driven by self-interest and guided by price signals only is, in principle, compatible with a disposition of economic resources that is both coherent and "superior to a large class of possible alternative dispositions" (Arrow/Hahn 1971: vi-vii). Importantly, Arrow and Hahn make no secret that their main concern is not whether this proposition "*is* true, but (...) whether it *could* be true" (Arrow/Hahn 1971: vii). It is not that they abstract from certain (accidental) features of economic behavior – such as moral concerns – to make economic analysis more manageable. Rather, an openly idealized economy functions as a foil to reveal the assumptions that have to be – or that cannot be – met by real world actors. Although this approach teaches us a great deal about why the real economy does not – or cannot work – like the idealized economy, it ultimately avoids the problem of a realistic economic anthropology, because "[t]he realism of the chosen conception of man is simply not a part of this inquiry" (Sen 1977: 322).

### 2.1.2 Evasion

Rather than altogether avoiding it, the evasion-approach sidesteps the problem of how to reconcile a self-interested conception of economic actors with the motivational intricacies of economic actions. What counts as self-interest here is not presupposed by the theorist, but rather determined by the preferences actors 'reveal' in their economic decisions. For example, whenever an entrepreneur is observed to choose some principle over some profit opportunity, she can be said to have a preference for (this particular) principle over profit. This is the same as to say that it was in her self-interest to choose principle over profit. In both cases, it remains entirely – and explicitly – open, why she acted the way she did. Maybe she thinks that it is not in her (long-term) economic interest to put her company – or herself – in jeopardy. Or maybe she thinks that it could undermine her reputation as a good leader if her underlings started to perceive her as reckless and greedy. Or maybe violating her principles simply is downright unthinkable to her. The important point is that by assuming that actors "maximize their utility

from a stable set of preferences” (Becker 1976: 14), self-interest is defined “in such a way that no matter what [an economic actor] does he can be seen to be furthering his own interests” (Sen 1977: 322; Sen 1987: 12-15).<sup>2</sup> Used “relentlessly and unflinchingly”, the assumptions of maximizing behavior and stable preferences, together with the assumption of Pareto-efficient markets, form the bedrock of the modern “economic approach” (Becker 1976: 5).

However, such a *formal* definition of self-interest leaves two questions unanswered: first, the means-related question of *how* people go about pursuing their self-interests; and, second, the ends-related question of *what* these self-interests actually – or *substantially* – are. With regard to the first questions, economists usually resort to rational choice theory, i.e. people are assumed to efficiently pursue their objectives, whatever those objectives might be. The problem with such a view is not simply that people have limited cognitive capacities and cannot possibly process all the relevant information. Nor is it that they make random mistakes in processing the information they have at their disposal. The problem is that the errors people make are often systematic and predictable. Robert Frank groups these systematic judgmental errors under the heading of “irrational behavior with regret”, “because people usually want to act differently once the consequences of their behavior have become clear to them” (Frank 1990: 54-55).

With regard to the second question – how to define self-interest in substantial terms – economists tend to play a double-game. On the one hand, they outsource the problem to other social sciences, on the other hand they often *de facto* define utility in the narrow terms of stable, selfish and often material preferences (cf. Frank 1990: 54; Sen 1987: 15-19). For example, Gary S. Becker, after stressing the allegedly stable nature of preferences across time and (sub)culture (Becker 1976: 4), goes on to argue that the question of how preferences are formed is “probably most successfully” analyzed not by the “sociologist” or by the “psychologist” but “by the sociobiologist” (Becker 1976: 14). Accordingly, self-interest “is assumed to dominate all other motives” (Becker 1976: 282). Thus, even if economists officially restrain from making claims about the relative weight of egoistic and altruistic, genuinely moral and strategic motives, in practice selfish and material interests dominate the picture.

It is no coincidence that *Homo oeconomicus* has a reputation for rationally and relentlessly pursuing his own interests, for predominately defining these interests in economic

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<sup>2</sup> “For the utility concept is concerned only with command over means to want satisfaction and is as such entirely indifferent to the specific character of the ultimate ends to which these means may be applied. The norm of economic behavior will be precisely the same whether the proceeds of acquisitive endeavor are applied to the indulgence of the appetites or to relieving the sufferings of the poor” (Parsons 1949: 162).



terms, and for being almost utterly devoid of moral sentiments. These traits are usually attributed to competitive pressures in human evolution and/or in the economy itself that ‘weeded out’ more altruistic or irrational dispositions. Thus, a subtle but by no means conclusive shift in emphasis leads to a conception of economic behavior in which morality plays a token supporting role at best. In the process, the hypothetical (avoidance) or definitional (evasion) egoist quietly became an almost anthropological figure. The problem with this view is the pervasiveness of “irrational behavior without regret” (Frank 1990: 55), that is, behavior in which people would act no more selfish once the consequences of their behavior have become clear to them. For example, most people would continue to tip even after economists have pointed out to them “that there is no way a waiter in a distant city could retaliate” (Frank 1990: 55).

It is important to distinguish between two types of irrational behavior without regret: sympathy and commitment (Sen 1977: 326-329).<sup>3</sup> Whereas with sympathy “the concern for others directly affects one’s own welfare”, commitment requires one to act according to what one believes is right and wrong, regardless of whether or not this makes one “feel personally worse off” (Sen 1977: 326). For example, if it makes you uncomfortable to endure the gaze of a disappointed waiter you will most probably never see again, you may well tip him just to make you feel better. That’s a clear case of sympathy. But if you tip him because you think it’s fair to leave a proper tip, even though not tipping him would not make you feel uncomfortable, we might be dealing with genuine commitment. Of course, there is no way to be sure if something is indeed a case of commitment. You could have just tipped the waiter because violating the more abstract principle of fairness would have made you feel guilty. But this objection – which always equates “preferred” with “chosen” – rather clouds than clarifies a conceptually important difference between sympathy and commitment (Sen 1977: 329): other than the former, the latter really “drives a wedge between personal choice and personal welfare” (Sen 1977: 326). Amartya Sen illustrates this point with the story of two boys finding two apples, one small, one big:

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<sup>3</sup> Smith himself based his theory of moral sentiments on sympathy as the ability to imagine how we would feel in the circumstances of others. He even argued that “[h]ow selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it” (Smith 2004: 11). Human beings, however, often misjudge normative situations out of ignorance or interest. Only the judgement of an ideal impartial spectator can ultimately bestow normative approval on the norms and values that express our moral feelings (cf. Fleischacker 2017). Thus, Smith’s moral-philosophical framework might be open to both, the analysis of sympathy and commitment.

“Boy A tells boy B, “You choose.” B immediately picks the larger apple. A is upset and permits himself the remark that this was grossly unfair. “Why?” asks B. “Which one would you have chosen, if you were to choose rather than me?” “The smaller one, of course,” A replies. B is now triumphant: “Then what are you complaining about? That’s the one you’ve got!”” (Sen 1977: 328).

The ‘moral of the story’ is that A had no need to be angry about B’s choice if he was only about sympathy. The result would have been the same. His indignation, however, suggests that there is more to his preferences than selfishness and sympathy. The fact that B violated a general norm of fairness that A is committed to undermines the “assumption that a chosen alternative must be better than (or at least as good as) the others for the person choosing it” (Sen 1977: 328).

## 2.2 Neoliberal Theory

The second line of reception is less concerned with Smith the classical economist than with Smith the liberal theorist. It is probably best exemplified by Friedrich Hayek’s work on the benefits of spontaneous over designed orders (Hayek 2012: 34-52). As opposed to neoclassical economists, Hayek is not *primarily* concerned with providing an economic justification of markets based on efficiency, but rather with giving a philosophical justification based on freedom (Ptak 2008: 31-32). In elaborating Smith’s conception of justice and his distinction between good intentions and desirable consequences, Hayek concludes that it is precisely the substitution of universal rules of just conduct – especially respect for property rights – for obligatory and concrete (moral) ends that makes a free society possible. Economic efficiency is a welcome side-effect, but a side-effect nonetheless (Hayek 2012: 267-290). But while neoliberals of all stripes share the belief that imposing moral purposes on economic actors is wrong, they differ in the role and relevance they assign to morality in economic affairs. Two camps can be distinguished: Chicago Neoliberalism, and German Ordoliberalism.

### 2.2.1 Chicago Neoliberalism

Chicago Neoliberalism is best epitomized in Milton Friedman’s (in)famous essay *The Social Responsibility of Business is to Increase its Profits* (1970). Importantly, the difference between Friedman and Hayek is not a difference in principle, but rather in messaging. Friedman does not deny the individual proprietor – as opposed to the corporate manager – the right to use his money for whatever purpose he feels like using it for, moral or not. Nor does he deny businesses the right to use the “cloak of social responsibility” in order to generate goodwill or

avoid bad publicity. Friedman only insists that the idea that economic actors should be obliged to act morally is a “fundamentally subversive doctrine” that will inevitably undermine the very foundations of a free society (Friedman 1970). Insofar there is no disagreement between him and Hayek. But whereas Hayek’s central message is that a society that harnesses the plurality of individual purposes is vastly superior to a society that superimposes concrete purposes onto individuals (Hayek 2012: 270), the implicit thrust of Friedman’s message is different.

Hayek resented the “much too narrow” view that the economy is driven by “selfish” motives; in fact, he argued that the normative and economic advantages of spontaneous “means-connected” over a designed “ends-connected” societies hold regardless of whether individuals act “wholly egoistical or highly altruistic” (Hayek 2012: 270). Friedman, on the other hand, was keen on showing that the sole *moral* responsibility of business is to serve its shareholders; and – just as in the neoclassical tradition – these shareholders are *implicitly* assumed to be selfish: they want their profits to increase, after all. Hence, whereas both Hayek and Friedman are concerned with stripping economic action off binding moral purposes, Friedman goes one step further in actively and effectively ostracizing moral purposes from the economic realm altogether.

Capitalism is based on property rights, not on moral purposes. It works best when prices are not artificially meddled with by businesses assuming social responsibility – be it for the environment, workers, or something else. Such sentimentalities, although they shouldn’t be illegal for proprietors in a (non-monopolistic) free society, are better outsourced to the realm of charity. What is moral, according to neoliberalism, is not economic actions but economic outcomes if economic actions are freed from moral obligations (cf. Streeck 2007: 12, 14). The invisible hands of “various markets” make sure that maximizing agents with stable preferences “accumulate an optimal amount of information and other inputs” (Beckert 1976: 14), and the “optimality of the allocation situation in the equilibrium legitimates the market as the central economic institution with a capacity for universal approval” (Beckert 2002: 8).

### 2.2.2 German Ordoliberalism

Unlike their Chicago cousins, German Ordoliberals place much greater emphasis on the moral and legal prerequisites of economic order. Although they share the belief that one should not interfere with the market process by imposing concrete moral ends on it (e.g. full employment), they not only argue that the state has an active role to play in maintaining the legal framework that makes markets possible in the first place. They also argue that markets depend on what Wilhelm Röpke called “psycho-moral forces” (Röpke 1942: 68). Röpke

considered it a “great mistake” to conceive of the economy as “anything like an *ordre naturel* independent of the extra-economic framework of moral, political, legal and institutional conditions” (Röpke 1942: 68); or, in other words, to conceive of it as “sociologically autonomous” (Röpke 1942: 67). This “sociological blindness” (Rüstow 1942: 270) has its roots in theologico-metaphysical notions that have stopped liberal economists – and liberals in general – from fully grasping the degree to which markets depend on noneconomic forces:

[I]f the market mechanism of the free competitive economy partook of divine dignity and benevolence and of the severity and universal validity of a natural law, then it would manifestly be presumptuous as well as fruitless to act as if the validity and benevolence of the market mechanism might depend upon sociological conditions belonging to the humble human sphere. (...) The eye, dazzled by the mystic light of rational economic revelation, was blind to problems lying in the obscurity of sociology” (Rüstow 1942: 270).

Importantly, Ordoliberals didn’t deny the moral and functional superiority of the market mechanism (e.g. Müller-Armack 1978: 325; Rüstow 1942: 282-283). Nor did they deny that it follows “its own well-established laws” (Röpke 1942: 68). But they were well aware “that the satisfactory functioning of the market mechanism does not take place autonomously, but is completely dependent upon the fulfilment of certain sociological and institutional conditions” (Rüstow 1942: 274). According to Ordoliberalism, the coincidence of individual and social interests that underlies liberal thought cannot be presupposed but is in fact highly presuppositional. The Ordoliberals’ Social Market Economy is an attempt to reconcile the two. Unlike Chicago neoliberalism, it conceives of the market economy “as a semi-automaton requiring reasonable servicing” (Müller-Armack 1978: 326), i.e. as a sphere of competition whose conditions have to be actively maintained by correcting some of its results (e.g. monopolies) (Rüstow 1942: 274-278). And, even more importantly, it conceives of it as

“consciously or subconsciously (...) embedded in a vitally satisfying milieu and (...) integrated into a stable and well-balanced community which is based on social sentiments and institutions” (Röpke 1942: 70). “Above all, there must be a "creed" in the most general sense of the term, a belief in a definite scale of ultimate values giving sense and purpose to the ordinary doings of all participating in the economic process” (Röpke 1942: 69).

According to Ordoliberals, the (neo)liberal underappreciation of the socio-moral foundations of markets is the result of at least two erroneous conclusions. First, just because a

well-functioning market economy “keeps itself at an equal distance from both the ethically negative system of violence or ruse and the ethically positive one of altruism and charity”, it does not follow that it is “an ethically neutral sphere” (Röpke 1942: 68). Instead, the socio-moral prerequisites of a well-functioning market economy simply remain disguised – until they are revealed in moments of crisis: “Thus the market economy is living on certain psycho-moral reserves, which are taken for granted when everything is going well, and only reveal their supreme importance when they are giving out” (Röpke 1942: 69). Second, whereas socialists have – with devastating consequences – looked for the sources of social integration in the economy itself, liberals have – with still severe consequences – “overlooked the sociological necessity of searching outside the market for that integration which was lacking within it” (Rüstow 1942: 272). Instead they assumed that the principle of competition could itself produce order or “sociologically positive effects” (Röpke 1942: 70). This claim goes back to the *doux commerce* doctrine, i.e. the view that capitalism would prove to be “a powerful moralizing agent” that would produce “a more “polished” human type” (Hirschman 2013b: 218) – which is why it could safely be applied to other spheres of social life.

Both fallacies combined result in a sociological deficit of liberal thought, and, correspondingly, in the “boundless over-evaluation of economics” (Rüstow 1942: 279). What is missing from the (neo)liberal picture is the economic “lubricant of morals, sentiments and institutions” (Röpke 1942: 70). Although a competitive market economy happens to be the only (known) mechanism for efficiently reconciling individual and social interests – that is, to meet the double demands of efficiency and justice, functionality and dignity most notably formulated by Walter Eucken (Klump/Wörsdörfer 2009: 324-325) – it is by no means self-sustaining. Rather, it requires constant social and institutional maintenance work. Of course, this maintenance work consists in enforcing the rules of the game, and – decidedly – not in calling plays. But “[t]he job does not consist merely in shaping an economic order, but also requires its *incorporation into a total life style*” (Müller-Armack 1978: 328, italics added). The market economy does not only have to be embedded in legal institutions but also in a whole range of socio-moral values such as mutual trust, contractual loyalty, professional honor, or confidence in and respect for the market mechanism (Röpke 1942: 69). Ordoliberalism is a “sociological liberalism” (Foucault 2008: 146) which is well aware that the socio-moral conditions of a competitive market economy are “not a natural given that must be respected” but “an historical objective of governmental art” (Foucault 2008: 120) – they have to be disseminated into the social fabric by means of *Vitalpolitik* (Bonefeld 2013: 235).

### 3. Sociological Lines of Reception

The idea that the modern capitalist economies rest on “psycho-moral” (Röpke 1942: 68) foundations of solidarity and a “social ethic of the enterprise” (Foucault 2008: 147) also take center stage in Emile Durkheim’s and Max Weber’s classical economic sociologies. While Durkheim studied the “psycho-moral forces” (Röpke 1942: 68) – or the lack thereof – in modern economies based on the division of labor, Weber traced the “multiplication of the ‘enterprise’ form within the social body” (Foucault 2008: 148) to the beliefs of Protestant sects. In a way, then, classical sociologist joined Ordoliberalism in keeping “alive the vital spark of Smith’s moral philosophy” (Small 1907: 4). This way, Smith’s Janus-faced work<sup>4</sup> not only figured as a source of inspiration and friction to liberal philosophers and economists, but also to the nascent sociology of the late 19<sup>th</sup> century, especially to Durkheim (3.1) and Weber (3.2), and later and more indirectly to Talcott Parsons (3.3) and Jürgen Habermas (3.4) (Joas 1996: 35-36).

#### 3.1 Emile Durkheim

Durkheim rejected the view that modern societies based on the division of labor can be understood in utilitarian terms only, that is, as merely “economic grouping[s]” devoid of “moral character” (Durkheim 2014: 178; Parsons 1967: 5). While Durkheim agreed with liberal economists on the crucial importance of contract relations and the division of labor for modern societies, he departs from them in several important ways (Beckert 2002: 85).

##### 3.1.1 The Division of Labor as a Moral Phenomenon

First, for Durkheim, the division of labor is not so much an economic phenomenon as it is a moral phenomenon (Schluchter 2015: 147-148). In other words, he looks at it from the angle not of the creation of wealth but of the production of solidarity: “[T]he economic services that it can render are insignificant compared with the moral effect that it produces, and its true

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<sup>4</sup> It is true that Smith argued that an “augmentation of fortune is the means by which the greater part of men propose and wish to better their condition” (Smith 1976: 341). But not only did he believe that it was not wealth itself, but the misguided expectation that wealth brings happiness that drives capitalist actors (Ashraf et al. 2005: 139). He also had a great sense for the irrationalities of human behavior and anticipated many findings of modern behavioral economics, such as loss aversion or fairness orientation (Ashraf et al. 2005). It is also true that Smith was an advocate of abstract justice and – despite a long history of misunderstandings – of an at least partly depoliticized commercial society. But he also believed that the rules of justice “presuppose a social order and unfold within a moral framework” the maintenance of which “cannot be entrusted to the economy” (Bonefeld 2013: 240). In this sense, his *Theory of Moral Sentiments* can be viewed “as the preliminary stage or foundation” of his analysis in *The Wealth of Nations* (Honneth 2014: 182). On the whole, therefore, Smith’s defense of self-interest was clearly restricted to specific contexts, and he did certainly “not rest economic salvation on some unique motivation” (Sen 1987: 24).

function is to create between two or more people a feeling of solidarity” (Durkheim 2014: 46). What Durkheim was interested in was not the transformation of the economy per se, but rather “the transformation of social solidarity which arises from the ever-increasing division of labor” (Durkheim 2014: 7). The question he asked himself was: “How does it come about that the individual, whilst becoming more autonomous, depends ever more closely upon society?” (Durkheim 2014: 7). The answer he gave was: The division of labor gave rise to a new kind of solidarity that is no longer based on similarity between individuals in close-knit communities but rather on the mutual dependence of individuals that are increasingly different from one another (Durkheim 2014: 102). This new ‘organic’ solidarity promises to overcome the anomic tendencies Durkheim observed in the society of his time. Thus, unlike Ordoliberals, Durkheim sees the economic sphere itself as a source of social integration. But, unlike neoliberals, he neither stresses the efficiency nor the freedom of markets, but the social cohesion that comes along with contractually organized economic interdependence.

### 3.1.2 The Non-Utilitarian Foundations of a Utilitarian Economy

Second, Durkheim rejects the utilitarian conception of the economy as a network of contractual relations based on the harmonious interplay of individual interests. Instead, he argues that the institution of contract is itself based on non-contractual elements (Beckert 2002: 86). On the one hand, these non-contractual elements reduce transaction costs by providing the socio-moral means to overcome the otherwise paralyzing problem that no contract can possibly render explicit every contingency it entails (Durkheim 2014: 167-168). On the other hand, they provide the kind of motivational commitment to cooperation that alone is able to solve the Hobbesian problem of order (Parsons 1967: 5). Interest, on the other hand, is too “precarious” (Durkheim 2014: 168) a foundation to reliably sustain order:

“For if mutual interest draws men closer, it is never more than for a few moments. It can create between them only an external link. (...) For where interest alone reigns, as nothing arises to check the egoisms confronting one another, each self finds itself in relation to the other on a war footing, and any truce in this perpetual antagonism cannot be of long duration. Self-interest is indeed the least constant thing in the world. Today, it is useful for me to unite with you; tomorrow, the same reason will make me your enemy. Thus such a cause can give rise only to transitory links and associations of a fleeting kind” (Durkheim 2014: 160-161).

What is needed instead is a “contractual solidarity” (Durkheim 2014: 298) that lubricates the complex system of modern exchange relationships. The institution of contract

“is not sufficient by itself, but is possible only because of the regulation of contracts, which is of social origin” (Durkheim 2014: 169). According to Durkheim, the harmony of interests that lies at the heart of liberalism – what he calls ‘negative solidarity’ – presumes positive solidarity, i.e. mutual sympathy that goes beyond the mere respect of others’ rights (Durkheim 2014: 94). Thus, Smith’s view that it is not concrete benevolence, but abstract justice, that “is the main pillar that upholds the whole edifice” (Smith 2004: 101) must be questioned on sociological grounds. For Durkheim, justice is always “filled with charity” (Durkheim 2014: 95).

### 3.1.3 The Normative Regulation and Moderation of Economic Exchanges

Third, Durkheim extends this notion of non-contractual elements of contract beyond the facilitation of stable exchange relationships, and into the social regulation of these relations (Beckert 2002: 87). It is a central liberal tenet that morality should not be embodied in concrete ends, but enshrined in an abstract system of positive law. Actors should enjoy considerable moral leeway in their economic decisions as long as they abide by the law. Durkheim challenges this notion by arguing that contractual exchanges are only recognized and given sanction by society if they are “just” (Durkheim 1992: 207). If, on the other hand, contractual exchanges aren’t fair and lack “social value”, they are “stripped of all authority” society has conferred on them (Durkheim 2014: 169). Even in modern economies, then, exchange relations are controlled “through socially established ideas of justice” (Beckert 2002: 90). However, Durkheim conceded that there are certain forms of action that can and should be subjected to market instead of moral regulation. “Morality cannot direct unduly the industrial and commercial functions, etc., without paralyzing them” (Durkheim 2014: 187).

This qualification notwithstanding, Durkheim “overstrains the institution of contract” (Beckert 2002: 93) by assigning it the role of having the cake (granting economic freedom to market participants) and eating it too (subjecting their economic freedom to social notions of justice). Markets are based on moral indifference within limits. Durkheim himself acknowledges this when he argues that the grasp of the *conscience collective* has become weaker as the division of labor increased (Durkheim 2014: 116-137). If markets are to work well, they cannot be constantly meddled with by public sentiments about what is just and what not. This is not to say that notions of fairness do not affect the market process. But the mere fact that exchange relations are morally embedded in the institution of contract does not by itself tell us much about the *actual* influence of moral values on economic actions (Luhmann 2008a: 22). This influence has to be strong enough to make a difference but not strong enough to eliminate the market mechanism altogether.



Durkheim provides some interesting leads in this regard, but tends to go over the top when effectively subordinating exchange relations to public opinion. His normative price theory is a case in point (Beckert 2002: 98-107). Durkheim agrees with economists on the external, fact-like nature of prices. But whereas in neoclassical theory, there is no such thing as an unjust price, Durkheim argues that notions of social value, articulated in public opinion, enter into and alter market interactions. According to Durkheim, societies have background assumptions about what, approximately, constitutes a fair price, depending on “a sense of the true usefulness of things and services, of the labor they have cost, of the relative ease or difficulty in procuring them, traditions and prejudices of every kind, and so on” (Durkheim 1992: 209). Such sentiments are not completely alien to neoclassical theory, for, as we have seen, consumer preferences can be determined by all sorts of things (e.g. religious prohibitions).

But production is another story. The normative pressure of public opinion needs to be strong enough to prevent companies from free-riding on other companies which produce goods whose social value is higher than their economic value, or which prioritize social justice at the expense of economic efficiency (Beckert 2002: 105). This requires a degree of cooperation that cannot simply be expected in competitive market economies. It seems more realistic – and this is what Durkheim himself encountered empirically – “that prices in modern societies are not deliberately oriented to moral criteria” (Beckert 2002: 106). It is entirely possible, however, that entrenched notions of justice “could be employed by both collective actors and the state in order to legitimize action and mobilize solidarity necessary for influencing prices”; and that they affect economic actions “whenever the actors lack information”, that is, whenever they face uncertainty (Beckert 2002: 106). One of the advantages of a Durkheimian economic sociology, then, is that it allows us to trace the different ways that notions of social value or justice affect economic actions and the economy at large (Steiner 2011: 35).

There is, however, a “danger in interpreting Durkheim too collectively” (Beckert 2002: 96). This is because Durkheim is well aware that as the strength of the ‘conscience collective’ declines and repressive law loses ground, individuals as well as institutions acquire greater degrees of freedom to set their own objectives (Luhmann 2008a: 13, 20-21). Society “has no longer the effect of imposing certain uniform practices upon everybody, it consists more in defining and regulating the special relationship between the different social functions” (Durkheim 2014: 161). He does not want to suspend the relative autonomy of interest-oriented market relations but “to embed them in a sociality that keeps transcending their antagonistic

nature” (Beckert 2002: 96). “The role of solidarity”, Durkheim notes, “is not to abolish competition, but to moderate it” (Durkheim 2014: 286).

#### 3.1.4 Anomie and the Need for a New Morality

Fourth, while Durkheim credits liberal economists for pointing out the “spontaneous character of social life” (Durkheim 2014: 301), he was decidedly more wary of the tensions between a capitalist economy and society at large. Although he was convinced that, under the right circumstances, a new solidarity would “emerge automatically from the division of labor” (Durkheim 2014: 286), he could not but notice the social dislocations and the moral crisis of his time. Durkheim blamed an “inadequate regulative influence of society on economic relations” (Beckert 2002: 115) for this “sorry spectacle” (Durkheim 2014: 9). Initially he believed this to be a temporal phenomenon: either the emergence of a new morality lags behind because a state of anomie, caused by a lack of regulation, prevents people from realizing their mutual dependence (Durkheim 2014: 285-291); or the persistence of outdated regulations (such as entrenched inequalities) imposes an external constraint on the division of labor and prevents it from taking its normal course (Durkheim 2014: 295-298).

Although Durkheim continued to believe that the division of labor would “achieve an equilibrium” on its “own accord” (Durkheim 2014: 10), he became increasingly worried about unfettered markets and the separation of the economy from its moral environment (Beckert 2002: 70, 120). The “extent, hitherto unrealized, to which economic functions have developed” has become a “source of general moral deterioration”, for individuals carry on their economic affairs “without any moral framework” (Durkheim 2014: 10).

“[I]ndustry, instead of being still regarded as a means to an end transcending itself, has become the supreme end of individuals and societies alike. Thereupon the appetites thus excited have become freed of any limiting authority. By sanctifying them, so to speak, this apotheosis of well-being has placed them above all human law (Durkheim 1951: 216).

Not least as a result of the disproportionate role of competition in social life, Durkheim became more open to actively catalyzing the emergence of a new morality. In particular, he argued that professional ethics, which until then existed only in a “very rudimentary state” (Durkheim 2014: 8), had to be fostered by professional groups which alone are “capable of curbing egoism, nurturing (...) a more invigorated feeling of (...) common solidarity, and preventing the law of the strongest from being applied too brutally in industrial and commercial

relationships (Durkheim 2014: 14). One does not have to equate morality with solidarity (cf. Luhmann 2008a: 14) to appreciate Durkheim's point, namely that capitalism is "intrinsically bound" (Joas 1996: 60) to notions of justice. Whenever it is unleashed from these socio-moral constraints, and the logic of competition "spill[s] over beyond the economic sphere" (Durkheim 2014: 10), this contagious expansion has to be counterbalanced "by the strongest of counterforces from outside the economic sphere" (Röpke 1942: 71; Durkheim 2014: 9). Solidarity, then, is not the automatic product of a capitalist economy. Rather, it is the result of the incorporation of moral attitudes based on the (reflexive) realization of mutual dependence which is in turn contingent on certain institutional conditions (Joas 1996: 59).

### 3.1.5 Against False Abstractions

Finally, Durkheim criticizes the reductive approach of utilitarian economics with regard to morality and motivation. In general, Durkheim rejects the simplification by abstraction that many economists engage in when they study not "man himself" but only "a logical man" (Steiner 2011: 14). Durkheim didn't object abstraction per se, but only the kind of abstraction that went from isolating certain aspects of reality to the substitution of reality by certain ideas that one wants to render coherent (Steiner 2011: 18). "Whether one likes it or not, whether it is a good thing or a bad thing, societies exist. Economic activity takes place within constituted societies. Logic is powerless if confronted with a fact that complicates a problem, but which cannot be excluded by abstraction" (Durkheim 1970: 212, as quoted in Steiner 2011: 18). Whereas the overarching scientific motivation of Smith and many in his wake was to find "one great connecting principle" to explain all the "discordant phenomena" (Sturn 2017: 23), Durkheim wants to take social complexity as seriously as possible (Steiner 2011: 35).

More specifically, Durkheim opposes the tendency to reduce morality to the psychology of self-interest as the utilitarians do, or to elevate it to a transcendental obligation as the Kantians do (Joas 1996: 55). For Durkheim, morality is "both empirical and *sui generis*" (Durkheim 1993: 127). Moral rules are *sui generis* in that they "possess a binding power that, rather than itself presupposing sanctions, justifies the applications of sanctions when they are violated" (Habermas 1987: 48). But while Kant was right about "the obligatory character of the moral rule" (Durkheim 2010: 21), he was wrong in thinking that abstract duty was responsible for morality. Durkheim deemed it "psychologically impossible to pursue an end to which we are indifferent (...). Morality must, then, be not only obligatory but also desirable and desired" (Durkheim 2010: 21). This desirability comes with a singular force that asks the subject "to submit to an authority and do violence to his nature in a certain sense", but to do it

“in such a way that he takes on the obligation himself and makes the moral requirements his own” (Habermas 1987: 48). While this singular force gives moral commitments their peculiar character of *self-overcoming*, it derives its power not from some metaphysical principle but from *empirical* groups. For all “[m]orality begins with life in the group, since it is only there that disinterestedness and devotion become meaningful” (Durkheim 2010: 26).

### 3.2 Max Weber

During his entire life, Max Weber has been preoccupied with the question of how (moral) ideas become effective in (capitalist) history, and how they interact with material and ideal interests (Schluchter 2015: 284-285). The answers he gave in his entangled projects of developing an economic sociology and a comparative sociology of religion are of unabated relevance to the question at hand.

#### 3.2.1 The Spirit of Capitalism and its Demise

In *The Protestant Ethic and the Spirit of Capitalism* (1904/05/1920), Weber is not so much concerned with capitalism as such as with the genesis of an economically relevant but not economically conditioned set of attitudes which he calls the spirit of capitalism (Schluchter 2015: 275). In order to overcome the conservative barriers of economic traditionalism, this new economic “habitus” (Weber 2001: 66) had to be imbued with incentives stronger than economic utilitarianism could provide. For Weber, it is not acquisitiveness per se that distinguishes modern capitalism from its predecessors (cf. Weber 2007: xxxi-xxxvi), but that professional work has taken on “the character of an ethically coloured maxim for the conduct of life” (Weber 2007: 17). Capitalist attitudes are not simply a matter of “business astuteness”, but of a “peculiar ethic”, the violation of which “is treated not as foolishness but as forgetfulness of duty” (Weber 2007: 17). This ethical character of modern economic attitudes derives from their “connection (...) with the rational ethics of ascetic Protestantism” (Weber 2007: xxxix). By ‘translating’ religious beliefs into economic attitudes, the spirit of capitalism subjectively motivates and intersubjectively legitimizes rational-acquisitive forms of action. Only thus could they disseminate on a large scale (Habermas 1987: 223).

In the course of capitalist evolution, however, the ideational incentives of a rational work ethic were gradually ‘cannibalized’ by the economic incentives of the utilitarian-hedonistic calculus. Today’s fully matured capitalism “educates and selects the economic subjects which it needs through a process of economic survival of the fittest [*Auslese*]” (Weber 2007: 20). Resting on “mechanical foundations” and kept alive by spirit-less Homines

oeconomici, capitalism is no longer in need of the motivational and legitimatory “support” of its spirit (Weber 2007: 124). Weber’s basic argument is that the modern economy is a “functional organization oriented to money-prices which originate in the interest-struggles of men in the market” (Weber 1946b: 331). As such, it “follows its own immanent laws”, and the more rational and impersonal it becomes, the less amenable it is to the demands of interpersonal solidarity as expressed, for example, in an “ethic of brotherliness” (Weber 1946b: 331).

Thus, Weber gives us a historical genealogy of an economy where purposive, rational actions orientations have been firmly entrenched (Beckert 2002: 194). In other words, he gives us an historical account of “the institutional foundations of the market as viewed by neoclassical economics” (Collins 1981: 928). Contrary to Durkheim, he seems to believe that a secularized morality can endure even if it is rendered profane and therefore non-obligatory by being reinterpreted in utilitarian terms (Habermas 1987: 50). At times, however, Weber himself seems to have doubts whether, in the long run, the abstract utilitarianism of economic liberalism will be enough to justify an increasingly strained economic order – or whether capitalism’s motivational and legitimatory resources will eventually dry out and necessitate the rebirth of old or the rise of new ethical ideas.

“The religious root of modern economic humanity is dead; today the concept of the calling is a *caput mortuum* in the world. Ascetic religiosity has been displaced by a pessimistic though by no means ascetic view of the world, such as that portrayed in Mandeville’s Fable of the Bees, which teaches that private vices may under certain conditions be for the good of the public. (...) Economic ethics arose against the background of the ascetic ideal; now it has been stripped of its religious import. It was possible for the working class to accept its lot as long as the promise of eternal happiness could be held out to it. When this consolation fell away it was inevitable that those strains and stresses should appear in economic society which since then have grown so rapidly” (Weber 1961: 270).

### 3.2.2 Ideas, Interests, and Economic Ethics

Weber, of course, does not argue that it was the spirit alone that brought about capitalism, for this would only mean substituting “for a one-sided materialistic an equally one-sided spiritualistic causal interpretation of culture and of history” (Weber 2007: 125). In fact, Weber himself has provided such a more encompassing account in *General Economic History* (1919/20). Here, Weber develops “a predominantly institutional theory” of capitalism (Collins 1981: 926) which centers around the concept of rational calculability (Collins 1981: 927) and

takes into account economic, technological and political as well as cultural (religious) factors (Swedberg 1998: 18-20). What Weber was ultimately interested in was the intermingling of (material and ideal) interests on the one hand, and ideas – and not just religious ideas (Swedberg 1998: 108) – on the other. According to Weber, individuals are not only driven by material interests, but also by ideal interests – from religious salvation to social distinction. It is these interests – and not ideas – that “directly govern men’s conduct” (Weber 1946a: 280) insofar as they motivate individual actions.

However, interests are always culturally and socially mediated insofar as they have to be interpreted and institutionalized in light of prevailing ideas and existing historical formations (Schluchter 1981: 26). Very frequently, as Weber famously continued the above quote, “the ‘world images’ that have been created by ‘ideas’ have, like switchmen, determined the tracks along which action has been pushed by the dynamic of interest” (Weber 1946a: 280). Thus, when studying religious ideas, Weber is interested in their bearing on ‘economic ethics’ (Weber 1946a: 267). Economic ethics, including the Protestant ethic, are by no means “a simple ‘function’ of a form of economic organization”, nor do they “unambiguously stamp” this form (Weber 1946a: 268): Rather, economic ethics are just as much shaped by history and economic geography as there are by religious or cultural forces (Weber 1946a: 268). Although ethical spirit and institutional form are to a certain extent autonomous, they can form ‘elective affinities’ and decisively influence economic processes (Weber 2007: 27-28). More concretely, economic ethics can influence individual’s practical and evaluative attitudes toward work, wealth and possessions, trade, finance and industry, economic change and technical innovation, other economic actors, or charity and welfare (Swedberg 1998: 135-137).

### 3.2.3 The Place of Morality in Weber’s Economic Sociology

At the center of Weber’s economic sociology is the conviction “that economic phenomena cannot be adequately analyzed by a single discipline” (Swedberg 1998: 164). His conception of social economics (*Sozialökonomik*) was meant to encompass several social sciences, including economic theory and economic sociology (Swedberg 1998: 4). As opposed to neoclassical economic theory, economic sociology takes not only rational behavior into account, nor is it restricted to behavior with purely economic goals:

“The concepts and ‘laws’ of pure economic theory (...) state what course a given type of human action would take if it were strictly rational, unaffected by errors or emotional factors and if, furthermore, it were completely and unequivocally directed to a single end, the maximization of economic advantage” (Weber 1978: 9).

In reality, actions rarely unfold according to this ideal type, not even within the economic realm (Weber 1978: 9). Because economic sociologists take into account a much broader range of action orientations, namely value-rational actions driven by ideal interests as well as actions driven by habits or emotions, they are in a unique position to supplement economic theory. According to Weber, capitalist actions are based on the appropriation and utilization of “(formally) peaceful chances of profit” (Weber 2007: xxxii). Importantly, modern capitalist action is not based on violence, for the “use of force is unquestionably very strongly opposed to the spirit of economic acquisition in the usual sense” (Weber 1978: 64). But interestingly, it is not entirely based on legitimate power, i.e. domination either. A legitimate order is defined as a social relationship in which conduct is reliably oriented toward “maxims” that the individual deems “obligatory or exemplary” (Weber 1978: 31). But although the capitalist economy is part of a broader structure of legal and political domination, and capitalist organizations constitute whole “system[s] of domination” (Weber 1978: 108), market exchanges themselves are not per se structured by domination – although they display considerable power asymmetries (Swedberg 1998: 34-35; Weber 1978: 93).

Instead of raising the problem of how markets continuously (re)produce legitimacy, Weber points to ‘interest-driven regularities’ (Swedberg 1998: 33; Weber 1978: 29-31) that constitute a kind of order that only relies on the (price-)coordination of self-interested behavior. This behavior is in a certain sense voluntary, although Weber knows very well that those who constantly forgo their self-interest are “doomed to extinction” (Weber 2007: xxxii). Weber considered market relations to be overwhelmingly ‘associative’ rather than ‘communal’ relationships; that is, they are mostly based on expedientially motivated agreements, rather than on a traditional or emotional sense of belonging together (cf. Weber 1978: 40-43). Accordingly, capitalist markets are characterized by price struggles between rationally calculating competitors organized in firms that are efficiently organized and oriented toward profit making (Swedberg 1998: 40-42). This does not seem to leave a lot of room for morality, and it comes as no surprise that Weber viewed economic theory as “indispensable for understanding economic phenomena” (Swedberg 1998: 4).

However, Weber acknowledges that even the most associative market relations are always to a certain degree embedded in communal elements (Swedberg 1998: 34). “No matter how calculating and hard-headed (...) such [an associative] relationship – as that of a merchant to his customers – may be, it is quite possible for it to involve emotional values which transcend its utilitarian significance” (Weber 1978: 41). Weber also points to the coexistence and potential conflicts between formal and substantive rationality within capitalist economies.

While something is more formally rational, the more precisely it is calculated, substantive rationality refers to absolute values (Weber 1978: 85-86). Systems of formal rationality are always based on substantive rationality (Weber 1978: 107-109), and what is required from the point of view of formal rationality might be irrational from the point of view of substantive rationality (Swedberg 1998: 37). This is one of the reasons why “the theoretical insights of [economic theory] provide the basis for the sociology of economic action”, but do not suspend the latter from developing “its own theoretical constructs” (Weber 1978: 68) to make sense of real-world economic processes (Swedberg 1998: 44). However, Weber’s emphasis on the institutional and value-rational dimension of economic action notwithstanding, he is quite clear that the “impersonal” character of the capitalist system makes it almost impossible to “penetrat[e]” and “transform” it “along ethical lines” (Weber 1961: 262).

### 3.3 Talcott Parsons

“Talcott Parsons can be considered the last sociological theorist whose work is formed by the debate with economics” (Beckert 2002: 133). But he is also, one might add, the first sociologist whose work is formed by the debate with classical sociology. The relationship between economic theory and sociological theory was the one problem that preoccupied Talcott Parsons throughout his scholarly life, and that he considered “the most important single thread of continuity in [his] intellectual development” (Parsons 1981: 193). The different solutions he offered in different parts of his oeuvre bear much relevance to the problem at hand: the relationship between capitalism and morality.

#### 3.3.1 Capitalism as a Socio-Economic System

In his dissertation on Sombart’s and Weber’s theories of capitalism, Parsons advocated an integrative approach to the study of capitalism (Parsons 1928; 1929). Capitalism has to be conceived of as a historically situated socio-economic system that cannot be accounted for by general economic theory alone. Rather, the latter has to be complemented by the socio-historical study of “the objectivity of the capitalistic system, its connection with ethical values, and the peculiar predominance of economic influences under capitalism” (Parsons 1929: 51). Even then, however, Parsons took issue with Sombart’s disparagement of the “technical conditions of economic activity” (Parsons 1928: 643) as well as with his ignorance “of the many important developments in economic theory since Marx” (Parsons 1928: 661). Siding with Weber, Parsons argued that far from being irredeemably flawed, neoclassical economics had to “be upheld unscathed as an abstract, analytical discipline” (Joas 1996: 26). Rather than



altogether dropping it, or, on the contrary, treating it “as general theoretical framework (...) for the understanding of human behavior in society as a whole”, economics had to be incorporated into a “general conceptual scheme” where it could “find a legitimate place” (Parsons 1949a: 125; Joas 1996: 28). It comes as no surprise, then, that although Parsons remained interested in both “the nature of capitalism as a socioeconomic system and (...) the work of Weber as a social theorist” (Parsons 1970: 827), the focus of his attention quickly shifted from capitalist theory to a critique and overcoming of utilitarian theories of action and order.

### 3.3.2 The Structure of Economic Action: The Analytical Factor View

Parsons’ critique of utilitarianism culminated in and became the “essential leitmotif” (Joas 1996: 8) of his massive *The Structure of Social Action* (1937). Parsons starts out by criticizing utilitarianism for being unable to solve the Hobbesian problem of order. A “purely utilitarian society”, he asserts, “is chaotic and unstable, because in the absence of limitations on the use of means, particularly force and fraud, it must (...) resolve itself into an unlimited struggle for power” (Parsons 1949a: 93-94). For Parsons, the problem with utilitarianism is that inevitably runs into a dilemma. Either it maintains freedom of choice, but then it has to assume “randomness of ends” (Parsons 1949a: 60) and fails to account for the orderliness of social action; or it gives up on the idea of freedom of choice, but then it has to assimilate ends to the conditions of the situation, for example by conceiving of ends as determined by nonsubjective categories such as heredity or environment (Parsons 1949a: 64). This dilemma, together with the undeniable fact that order simply exists leads Parsons to turn Hobbes’ question “on its head” (Joas 1996: 10). He no longer asks how order is possible given independent individuals rationally pursuing their own interests. Rather, he takes the existence of order for granted and seeks to illuminate the action-theoretic conditions of its possibility by insisting on both, the normative nature of ends and the voluntaristic nature of norm compliance. In other words, he proposes a “voluntaristic” theory of action that “is set out in ‘subjectivistic’ terms (Habermas 1987: 206) but linked to a normative theory of social order.

This is where Parsons’ famous convergence thesis enters the picture. Parsons argues that four different European thinkers – Alfred Marshall, Vilfredo Pareto, Durkheim, and Weber – have independently developed a strikingly similar critique of utilitarianism. Regardless of whether or not the thinking of these major intellectual figures actually ‘converged’ (cf. Joas 1996: 18-34), Parsons’ reconstruction of their critique allowed him – or so he believed – to overcome utilitarianism’s theoretical limitations without abandoning its insights. Parsons’ newly developed action frame of reference retains key elements of the utilitarian theory of

action. There is still an individual actor using certain means to pursue certain ends under certain conditions. But instead of simply being given, ends and means are decisively structured by the norms and values given in a society. In other words, self-interests as well as the means available to pursue them rest upon ultimate values. These values are not – not solely, that is – external constraints, but constraints that actors impose on themselves. Actions are wedged between normative and conditional elements, and involve an active “process of alteration of the conditional elements in the direction of conformity with norms” (Parsons 1949a: 732). Eliminating either one of these elements eliminates the concept of action itself and results in radical positivism (e.g. behaviorism) or radical idealism (e.g. emanationism).

But his voluntaristic theory of action does not only allow Parsons to overcome the Hobbesian problem of order without running into the utilitarian dilemma. It also allows him to steer a middle course in the controversy between institutionalists and neoclassical economists that had occupied Parsons’ mind throughout the 1930s (Joas 1996: 27-28).<sup>5</sup> While Parsons sympathized with the former’s historically and sociologically oriented critique of the latter’s reductionist accounts of economic phenomena, he did not deem institutionalism a suitable alternative to the theoretical apparatus of neoclassical economics (Beckert 2002: 138). Sociology had to be put on equal footing with economics, and the most promising way to do this was to distinguish them on analytical grounds. In this sense, economics is the science of “the processes of rational acquisition of scarce *means* to the actor's ends by production and economic exchange, and of their rational allocation” (Parsons 1949a: 266; emphasis added); and sociology is “the science which attempts to develop an analytical theory of social action systems in so far as these systems can be understood in terms of the property of common-*value* integration” (Parsons 1949a: 768, emphasis added).

However, just because sociology, which is concerned with the value elements of action, and economics, which is concerned with the logical application of means to given ends, can be analytically separated, it does not follow that the concrete economy can be fully explained by economics: “The independence of economics from sociology applies only to the theoretical framework of the action frame of reference but not to the economy as a social sphere of action” (Beckert 2002: 146). Thus, Parsons rejects both economic and sociological imperialisms. On the one hand, it is entirely justifiable to abstract normative values and power relations from economic theory (Beckert 2002: 144). On the other hand, economists are taken in by the

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<sup>5</sup> In many regards, this debate resembles the *Methodenstreit* between the marginalist Austrian school and the German historical school as well as the debate between formalists and substantivists in economic anthropology.

“fallacy of misplaced correctness” (Parsons 1935b: 660-661)<sup>6</sup> if they assume that their principles “are directly, without essential qualification for other factors, applicable to concrete ‘economic activities’” (Parsons 1935a: 420). In other words, analytical elements of actions are not to be confused with concrete actions. However predominant an analytical factor

“may be in a particular set of concrete activities, it is never present to the complete exclusion of the others. The only way of maintaining a positive role for economic theory as a systematic generalizing science is to make it the science of one of these factors in concrete human action, to be sure more conspicuous in those concrete activities we call ‘business’ than elsewhere, but neither confined to them nor excluding others there” (Parsons 1935b: 660).

Analytical sciences should be concerned with analytical factors, which is why there should not be “too much sociology (as well as biology, psychology, etc.) in economics and too much economics in sociology” (Parsons 1935b: 666). Only later should the abstract results of either one of them be synthesized with each other and “with those of other sciences in the final full explanation of the concrete” (Parsons 1935a: 421). Concrete economic problems are only to be solved if different analytical disciplines cooperate (Parsons 1949a: 759). Although such an analytical compartmentalization allows Parsons to put sociology on an equal plane with economics, its empirical use remains questionable (Beckert 2002: 147). For Parsons does not really go into the nitty-gritty of how to combine different analytical lenses to make sense of the intertwining of technological, economic, political and social elements in concrete economic phenomena. “There is no bridge connecting the analytically delineated economics and concrete areas of economic action” (Beckert 2002: 147).

### 3.3.3 The Institutional Embeddedness of Economic Motives

In the 1940s, the intertwining of sociological and economic factors moves to the center of Parsons’ attention. Strikingly, the link between his empirical and theoretical work in the 1940s and his meta-theoretical outline in *Structure* is fairly loose (Beckert 2002: 150). Instead of embracing his own analytical separation between sociology and economics, the focus of Parsons’ attention shifts to the institutional embeddedness of economic action and motivation. “Profit as a goal”, Parsons argues now, “is relative to the institutional definition of the situation;

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<sup>6</sup> Parsons borrowed this expression from the philosopher Alfred North Whitehead who cautioned against taking the abstract for the concrete, and argued that every abstraction – although necessary – excludes something which is bound to return in the form of theoretical problems (cf. Schluchter 2015: 345-346). Parsons, therefore, “judges utilitarian theory to be intrinsically unstable, as it is only able to uphold its model of rational action by deliberately suppressing a series of problems” (Joas 1996: 12).

it is not a psychological motive in the general sense” (Parsons 1949b: 53). There are two ways in which Parsons illustrates this argument. On the one hand, he argues in his 1948 lecture *The Rise and Fall of Economic Man*, that the “utilitarian system of thinking” (Parsons 1949b: 47) only worked so well because it was applied to a society that at least “somewhat approximated” the model.

“In a certain empirical sense it has seemed a wholly justifiable procedure to assume that [the business man] acted to maximize his ‘self-interest’ [, i.e.] to prefer a higher financial return to a lower, a smaller financial loss to a greater. From these apparently obvious facts it was easy to generalize that what kept the system going was the “rational pursuit of self-interest” on the part of all the individuals concerned, and to suppose that this formula constituted a sufficient key to a generalized theory of the motivation of human behavior, at least in the economic and occupational spheres” (Parsons 1954b: 51).

In other words, a certain convergence between abstract logical and concrete economic action led economists to overgeneralize their assumptions, and allowed them to go “un-caught” – despite the fact that their theories had only “relative adequacy” (Parsons 1949b: 50). This only changed when the institutional preconditions of capitalist economies were discovered (1949b: 51). Most importantly, the problem of order had to be solved by means of normative integration; “economic rationality” had to be sufficiently separated from “coercive rationality” (Parsons 1949a: 767); and there had to be “an appreciable scope for the treatment of things and other people (...) in a “utilitarian” spirit, that is, [as] morally and emotionally neutral means to the ends of economic activity rather than only as ends in themselves” (Parsons 1954b: 52). Economists’ ignorance for these institutional prerequisites of an even approximately utilitarian economy is not least the reason why the “utilitarian anthropology” (Parsons 1949b: 49), i.e. the application of utilitarian models to traditional societies, never worked out.

On the other hand, Parsons illustrates the institutional formation of motivations by means of comparing the professional man and the business man. There is no doubt that the former is – in a certain way – less egoistic than the latter. For example, a medical professional cannot push her financial interests as ruthlessly as an investor. Both, however, strive for success, i.e. objective achievement and intersubjective recognition in their field. This is why the difference between them cannot simply be accounted for by differences in motivation in the sense that the investor is more egoistic than the doctor. Rather, “the “interests” in self-fulfillment and realization of goals, are integrated and fused with the normative patterns current

in the society, inculcated by current attitudes of approval and disapproval” (Parsons 1954a: 45). In other words, the difference between the business man and the professional man is due to different social affordances for success. The “acquisitiveness of modern business is institutional rather than motivational” (Parsons 1954a: 36).

### 3.3.4 Pattern Variables and the Non-Simultaneousness of Capitalism

For Parsons, the persistence of professions in modern capitalist societies demonstrates that the rationality of maximizing economic utility is not all there is, but that there remains a realm of “disinterestedness” (Parsons 1954a: 35) in modern economic affairs. As opposed to the business man, the “professional man is not thought of as engaged in the pursuit of his personal profit, but in performing services to his patients or clients, or to impersonal values like the advancement of science” (Parsons 1954a: 35). This observation helps Parsons to resolve simplistic dichotomies between traditional and modern societies that have vexed sociology since its inception (*Gemeinschaft/Gesellschaft*, mechanic/organic). Modern economies are not simply unfettered market economies, just as traditional economies are by no means free of instrumental rationality. What Weber viewed as a process of progressive institutionalization of rational and disinterested action orientations can now be “regarded as the institutionalization of a highly peculiar mixture of very different action orientations” (Joas/Knöbl 2009: 72; cf. Habermas 1987: 223).

Parsons conceives of these action orientations as pattern variables – as a set of combinable dichotomies that human actors must, consciously or preconsciously choose from in everyday action, namely affectivity or affective neutrality, self-orientation or collectivity-orientation, universalism or particularism, ascription or achievement, specificity or diffuseness (Parsons/Shils 1951: 77). This makes it possible to add socio-cultural *content* to his *formal* theory of action, and to link the theory of action to a functional theory of order. Pattern variables do not simply belong to the individual, but are the combined product of the cultural, the social, and the personality system (Parsons/Shils 1951: 78). Cultural values are not free-floating ideas, but must be specified and translated into social roles and norms on the one hand (institutionalization), into motivational dispositions on the other (internalization). Actors develop both cognitive and cathectic (emotionally charged) orientations towards norms which

are determined by evaluative orientations based on cultural values (DiMaggio/Powell 1991: 16; Joas/Knöbl 2009: 60-61).<sup>7</sup>

### 3.3.5 The Economy as a Social System

Until now, Parsons put his theory of action center stage and progressed from there to a theory of order. Starting in the early 1950s, he began to take the opposite route and the further development of his functional theory of order took center stage (Joas/Knöbl 2009: 75). He no longer asked: How do cultural values inform social roles and action motivations? But rather: What fundamental functions to social systems, as part of the general system of action, perform? Parsons functionalist point of departure is “that each system has to adapt to the external environment or to other systems; formulate and attain certain goals; integrate its subunits and various parts; and be organized in such a way that certain values apply within it in binding fashion” (Joas/Knöbl 2009: 76). These four functions – Adaptation, Goal attainment, Integration, and Latent pattern maintenance – are the building blocks of Parsons’ famous AGIL paradigm.

The economic system is a subsystem of the social system, which is, in turn, a subsystem of the general action system. Similar to the Matroschka principle, every subsystem can be analyzed in terms of the four functional exigencies. Within the social system, the economic system performs the adaptive function, whereas the subsystem of politics performs the function of goal attainment, the societal community, i.e. the noneconomic and nonpolitical institutions, that of integration, and the cultural system that of that of maintaining value commitments. *Within* the economy, the adaption function is performed by the investment subsystem; the goal attainment function by the production-distribution subsystem; the integration function by the organizational-entrepreneurial subsystem; and the maintenance function by economic commitments (Parsons/Smelser 1956: 40-44). Whether one is dealing with the economy as a subsystem of the social system, or with the economy itself consisting of four subsystem becomes a question of system references. In this view, economics is no longer separated from sociology on the grounds that it focuses on different analytical elements of action. Rather, economics becomes a special case of a general theory of social systems, focusing on a distinct

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<sup>7</sup> There remained a certain tension between Parsons’ voluntaristic theory of action, and his normative-functional theory of order (Joas/Knöbl 2009: 68). It was unclear, for example, to what extent cultural values determine concrete actions, or where cultural values came from in the first place. Are actors “puppets of cultural values” or situated agents creatively applying vaguely formulated values to complex situations (Joas 2000: 17-18)? And how do we account for the “genesis of values” (Joas 2000: 18)?

social system that is subordinated to society as a whole but can also be analyzed in terms of the four subsystems it consists of (Parsons/Smelser 1956: 299-300).

As a result, Parsons focuses less on how different analytical elements intertwine in concrete economic actions, and more on how a functionally differentiated economy relates to cognate subsystems and to the general social system. Even more than before, he is convinced “of the essential soundness, from a sociologist’s point of view, of the main core tradition of economic theory” (Parsons 1991: 57). By acknowledging the theoretical validity of economic theory, Parsons forecloses the possibility that sociology can contribute anything meaningful to the explanation of internal economic processes. Instead, Parsons “merely *locates* economic theory in an expanded theoretical framework” (Beckert 2002: 153). His intention is “to sketch a ‘Columbian’ map of the social world” (Parsons 1991: 12) in which the economy as one of the main land masses must be delineated from a bird’s eye view, but whose detailed mapping can be entrusted to economists. Thus, Parsons is not so much interested in sociologically explaining the workings, “but rather in a theoretical explication of [the] processes which are externalized by economic theory and go into [it] as ad hoc postulates” (Beckert 2002: 153-154). Proponents of the new economic sociology have somewhat pejoratively dubbed this “the economy and society perspective” (Swedberg 1987: 53).

This is not the full story, however. For one thing, subsystems are analytical-functional and not concrete-institutional entities. The economic system must not only be distinguished from other subsystems, but also “from all concrete collectivities which, whatever their functional primacy, are *always* multifunctional” (Parsons/Smelser 1956: 310). “From the analytical point of view, all those functions in society would be viewed as economic, which provide resources for the achievement of societal ends. Under substantial aspects, the economy consists of concrete institutions and organizations” (Beckert 2002: 162). This distinction notwithstanding, in modern societies collectivities such as enterprises or households are to a high degree differentiated “in terms of functional primacy” (Parsons/Smelser 1956: 16). Hence, there is considerable overlap between economic collectivities and economic functions. In other words, the bulk of modern societies’ adaptive function, i.e. maximizing “utility or the economic value of the total available means to want satisfaction” (Parsons/Smelser 1956: 20), is performed in specialized economic organizations.

Crucially, want satisfaction cannot be understood from the point of view of the individual, but must be defined in relation to the adaptive needs of society as a whole (Parsons/Smelser 1956: 21). The analytical separation of functionally differentiated systems is only valid in the context of the unity of the social system as a whole. Therefore, in order to

fully understand the economic system, one must look at the boundary exchanges between the different social systems. Parsons' analytical distinction "has the status of a heuristic that sets up a theoretical scaffolding available for the analysis of intersystemic unity" (Beckert 2002: 160). The main objective of *Economy and Society* (1956) is to offer an analysis of the interconnectedness of the economy with the political, the social-integrative, and the cultural subsystems. For example, the economic system draws on the pattern-maintenance system for the socialization of value attitudes and behavioral patterns that allow individuals to master the functional demands of economic activities (Beckert 2002: 164). Mirroring Durkheim's claim about the non-contractual elements of contract, Parsons argues that these boundary exchanges manifest themselves as institutionally embedded occupational roles and contracts. These can symbolically integrate economic relationships such that, for example, workers experience "the prestige of working for a certain firm, and thus the social recognition resulting from the labor activity and, vice versa, the duty of feeling loyal and responsible to the firm" (Beckert 2002: 168).

Another example is that the pursuit of economic goals and their relative importance vis a vis alternative goals is regulated by the goal-attainment system by means of legal, political, and even financial regulation (Beckert 2002: 179-182). The question here is "how much to weight the social interest in production as against other interests" (Parsons 1991: 29). Finally, the integration subsystem can come to bear on the economic system when a conflict arises between the personality system which is geared toward efficiency and the integrative system of the economy which is responsible for the combination of available resources in the productive process (Beckert 2002: 188-192; Parsons/Smelser 1956: 26). If this combination is less than optimal, there is the potential for innovation which restores the optimal organization of the economy and thereby contributes to the normative integration of society (Parsons/Smelser 1956: 65-66). But although the expectation of entrepreneurial profit is the main incentive to innovate, "the prospect of profit does not account for the genesis of the motivation to innovate" (Parsons/Smelser 1956: 266). Rather, the motivation to innovate originates from internalized value orientations, especially towards efficiency, that are in conflict with the actual organization of the economy.

This brings us to the value system of the economy itself. According to Parsons, its "primary content is that of economic rationality" (Parsons/Smelser 1956: 176). But economic rationality is not individual, but social in nature and origin. Rather than determining the values of society as a whole, "the societal value system defines the *relative importance* of economic functions (and hence of economic rationality) in the hierarchy of functions on behalf of the



society” (Parsons/Smelser 1956: 176). This relative importance can vary from country to country and from time to time, depending on the degree of differentiation of the economy from other social subsystem, and the relative strength of economic values in a society (Parsons/Smelser 1956: 178). But it is not enough that economic rationality is institutionalized in the economy. It also needs to be internalized by individuals. And since individuals participate in different social systems and have different life histories and organic dispositions, there is “an element of looseness” (Parsons/Smelser 1956: 177) in the relationship between the personality system and the economic subsystem.

The fact that there is no complete assimilation of individual needs towards the needs of the economy requires, on the one hand, a high degree of value generalization that allows individuals to juggle different normative demands in increasingly complex environments (cf. Habermas 1987: 291). On the other hand, the economic value system constantly needs to grant individuals a “considerable flexibility” in response to situational demands; this flexibility is “regulated” by positive or negative sanctions – which at the same time stabilize individual motivations (Parsons/Smelser 1956: 179). But as important as economic incentives are for the regulation of behavioral flexibility and the stabilization of motivation – especially when they are not purely material but also serve as a symbol of recognition and esteem – they are not enough to account for the regularities of economic action. According to Parsons, internalized commitment to economic values and “[a]ttitudinal rewards” remain indispensable for the smooth functioning of the economy (Parsons/Smelser 1956: 180).

Parsons relieves economic theory “of the necessity of resting on ad hoc hypotheses about “human nature”” (Parsons/Smelser 1956: 185) to account for economic rationality. But “the compartmentalization into subsystems” also leads to “the emergence of an outside-inside perspective” (Beckert 2002: 194). This perspective keeps the interpretational prerogative of economics for the economy more or less untouched. Parsons investigates “those elements of economic action that are externalized by economic theory” (Beckert 2002: 162), such as the origins of the profit motive (Parsons 1991: 165-168), but does not challenge economics on its own turf, so to speak. It is true that by looking at the boundary exchanges, Parsons did analyze the interpenetration of the economy with the personality system as well as other social systems. But Parsons more or less assumed that the functional requirements of society would align institutional and motivational structures and that the normative-functional embedding of the economy would allow its autonomous and efficient functioning as a “pure money nexus” (Beckert 2002: 197). In doing so, Parsons thwarts the possibility of analyzing the conflictual interpenetration of economic interests, political power, and normative values (Beckert 2002:

200; Münch 1994). Moreover, by focusing on the social *preconditions* of economic rationality, Parsons stops short of a fully-fledged analysis of the social embeddedness of (non-rational) economic actions.

### 3.3.6 Money as a Generalized Symbolic Medium

In his later attempts to construe a theory of generalized symbolic media, Parsons begins to systematically concern himself with economic significance of money. Building on Weber, Parsons had already noted that money played an important role in functional differentiation:

“By separating consumption demands and labor demand from the concrete exchange partner, and yet binding them together on a generalized level with the generalized exchange medium of money, the different goals of economy and family can be coordinated through the market mechanism” (Beckert 2002: 165).

Now, Parsons analyzes money itself as a medium through which the economy communicates internally and regulates its boundary exchanges with other subsystems. Although money rests on the legitimate authority of the institution issuing it, it reinforces a separation of economic exchanges from their cultural embedding. It frees actors from social obligations (e.g. reciprocity) and gives them the right to buy (or reject to buy) any good from any supplier at any available price at any time (Beckert 2006b: 177-178).<sup>8</sup>

## 3.4 Jürgen Habermas

Jürgen Habermas never developed a fully-fledged economic sociology. He does, however, offer several promising starting points for conceptualizing the relationship between capitalism and morality, most notably in *Legitimation Crisis* (1973) and in the second volume of the *Theory of Communicative Action* (1981).

### 3.4.1 Capitalism and Legitimation Crises

Habermas' point of departure in *Legitimation Crisis* is to argue that crises cannot be understood in purely functional terms, but always have a normative dimension.

“[O]nly when members of a society experience structural alterations as critical for continued existence and feel their social identity threatened can we speak of crises. Disturbances of system integration endanger continued existence only to the extent that

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<sup>8</sup> Parsons makes this analysis of money the starting point for a general media theory, in which each subsystem is assigned a distinct medium (Habermas 1987: 267-277): power in the case of politics, influence in the case of the societal community, and value-commitment in the case of culture.

social integration is at stake, that is, when the consensual foundations of normative structures are so much impaired that the society becomes anomic” (Habermas 1988: 4)

Social crises, then, result from objective systemic steering problems which (indirectly) endanger social integration. Thus, to arrive at an appropriate understanding of social crisis one must conceptualize the interconnectedness of social integration and system integration. Whereas social integration refers to the lifeworld of acting subjects, system integration refers to the boundary maintenance of self-regulating systems. If we understand society as a lifeworld, we set eyes on norms and values, while overlooking the steering aspect. If we understand society as a system, we focus on functional mechanisms, while screening out the validity dimension of social reality (Habermas 1988: 4-5). The range of tolerance within which goal values of systems can fluctuate without critically endangering social integration varies historically. But it is limited by the autonomous logic of normative structures, which are not at the disposition of systemic imperatives (Habermas 1988: 13). Instead of being determined by the logic of the expansion of system autonomy, social evolution transpires “within the bounds of a logic of the life-world” (Habermas 1988: 14).

Tracing social evolution from primitive to modern societies, Habermas argues that only with the emergence of liberal capitalist societies and the relative decoupling of the economic from the political system, “interest-guided” could replace “value-oriented” economic actions within the economy (Habermas 1988: 21). But the economic system is not only uncoupled from political authority. It also starts to serve social integrative functions in that it “legitimate[s] itself” on the basis of “the justice inherent in the exchange of equivalents” (Habermas 1988: 22). This way, legitimation issues arising from class conflicts are depoliticized and transposed into the steering dimension. Thus, steering problems become a *direct* threat to social integration (Habermas 1988: 23). In the transition from liberal to late capitalism, the economy becomes both more concentrated and organized as well as repoliticized (Habermas 1988: 33). Because the state increasingly intervenes in the economy to fill its functional gaps and compensate for its socially detrimental consequences (Habermas 1988: 53-54), “the basic bourgeois ideology of fair exchange collapses” and a new “need for legitimation” arises (Habermas 1988: 36). As the “fundamental contradiction of the capitalist system” (Habermas 1988: 49) is intercepted and transformed into a fiscal overloading of the state, economic crises lose “the mantle of a natural fate of society” (Habermas 1988: 69) and reappear as legitimation crises.

Legitimation crises arise because cultural resources are “peculiarly resistant” (Habermas 1988: 70) to political manipulation; and because the expansion of the state – not

only into the economy but also into the socio-cultural system (Habermas 1988: 47) – comes along with a “disproportionate increase in the need for legitimation” (Habermas 1988: 71). In late capitalist societies, the crucial question becomes: to what extent can the scanty and resistant resource of cultural “meaning” be substituted for by the “fiscally siphoned-off resource” of economic “value” (Habermas 1988: 73)? Legitimation problems only culminate in a crisis when the demands for rewards cannot be met by the fiscally available quantity of value, or when demands arise that cannot, in principle, be satisfied by economic rewards (Habermas 1988: 73). Underlying every legitimation crisis, then, is a motivation crisis, that is a discrepancy between the demand for motivation by the economic (or political) system and the supply of motivation by the socio-cultural system (Habermas 1988: 75). This motivational problem has been provisionally offset by the complementary forces of civic and familial-vocational privatism. The former is defined by political abstinence combined with an interest in the steering and maintenance performances of the state; the latter by family orientation and an interest in leisure and consumption on the one hand, career and status competition on the other (Habermas 1988: 75).

Crucially, both motivational patterns feed on cultural sources, such as a traditional civic ethic or the protestant work ethic, that predate capitalism but inevitably erode in the face of modern social structural and cognitive developments (Habermas 1988: 79-80). The cultural sources that have emerged as a result of these developments – scientism, post-auratic art, and universalistic morality – are “no functional equivalents for the spent traditions, for they are precluded by the logic of development of normative structures” (Habermas 1988: 75). These developments have subjected more and more spheres of life to critical scrutiny and discursive will-formation, and have created cultural barriers that can be broken through only at the cost of psychological regression (Habermas 1988: 84-89). These “inflexible normative structures” “no longer provide the economic-political system with ideological resources, but instead confront it with exorbitant demands”, and set “definitive limits to procuring legitimation” (Habermas 1988: 93). In the long run, then, legitimation crisis can only be avoided if either the class conflict as the ultimate source of legitimation deficits (Habermas 1988: 73) is resolved; or if legitimation pressures are removed altogether by uncoupling the socialization process from norms that need justification (Habermas 1988: 93-94).

“Only if motives for action no longer operated through norms requiring justification, and if personality systems no longer had to find their unity in identity-securing interpretive systems, could the acceptance of decisions without reasons become

routine, that is, could the readiness to conform absolutely be produced to any desired degree” (Habermas 1988: 44).

Against such an empiricist view, Habermas argues “that the values and norms in accordance with which motives are formed have an immanent relation to truth” (Habermas 1988: 95). Habermas agrees with Weber that normative orders which institutionalize asymmetrical distributions of chances to satisfy needs owe at least some of their stability to shared beliefs in their legitimacy. But if these beliefs in legitimacy are merely empirical phenomena, the grounds upon which they are based have only psychological significance.

“If, on the other hand, every effective belief in legitimacy is assumed to have an immanent relation to truth, the grounds on which it is explicitly based contain a rational validity claim that can be tested and criticized independently of the psychological effect of these grounds. In the first case, only the motivational function of the justificatory grounds can be the object of investigation. In the second, their motivational function cannot be considered independently of their logical status, that is, of their criticizable claim to *motivate rationally* (Habermas 1988: 97-98).

Similar to Durkheim, Habermas argues that an empiricist conception of norms cannot account for the legitimacy of normative orders. If one only takes into account empirical motives such as interest or fear of sanctions, it is impossible to account for the binding character of norms and therefore the stability of normative orders (Habermas 1988: 104). The peculiar difference between intersubjectively recognized norms and sanctioned imperatives is rendered meaningless if we do not explain the validity of norms as the result of a rationally motivated agreement (Habermas 1988: 105). To account for the legitimacy of norms, the model of contracting parties coordinating “irrational volitional acts” must be replaced by the model of a “communication community” [*Kommunikationsgemeinschaft*] in which the validity claims of norms are discursively tested and potentially (although revocably) accepted based on their rationally motivated recognition (Habermas 1988: 105-110).

This allows Habermas to distinguish between social orders based on normative power, i.e. on norms that express generalizable interests and therefore a (hypothetical) rational consensus; and social orders based on force, i.e. on norms that express non-generalizable interests (Habermas 1988: 111). As long as motive formation is tied to norms that require justification (Habermas 1988: 117-130), and as long as the problem of a rational organization of society based on norms that admit of truth (*wahrheitsfähig*) is not superseded by the problem of reduction of complexity (Habermas 1988: 130-142), system integration remains dependent

on the internal logic of social integration, and legitimation crises remain possible. Of course, the “fundamental question of the continued existence of a truth-dependent mode of socialization constitutive of society” remains an open one that “can founder on a changed reality” (Habermas 1988: 141-142).

### 3.4.2 Lifeworld and System

In his *Theory of Communicative Action*, Habermas puts his arguments about the normative embeddedness of the economy on a new and highly sophisticated theoretical footing. Habermas now conceives of social evolution as the process of differentiation of systems and lifeworld, and of modern societies as „systemically stabilized complexes of action of socially integrated groups” (Habermas 1987: 152). Lifeworld is the social-theoretical complement to communicative action; the lifeworld “reproduces itself through communicative action” (Habermas 1996: 524), just as it constitutes – from the participants perspective – “the horizon within which communicative actions are "always already" moving” (Habermas 1987: 119). Crucially, (communicative) actions are bound up with a notion of rationality that is not – as in the utilitarian tradition – limited to the optimal selection of means for given ends. Rationality does not exhaust itself in effectiveness, but is to be understood as the ability of speaking and acting subjects to give and take reasons, to criticize and ground validity claims about i) the *objective* world as the totality of entities about which true statements are possible; ii) the *social* world as the totality of legitimately regulated interpersonal relations; and iii) the *subjective* world as the totality of experience to which a speaker has privileged access (cf. Habermas 1987: 120).

In the instrumental conception of rationality the reasons an actor gives for acting in a particular way remain private and demands for justification will at best psychologically but not rationally motivate people to abide by social norms. Against this background, Parsons introduced the notion of shared norms to account for the empirical regularities of social action (Heath 2001: 14-17). Habermas turns this argument on its head (or on its feet) by arguing that it is the public commitments speakers undertake through their speech acts that make both language and social order possible (Heath 2001: 18-19). Every time a speech-act is made, it gains its “binding and bonding force” through the “credible warranty” that the speaker is able to redeem the validity claims that come along with it “with the right sort of reasons, if required” (Habermas 1998: 222). Only this binding force which cannot be accounted for in instrumental terms ensures that whoever “accepts a command feels herself obliged to carry it out; whoever makes a promise feels himself bound to make it come true if need be; whoever accepts an

assertion believes it and will direct her behavior accordingly.” (Habermas 1998: 223). Of course, speech-acts can be intended to mislead or confuse, but the

“latently strategic use of language lives parasitically on normal language usage because it functions only if at least one of the parties involved assumes that language is being used with a built-in orientation toward reaching understanding. This derivative status points to the independent logic underlying linguistic communication a logic that is effective for coordination only to the extent that it subjects the purposive activities of the actors to certain constraints. (...) These constraints force the actors to change their perspective: they must shift perspective from the objectivating attitude of an actor oriented toward success who wants to realize some purpose in the world, to the performative attitude of a speaker who wants to reach understanding with a second person with regard to something in the world” (Habermas 1988: 224).

In that sense, “[r]eaching understanding is the inherent telos of human speech” (Habermas 1984: 287). Communicative action, then, can be distinguished from strategic action by the underlying stance of interacting actors as well as by the respective role language plays in action coordination. In strategic actions, the actors’ “egocentric calculations of success” (Habermas 1984: 286) are coordinated through extralinguistic dynamics while language is merely a “medium for transmitting information” (Habermas 1998: 220-221). In communicative action, actors’ orientations to reaching understanding are coordinated through “the binding and bonding energies of language itself” which becomes a “source of integration” (Habermas 1998: 221). The lifeworld reproduces itself through communicative actions. Of course, this does not mean that there are no strategic actions taking place in the lifeworld. But they do “have a different significance than (...) in Hobbes or in game theory: they are no longer conceived as the mechanism for generating an instrumental order. Rather, strategic interactions find their place in a lifeworld that has already been constituted elsewhere, as it were” (Habermas 1996: 524).

Against a “culturalistic abridgement of the concept of the lifeworld” (Habermas 1987: 135), Habermas distinguishes the material reproduction of the lifeworld from its symbolic reproduction, and differentiates the latter into three structural components: culture, where knowledge is transmitted and renewed; society, where solidarity and social integration are established; and personality, where personal identities are formed (Habermas 1987: 137-138). From the observer’s perspective, these components provide individuals with the knowledge, the solidarities, and the competencies to interact in and reproduce the lifeworld (Strecker 2012: 210). In the course of social evolution, the lifeworld undergoes a structural transformation

during which the ritualistically and mythically secured basic normative agreement is linguistified, and the rationality potential of communicative action is released (Habermas 1987: 77, 155). Identity-securing traditions, social norms, and cognitive structures become ever more abstract and reflexive, and the validity claims for truth, rightness and truthfulness differentiate from each other and become institutionalized in the cultural spheres of science and technology, morality and law, and art and criticism (Habermas 1987: 146-147).

Although the locus of change is in the domain of material reproduction (Habermas 1987: 168), an increase in system complexity always depends on and must be anchored in a differentiated lifeworld. As in *Legitimation Crisis*, Habermas maintains that social evolution “follows the inner logic of communicative rationalization” (Habermas 1987: 173). To further back this point up, Habermas picks up Kohlberg’s distinction between preconventional, conventional, and postconventional stages of moral reasoning and transfers it from the ontogenetic to the phylogenetic level (Habermas 1987: 174-175; Habermas 1991b). On the preconventional stages 1 and 2, the relation to norms is external and defined by fear of punishment (How can I avoid punishment?) and self-interest (What’s in for me?) respectively; on the conventional stages, norms are internalized and express themselves in a desire to conform with group expectations (stage 3) or to uphold the social order (stage 4); only on the postconventional stages, concrete norms are understood as emanating from a social contract (stage 5) or a universal ethical principle (stage 6) (Habermas 1991b: 123-125).

As societies progress to postconventional stages, the expenditure of interpretive energies and the risk of dissensus increase (Habermas 1987: 183). The process of ‘value generalization’ (Parsons) decouples motives from traditional morality up to a point where “abstract obedience to law becomes the only normative condition that actors have to meet in formally organized domains of action” (Habermas 1987: 180). This shifts the burden of social integration “from religiously anchored consensus to processes of consensus formation in language” (Habermas 1987: 180), which ultimately overstrains the latter’s integrative capacity (Habermas 1987: 110-111). The same process of rationalization allows for the differentiation of validity claims for truth and rightness, and thus for the emancipation of action oriented to success from action oriented toward understanding (Strecker 2012: 211). As purposive activities are “freed from normative contexts” (Habermas 1987: 196), relief mechanisms emerge that reduce the expenditure of communication and the risk of dissensus (Habermas 1987: 181). These relief mechanism either condense mutual understanding in language or replace it. Contrary to Parsons’ “overgeneralization” (Habermas 1987: 259) of the media concept, Habermas argues that generalized forms of communication – prestige and influence –



merely “focus [*raffen*] consensus formation in language” through, for example, reputation based on professional specialization. Only generalized media – money and power – “uncouple action coordination from consensus formation in language altogether” (Habermas 1987: 183).

We can now understand why Habermas conceives of social evolution as “a second-order process of differentiation” (Habermas 1987: 153). The differentiation of the lifeworld was the “necessary condition” (Habermas 1987: 179) for the differentiation of increasingly complex media-steered subsystems – the capitalist economy and the modern state – *from* the lifeworld. When wage labor and a state based on taxation were institutionalized, money became an intersystem medium of exchange that began to yield structure-building effects. This, in turn, led to the assimilation of power, which was already based on the authority of the office, to the structure of a steering medium (Habermas 197: 170-171; Habermas 1991c: 256). The lifeworld is no longer needed for the coordination of economic or political action. The state and the capitalist economy become areas of “norm-free sociality” (Habermas 1987: 171). And the capitalist enterprise and the modern administration “gain autonomy through a neutralizing demarcation from the symbolic structures of the lifeworld” to which “they become peculiarly indifferent” (Habermas 1987: 307).

Thus, the combined forces of deinstitutionalized, internalized morality and of demoralized, positive law created the conditions of possibility for the extensive uncoupling of system from social integration (Habermas 1987: 180). In this process, the role of law is both crucial and ambivalent: On the one hand, positive law constitutes the capitalist economy as a “formally organized” sphere of action (Habermas 1987: 309). Economic institutions are not simply “overlaid and guaranteed by law”, but the institutions of bourgeois law such as property and contract first constitute the economy as an “ethically neutralized system of action” (Habermas 1987: 178). They demarcate “areas of legitimate choice [*Willkür*]” (Habermas 1987: 309) in which interactions can become transactions (Habermas 1987: 178). On the other hand, the capitalist system (and even more so: the modern state) remain indirectly “linked with everyday communicative practice via basic institutions of civil or public law” (Habermas 1987: 185). The very fact that the steering media are legally institutionalized recouples the subsystems to the normative context of the lifeworld (Habermas 1991c: 256), and subjects them “to the proviso of recourse to prior formal regulation” (Habermas 1991c: 257; Habermas 1987: 365-366).

Crucially, the differentiation of the capitalist system from the lifeworld does not mean that communicative action is completely absent from the economy. Nor does it mean that the lifeworld is a power-free sphere of communication devoid of domination or latent strategic

action (Habermas 1991c: 254). The central difference between system and lifeworld is the mechanism of action coordination, rather than the distribution of action orientations. To understand the uncoupling of system and lifeworld, it is necessary to distinguish “mechanisms of coordinating action that harmonize the action orientations of participants from mechanisms that stabilize nonintended interconnections of actions by way of functionally intermeshing action consequences” (Habermas 1987: 117). Initially, social and system integration are merely different methodological “perspectives” (Habermas 1991c: 255) adopted to analyze societies which are still “coextensive” (Habermas 1987: 149) with the lifeworld. Only in the course of social evolution do they acquire “essentialist connotations” (Habermas 1991c: 255) and call “for a corresponding differentiation in the concept of society itself” (Habermas 1987: 117).<sup>9</sup>

It is true that even in the simplest of societies, the material reproduction of the lifeworld cannot be understood without taking into account the latent functions that go beyond the immediate action orientations of those involved. This suggests an objectivating conception of the lifeworld – or at least its material reproduction – as a system (Habermas 1987: 232). And it is indeed entirely possible to give “approximate descriptions” (Habermas 1991c: 253) of societies from the methodological point of view of both, social and system integration. Both accounts, however, have certain strengths and weaknesses. Whereas system-theoretic approaches depend on a hermeneutic preconception of society (Habermas 1987: 151) and must treat the internal logic of symbolic reproduction as external, “contingent data” (Habermas 1991c: 253), action-theoretical approaches of social integration reach their limits if social complexity reaches the point where “aggregated action consequences reciprocally stabilize one another in functional contexts and thus engender integrative effects” (Habermas 1991c: 254). This essential limitedness of a theory of action becomes manifest as soon as the systemic logic of inside-outside differentiation and demarcation “infiltrates into society itself” (Habermas 1991c: 255) and functionally stabilized nexuses of action multiply.

This point – when systems theory is no longer merely an analytical device but investigates ‘real abstractions’ (Marx) – is reached when money is legally institutionalized and the connection of success-oriented actions to the norms embedded in communicative action is severed (cf. Habermas 1991c: 256). Accordingly, the capitalist market is understood as a

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<sup>9</sup> The process of social differentiation no longer leads itself to the emergence of a new form of solidarity or social integration – as it did for Durkheim. According to Habermas, Durkheim’s own ambivalence testifies to the fact that “a highly complex market system destroys traditional forms of solidarity without at the same time producing normative orientations capable of securing an organic form of solidarity” (Habermas 1987: 116). Durkheim’s hint at the empirical connections between stages of system differentiation and forms of social integration would nevertheless prove to be crucial (Habermas 1987: 117).

“mechanism that ‘spontaneously’ brings about the integration of society not, say, by harmonizing action orientations via moral or legal rules, but by harmonizing the aggregate effects of action via functional interconnections” (Habermas 1987: 115). Again, the argument is not that strategic actions only occur in medium-steered subsystems, nor that only strategic actions occur in such subsystems (Habermas 1991c: 258). Even within formally organized domains of action, social relations could not be sustained and organizational goals could not be realized without the communicative coordination of actions. Concrete economic organizations undoubtedly “make use of communicative action that is embedded in a normative framework” (Habermas 1991c: 257). The existence of informal organizational structures testifies to this fact. Yet “in the final instance” (Habermas 1991c: 257),

“communicative action forfeits its validity basis in the interior of organizations. Members of organizations act communicatively only with reservation. They know they can have recourse to formal regulations, not only in exceptional but in routine cases; there is no necessity for achieving consensus by communicative means. Under conditions of modern law, the formalization of interpersonal relations means the legitimate demarcation of scopes for decision making that can, if necessary, be utilized in a strategic manner. Innerorganizational relations constituted via membership do not replace communicative action, but they do disempower its validity basis so as to provide the legitimate possibility of redefining at will spheres of action oriented to mutual understanding into action situations stripped of lifeworld contexts and no longer directed to achieving consensus” (Habermas 1987: 310-311).

In that sense, capitalism is indeed a “sphere of legally domesticated, incessant competition” (Habermas 1987: 178), where strategic actors can, and, in a certain sense, must egocentrically pursue their self-interest. This is because money “possesses an affinity to purposive-rational action orientations” (Habermas 1991c: 258; Habermas 1987: 395-400), and “demand[s] a strategic stance on the part of the actors (albeit naturally not always at the highest level of purposive rationality)” (Habermas 1991c: 254). It is crucial that Habermas considered this unproblematic as long as systemic demands do not suppress communicative action where it cannot be replaced, that is, as long as the symbolic reproduction of the lifeworld is not at stake (Habermas 1987: 196; cf. Strecker 2012: 215). The pathologies of modernity can neither be attributed to the rationalization of the lifeworld nor to increasing system complexity (Habermas 1987: 330). On the contrary, Habermas frees the media-steered subsystems from their negative “odium” (Joas 1991: 111) by acknowledging their “intrinsic evolutionary value” (Habermas 1987: 339; Habermas 1991c: 261). According to Habermas, we cannot go back

behind the advantages of media-steered systems without relapsing behind the level of rationalization already attained.

In a way, the (legitimate) delinguistification of the economy is just the flip side of the linguistification of the sacred (Berger 1991). By releasing the rationality potential inherent in communicative action, the process of social rationalization not only shrunk the “zones of what is unproblematic” (Habermas 1987: 183). It also allowed and necessitated the creation of “zone[s] of indifference” (Habermas 1987: 308) in which action coordination is uncoupled from and neutralized against the normative demands of communicative action (Habermas 1987: 262-263). Contrary to Weber, however, the neutralization of vocational-ethical attitudes does not by itself count as a social pathology (Habermas 1987: 318). The process of rationalization becomes pathological when the “systemic relief mechanisms made possible by the rationalization of the lifeworld turn around and overburden the communicative infrastructure of the lifeworld” (Habermas 1987: 378). This is because unlike the material reproduction, the symbolic reproduction of the lifeworld cannot be (painlessly) substituted by systemic mechanisms (Habermas 1987: 323). Because “meaning can neither be bought nor coerced” (Habermas 1991c: 259), there is simply no functional equivalent to the symbolic reproduction of the lifeworld through the medium of communicative action (Habermas 1987: 261; Strecker 2012: 218-219) – at least not “without a transformation of anthropologically deep-seated structures” (Habermas 1987: 312).

On the one hand, then, Habermas believes systems theory to be an “indispensable” (Habermas 1991c: 259) tool for analyzing modern societies. Although one can be pragmatic about how much to borrow from systems theory (Habermas 1991c: 259), a purely action-theoretic approach cannot cope with the complex dynamics of, say, the capitalist economy (Habermas 1987: 377). On the other hand, a purely system-theoretic approach lacks the theoretical means to even conceive of the suppression of communicative rationality by system imperatives “as costs” (Habermas 1987: 186). By assimilating social and system integration, participant and observer perspectives, it fails to understand the system-induced calamities of the lifeworld as “identity-threatening deformations” (Habermas 1987: 377). Thus, Habermas opts for a theory that is able to conceptualize the advantages of both, rationalized lifeworlds and media-steered subsystems without losing sight of their paradoxical interferences, or ignoring their distinct character by directly juxtaposing them, as Parsons did (Habermas 1987: 234).

Although Habermas is by no means oblivious of the mechanisms of social power within the lifeworld, or the power asymmetries within the systems (Strecker 2012: 217), his theory is

geared to the social pathologies that result from the “irresistible inner dynamics” (Habermas 1987: 331) of media-steered subsystems. The “site” of pathologies “is not the factory, and its source is not a particular form of organization of alienated labour; it is located, rather, at the border between lifeworld and system” (Berger 1991: 175). Social pathologies arise if steering crises are intercepted by having recourse to lifeworld resources such as legitimation and motivation, collective and personal identities, or socialization patterns and interpretative schemes (Habermas 1987: 385-386, 142-143; cf. Strecker 2012: 225-231). Importantly, however, pathologies are not necessary and Habermas’ theory is by no means static or linear (Habermas 1991c: 259).

“Both are conceivable—, the institutions that anchor steering mechanisms such as power and money in the lifeworld could serve as a channel either for the influence of the lifeworld on formally organized domains of action or, conversely, for the influence of the system on communicatively structured contexts of action. In the one case, they function as an institutional framework that subjects system maintenance to the normative restrictions of the lifeworld, in the other, as a base that subordinates the lifeworld to the systemic constraints of material reproduction” (Habermas 1987: 185)

The relative weights of social versus system integration is a difficult, empirical problem (Habermas 1987: 312), and the analysis of social pathologies requires “an (unbiased) investigation of tendencies and contradictions” (Habermas 1987: 391). System crises need not lead to a detrimental colonization and one-sided rationalization of the lifeworld. This only happens when the communicative practices of everyday life are forced into a utilitarian lifestyle (private sphere) or subjected to legalistic social engineering (public sphere) (cf. Habermas 1987: 325). It is entirely possible that a system crisis leads to the institutionalization of new patterns of motivation and legitimation and a corresponding change in material reproduction (Strecker 2012: 229). The fact that the steering media of money and power have to be legally anchored in the lifeworld ultimately subjects them to the demands of substantive normative justification (Habermas 1987: 365-366).

As sophisticated and philosophically grounded as Habermas’ conception of the relationship between capitalism and morality is, it contains several shortcomings that should at least be hinted at. For one thing, Habermas’ conception of the relation between the lifeworld and the economic system is rather one-sided. The economic system does not just exchange, with the private sphere, wages as well as goods and services against labor and demand; or, with the public sphere, economic resources against legitimacy (cf. Habermas 1987: 319-320). It is

also subject to the normative “voice” critique of various public and private stakeholders (cf. Hirschman 1970). This critique is brought forth not only in the form of fundamental legal reforms, but also in the form of less revolutionary demands for fair products, good governance, attractive working conditions, legal regulations and so on. By restricting his focus on material and legal interdependencies, Habermas misses the various channels via which communicative critique can affect economic practices – channels that might even open up the possibility of a partial (and crisis-inducing) subjugation of the economic system to the normative expectations of the lifeworld (cf. Berger 1991: 178-180). By arguing that critique and conflicts only arise when system imperatives cross the line of symbolic reproduction (Habermas 1987: 391-392), Habermas “gives up the possibility of a justified critique of concrete forms of organization of economic production” which, as Habermas himself pointed out, ultimately “remain dependent for their existence on the moral consensus of all participants” (Honneth 1991: 303).

Then, the depersonalization and ethical neutralization of social reality in formally organized spheres of action seems to overstate the point. On the one hand, he did not sufficiently distinguish between organizations and markets to appreciate their respective logics (Berger 1991: 177). On the other hand, although Habermas acknowledges the (necessary) existence of informal organizational structures even within capitalist organizations, he did not sufficiently take into account

“that the “buffer zone” of organizational “indifference” to personality and individual life history, to culture and tradition, to morality and convention is frequently no more effective than the military barrier erected by the American Armed Forces between North and South Vietnam – much of what is to be kept out is already within, and much of the rest can enter as the need arises. If organizations are systems, they are, unlike organisms, systems with porous and shifting boundaries” (McCarthy 1991: 124).

This is all the more true in light of more recent knowledge- and creativity-driven transformations of capitalism and its increasing reliance on highly communicative, culturally immersed, and innovative laborers (cf. Boltanski/Chiapello 2007; Castells 2010; Hardt/Negri 2000; Reckwitz 2017). This new capitalism might not just stabilize itself through the “ruthless exploitation [*Raubbau*]” (Habermas 1987: 386) of cultural and personal resources, but also by creatively drawing on and incorporating these resources (Boltanski/Chiapello 2007). Despite these fairly extensive economic transformations, Habermas never substantially modified his view of the economy (Nullmeier 2009: 373-374). Nor did he extend his economic sociology in the same way that he extended his political and legal sociology in *Between Facts and Norms*

(1992), where he conceptualizes lifeworld and political system as being much more intertwined than in *The Theory of Communicative Action*.<sup>10</sup>

Because the political system must “always regenerate itself anew out of communicative power”, law can no longer be only abstractly linked to communicative processes, but becomes a “medium for transforming communicative power into administrative power” (Habermas 1996: 169). Elsewhere, Habermas argues that a postconventional morality that is solely based on rational motivation depends on forms of life that “meet universalist moralities halfway” (Habermas 1991a: 109). That is, abstract legal orders depend on ethically colored psychological mechanisms that “support motivations for translating [abstract moral] insights into moral action” (Habermas 1991a: 109). Against this background, it can be argued that capitalism, too, depends on such mechanisms to sustain itself – and not only, as Weber claimed, depended on them for asserting itself against the forces of economic traditionalism.

## Part II: Recent Developments in the Relation between Capitalism and Morality

In tracing the intellectual history of capitalism and morality, we encountered different answers to the question that lies at the heart of this study: what role does (and can) morality play in economic affairs. Neoclassical economists assume that economic actors rationally pursue their own (material) self-interests, be it for definitional reasons or because it is the only way to survive in a competitive evolutionary and/or market environment. Neoliberal thinkers attempt to safeguard the economy against the subordination of property rights and the freedom of contract under binding moral purposes, while pointing to the normative and economic benefits of a free ‘means-connected’ society. Sociological theorists, meanwhile, emphasize the moral preconditions and consequences of a capitalist economy, but stop short of developing a fully-fledged analysis of the moral embeddedness of economic action. Thus, despite their differences, the various intellectual traditions discussed here seem to converge in viewing the inner workings of the economy as essentially morally disembedded (cf. Beckert 2012: 259-260). True, the capitalist economy is legally and functionally anchored in a larger, encompassing socio-moral order. It might even – genetically or structurally – depend on certain moral attitudes such as contractual loyalty or a certain work ethic. But within modern capitalist economies, moral values that are not actively lubricating economic transactions or even run counter to (immediate) economic interests are assumed to have forfeited their validity basis.

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<sup>10</sup> I owe this observation to Martin Hauff.

#### 4. Three Levels of Analysis

In recent decades and especially in recent years, three analytically distinguishable strands of research have developed that challenge this notion on different levels of analysis. The first strand of research has its roots in moral psychology, evolutionary anthropology and behavioral economics, but was more recently taken up by sociologists as well. It argues that human actions, including economic actions, are fundamentally guided by (implicit) moral values and sentiments (4.1). It is, of course, far from obvious why these experimental and survey findings would have any bearing on real-world economic processes (cf. Schröder 2011). After all, there are good reasons to believe that modern capitalist economies are morally disembedded and follow their ‘own immanent laws’ (Weber). Thus, I will, in a brief intermediary reflection, recount four stories about why and how this alleged ‘moral disembedding’ of the economy came about (4.2.). This, then, will be the background against which I will present evidence that even in modern economies, moral values are not as irrelevant as one might think. The focus here is no longer on (inter)actions on the micro-level, but on moral behavior at the meso-level of capitalist firms or the macro-level of capitalist reproduction. The former, second strand of research originates from organizational sociology and management studies, and insists that moral and legitimacy considerations *do* play a role in capitalist companies (4.3). The latter, third strand of research originates in social and capitalist theory, and is concerned with the significance of socially articulated moral values and critique for economic processes (4.4).

##### 4.1 Level of (Inter)Actions

In the wake of a “social turn” (Meloni 2014: 595) in different evolutionary sciences, there has emerged a renewed interest in and acknowledgement of the morality of human beings and human societies. This, in turn, has spawned new research into the evolutionary underpinnings of human morality as well as into the morality of humanity’s evolutionary makeup. As a result, the neo-Darwinian story of self-interested behavior as both the product and the engine of processes of individual (or kin) selection – a story on which a lot of neoclassical economics built its case (e.g. Becker 1976: 282-294) – began to lose its intellectual dominance. Instead, multilevel selection approaches gained prominence, and evolutionary as well as experimental evidence for the defining role of morality in both human phylogeny and ontogeny began to accumulate (4.1.1). These developments, which were themselves partly



informed by social scientific arguments, have triggered the emergence of a new sociology of morality with profound implications for sociological theory in general (4.1.2).

#### 4.1.1 Evolutionary Anthropology, Behavioral Economics, and Developmental and Moral Psychology

Humans are unique in displaying large-scale cooperation among genetically unrelated individuals. This evolutionary anomaly can be accounted for by quantitatively and qualitatively unique patterns of altruism (Fehr/Fischbacher 2003: 785); by the fact that *Homo sapiens* is “an ultracooperative primate, and presumably the only moral one” (Tomasello 2016: 2). According to Tomasello’s interdependence hypothesis, this “collaborative rationality” (Tomasello 2016: 4) is the result of a two-step evolutionary history. First, humans developed the skills and motivation to collaborate with others in acts of shared intentionality (mostly for the sake of foraging). As a result, they came to see each other as interdependent and equally deserving second-personal agents. The joint commitments they formed created a “supraindividual social structure” (Tomasello 2016: 81) – a legitimate “we” that regulated mutual responsibilities as a “moral force” (Tomasello 2016: 4). Second, humans developed the skills and motivations to participate in acts of collective intentionality based on a “cultural common ground” (Tomasello 2016: 5). As human’s second-personal morality based on sympathy and mutual respect “scaled-up” to the group-level (again, as a result of ecological pressures), normative standards became fully “objective” (Tomasello 2016: 6, 122-125). As a result, humans develop a special concern for and loyalty to the norms of the group on which they – and everybody similar to them – depended (Tomasello 2016: 87).<sup>11</sup>

Humans have prudential reasons for conforming to social norms, such as to identify as an in-group member, to coordinate with the group, and to avoid (reputational) punishment (Tomasello 2016: 100). But “Hobbesian prudential reasons” are accompanied and often overruled by “Rousseauian legitimacy reasons” (Tomasello 2016: 121). Crucially, human morality is built on a sense of moral identity that makes individuals judge themselves and others based on the “objective” moral standards of the group (Tomasello 2016: 111). On the one hand, individuals feel guilty not out of fear of punishment, but because they feel that punishment is deserved (Tomasello 2016: 110); on the other hand, they engage in “strong reciprocity” (Fehr/Fischbacher 2003: 785), i.e. rewarding others for norm-abiding behaviors and punishing

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<sup>11</sup> Interestingly, from an evolutionary point of view, human solidarity based on collaborative interdependence, i.e. what Durkheim called organic solidarity, came first, whereas solidarity based on in-group similarity, i.e. mechanical solidarity came second (cf. Tomasello 2016: 90).

them for norm-violating behavior without prospect for personal gain (cf. Tomasello 2016: 101-102). Guilt and altruistic third-party enforcement of norms suggest that humans possess a strong sense of moral identity; they are guided – as Durkheim and after him Parsons emphasized – by genuine commitments to collective norms – norms that do not just apply to others, but also to oneself (Tomasello 2016: 108-111).

At the core of this moral identity are four, potentially conflicting sets of concerns: self-interested me-concerns (me>you), sympathy-based you-concerns (you>me), fairness-based equality concerns (you=me), and dyadic- or group-based we-concerns (we>me) (Tomasello 2016: 112, 79-82). This core moral identity is surrounded by a protective belt which provides individuals with a repertoire for interpreting and justifying their actions in order to preserve their moral identity and demonstrate their continued identification with their moral community (Tomasello 2016: 113-114). According to Tomasello, societies build their cultural morality on top of individual's natural morality, collectivizing, objectifying, and even sacralizing it (Tomasello 2016: 118, 127). This is why cultural norms must always be to some extent “morally sensible” (Tomasello 2016: 131), that is, they must somehow “connect (...) with humans' natural attitudes of sympathy and fairness” (Tomasello 2016: 127).

But this connection is of course far from deterministic. In fact, demands of cultural group-minded morality often conflict with those of the second-personal natural morality (Tomasello 2016: 128). Moreover, since what constitutes appropriate sympathy or fairness in a particular situation has to be interpreted, and actions can often be creatively justified in terms of widely held values (Tomasello 2016: 125), cultures have considerable influence about what counts as right and wrong (Tomasello 2016: 160; cf. Starmans et al. 2017: 3-4). Human morality, then, “is not a monolith but a motley, patched together from a variety of different sources, under different ecological pressures, at different periods during the several million years of human evolution” (Tomasello 2016: 128). Therefore, evolutionary accounts that only focus on older moral dispositions shaped by processes of kin selection and reciprocity miss the more recent moral dispositions shaped by co-evolutionary processes of within- and between-group selection that favored genuinely moral disposition (Tomasello 2016: 141-143; Richerson/Boyd 2005: 191-236).

Correspondingly, behavioral economists and developmental psychologists have uncovered large and consistent deviations from the neoclassical assumptions of self-interested

utility-seeking.<sup>12</sup> For example, humans punish norm violators not only for what they did to them but also for what they did to unrelated others (Fehr/Fischbacher 2003: 786). Moreover, humans altruistically reward cooperative partners in situations where cooperation makes both parties better off but where there also is a strong incentive to cheat (Fehr/Fischbacher 2003: 786).<sup>13</sup> Since both observations hold across cultures and demographics, “the canonical model of the self-interested material payoff-maximizing actor is systematically violated” (Heinrich et al. 2001: 77). However, the level of cooperation in ultimatum games also varies across cultures, depending on how important and how large payoffs from cooperation in economic production are, and on how much people rely on market exchange in their daily lives (Heinrich et al. 2001: 76). This confirms Parsons’ hypothesis of the institutional formation of economic motivations and undermines the neoclassical hypothesis of stable and exogenous preferences.

Moreover, humans seem to have a strong preference for fairness – rather than an aversion against inequality per se (Starmans et al. 2017). In laboratory studies, participants tend to divide resources equally (among equally deserving but unrelated individuals), unless they can restore pre-existing inequalities; they even have a preference for fair distributions where everyone gets less overall over unfair distributions where everyone gets more overall (Starmans et al. 2017: 2). In one study, six- to eight-year-olds, who were asked to distribute five erasers to two boys who had cleaned their room, preferred to throw the fifth eraser away, rather than to establish unfair (and in this case also unequal) distribution (Shaw/Olson 2012: Study 1a).

While there seems to be a universal fairness preference, the criteria for what is fair or for what inequalities are justified vary ontogenetically and across cultures. For example, as (European) children enter adolescence, they start to rely less on equality as a heuristic for fairness, and increasingly view inequalities based on merit – as opposed to luck – as fair (Almås et al 2010). However, children from other cultures have different ideas about what is fair. For example, while children from modern Western cultures distribute the spoils of a joint enterprise proportional to productivity, children from a gerontocratic pastoralist society in Africa do not take merit into account at all (Schäfer et al. 2015).

Of course, cooperative actions are the product of both, altruistic and selfish concerns. Humans are very attentive to possibilities of reputation formation as well as to the benefits of reciprocal altruism. Hence, cooperation rates increase if participants are given the opportunity

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<sup>12</sup> I will focus here on genuine commitments to certain moral principles (e.g. fairness), i.e. what Frank (1990) dubbed irrational behavior without regret, leaving aside here systematic cognitive biases (e.g. loss aversion), i.e. irrational behavior with regret (for reviews, see Kahneman 2011; Thaler 2016).

<sup>13</sup> This underscores (the importance of) the non-contractual foundations of contract emphasized by Durkheim and Parsons.

to build a reputation or engage in repeated interactions with the same individuals – but they do so from an already “sizeable baseline level” of altruistic behavior (Fehr/Fischbacher 2003: 787). Correspondingly, evolutionary approaches to human morality that focus on reciprocal altruism and repeated interaction are limited to small-n groups (Fehr/Fischbacher 2003: 788-789). On the other hand, when punishment of non-cooperators and non-punishers is possible, cooperators do better than defectors and punishers incur only minor or no costs at all (Fehr/Fischbacher 2003: 790). Given the evidence of inter-group conflicts in foraging societies, and of the cultural extinction or assimilation of losing groups, it is plausible to assume that group selection has contributed to the evolution of human morality (Fehr/Fischbacher 2003: 790).

In a similar vein, proponents of the “new synthesis in moral psychology” (Haidt 2007) emphasize that processes of group selection added a “groupish overlay” (Haidt 2012: 222) to human selfishness, making us the “giraffes of altruism” (Haidt 2012: 229). Morality, therefore, “is the key to understanding humanity” (Haidt 2012: 231). As “conditional hive creatures” (Haidt 2012: 258), humans can – under certain conditions and to varying degrees – transcend their selfishness, for example in ‘hivish’ organizational environments that exploit human (parochial) moral dispositions (Haidt 2012: 274-279). In addition, proponents of the new synthesis also emphasize the largely intuitive nature of human morality. Whereas rationalists (such as Habermas) in the wake of Piaget and Kohlberg conceived of moral development as a process of growing into our moral rationality “as caterpillars grow into butterflies”, that is, as a process of progressively better moral reasoning (Haidt 2012: 6-9), social intuitionists hold this to be a “rationalist delusion” (Haidt 2012: 34). Instead of reasoning their way to moral decision, humans use reasoning primarily to make sense of their intuitions and justify them in front of others – “moral reasons are the tail wagged by the intuitive dog” (Haidt 2012: 57).

Rather than being truth-seeking scientists or judges, humans are more like cunning politicians, always ready to come up with a good excuse for bad behavior and to take advantage of others mistakes (Haidt 2007: 999-1000). People “are trying harder to look right than to be right”, and conscious reasoning “is carried out largely for the purpose of persuasion, rather than discovery” (Haidt 2012: 89). Thus, morality is a great deal more about appearance and reputation than it is about reality and rationality (Haidt 2012: 86). Although this righteousness is universal, its manifestation varies across cultures. “We’re born to be righteous, but we have to learn what, exactly, people like us should be righteous about” (Haidt 2012: 31). Cultures, however, do not start from scratch; rather, they build on older sets of moral intuitions. Haidt

distinguishes six such ‘moral foundations’, i.e. basic moral grammars that evolved in response to different adaptive challenges and underlie our ideas about what is right and wrong.

These foundations do not just comprise care and fairness, but also loyalty, authority, sanctity, and liberty. Each of these foundations has different triggers – e.g. sexual taboos (sanctity) or sports teams (loyalty) – and triggers different emotions – e.g. disgust or group pride. Depending on the (sub)culture they have been socialized in, people’s moral intuitions will be triggered by different events, and they will find some foundations more appealing than others. Because rationalists have mostly studied WEIRD – Western Educated Industrialized Rich Democratic – societies, they have studied “extraordinary historical exceptions” (Haidt 2012: 14). The moral web of such societies is unusually confined in both scope and depth. On the institutional level, morality has mostly ‘shrunk’ to universally applicable and procedurally legitimized rules that prevent individuals from harming, oppressing, and taking advantage of each other (3.4.2). But in order to avoid an all too rationalistic account, it is important to conceive of morality in relativistic and descriptive terms, as denoting a domain where concepts like good or bad, right and wrong are relevant (Hitlin/Vaisey 2013: 55). Not just sympathy or fairness are moral, but all commitments to things good and right (cf. Bowles 2016: 45-46). These commitments can of course come into conflict with selfish desires and are often corrupted by incentives. They do, however, not simply disappear if strategic – e.g. reputational – rewards disappear, but are deeply ingrained into human’s “cooperative rationality” (Tomasello 2016: 4, 141).<sup>14</sup>

#### 4.1.2 Sociology of Morality and the Regensis of Values

There has been a long-standing debate in sociological theory as to whether moral values primarily provide motivations or justifications for action (Vaisey 2009: 1676-1679). While Parsons argued that values serve as ultimate ends for actions, Swidler challenges this view of values as “unmoved mover in the theory of action” (Swidler 1986: 274). Rather than shaping action by defining what people want, cultures should be conceived of as a “tool-kit” which people use to construct and sustain strategies of action, understood as the habits, skills, and

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<sup>14</sup> This point can be illustrated with Plato’s story of the Ring of Gyges – a mythical ring grants its owner the ability to become invisible at will. Whereas Haidt (2012: 84-86) argues that if people were given this ring, they would lose all reputational incentives and presumably succumb to their selfish desires, Tomasello (2016: 160) believes that “most contemporary adult human beings (...) would still behave morally most of the time. Invisible humans would undoubtedly break many social norms that have no connection to their second-personal morality. And they would undoubtedly behave in morally if their selfish motivations were strong enough. But in the absence of overwhelming selfish desires, invisible humans would most often help others and treat them fairly, and even feel guilty if they did not do so – assuming, of course, that they viewed them as a part of their moral community”.

practices that people bring to bear on the problems of their daily lives (Swidler 1986: 277). For example, the methodic moral work on the self has been the more enduring feature of the Protestant ethic “than the peculiar ends toward which this work has been directed” (Swidler 1986: 276). Rather than motivating actions, then, culture is used to organize and make sense of actions; it “makes possible” (Swidler 1986: 280) certain actions by providing the necessary skills and justifications – or “vocabularies of motive” (Mills 1940) – to undertake them.

This line of argument rests on the assumption that because people often struggle to give consistent reasons for their behavior (or reason at all), these contradictory accounts cannot themselves be motivating. The “unstated premise” of the tool-kit theory is “that cultural motivation (were it to occur) would have to be a deliberative, logical affair” (Vaisey 2009: 1681). However, both practice theories and cognitive science cast serious doubt on this assumption (Vaisey 2009: 1681-1684). As we have seen, moral cognition, too, comprises deliberation as well as intuition, with most of the action taking place at the intuitive level. We have also seen that there is quite some (sub)cultural variation not only in what counts as a legitimate moral justification, but also in the underlying moral intuitions – which “need not be conscious to be efficacious” (Vaisey 2009: 1686). Thus, there is “substantial evidence that culture shapes emotions, intuitions, and unconscious judgments as well as acceptable forms of talk” (Vaisey 2009: 1685). Psychological dual-process models, then, have advanced our understanding of how moral values influence actions without succumbing to the double pitfall of either overemphasizing situational contexts or internalized ends (Miles 2015: 681).

But while “we have a good idea about how motivating culture might influence behavior”, we have “little sense of which forms of culture actually matter” (Miles 2015: 680). Moral sociology, therefore, might help us understand the “substantive content” (Vaisey 2009: 1684) of moral cognition as well as its workings in natural settings (Hitlin/Vaisey 2013: 61-63). On the one hand, using survey as well as real-time decision data, it can be shown that values have – mostly via automatic cognitive processes – a causal impact on behavior (Miles 2015; see also: Vaisey 2009). On the other hand, increasing ecological validity reveals that contextual factors and the relative weight of costs and benefits are crucial for understanding moral actions. For example, a field experiment on norm enforcement and altruistic punishment shows that norms of anti-littering are universally enforced, but significantly less than in the standard laboratory experiment (Berger/Hevenstone 2016). This confirms the finding that even in experiments, strong altruistic cooperation can only be maintained if costs for the punisher are rather low and the impact on the punished is high (Egas/Riedl 2008). Moreover, it can be shown that socially costly norm enforcement is less frequent in New York than in the Swiss

cities of Zürich and Bern, and less frequent in already littered than in clean contexts, suggesting that moral actions are embedded in both cultural and situational factors (Berger/Hevenstone 2016).

#### 4.2 Intermediate Reflections

Taken together, these findings indicate that humans are at least as much “Homo moralis” (Haidt 2007: 998) than they are Homo oeconomicus. They show that most humans not only react to material incentives but also have deeply-rooted cooperative dispositions, particularly, but not solely, motives of sympathy and commitments to fairness. In other words, while Homo oeconomicus “is among the dramatis personae on the economic stage, experiments show that he is also often seriously outnumbered” (Bowles 2016: 45). Although universal, the “social preferences” (Bowles 2016: 45) of actors are affected by social institutions and situational contexts. Correspondingly, different cultures provide actors with different modes of legitimate justification as well as with different (intuitive) motivations. Societies might prioritize certain types of morality over others, and certain material incentives over morality – and they might do this to different degrees in different institutional environments.

Contemporary capitalist societies are unique in that they arguably rely less on the moral integration of their economies than any other society in history. Their success has lead neoclassical and neoliberal theorists to conclude that a market economy is not only possible but also better off with self-interested actors that do not have to justify their actions as long as they stay within the law. In a similar vein, sociologists have concluded that the capitalist economy has differentiated itself from the close-knit moral regulation of the lifeworld and has become a sphere of norm-free sociality resting on mechanical foundations (cf. Honneth 2014: 178-179). It is worth recalling and recasting these ideas in light of four related accounts of the genesis of modern capitalism: Hirschman’s *Passions and Interests* and Bowles *Constitution for Knaves* (4.2.1), Luhmann’s *Economy of Society* (4.2.2), and Polanyi’s *Great Transformation* (4.2.3).

##### 4.2.1 The Passions, the Interests, and a Constitution for Knaves

From a present-day perspective, it is important to remember the decidedly moral motives of early advocates of capitalism. In his seminal study *The Passions and the Interests* (1977), Albert O. Hirschman has traced the history of these arguments for capitalism to the time before its triumph. During the early modern age, as philosophers began insisting on looking at man ‘as he really is’, doubt arose as to whether religion and moralizing philosophy

could still be trusted with restraining his destructive passions (Hirschman 2013a: 14-15). The new anthropological realism prompted the search for new and more effective ways of taming men's passions without resorting to moral exhortation or religious damnation. Soon after, the idea was born that instead of just suppressing the passions, one might either harness some of these private vices for public benefits, or pit some more innocuous passions against the more dangerous ones (Hirschman 2013a: 16-20). These more benign passions became known as interests, but it was only with time that they acquired an almost exclusively economic meaning (Hirschman 2013a: 32). Avarice, long considered the deadliest of the Deadly Sins, "was suddenly acclaimed and even given the task of holding back those passions [e.g. lust for power] that had long been thought to be much less reprehensible" (Hirschman 2013a: 41-42).

Wedge between reason and passion, interest was now seen to have the best of both worlds, "as the passion of self-love upgraded and contained by reason, and as reason given direction and force by that passion" (Hirschman 2013a: 43). As opposed to people blinded by their passions, people driven by their economic interest can be expected to act in a constant and predictable manner that allows them to form strong and reliable relations of interdependency (Hirschman 2013a: 51-52). The predictability was accompanied by *doux-commerce* doctrine, i.e. the belief that commerce was a harmless and even a benign activity – a belief epitomized by Samuel Johnson's famous quote 'that there are few ways in which a man can be more innocently employed than in getting money'; and Montesquieu's equally famous dictum that 'it is almost a general rule that wherever the ways of man are gentle there is commerce; and wherever there is commerce, there the ways of men are gentle'. By appealing to certain economic motives, and by providing legitimate vocabularies for their expression, capitalism was assumed to "activate some benign human proclivities at the expense of some malignant ones" (Hirschman 2013a: 66). At the same time, the expectation that capitalism would contribute to a peaceful, tranquil, business-minded society bestowed it with considerable legitimacy (Hirschman 2013a: 130).

From a similar angle, Samuel Bowles has reconstructed the intellectual history of the idea that a good society cannot rely on virtuous citizen, but should be founded on *A Constitution for Knaves* (Bowles 2016: 9-37). The point was not that people were indeed believed to be knaves. Rather, the idea of a constitution for knaves was "a response to the concern that when large numbers of strangers interact, ethical and other-regarding motives would be an insufficient basis for good government, which therefore would need to adopt a system of constraints and incentives to supplement civic virtues" (Bowles 2016: 19-20). In other words, creating good institutions is safer than expecting good citizens. Competitive markets were such



an institution. While they exclusively relied on self-interested actors to peacefully coordinate their interests, they drove these actors to maximum performance in the production and distribution of socially needed goods. As long as certain conditions are met, the invisible hand works regardless of whether people have moral or a-moral, self- or other-regarding preferences. Insofar as economic actors do not have to be morally motivated to produce morally desirable outcomes, moral exhortations and expectations have no longer any business *in* business. In capitalist economies, prices “do the work of morals” (Bowles 2016: 25), and markets achieve “a kind of moral extraterritoriality” (Bowles 2016: 28).

#### 4.2.2 Luhmann and the Functional Differentiation of the Economy

The idea that modern economies are regulated by prices instead of morality is also central to the economic sociology of Niklas Luhmann (Luhmann 1988: 13-42). Contrary to Durkheim, but in accordance with Marx and Simmel, Luhmann emphasizes the morality-neutralizing effects of money (Luhmann 2008a: 21-22). In traditional societies, the economic problem of regulating scarce resources was intertwined with cultural, political, and kinship relations and embedded in expectations of reciprocity and redistribution (Luhmann 1970: 208-209). According to Luhmann, the symbolically generalized communication medium of money enables the economy to functionally differentiate itself as an autonomous (autopoietic) subsystem by freeing economic interactions of their cultural embedding (Beckert 2002: 213-214; Luhmann 1988: 43-90).<sup>15</sup> The modern economy reproduces itself through and is organized around a single binary code: paying or not paying.

This means that the economic system does not care why payments are made or if they are just, only if they can be made (Beckert 2002: 216). With a few exceptions, the economy is no longer subject to external (e.g. moral) regulations, such as the just price doctrine (Luhmann 1986: 105-106). Noneconomic communications can no longer directly influence the economic system. Ethical concerns, for example about ecological problems have to be translated into the economic language of prices before the economic system can process them (Luhmann 1986: 113-114). “Thus, a compatibility with the internal economic operations that does not rely on any code of the environmental system but rather shows an economic motive for consideration

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<sup>15</sup> In a way, Luhmann himself was a proponent of the *doux-commerce* doctrine when he pointed to the pacifying role of money: “Money is the triumph of scarcity over violence” (Luhmann 1988: 253).

must be achieved” (Beckert 2002: 218). To Luhmann himself the quote is often ascribed that ‘there is business and there is ethics – but there is no such thing as business ethics’.<sup>16</sup>

#### 4.2.3 Polanyi and The Great Transformation

Polanyi distinguishes three forms – not stages (Polanyi 1957: 256) – in which empirical economies are instituted: reciprocity, redistribution and exchange (Polanyi 1957: 250). Throughout human history, market-based exchanges played only a subordinate role. They were instituted alongside various combinations of householding practices as well as redistribution and reciprocity relations. Economic production “was secured through a great variety of individual motives disciplined by general principles of behavior. Among these motives gain was not prominent” (Polanyi 2010: 57). Rather than constituting a theoretically distinct sphere, the economy was submerged in noneconomic values and institutions to the point of theoretical invisibility (Booth 1994: 654-655). In capitalist economies, on the other hand, the market pattern becomes the prevalent form of economic organization, using and creating specific motives and institutions, and reshaping society root and branch. Ultimately, this

“means no less than the running of society as an adjunct to the market. Instead of economy being embedded in social relations, social relations are embedded in the economic system. The vital importance of the economic factor to the existence of society precludes any other result. For once the economic system is organized in separate institutions, based on specific motives and conferring a special status, society must be shaped in such a manner as to allow that system to function according to its own laws. This is the meaning of the familiar assertion that a market economy can function only in a market society” (Polanyi 2010: 60).

The transformation of society into a market society and the gearing of markets into self-regulating systems was not the result of spontaneous processes or “any inherent tendency of markets toward excrescence” (Polanyi 2010: 60), but rather the result of deliberate political actions. On the other hand, the disruptions caused by the unleashing of the market led to the depletion of society’s “moral capital” (Haidt 2012: 341), i.e. the resources that sustain its moral cohesion, which in turn necessitated, as it were, the spontaneous (and eventually catastrophic)

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<sup>16</sup> To be fair, Luhmann himself was unsure if the “disembedding” of the economy from society would prove to be stable given the former’s propensity to produce socially problematic outcomes such as pauperism or large-scale exclusion (Luhmann 2008b: 206). Moreover, Luhmann did not object to introducing ethical reference values into capitalist organizations, but doubted whether ethics had sufficiently detached itself from its individualistic bias to be useful in this regard (Luhmann 2008b: 206-207).

re-regulation of the market economy itself. Or, as Polanyi puts it: “Laissez-faire was planned; planning was not” (Polanyi 2010: 147).

For Polanyi, who was not entirely unambiguous on this point (Block in Krippner et al. 2004: 117-118), the institutionalization of a market society is a ‘utopian’ project that is doomed to fail and to be fatal, for it inevitably consumes and degrades the moral foundations on which it rests (Polanyi 2010: 76; Streeck 1997).<sup>17</sup> However, the rise of the shareholder-value doctrine (Lazonick/O’Sullivan 2000) as well as the politics of financialization (Nölke et al. 2013) speak to the unmitigated importance of market principles in contemporary economies. It is the view of an essentially disembedded, money-steered, and interest-driven economy that forms the background against which we have to investigate the role of moral values and sentiments in capitalist organizations and the capitalist economy at large.

#### 4.3 Level of Organizations

According to the new institutional economics, organizations exist because, compared to markets, they offer superior solutions to the paired problems of bounded rationality and uncertainty/complexity on the one hand, opportunism and small-number exchanges on the other (Williamson 1975: 20-40). Actors are believed to maximize their self-interest, but in doing so they face incomplete information, cognitive limitations and difficulties in monitoring and enforcing agreements. Organizations can greatly economize on the resulting transaction costs, for example by promoting convergent expectations or by allowing adaptive, sequential decision processes (Williamson 1975: 25). A second and related problem arises from actor’s propensity to opportunistic “self-interest seeking with guile” (Williamson 1975: 26). This becomes a problem for market-based transaction modes as soon as competitive, large-number exchange relations no longer obtain. Due to their joint structure and internal incentive and control mechanisms, organizations are better suited to cope with this problem and facilitate beneficial transactions (Williamson 1975: 10). Broadly speaking, then, organizations arise and persist because they have comparative efficacy advantages over markets, and confer transaction benefits that exceed the transaction costs of creating and sustaining them.

While this argument certainly “adds a healthy dose of realism” to neoclassical economics, both with regard to behavioral assumption and institutional contexts, there is an “air” of functionalism surrounding it (DiMaggio/Powell 1991: 3-4). Although sunk costs and unintended effects are taken into account, the design of organizations is often assumed to reflect

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<sup>17</sup> Hirschman (2013b: 218-225) discusses this under the heading of the “self-destruction thesis”.

the optimal solution to the interactional problems of isolated, opportunistic individuals. Organizations quickly optimize their functional performance in response to economic pressures, while competition ensures that only the most efficient organizations are being selected. This has proved to be a point of contention between economic and more sociologically orientated organizational institutionalists. The latter argue that organizations are not only shaped by, but also shape actor preferences; they believe that organizations usually evolve “glacially” instead of rapidly; and they find the former’s “adaptive storytelling” only partially convincing (DiMaggio/Powell 1991: 9-11). Instead they emphasize that “many dynamics in organizational environments stem not from technological or material imperatives, but rather from cultural norms, symbols, beliefs, and rituals” (Suchman 1995: 571). Revolving around the concept of “organizational legitimacy” (Suchman 1995: 571), these approaches have much to contribute to the question of how morality affects capitalist organizations (4.3.1). This analysis will be supplemented with discussions of the Institutional Logics Perspective (4.3.2), and of evidence from the literature on organizational motivation and Ethical Leadership (4.3.3).

#### 4.3.1 Organizational Institutionalism

Organizational institutionalism challenges the central tenet of new institutional economics, namely what organizations are and what they do is, by and large, the result of the intentional (albeit only boundedly rational) adaption to the exigencies of their technical and market environment (Greenwood et al. 2013: 3). Instead, sociologically oriented organizational institutionalists argue that organizations are to a large extent “influenced by normative pressures, sometimes arising from external sources (...), other times arising from within the organization itself” (Zucker 1987: 443). Most importantly, organizations are expected to behave rationally, and they often conform to this expectation by adopting widespread standards of legitimate conduct. Especially in organizations that operate under high levels of uncertainty and whose performance is difficult to evaluate (DiMaggio/Powell 1983: 154-155), structural change might not primarily be driven by competition or efficiency considerations, but rather by institutional prescriptions which are widely perceived as legitimate and whose adaption is “normatively sanctioned” (DiMaggio/Powell 1983: 148).

Such institutionally prescribed ‘ways of doing things’ increase organizations’ legitimacy rather than improve their performances, and they often make organizations simply more similar without making them more efficient (DiMaggio/Powell 1983: 147-149; Meyer/Rowan 1977). Organizations might nonetheless conform to these prescriptions and thereby become more isomorphic with their institutional context

“in order to signal their social fitness and gain legitimacy in the eyes of critical constituencies. It is by ‘appearing to be rational’ [Richard Scott] that organizations avoid social censure, minimize demands for external accountability, improve their chances of securing necessary resources and raise their probability of survival” (Greenwood et al. 2013: 4; DiMaggio/Powell 1983: 153-154).

Thus, organizational conformity to the “myths of their institutional environments” (Meyer/Rowan 1977: 341) can simultaneously increase “positive evaluation, resource flows, and therefore survival chances” and reduce “efficiency” (Zucker 1987: 445).<sup>18</sup> Accordingly, organizational institutionalism “emphasizes that organizations seek legitimacy and survival not efficiency, and highlights the role of cognition and obligation, not self-interest” (Greenwood et al. 2013: 7). It depicts legitimacy not as an external resource that can be strategically harnessed and manipulated, but as “a set of constitutive beliefs” that permeate organizations (Suchman 1995: 576).

To better understand this argument, it is useful to distinguish between three – although often co-existing – types of organizational legitimacy: pragmatic, moral and cognitive legitimacy (Suchman 1995: 577-585). Suchman defines legitimacy as “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (Suchman 1995: 574). Pragmatic legitimacy rests on the audiences’ self-interested calculations of whether or not the organization’s behavior benefits them, though not necessarily in an overly narrow way. Moral legitimacy, instead, reflects the audiences’ judgements on whether or not the organization’s behavior is ‘the right thing to do’. This might refer to the consequences of their actions, to the application of socially accepted procedures, to morally favorable structural characteristics that make them ‘just right for the job’, or even to the charisma of individual organizational leaders. Cognitive legitimacy, finally, is not based on interest or evaluation, but rather on comprehension and taken-for-grantedness. In the first case, legitimacy stems primarily from the availability of cultural models that render organizational behavior in a complex if not chaotic cultural environment predictable and meaningful. In the second and

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<sup>18</sup> Three mechanisms of institutional – as opposed to competitive – isomorphic change can be distinguished (DiMaggio/Powell 1983: 150-154). Coercive isomorphism results from formal or informal political or public pressure to conform to and implement certain normative standards (e.g. anti-discrimination codes, environmental standards, etc.). Mimetic isomorphism results from organizations modelling themselves after each other as a response to uncertainty and ambiguity. Normative isomorphism, finally, results from professionalization, i.e. the establishment of formal and cognitive standards of what work should be like in a certain organizational field (e.g. formal degree requirements).

rarer case, legitimacy stems from the cognitive ‘givenness’ of certain ‘exterritorialized’ and objectified practices so that alternatives become literally unthinkable.

Organizational institutionalists have mostly focused on cognitive legitimacy. For example, Meyer and Rowan maintain that institutionalized normative obligations “enter into social life primarily as *facts* which must be taken into account by actors” (Meyer/Rowan 1977: 341, emphasis added). And DiMaggio and Powell prefer the ‘cooler’ vocabulary of taken-for-granted scripts, rules, and classifications over the ‘hotter’ imagery of internalized norms and values (DiMaggio/Powell 1991: 15). However, there are good reasons to believe that moral legitimacy, too, plays a considerable role in organizational behavior. It is of course true that organizations use moral resources as for strategic reasons. But dismissing this as mere window-dressing ignores the self-binding effects of moral proclamations as well as the limits of strategic morality. Companies that engage in public discourses to gain moral legitimacy (Suchman 1995: 585) may “find it difficult to avoid buying into their own initially strategic pronouncements”; once they publicly committed to certain moral values, these values might prove fairly “resistant to self-interested manipulation” (Suchman 1995: 579; Zelizer 2007: 15-16). Even if moral commitments are ceremonial at first, it does not mean they are inconsequential (DiMaggio/Powell 1983: 150).

“[Hence] the argument that organizations insincerely manage symbolism in order to dupe naive audiences may be somewhat overdrawn. [E]ven initially superficial changes can prove quite profound over the long run, as cognitive dissonance and self-selection gradually produce a new generation of organizational members who adhere to the announced goals, rather than to the hidden agenda. These dynamics suggest that moral legitimation (...) carries with it a substantial likelihood of unanticipated goal displacement” (Suchman 1995: 588).

What started as strategic or at least partly strategic exercise in fig-leaf politics might result in genuine or at least partly genuine organizational commitments that can have binding effects on future decisions and rein in purely self-interested orientations (cf. Zelizer 2007: 15-16). This interest-transcending relevance of moral legitimacy for organizational decisions can be empirically demonstrated by case studies on how moral arguments influence offshoring decision (4.3.1.1) as well as by the literature on Corporate Social Responsibility (4.3.1.2).

#### 4.3.1.1 Moral Arguments and Offshoring Decisions

Although there is some quantitative as well as qualitative evidence that moral discourse such as public acts of ‘naming and shaming’ can influence economic decisions, it is little

understood how and when this actually happens (Schröder 2013: 552-554). Only by identifying the conditions under and mechanisms through which moral arguments influence economic action, it is possible to determine the extent to which concerns about moral legitimacy affect capitalist organizations. Schröder (2013) presents five case studies on how moral arguments influence offshoring decisions, from which he distills three mechanisms through which this happens.

- The first case study demonstrates how a CEO's moral commitments to his firm and its workers actively restrained – organizational as well as personal – profit-seeking and thereby increased his moral legitimacy. This moral legitimacy, in turn, was the reason why workers could trust him when he asked them for concession in exchange for a promise not to offshore production – regardless of what the 'strictly financial point of view' demanded (Schröder 2013: 555-559). A second case study shows that if a CEO lacks this moral legitimacy, the resulting lack in inner-organizational trust and job motivation can severely reduce a company's economic performance and therefore reputation (e.g. due to decreasing product quality). It then becomes necessary to undertake credible efforts to repair and regain moral legitimacy (Schröder 2013: 563-565).
- A third and fourth case study compare two companies that resemble each other in most economic metrics but felt different responsibilities for their region and their employees. Both companies had the self-declared goal of maximizing their profits, but they also faced uncertainty with regard to whether or not offshoring would actually serve this goal. It was in this situation of economic uncertainty that moral arguments had a bearing on the companies' decision-making processes such that they eventually acted in starkly different ways. Only the company that was regionally embedded came to see their social responsibility and their profit motives as compatible. It was not that this company choose to restrain its profits (as in the first case study), but that moral arguments influenced what was perceived as economically rational in the first place. The ultimate goal of profit-seeking remained the same, but the intermediate goal of how to achieve these profits changed. By choosing to improve their home plant instead of offshoring, the management could present itself as acting in a morally responsible way in front of its workers as well as the public at large. In exchange, it could expect the workers (and the public) to stand behind the company and actively contribute to its economic success.

In turn, these moral commitments served as a ‘yardstick’ workers and the public could afterwards use to hold the management accountable (Schröder 2013: 559-563).

- A fifth case study discusses a company whose CEO publicly declared – in accordance with neoliberal principles – that he felt no social responsibility for the region or the workforce, that his only obligation was towards the shareholders (*pace* Friedman), and that giving a job to a foreign worker was, from a universalistic point of view, no less morally blameworthy than giving it to a domestic one. This happened despite the home plant being profitable, and despite the fact that the additional profits of offshoring were only expected to be small. The ensuing public protests – the CEO had, after all, violated a ‘basic moral consensus’ – damaged the company’s reputation to such an extent that the costs of negative publicity started to exceed the expected benefits of offshoring (Schröder 2013: 565-567).

Thus, moral arguments can influence economic decision in at least three different forms (Schröder 2013: 569-571). First, they can (re)define what is economically rational in the first place, i.e. they can (re)frame perceptions and conceptions of economic rationality under conditions of uncertainty (Schröder 2013: 569; Kaplan 2008). This is especially true when companies (often depending on their ownership structure) already feel a certain sense of responsibility for their workforce or region and have made moral commitments in the past of which they can be reminded in situations of uncertainty. Second, because contracts are never complete and “each side [the management and the workers] expects that the other will do more than what it legally has to” (Schröder 2013: 569), moral behavior can increase the worker’s (or the public’s) cooperativeness and therefore the company’s competitiveness.

On the other hand, immoral behavior on the part of the management can destroy intraorganizational networks that discourage malfeasance and generalize trust (cf. Granovetter 1985: 490) as well as worker’s intrinsic identification with and responsibility for the firm – both of which, as Parsons already pointed out, cannot be fully contractualized. Third, ruthless profit-seeking can severely damage a company’s reputation, thereby changing the costs of pursuing certain strategies. This mechanism seems all the more effective, the less a company tries to ensure its survival and the more it tries to maximize economic gains that are already high, suggesting “remnants of a ‘traditionalistic’ ethic” (Schröder 2013: 571). Moreover, rather than there being a universal morality that can be unproblematically harnessed to gain moral legitimacy, companies must engage in moral discourses to reach an understanding with their



respective smaller and larger audiences (Schröder 2013: 572; Suchman 1995: 585; for such a Habermasian perspective on corporate moral legitimacy, see Scherer/Palazzo 2007).

#### 4.3.1.2 Corporate Social Responsibility

The literature on Corporate Social Responsibility (CSR) – at least in its more nuanced forms – is marked by a profound sense of ambivalence (Roberts 2003: 250).<sup>19</sup> On the one hand, there is a fear that all the talk about ethics is just talk, and that the ‘the strong business case’ for CSR is nothing but a strong business case for crafty window-dressing. On the other hand, the mere talk of ethics in business challenges the neoliberal doctrine that self-interested behavior is moral by default. To differentiate substance from imagery, Roberts distinguishes between an “ethics of narcissus” and more “substantive” form of corporate responsibility (Roberts 2003: 251). Following Levinas and Foucault, Roberts starts out by arguing that the accounting practices that pervade capitalist organizations pressure individuals to consistently scrutinize their actions in terms of profitability, which creates “an almost permanent narcissistic preoccupation with how the self is seen” (Roberts 2003: 254). As a result, ethical sensibilities in capitalist organizations are being ‘encrusted’ and reversed such that the defense of the self is routinely privileged over responsibilities for others.

Paradoxically, however, as capitalist organizations become ever more dominated by the interests of their shareholders (Lazonick/O’Sullivan 2000), and the logic of finance spreads into ever more spheres of social life (Nölke et al. 2013), ethics seems to return into the economy (Roberts 2003: 255).<sup>20</sup> The decline of the (welfare) state has left socio-moral ‘gaps’ which are filled by market actors that – pressured by civil society – increasingly assume social responsibilities (Shamir 2008: 3; Streeck 2007: 17). Moreover, globalization has not only provided companies with new and powerful levers to weaken regulation, but has also exposed them to global reputational damage (Roberts 2003: 256). DeWinter (2001), for example, has shown how the anti-sweatshop movement has constituted global retailers as ‘moral agents’ that have responsibilities that go beyond mere profit-making. The need for voluntary CSR to compensate for the lack of regulation is also demonstrated by the fact that CSR played a smaller role in the tightly and often explicitly regulated German economy than in more liberal Anglo-Saxon economies; and that this role has become bigger and more explicit in Germany too as

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<sup>19</sup> For reasons of space, I will not directly discuss here the more practically and/or philosophically oriented literature on business ethics, although it certainly has much bearing on the question at hand (see, for example, the excellent study by Abend (2014)).

<sup>20</sup> The ‘Hughes Paradox’ denotes a similar phenomenon where commodification entails decommodification – in this case via professionalization (Swedberg 1987: 57)

the institutional framework that provided companies with incentives for socially responsible behavior eroded (Hiss 2009).<sup>21</sup>

In a way, the turn to CSR means that systems of financial accountability are supplemented with systems of ‘ethical accountability’ (Roberts 2003: 256). At first glance, this seems to confirm the ethics of narcissus thesis: cooperations want to be seen not only as powerful but also as good, and therefore revamp their public appearance without changing their operational practices – business as usual in a new guise (Roberts 2003: 256-257). At second glance, however, the story that underlies CSR, namely that ethics pays, might not just mirror a narcissistic concern with the corporate self-image, but be motivated by a more substantive ethical concern that nonetheless has to be reconciled with the imperatives of capitalist competition. The installation of new forms of accountability – not only towards the shareholder, but also towards other stakeholders – might simply be the only way to entrench ethics in business without going out of business (Roberts 2003: 257-259). Despite the shortcomings of such an approach (cf. Roberts 2003: 259-262), it might create some leeway for economically justifiable deviations from hard-nosed profit-seeking. The more uncertainty there is about what the most rational way to do business actually is, the more moral arguments can weigh in – especially when ethical commitments are formally codified and can be referred to. While neoliberal economics has provided unethical economic actors with a “fabulously clear conscience” (Weber 1961: 269), CSR might bring bad conscience back into economics and at the same time reverse the ‘stigmatization’ (Parsons) of ethical behavior in business.<sup>22</sup>

#### 4.3.2 The Institutional Logics Perspective

The Institutional Logics Perspective offers a valuable guide to understand the different social expectations and rationality standards people are subjected to when navigating their daily lives. Institutional logics are defined as “the socially structured, historical patterns of cultural symbols and material practices, including assumptions, values, and beliefs, by which individuals and organizations provide meaning to their daily activity, organize time and space,

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<sup>21</sup> Shamir even argues that this dialectical process might well mark a Copernican Revolution in our socio-moral self-understanding. According to Shamir, the discourse on CSR is grounded in a neoliberal epistemology that not only dissolves the distinction between economy and society, but reframes socio-moral concerns “from within the instrumental rationality of capitalist markets”. “Consequently, the further the push to embed ‘society’ in the ‘market’, the more socio-moral questions traditionally the concerns of civic groups, liberal-democratic parliaments, trade unions and political parties become ‘the business of market actors’” (Shamir 2008: 3).

<sup>22</sup> Parsons anticipated discussions in today’s performativity literature when he argued that utilitarianism legitimated the very actions it pretended to describe. Utilitarianism, he argued, “has been used to attach a moral stigma to a whole range of human activity and thus serve as a kind of a lightning rod to catch all our doubts and feelings of guilt and in security, etc., and to channel them toward this awful thing – profit-making” (Parsons 1949b: 53).

and reproduce their lives and experiences” (Thornton et al. 2012: 2). The core idea is that individual and organizational interests, values and assumption are embedded within often different institutional logics that all have their own sense of rationality (Thornton et al. 2012: 6-7). Not unlike in Parsons, individuals are conceived as nested in multiple social formations at different levels of analysis and subject to different institutional logics. Thus understood, economic actors and organizations might be subjected to various kinds of institutional logics, and the degree to which the market logic prevails might depend on the particular case and context. For example, the business culture in the banking industry, which is dominated by an extreme form of market logic, seems to weaken and undermine honesty norms. Experiment show that if their professional identity is triggered, bankers become significantly more dishonest – an effect that is specific to bank employees (Cohn et al. 2014).

#### 4.3.3 Organizational Motivation and Ethical Leadership

In *On Ethics and Economics* (1987), Amartya Sen made the important argument that “the success of a free market does not tell us anything at all about what motivation lies behind the action of economic agents in such an economy” (Sen 1987: 18). More recent quantitative evidence shows that the association between salary and job satisfaction, and even between pay and pay satisfaction is rather weak ( $r=0.14$  and  $r=0.22$ , respectively). Moreover, pay level has no significant effect on job engagement, and employees who are intrinsically motivated are considerably more engaged in their jobs than employees who are extrinsically motivated (Chamorro-Premuzic 2013). There is further evidence suggesting that money can even demotivate employees, because, under certain circumstances, extrinsic motivations tend to ‘crowd out’ intrinsic motivation, especially when tasks are interesting and enjoyable rather than boring and meaningless (Bowles 2016: 39-77; Chamorro-Premuzic 2013).

These empirical findings point to the limits of the basic assumption that underlies neoclassical economics, namely that more or less all transactions can be contractualized. The invisible hand only works if contracts are complete, that is, if there are no externalities that are not priced or covered by the contractual terms of exchange (cf. Arrow/Hahn 1971). Of course, some externalities that occur in daily business life can be internalized by taxes and subsidies. However, the fact that incomplete contracts are not an exception but the rule in markets for labor, credit, or information poses important limitations on an economic order that rests solely on material incentives (Bowles 2016: 31). There are simply no institutional designs around “that make ethical or other regarding motives redundant” (Bowles 2016: 34). It is precisely because contracts are incomplete that “moral must sometimes do the work of prices, rather than

the other way around” (Bowles 2016: 35). This becomes all the more true, the more work is defined by tasks difficult to contractualize, i.e. tasks that involve communication, emotion, creativity and so on (Bowles 2016: 35). This suggests that Habermas not only had a normative, but also an empirical point when he argued that some motivations and traits cannot be functionally substituted by general media. Thus, the fact that capitalism seems to be ever more dependent on lifeworld resources, might entail some difficult tradeoffs (cf. 3.4.1, 3.4.2).

If economic incentives and moral sentiments are not separable motivational resources, capitalist organizations need to find ways to harness intrinsic motivation without suppressing it. One way to do this is moral leadership, which can be based normatively desirable visions, moral authenticity, or the display and promotion of ethical integrity (Brown/Treviño 2006).<sup>23</sup> Ethical leadership, to use this latter case, is correlated with a number of desirable outcomes, for example follower ethical decision-making and sociality, follower job satisfaction and motivation, or follower organizational commitment (Brown/Treviño 2006: 607-608; Skubinn/Herzog 2016: 251). Qualitative evidence further suggests that leaders cannot authentically play the role of an ethical leader without having developed a genuine moral identity corresponding to the traits of an ethical leader (Skubinn/Herzog 2016). Only leaders who have truly internalized certain moral convictions – and not just memorized the ethics slides in their business school courses –, are able to intuitively and convincingly act ethically in critical situations. These situations might entail ethical dilemmas which require spontaneous reactions or situations in which ethical norms have to be balanced against negative economic consequences. In such situations, if leaders just play a role, followers will ‘look through’ such instrumentally adopted ethical behavior – although, on the other hand, in some industries (e.g. banking) genuinely ethical leaders might also be selected against (Skubinn/Herzog 2016: 258).

#### 4.4 Level of Society

Until now, we have discussed evidence on how concerns about legitimacy can influence economic decisions of capitalist organizations, and how economic incentives can fail to substitute for moral sentiments in such organizations. We have also seen how the experimental evidence and action-theoretic reasoning on human morality can have a bearing on economic action even under the conditions of functionally differentiated, relatively disembedded economic structures (Schröder 2011). Although, by definition, organizational institutionalists

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<sup>23</sup> The immense interest in the question of what constitute good leadership alone speaks against Weber’s thesis (as reconstructed by Parsons) that “[c]apitalistic development has meant by and large the destruction of the charismatic elements of social life” (Parsons 1929: 47).

do not ignore the institutional contexts within which organizations go about their daily business, their focus is on these organizations themselves. In this final review section, we want to expand this focus to larger social developments, and look at the interplay between economic, social and moral forces. We will first discuss the new economic sociology and its core concept of embeddedness (4.4.1), then move on to the literature on moral economy (4.4.2) and Münch's argument on how morality and the economy interpenetrate (4.4.3), and finally discuss Boltanski and Chiapello's attempt to reinvigorate the concept of the capitalist spirit (4.4.4).

#### 4.4.1 Embeddedness and the New Economic Sociology

Starting in the mid-1960s, economic phenomena – long ceded to economics – were put back on the sociological agenda (Swedberg 1987: 63-64). The master concept of the new economic sociology (as it was soon to be known), was and still is the concept of embeddedness. Polanyi originally introduced this concept to argue that economic activities, rather than belonging to a separate and distinct sphere, are – even in market economies – always constrained as well as facilitated by the social and natural structures they are embedded in. These structures serve a twofold purpose: first, to paraphrase Durkheim's famous dictum of the non-contractual bases of contract, they function as the noneconomic bases of capitalism, by providing it with natural resources, social solidarity, and so on; second, they function as necessary and oftentimes 'beneficial constraints' (Streeck 1997) that prevent capitalism from consuming the very foundations it both rests upon and is unable to produce itself.

For capitalism to be self-regulating in the liberal-utopian sense, every facet of human life would have to be subjected to market forces, including what Polanyi calls 'fictitious commodities': things that have a price but were never produced for sale, namely labor, land, and money. Harnessing the factual power of the fictional, the liberal utopians used the commodity fiction as a vital performative principal to organize markets for labor, land, and money (Polanyi 2010: 76). However, according to Polanyi's famous thesis of the 'double movement', this inevitably led societies to reassert themselves against their commodification – for a fully-fledged market society "could not exist for a day without destroying the human society delivered up to it" (Polanyi 2014b: 50).

Although in the course of the last decades, the concept of embeddedness has become part and parcel of economic sociology, it has undergone a great transformation itself (Beckert 2009; Krippner/Alvarez 2007). Whereas Polanyi's work focusses on "the integration of the economy into broader social systems", today's economic sociology is mostly about "identifying relational bases of social action in economic contexts" (Krippner/Alvarez 2007:

222). In his seminal paper on *The Problem of Embeddedness* (1985), Granovetter used the concept of embeddedness to take on both the ‘undersocialized’ view of action held by the utilitarian school (e.g. Williamson 1975), and the ‘oversocialized’ view held by the dominant Parsonian sociology. Granovetter argued that, ironically, both competing schools rely on an atomized conception of actors and ignore the immediate context of personal relations and social networks within which actors go about their lives (Granovetter 1985: 485). It is not, primarily, “institutional arrangements” or an internalized “generalized morality” (Granovetter 1985: 491), but “concrete, ongoing systems of social relations” (Granovetter 1985: 487) that bring about economic order – most notably, by instilling trust. Morality, it can be added, plays a crucial role in sustaining these trust relations, because even impersonal markets would “collapse almost immediately if people do not do what they learned to do in kindergarten, which is to play by the rules, take turns, don’t hit” (Block in Krippner et al. 2004: 118-119). If trust is the lubricant of economic transactions, morality is the raw material from which trust is formed.

As important and empirically fruitful as the embeddedness perspective is, it needs to be further elaborated in at least two ways. *First*, one should not start from the embeddedness of economic action, but rather from the problem(s) of economic action that embeddedness is meant to solve (Beckert 2009: 44). The central problem underlying the difficulties of economic coordination (cooperation, competition, valuation) is that of uncertainty – or rather of the reduction of uncertainty (Beckert 2002: 36-50). Neoclassical economics claim that a Pareto-efficient model of order can be derived from the action model of *Homo oeconomicus*. According to Beckert, the main line of attack against this claim should challenge the *theoretical* problems associated with such a view, even more so than its empirical shortcomings (Beckert 2002: 9). These theoretical problems are evident from the fact that rational action on the part of individuals can lead to Pareto-inferior equilibria, while acting irrationally can have rational or Pareto-superior outcomes (Beckert 2002: 36). For example, if people *expect us* to react irrationally to theft, we might not need to react irrationally, because it would be no longer in their self-interest to steal from us (Frank 1990: 57). Altruistic punishment is another example, because it allows actors to collectively reap the benefits of a cooperation which should not even have taken place from a game-theoretically point of view (4.1.1).

Even more importantly, uncertainty creates situations “in which it is not possible to deduce decisions from preferences” (Beckert 2002: 42) because the consequences of various strategies for optimizing utility (e.g. maximizing profits) are unknowable. In other words, it is not simply “irrational to act rationally but rather impossible” (Beckert 2002: 37). Even if we assume ‘intentionally rational’ actors (cf. Beckert 2003) that want to maximize their utility

under conditions of uncertainty, they do not know unambiguously how to do so (Beckert 2002: 43). It is in this situations of uncertainty that actors might be assumed to resort to established ways of doing things, cultural and cognitive frames, or social norms and expectations (Beckert 2002: 42-43). Kenneth Arrow has himself pointed to uncertainty-induced problem of incomplete markets when asked about the role of sociology in economic analysis:

“Modern economic theory has emphasized the role of information and communication. It has also begun to recognize that when markets are incomplete, there are many possible equilibria, which depend on alternative sets of beliefs. It seems to me that the conveying of information is to a large extent a property of the social context, of culture. Signals which have economic significance can take very different forms, some of which are more economical than others. Both the role of networks in job search and the internal culture of the factory (...) seem to me to fall into this category” (Arrow as quoted in Swedberg 1987: 143).

Accordingly, the focus of the embeddedness approach then shifts to the “interpretative acts by which actors construct perceptions of rationality intersubjectively in the action process itself” (Beckert 2003: 770). This points to the *second* limitation of the new economic sociology. It unduly focusses on structural features of networks and often neglects the specific political, cultural, and cognitive content of these networks, i.e. the institutional and cultural features of modern capitalist societies as well as the actor’s dispositions and stocks of knowledge (Beckert 2009: 43).

This is why Zukin and DiMaggio suggested to conceive of ‘structural embeddedness’ as only one of four types of embeddedness (Zukin/DiMaggio 1990: 14-23). Besides structural embeddedness, they argued, there is also cognitive embeddedness, which refers to the systematic ways that cognitive dispositions limit the exercise of economic rationality; political embeddedness, which refers to the political power-struggles that shape economic institutions; and finally and most importantly in our context, cultural embeddedness, which refers to collectively held beliefs that shape economic goals and strategies. Cultural embeddedness both “constitutes the structures in which economic self-interest is played out” and “constrains the free play of market forces” (Zukin/DiMaggio 1990: 17). For example, culturally encoded morality can place the insurance value of a child well above the ‘market price’; but it can also allow (or prevent) the emergence of a market for life insurances in the first place, namely by transforming life insurance from a stigmatized practice of crass commercialism into a prudent and morally laudable act of economic foresight (or the other way around) (Zelizer 2011).

Thus understood, moral embeddedness is a subset of cultural embeddedness which also encompasses taken-for-granted scripts and cultural frames (which can themselves be morally shaped and/or charged). The crucial challenge for the embeddedness approach, then, is to develop a concept of embeddedness which elaborates on Polanyi's implicit notion of the 'always embedded market economy', and which, by taking Weber seriously (Swedberg 1998: 170), brings cultural and institutional content back in. The challenge is, in short, to develop a 'thicker' concept of embeddedness (Block in Krippner et al. 2004: 117). This entails, among other things, understanding markets as "always morally embedded" (Block in Krippner et al. 2004: 118), and as always already 'containing' politics and culture (Krippner in Krippner et al. 2004: 112).

Granovetter himself is quite aware of how 'foolish' it is to restrict economic sociology to structural aspects of social networks (Granovetter in Krippner et al. 2004: 114). In fact, in *Society and Economy* (2017), he emphasizes the importance of institutions for the economy (Granovetter 2017: 135-170) as well as the impact of norms, values and moral economy on economic action (Granovetter 2017: 26-55). Granovetter points to the ways that internalized norms affect emotions and therefore economic actions in a non-additive and thus non-reducible way. For example, norm enforcement can be expected to be "more effective the more cohesive or close-knot the network", although cohesiveness is "defined not by spatial proximity but by common activities" (Granovetter 2017: 33). Granovetter argues that moral principles can "sometimes animate emotional economic action contrary to self-interest" (Granovetter 2017: 49), but individuals can also use norms in a more strategic manner (Granovetter 2017: 51). He further argues that to understand the force of norms "one must chart the contours of social solidarities and networks within which such force operates" (Granovetter 2017: 34). Economic sociology should not prejudice whether morality or self-interest prevails in a particular case, but rather analyze their relative strength of the meso-level (of social structural conditions) (Granovetter 2017: 52-54).

#### 4.4.2 Moral Economies

The concept of moral economy emphasizes that economic exchanges and distributions are tied to collectively held notions of justice and therefore have "moral attendants which convey a sense of legitimacy or illegitimacy" (Mau 2006: 466). It serves as an "antithesis" (Götz 2015: 147) to utilitarian conceptions of economic action (Arnold 2001: 85), and highlights the embeddedness of economic practices in moral obligations and social norms (Palomera/Vetta 2016: 414). It was originally developed to account for the moral dimension of



traditional societies' resistance against emerging market forces (Mau 2006; cf. Thompson 1971; Scott 1976). The very term moral economy originated as a reaction to the detachment of the economy from morality (Götz 2015: 149). Accordingly, moral economy approaches revolve around the "defining dichotomy of the embedded economy and the disembedded, autonomous market" (Booth 1994: 653). More recently, however, this dichotomic notion has been challenged. It has been argued that the transition from traditional to modern societies did not mean the cessation of moral economy, but rather the "shift from *a particular* moral economy to a *new* moral economy" (Palomera/Vetta 2016: 420). In other words, "all economies, including the market societies of late-capitalism, are moral economies" (Palomera/Vetta 2016: 419).

Booth, for example, argues that modern economies are the "institutional outcome of the *normative* shift from status to contract" (Booth 1994: 661, emphasis added). Following the liberal tradition, he argues that free markets constitute a "new form of moral embeddedness" (Booth 1994: 661) where rigid hierarchical orders are replaced by a market order where free and equal individuals can (inter)act according to their own preferences and performances. What the moral economy approach adds to this, is the more Aristotelian notion that economies are always "subordinated to the pursuit of the good life broadly understood" (Booth 1994: 655). The recognition of the intrinsic connection of economies to normative goods can either lead to "a more reflective form of liberalism" (Booth 1994: 664) in which the "central good" (Booth 1994: 662) of liberal market societies is understood in terms of individual rights and economic efficiency. Or it can lead to a more serious questioning of liberal premises and to a return of more substantive questions about the role of capitalist economies in the realizations of the good life and the common good (e.g. efficiency not for wealth but for leisure).

In a similar vein, Götz attempts to broaden the scope of the moral economic argument by applying it to situations where ideational and utilitarian ends, value and instrumental rationality conflict, where the economy is confronted with legitimacy concerns articulated by civil society. By taking into account "the coexistence and tension between economic and moral types of rationality", the moral economic approach might be well suited to conceptualize the "conversion of monetary and other resources into 'moral capital'", and the ways companies use "[m]orality and the emotive forces behind it" for strategic *and* communicative purposes (Götz 2015: 158). Meanwhile, using survey evidence, Kahneman, Knetsch and Thaler find widespread minimum moral standards that companies must meet in order to avoid moral backlash. These moral-economic expectations can be shown to influence firm behavior, which in turn explains several market anomalies (Kahneman et al. 1986).

Arnold, too, claims that moral economies are to be found where “traditional moral economists would least expect to find them: within modern, market-structured communities” (Arnold 2001: 85). Arnold argues that shared notions of legitimacy and identity are often rooted in certain social goods. For example, moral considerations about the identity-related value of rice in Japan trumped economic considerations of its commodity value when it came to the question of whether or not to import (cheaper) Californian rice (Arnold 2001: 91). Water in the arid American West is another modern-day example of how a social good can inform a moral consensus, which, if violated, can spawn a response that is economically irrational (Arnold 2001: 92-94). For westerners, water is not simply an economic utility, but part and parcel of their communal life. Accordingly, they use legal and political means, and even resort to violence, in order to “shelter water from fully self-interested, privatized, or market-driven transactions” (Arnold 2001: 94).

Thus, whereas traditional approaches looked for moral economies “outside (or in the cracks of) the market” and used the concept as “an approximate synonym of Polanyian embeddedness” (Palomera/Vetta 2016: 417-418), more recent approaches have focused on the moral critique of illegitimate economic practices and processes within market societies themselves. This critique might be all the more powerful, the more it expresses fundamental motives of sympathy and fairness based on human’s second-personal morality (Tomasello 2016: 100, 115-118). Although this trend opens up some promising avenues, two caveats are in order. First, to maintain that moral economies can significantly shape economic processes is not the same as disregarding the internal logic of capitalist markets (Palomera/Vetta 2016: 420-421). On the contrary, it is important to link patterns of moral embeddedness to patterns of capital accumulation, and to investigate their interplay (Palomera/Vetta 2016: 422-423). Second, although moral economy approaches try to link the economic processes to social struggles, the notion of social struggle is not circumscribed to transformative or ‘progressive’ causes; conservative and ‘regressive’ causes can equally well mobilize individuals to rally against the market in the name of social justice (Palomera/Vetta 2016: 426).

#### 4.4.3 Interpenetration of Morality and Economy

In line with other theorists of functional differentiation subsequent to Parsons, Luhmann maintained that economic processes of payment and moral processes of respect and disrespect are irreconcilably separated (cf. 3.2.2). Richard Münch (1994) in particular has challenged the notion of functionally differentiated, autonomous subsystems by arguing that morality and the economy ‘interpenetrate’ each other in various ways. Radicalizing Weber, he claims that

today's work too is "shaped by a professional ethic whose demands are determined by the prestige of a profession and whose performance fulfillment decides on the respect for the worker in the profession" (Münch 1994: 389). Münch concedes that an entrepreneur or manager cannot be expected to "change the laws of the economy" (Münch 1994: 389). But these 'laws' themselves are the product of a particular institutional arrangement which is based on property rights but "rooted in a permanent moral consensus" (Münch 1994: 390).

What payments are made is therefore not only determined by economic exigencies and calculations, but also by the socially legitimized moral standards. Economic and moral expectations interpenetrate in the system of professional work [*Berufsarbeit*] where respect takes the form of monetary rewards for morally sanctioned economic activities. The more moral demands society puts on the economy, the more concerns of moral respect penetrate into and influence the economic system (Münch 1994: 390). Although his critique of this particular aspect of Luhmann's economic sociology is questionable, because Luhmann did not in fact exclude moral or political influences on economic payment decisions but rather formulated the conditions for their application (Beckert 2002: 220-227; but see Münch 1994: 407), Münch makes an important point. Meeting socially legitimized goals entails moral respect which might improve a company's public standing as well as its employee satisfaction. In short, economic actions and the moral respect they deserve in particular social contexts always dovetail.

#### 4.4.4 The New Spirit of Capitalism

In *The New Spirit of Capitalism* (1999), Luc Boltanski and Ève Chiapello open a promising avenue for connecting and elucidating the moral economy tradition with Weber's and Münch's arguments about capitalist work ethics. Radicalizing Weber's genealogical idea, they reject the claim that the "capitalistic economy of the present day is an immense cosmos into which the individual is born, and which presents itself to him, at least as an individual, as an unalterable order of things in which he must live" (Weber 2007: 19). As Münch before them, they maintain that instead of resting on 'mechanical foundations', today's capitalism continues to depend on "powerful moral reasons" (Boltanski/Chiapello 2007: 9) to get people rallying for its often "counterintuitive and contestable purposes" (Arnason 2001: 108). This is where the spirit of capitalism comes in. As the sum total of ethical motivations which are economically relevant but noneconomic in nature and origin, the capitalist spirit mediates between the utilitarian world of the capitalist economy on the one hand, and the normative world of the moral economy on the other (Boltanski/Chiapello 2007: 8-9).

Justifications of capitalism which are solely based on a “minimal argument in terms of compulsory submission to economic laws”, are insufficient to induce commitment; economic (or coercive) incentives are, at best, a “motive for staying in a job, not for getting involved in it” (Boltanski/Chiapello 2007: 8). Accordingly, the capitalist spirit is defined as “the ideology that justifies engagement in capitalism” (Boltanski/Chiapello 2007: 8). A “professorial capitalism, which trots out neo-liberal dogma from on high” may be enough to defend the general principle of accumulation, but it lacks “sufficient mobilizing power” to provide the leading entrepreneurs and managers with “personal reasons for commitment” (Boltanski/Chiapello 2007: 14, 20, 16). As “the sole – or at least the main – historical form organizing collective practices to be completely detached from the moral sphere”, capitalism needs its spirit to harness the motivational and legitimacy “resources external” and sometimes even “hostile to it” (Boltanski/Chiapello 2007: 20). Therefore, in its “need for justification” (Boltanski/Chiapello 2007: 21), capitalism incorporates into the exigencies of capital accumulation already-existing ‘orders of worth’ or *cités*.

Here, Boltanski/Chiapello draw on the sociology of critical capacity, according to which actors need to justify their actions and operate within a certain cognitive frame of reference that provides them with distinct principles for doing so (Boltanski/Thévenot 1999; Granovetter 2017: 139). There are at least eight such orders of worth. Each offers different criteria for what constitutes worth, for example efficiency in the industrial *cité* or sustainability in the ecological *cité* (cf. Nachtwey/Seidl 2017). By drawing on these orders of worth, the capitalist spirit not only provides capitalism with motivational and legitimacy resources, it also exposes it to social criticism if it violates the standards which it had itself evoked. Thus, the capitalist spirit not only limits the forms of legitimate accumulation, it can also pressure capitalism into responding or reacting to its critics in institutional or symbolic ways (Boltanski/Chiapello 2007: 27-35). In short, Boltanski, Chiapello and Thévenot provide us with the theoretical tools to connect the sphere of normative orders and social critique to the sphere of capitalist accumulation and reproduction.

### Part III: Bringing the Threads Together

The point of this study was in no way to diminish the importance of basic economic laws (the stuff of economics) or the structural dynamics of capital accumulation (the stuff of political economy) (cf. Zukin/DiMaggio 1990: 3). Nor was it to argue that 'disembedded' free market economies are somehow normatively inferior to 'embedded' traditional economies. Rather, I wanted to argue that both, the "liberal utopia" of a morally disembedded economy

and the "illiberal utopia" of total moral regulation are indeed utopias (Polanyi 2014a: 32). Just as strategic, rational actions are not absent from traditional economies (Popkin 1979), morality does have a role to play in capitalist market economies. In this concluding section, I want to weave together into a sound theoretical framework the more recent critique of utilitarian conceptions of economic action with the classical sociologists' qualifications to the nonetheless valuable insights of their neoclassical and neoliberal colleagues. The problem that I thereby hope to tackle is, to use Viviana Zelizer's formulations, how moral questions "actually arise within economic life, how economic actors respond to them, and what effects those responses have on economic performances" (Zelizer 2007: 9).

## 5. Conceptualizing the Moral Embeddedness of Economic Action

According to Beckert, capitalist economies are morally embedded in three different forms: they are embedded in market-constituting [*marktermöglichende*] morality, in market-limiting [*marktbegrenzende*] morality, and in market-informing [*marktbegleitende*] morality (Beckert 2012: 250). Market-constituting morality refers to the necessary moral prerequisites for the emergence of markets based on peaceful competition between self-interested individuals. One can think of Durkheim's non-contractual bases of contract, which might themselves be based on a conditionally cooperative human morality (3.1.2); of Parsons' normative solution to the Hobbesian problem of order (3.3.2); of Hirschman's (4.2.1) and Weber's (3.2.1) arguments about the (ongoing) 'discursive' work necessary to render capitalist markets and capitalist work into legitimate and even virtuous institutions and activities (cf. Fourcade/Healy 2007: 286-291); or of morality's role in sustaining the trust relationships that undergird modern economies emphasized by economic sociologists (4.4.1).

Market-limiting morality refers to situations where morality prevents the emergence of particular markets because they are deemed morally illegitimate. Aside from more obvious case such as organ markets, examples include Zelizer's work on the historical processes that made life insurances a legitimate investment, or Lawrence and Phillips' work on how a cultural change in the moral perception of whales – from horrifying monsters to almost mythical creatures deserving of our respect and admiration – delegitimized commercial whale hunting and legitimized commercial whale watching (Lawrence/Phillips 2004). Against this background, economies have to be understood as operating "within the context of a moral universe that resists the logic of economic efficiency and that at times this resistance is itself a precondition for market exchange, while at other times it produces inefficiencies" (Beckert 2006a: 13). Market-attendant morality, finally, refers to the moral shaping of the preferences

of market actors themselves. Here, one can think of religiously or ethically motivated consumption (e.g. halal or kosher products, Fair Trade), but also of (similarly motivated) investment decisions (e.g. diaspora bonds) (cf. Stehr et al. 2006).

Although the transitions between these different forms of moral embeddedness can be flowing at times, I will focus on market-informing morality and will propose a framework to further elaborate and differentiate the role of morality in economic life. The gist of this argument is that, in addition to the three forms of moral embeddedness suggested by Beckert, morality serves three functions in capitalist (re)production: motivation, legitimation, and orientation (cf. Arnason 2001: 107). While the motivational and the legitimatory function obviously play an important role in constituting and limiting markets, the ‘orientational’ function is mostly limited to market-informing morality – except in those (not necessarily rare) borderline cases when economic entrepreneurs become institutional and normative entrepreneurs and push the boundaries of legitimate markets based on some orienting moral ideas (e.g. Lawrence/Phillips 2004).

Again, the argument is not to deny capitalist economies ‘relative autonomy’, but to point to the various ways in which moral concerns cross the Habermasian ‘zone of indifference’ between lifeworld and system, and influence the economic behavior of capitalist organizations (5.1). Nor is the argument to deny the crucial importance of material interests in economic life, but rather to conceive of these interests as often mediated by – to use Weber’s terminology – ideal interests and ideas (5.2). In the first case, the argument is not that capitalism itself is necessarily and at all times ‘thickly’ embedded in moral norms and values (Streeck 2007: 15-16). Rather, the argument is that the more capitalism is able to harnesses the motivational and legitimatory resources of the lifeworld, the less it has to rely on brute force and the more dynamic and ultimately successful will it be (for such a ‘normative functionalism’, see Honneth 2014: 183-191). And conversely, the more it relies on and intrudes into the lifeworld, the more it depends on the discursively articulated moral concerns (problem of motivation and legitimation). In the second case, the significance of morality in orienting economic interests depends on the degree of economic uncertainty. The more uncertainty there is, so the argument goes, the less economic actions are rationally calculable and the more bearing moral ideas will have on economic interests (problem of orientation).

### 5.1 Moral Discourse and Economic Action

According to most economists and many sociologists, there are two ways that capitalist firms need to take morality into account: first, they have to act in accordance with the basic

legal institutions through which they are connected with the lifeworld – although the line between innovation and crime may sometimes be rather blurry; second, if their consumers are willing to forgo economic benefits in order to ‘altruistically punish’ them for violating ethical standards or not offering ‘fairly produced’ products. According to Hirschman (1970), such ‘punishment’ can occur in two forms, either as voice-critique which is expressed by words (e.g. petitions) or as exit-critique which is expressed by defection (e.g. boycotts). There is a lot of research on how markets are limited and expanded by deliberate legal and political actions (e.g. welfare policies), and on how shifting consumer demands ‘moralize’ markets and thus changes the parameter of economic production (Stehr et al. 2006). There is also plenty of scholarship on compliance policies and codes of ethics which more and more companies have adopted in response to and in anticipation of business scandals and the ensuing reputational damage.

Most of this scholarship, however, has taken a fairly instrumental view of morality, viewing it as a strategic, superficial adaption on the part of businesses to a changing social environment. But in only focusing on “Hobbesian prudential reasons” and ignoring the often equally powerful “Rousseauian legitimacy reasons” (Tomasello 2016: 121), researches have overlooked several important aspects. First, as the literature on organizations has emphasized, viewing morality merely as a strategic device ignores the inertia and the self-binding effect of moral commitments (4.3).<sup>24</sup> Once institutionalized, codes of ethics can prove fairly “resistant to self-interested manipulation” (Suchman 1995: 579), establish new systems of moral accounting (Roberts 2003), and select and socialize more ethical members (Zelizer 2007: 15-16). Second, as the case studies on offshoring decisions (4.3.1.1) and, even more tellingly, the literature on ethical leadership and organizational motivation (4.3.3) have shown, morality cannot be manipulated at will. Especially when tasks are difficult to measure and contractualize, economic incentives alone might be a poor means to get high-quality employees ‘fired up’ for knowledge-, creativity-, and/or communication-intensive projects (Boltanski/Chiapello 2007; Castells 2010; Hardt/Negri 2000; Reckwitz 2017). Thus, if capitalism detaches itself too far of its moral environment, there is a danger that its motivational and legitimacy resources dry out and atrophy. Finally, as the literature on CSR has demonstrated (4.3.1.2), the increasing moral expectations on businesses are themselves the result of the capital-driven expansion of markets into social spheres (e.g. welfare), where

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<sup>24</sup> As the case studies on offshoring have shown (4.3.1.1), these commitment do not have to be commitments to the tenets of some universalized moral system. Between egoism and universalism, there is a whole range of intermediary commitments, for example to one’s nation or region, one’s class, gender, or race, one’s firm or sector, and so on (Sen 1977: 335).

economic justifications have not obvious validity basis, and (counterbalancing) moral concerns continue to have much discursive weight (cf. 3.1.4).

Capitalism's (growing) legitimacy and motivational dependence on moral resources raises the question of how to (re)conceptualize the relationship between capitalism and the lifeworld without restricting empirical analyses to legal institutions or economic mechanisms. One promising way of doing this is to look at how discourses produce and reproduce different 'moral views of market society' (Fourcade/Healy 2007) or moralized 'stories about capitalism' (Haidt 2014) – views and stories that then come to define and rationalize people's world-views and undergird and shape economic processes (Massengill/Reynolds 2010). The argument is that while the market mechanisms transmits the exit-critique of changing consumer preferences into the economy (Boltanski/Chiapello 2007: 489), discourses – along with the more inert legal institutions – transmit the voice-critique of moral indignation or exhortation into the economy.

Moral discourses can be defined as proscribing "conceptions of worth and value to particular people and activities based on an appeal to a larger conception of the good" (Massengill/Reynolds 2010: 486). An analysis of moral discourses about the economy can shed new light on and help to reformulate Durkheim's somewhat out of fashion idea that the economy is normatively regulated and moderated by ideas of social justice (3.1.3), or Parsons also somewhat outdated idea that the relative importance of economic vis a vis alternative goals is socially regulated (3.3.5) (see, for example, Münnich 2015).<sup>25</sup> While moral economy approaches point to the more informal ways that the moral demands of the lifeworld find their ways into the capitalist system (cf. Booth 1994: 643), and while the sociology of critical capacity illuminates how this practically works, discourse analysis provides a twofold insight: first, into what these moral demands and ideas actually are – both with regard to "the explicit reasons actors give for their moral positions" and with regard to "the unconscious motivations for their behavior" (Massengill/Reynolds 2010: 486); and second, into how moral discourses, to use Foucault's phrase, 'systematically form the objects about which they speak'.

This argument rests on the assumption that although capitalism still has a logic of its own and can produce outcomes that – for better or worse – go well beyond individual intentions, it can no longer simply ignore or 'reach through' individual action orientations (3.4.2). For one thing, with the decline of the welfare state, legitimacy crises can no longer be – to the same extent – buffered by or transposed into the political sphere, but often 'hit' the

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<sup>25</sup> It is of course quite plausible to assume that if companies were given the 'Ring of Gyges' and could therefore not be held accountable for their actions, they would behave in more self-interested manner (Haidt 2012: 347). But this only proves the point that moral discourses can check and balance cooperate actors.



economy directly (3.4.1) (cf. Münnich 2015). Moreover, the “more markets extend their reach into noneconomic aspects of life, the more entangled they become with moral questions” (Sandel 2013: 122). As a result, a new “cultural logic capable of justifying and dignifying the dynamic of accumulation” (Arnason 2011: 110) is in high demand (cf. 3.1.4). Capitalism, therefore, increasingly needs to draw on and incorporate external legitimacy resources that go beyond both the abstract reciprocity of ‘organic solidarity’ (3.1.1) and “the justice inherent in the exchange of equivalents” (Habermas 1988: 22; 3.4.1). This, in turn, opens up a gateway for moral discourses to enter into organizational cultures and economic institutions. As noted above, besides its legitimation issues, capitalism also increasingly depends on external motivational resources to convince qualified actors to spend their creativity, knowledge and enthusiasm in its service. Here too, it can no longer ignore individual action orientations, for capitalist work has itself become increasingly communicative and ‘lifeworldly’ (Hardt/Negri 2000), and cultural resources prove “peculiarly resistant” (Habermas 1988: 70) to economic manipulation.

Interestingly, both, the legitimation and the motivation problem were already discussed by Schumpeter. In his famous *Capitalism, Socialism and Democracy* (1942), he argued that the growing “hostility” towards capitalism and the accompanying “meekness” of the bourgeoisie order aptly demonstrate that capitalism “not only rests on props made of extra-capitalist material but also derives its energy from extra-capitalist patterns of behavior which at the same time it is bound to destroy” (Schumpeter 2008: 161-162). By commercializing the normative orders that ‘beneficially constrain’ it, capitalism undermines the “emotional attachment” that makes people rally for it, but which is also “the very thing capitalism is constitutionally unable to produce” (Schumpeter 2008: 145; cf. Streeck 1997).

Ironically, in this case, Schumpeter was too pessimistic about the innovative potential of capitalism, about its ability to tap new socio-moral resources and incorporate them into its institutional and cultural makeup (Boltanski/Chiapello 2007). But he might have been right that a dynamic, innovative, “vigorous capitalism” (Swedberg 2002: 248-249) not only needs good institutions but also “something else” (Swedberg 2002: 235). For the early Schumpeter, this ‘something else’ was the entrepreneur (Swedberg 2002: 235-236), for the later Schumpeter it was a “civilization of capitalism” (Schumpeter 2008: 121-130), i.e. “a capitalist ethics that enjoins working for the future irrespective of whether or not one is going to harvest the crop oneself” (Schumpeter 2008: 160). Weber called this ethically charged ‘something else’ the spirit of capitalism (Swedberg 2002), and it is well worth tracing the various ways that the capitalist spirit renews itself by drawing on new motivational and legitimacy resources as

they are produced and reproduced in moral discourses (cf. Nachtwey/Seidl 2017). Such an argument goes beyond both the *doux-commerce* and the self-destruction thesis, because “the moral basis of capitalist society” is understood “as being constantly depleted and replenished at the same time” (Hirschman 2013b: 242).

As the gateways between lifeworld and capitalist system open up, moral discourses can become “practical dispositifs (to use a Foucauldian term) that work to bring markets in line with moral ideals so the processes that go on inside them can be regarded as legitimate” (Fourcade/Healy 2007: 304). This way, morally legitimate lifeworld values, like, for example, personal or social responsibility, can ‘colonialize’ the capitalist system, and often lead to profound changes in the “institutional structure and direction” (Fourcade/Healy 2007: 304) of capitalist reproduction. If nothing else, it speaks to the declining empirical and normative plausibility of the long-prevailing view that economic action is and ought to be morally disembedded, that the “discourse of the market is increasingly articulated in moral and civilizational terms, rather than simply in the traditional terms of self-interest and efficiency” (Fourcade/Healy 2007: 305). As the result, the point of reference not only of normative, but also of empirical analyses of capitalist societies should no longer simply be “the sheer existence of an institutional sphere, but the values and norms it embodies, provided that the members of society regard them as a condition for being able to consent to the economic order” (Honneth 2014: 183).

## 5.2 Moral Ideas and Economic Interests

The more market reasoning reaches into social life, and the more markets commercialize activities that are difficult to contractualize, the more it relies on legitimacy and motivational input from its moral environment. This way, economic organizations become economically interested in complying with ethical standards, in pursuing socially legitimate goals, or in providing their employees with morally engaging objectives. But morality can influence economic actions in still another and more subtle way, and that is by orienting these actions in situations where it is unclear what, in fact, self-interest demands. We have seen that moral ideas can inform the mimicking processes that capitalist organizations undertake to gain legitimacy under conditions of uncertainty (4.3.1); that they can frame what actors perceive as economically rational, especially when there are conflictual logics involved (4.3.1.1); and that they can guide economic actions under conditions of uncertainty (4.4.1). The point here is not that moral concerns somehow change the parameters of economic decision-making or even supplant economic interests, but that they (re)define self-interests in the first place.

At an abstract level, moral ideas can, to use Weber's famous phrase, 'determine the tracks along which economic action is pushed by the dynamic of interest' – such that, for example, acquisitive drives are 'pushed' into the rationally controlled and peaceful pursuit of wealth (3.2.2). More concretely, institutionalized ideas might, as Parsons pointed out in his studies on the professions, provide actors with criteria for (economic) success and thereby guide their actions (3.3.3). Especially when different 'institutional logics' conflict (4.3.2) and the ensuing "framing contests" (Kaplan 2008) remain undecided, moral concerns can have the 'casting vote'. When it is unclear which logic should prevail, economic actors can use moral arguments – including neoliberal arguments (cf. Streeck 2007: 18-19) – to reframe the problem and tip the balance in favor of, for example, the more long-term solution. Even if this is done for purely strategic reasons, to shield the management against short-term profit expectations for example, it

“does not mean that the disagreement is not ‘really’ about norms or that the norms are mere fig leaves concealing the underlying struggle of interests (...). Instead the conflict of interests is conducted around normative arguments precisely because these do matter and carry enough emotional freight to be persuasive if one side can successfully frame the situation in a certain way” (Granovetter 2017: 173).

Moral ideas, as the sociology of morality has shown, can affect deeply internalized motives *as well as* practical skills and justifications for action (4.1.2). In other words, they can provide economic actors with intrinsic motivations to pursue certain morally desirable goals and at the same time with good reasons to justify these goals in front of their skeptical peers. As long as there is enough uncertainty involved, for example in newly emerging or volatile markets, there is a good enough chance that morally desirable goals can be justified in terms of economic rationality, given that the respective frames are discursively available and convincing (Massengill/Reynolds 2010: 487). For example, Silicon Valley's 'philanthro-entrepreneurs' receive huge amounts of investment capital for their megalomaniac but also eminently moral goals of connecting the world or fighting death. But they only do so as long as they are able to convince venture capitalists that the biggest problems on the planet are also the biggest market opportunities. Sure, the whole rhetoric of 'making the world a better place' is a smart branding ploy; but dismissing this as mere window dressing is ignoring the performative and self-binding impact the Californian spirit of capitalism has on the "tracks" Google and Co choose to pursue their commercial interests (Nachtwey/Seidl 2017).

There is no doubt that if moral concerns push economic interests too far off the tracks of economic rationality, economic organizations will be pushed out of the market. But although market actors are structurally forced to seek profits, their concrete economic actions are not determined by the market. In conditions of uncertainty and complexity, where organizations cannot “identify optimal strategies” and even experts will find themselves “unable to optimize” (Thaler 2016: 1581), economic actors – especially entrepreneurs without a lot of formal business knowledge – will often “base their decisions on culturally legitimated conceptualizations of rationality. This constitutive role of culture allows for the introduction of ethically motivated decisions into firm behavior despite market pressures towards efficiency” (Beckert 2006a: 19). The greater the economic uncertainty, the greater the “‘rationality gap’, within which moral arguments can operate” (Schröder 2013: 572).

Thus, the relationship between moral ideas and economic interests should not be conceived of as a zero-sum game where both are played off against each other. Rather, one needs to investigate the ways in which moral ideas ‘modify’ (Arrow in Swedberg 1987: 143) economic interests without robbing them of their rational appearance. Parsons already formulated the challenge without ever being able to solve it (3.3.2): how do certain *analytical* elements of actions (e.g. moral values and economic interests) combine in *concrete* historical actions. A Weberian sociology might be well suited to accomplish this challenge (Joas 1996: 32; Swedberg 1998: 165), but it needs to be updated with regard to more recent findings on the cognitive nature and cultural origins of value-rational and affective action, and on how they intermingle with instrumental-rational actions.

## 6. Conclusion

When challenging the dominant strands of economic or sociological thought on the relationship between morality and economy, the goal cannot be to replace moral austerity with moral exuberance. Rather, one has to take Durkheim’s warning against false abstractions (3.1.5) seriously and empirically investigate the concrete role of morality in all its contextuality and complexity, on a case-by-case basis (Streeck 2007: 21) and without strong null hypotheses (Granovetter 2017: 3-4). After all, it is an “empirical question” (Beckert 2006a: 19) how and to what extent economic actions are embedded in moral values and sentiments. However, it should also be clear by now that morality is not only an important part of human’s complex psychological makeup, but also by no means absent from capitalist economies. Analyzing the moral discourses that surround and penetrate the economy allows us not only to better understand the motivational, legitimational, and orientational embeddedness of economic

action in morality, but also to (re)embed the economy into the moral and political struggles of our time. This way, we might even be able to revive the lost critical potential of the concept of embeddedness (Beckert 2009: 50-55) – that is, “the potential for an understanding of the social order as an institutionally mediated communicative relation between culturally integrated groups that, so long as the exercise of power is asymmetrically distributed, takes place through the medium of social struggle” (Honneth 1991: 303).

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## Erklärung zur Prüfungsleistung

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Die am FB03 gültige Definition von Plagiaten ist mir vertraut und verständlich:

„Eine am FB03 eingereichte Arbeit wird als Plagiat identifiziert, wenn in ihr nachweislich fremdes geistiges Eigentum ohne Kennzeichnung verwendet wird und dadurch dessen Urheberschaft suggeriert oder behauptet wird. Das geistige Eigentum kann ganze Texte, Textteile, Formulierungen, Ideen, Argumente, Abbildungen, Tabellen oder Daten umfassen und muss als geistiges Eigentum der Urheberin/des Urhebers gekennzeichnet sein. Sofern eingereichte Arbeiten die Kennzeichnung vorsätzlich unterlassen, provozieren sie einen Irrtum bei denjenigen, welche die Arbeit bewerten und erfüllen somit den Tatbestand der Täuschung.“

Ich versichere hiermit, dass ich die eingereichte Arbeit mit dem Titel

The Moral Embeddedness of Economic Action

nach den Regeln guter wissenschaftlicher Praxis angefertigt habe. Alle Stellen, die wörtlich oder sinngemäß aus Veröffentlichungen oder aus anderen fremden Mitteilungen entnommen wurden, sind als solche kenntlich gemacht. Die vorliegende Arbeit ist von mir selbständig und ohne Benutzung anderer als der angegebenen Quellen und Hilfsmittel verfasst worden. Ebenfalls versichere ich, dass diese Arbeit noch in keinem anderen Modul oder Studiengang als Prüfungsleistung vorgelegt wurde.

Mir ist bekannt, dass Plagiate auf Grundlage der Studien- und Prüfungsordnung im Prüfungsamt dokumentiert und vom Prüfungsausschuss sanktioniert werden. Diese Sanktionen können neben dem Nichtbestehen der Prüfungsleistung weitreichende Folgen bis hin zum Ausschluss von der Erbringung weiterer Prüfungsleistungen für mich haben.

Frankfurt am Main, 10.07.2017,

Ort, Datum, Unterschrift

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Diese Erklärung ist der Prüfungsleistung als Anhang beizufügen.  
Prüfungsleistungen ohne diese Erklärung werden nicht zur Bewertung angenommen.