

A new socio-economic framework to bring together economy, market, human being, and society

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Abstract :

The goal of this paper is to present a framework to collectively study the economy, the market, the actor, and the society in order to overcome economism. To do so, we need to break the spells of two giant figures--Karl Polanyi and Adam Smith. What can and cannot we learn from these two great scholars? Theoretical refinement by economists has promoted the detachment of economics from economic realities and ethics. Typically, this results in a highly abstracted concept of market. A careful look at the substantive economy reveals that economic actors in the market are linked inter-dependently with each other to earn livelihoods. This viewpoint relates to my challenges against the conventional concepts of the homo economicus model and of the market. Two new concepts of market, hard and soft markets, are proposed: the former is less embedded in social systems, while the latter is deeply embedded in social systems. What is called homo socio-economicus is also introduced as a new human actor model. This multidimensional human actor model, which can behave selfishly and altruistically, and the two different market concepts are incorporated into an interactive framework to explain a relationship between actors and markets: a market is characterized by how actors behave in the market and actors' behaviors are determined by the characteristics of the market.

Keywords : homo economicus, market, economism, embeddedness, self-interest, altruism

Introduction

This paper presents a framework to jointly approach economy, market, human being, and society. The value of this approach lies in the practicality of a layman's or amateur's sense to perceive economies and economics. To any amateur non-economist's eyes, theories of economics are so professionalized that there seems little room for him or her to make any meaningful contribution to the tradition of the discipline which looks too lofty for non-economists. This is not always desirable. I intend to demonstrate how a non-economist with a layman's sense is able to contribute to the academic tradition. It is quite a paradox, however, that non-economists as citizens in society are imbued with or influenced by the languages, concepts and logics which economists use, typical of which are 'market', 'supply and demand' and 'consumption'. They seem to take for granted the idea that a market is a place where each actor seeks out its self-interest. This is what Karl Polanyi called 'economism,'¹ a kind of ideology. While it is relatively easy to criticize economics of its professionalism, the abstractness of its concepts, or its detachment from realities, it is not so easy to propose constructive alternatives. I will dare to raise an alternative framework and some new concepts related to this framework. In essence, this is an attempt to overcome economism.

To overcome it, we need to break the spells of the two giant figures in the field: Karl Polanyi and Adam Smith. In the following two sections, I will discuss what we can and cannot learn from these two great scholars and suggest what points need to be modified if there is something we cannot directly

¹ Karl Polanyi, *The Livelihood of Man*, pp. 5-10 ; Ulrich characterizes economism as follows : "The three basic manifestations of economism are the development of a self-sufficient economic rationality, the representation of cost-benefit thinking as autonomous and absolute, and the elevation of the market logic to normal primacy, all of which lead to false totalities of a latently ideological kind." Peter Ulrich, *Integrative Economic Ethics : Foundations of a Civilized Market Economy*, p. 111.

learn from them.

1. Polanyi as a source of inspiration

Two points can be made for Polanyi. The first concerns the famous statement he made: "Instead of economy being embedded in social relations, social relations are embedded in the economic system."² The other concerns two meanings of the word 'economic' which Polanyi points out in his books.

The framework I am trying to propose is based on the concept of 'embeddedness.' This concept of 'embeddedness' derives from Polanyi, who notes in his *The Great Transformation* as follows: "Broadly, . . . all economic systems known to us up to the end of feudalism in Western Europe were organized either on the principles of reciprocity or redistribution, or householding, or some combination of the three."³ He claims that economic system was embedded in society in pre-modern times, but later on as the market system developed, "the control of the economic system by the market" became "of overwhelming consequence to the whole organization of society."⁴ By this passage Polanyi aptly illustrates a contrast between pre-modern and modern times, with the point he makes here being the emphasis shifted to economy from society.

Polanyi writes in the book and elsewhere: "the change from regulated to self-regulating markets at the end of the eighteenth century represented a complete transformation in the structure of society."⁵ This statement helped readers of Polanyi develop an image that economy after the 19th century onward stands as if it were not embedded, but separated from society. However, a careful reading of the statement reveals that the embeddedness of economy in society remains even in modern times, although the degree of embeddedness greatly differs between the two periods. Evidence supports, as I will show, that economy remains embedded in a 21st century society context despite the contrary impression given by Polanyi's statement that the 19th century

economy was controlled by self-regulating markets so that economy was no longer embedded. That Polanyi, so much interested in explaining embeddedness in ancient or middle-aged society contexts, looked at any time to the past or pre-modern times, explains why he does not discuss the possibility of an economy embedded in a society in 20th or 21st century contexts. His attitude of looking to the past undoubtedly contributed to the impression that he might no longer regard the contemporary economy as embedded into society. In any case, we can ascertain that economy remains embedded in our modern day context.

The concept of 'embeddedness' has been a topic of discussion in the field of sociology. In the 1980s American sociologist Granovetter first shed light on the concept, and he has led academic discussions on the issue.⁶ Some sociologists interested in economic sociology have followed him. Economic sociologists approach economic phenomena from the sociological point of view, and they depend on basic concepts economists use such as market, utility, cost and consumption. The approach I am adopting in this paper differs from theirs. My aim is to propose an alternative to the current mainstream methodology of economics, raising doubts about the usefulness of some of the traditional concepts economics has inherited from the previous generations. The methodology I use is not a sociological one, but one related to economic philosophy. This could be called a 'meta-socio-economic approach.'

The other concept Polanyi has inspired me to find relevant is the dual meaning of the word 'economic.' He distinguishes two meanings: one is an empirical meaning, the other a formal meaning. Polanyi notes as follows:⁷

The substantive meaning of economic derives from man's dependence for his living upon nature and his fellows. It refers to the interchange with his natural and social environment, in so far as this results in supplying him with

² Karl Polanyi, *The Great Transformation* p. 57.

³ Karl Polanyi, *The Great Transformation* pp. 54-55.

⁴ Karl Polanyi, *The Great Transformation* p. 57.

⁵ Karl Polanyi, *The Great Transformation* p. 68.

⁶ Mark Granovetter, "Economic Action and Social Structure: The Problem of Embeddedness," *American Journal of Sociology* 91.

⁷ Karl Polanyi, *Trade and Market in the Early Empires*, p. 243.

the means of material want satisfaction. The formal meaning of economic derives from the logical character of the means-ends relationship, as apparent in such words as “economical” or “economizing.” It refers to a definite situation of choice, namely that between the different uses of means induced by an insufficiency of those means. If we call the rules governing choice of means the logic of rational action, then we may denote this variant of logic, with an improved term, as formal economics.

He explains the meanings of the word in other books, although his explanations seem not necessarily consistent. The two meanings I drew from Polanyi, however, are a source of inspiration to explore beyond the definition or explanation he raised. What I would like to draw as a message is simply that there are two different aspects of economy. Formal economy means to be a construction of economic systems or theories based on the work of economists that have succeeded as traditions. Empirical or substantial economy, on the other hand, means to be economic activities among actors, economic and/or social, taking in the ordinary transactions of actors, which economists usually fail to grasp in their perspectives. Ordinary transactions, at this stage of discourse, can be defined no less than as ordinary activities people engages in their daily life. The focus is not placed on a market centering on the concepts of supply and demand, but on mutual interactions or exchange relationships among actors. Actors are interlinked to each other with the media of goods, currency, and information transported. Economics remains alienated from empirical economy. The process will be revisited in due course in this paper.

2. Adam Smith's rhetoric

The history and progress of modern economics cannot be unfolded without referring to Adam Smith who has been described as an originator of economics. In this section I will observe how Smith contributed to the two concepts of economy, empirical and formal.

Two points will be discussed here: one concerns the famous words ‘invisible hand’ appearing in his *Wealth of Nations*, the other concerns the metaphor of the butcher, the brewer and the baker which he used in the same work.

(1) The metaphor of the ‘invisible hand’

Anyone who has the same level knowledge about economics as ordinary high school students have can associate the words ‘invisible hand’ with Adam Smith. There are not so many people, however, who are well informed of the context in which the words appear in the *Wealth of Nations*. Generally speaking, the function of the invisible hand tends to be interpreted as its having a price setting function in the market which has a self-regulating function, as many economic textbooks explain. However, a perusal of Book 4, Chapter 2, which is the only part in the *Wealth of Nations* where Smith uses the words, indicates that Smith did not conceive the hand as having a price-setting function.

The main theme of Chapter 2 of the book is the legitimacy of restricting or prohibiting imports of goods from foreign countries. Smith claims against any restriction or prohibition of imports as he believes that “every individual naturally inclines to employ his capital in the manner in which it is likely to afford the greatest support to domestic industry, and to give revenue and employment to the greatest number of people of his own country.”⁸ It is in this context that Smith used the words ‘invisible hand.’ In the very part Smith observes that as “every individual endeavors as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce maybe of the greatest value, he necessarily labors to render the annual revenue of the society as great as he can.”⁹ The message he intends to produce is that if each individual works hard or employs capital in the support of industry pursuing his own interest, not that of society, the product of industry or labor will increase, and in consequence the whole produce of industry in society will increase. Thus, he does not intend to use the invisible hand as a price-setting mechanism of the market.

It is true that Smith explains in Book 1, Chapter 7 of the *Wealth of Nations*, about the price-setting

⁸ Adam Smith, *The Wealth of Nations*, Book 4, Chapter 2, paragraph 6.

⁹ Adam Smith, *The Wealth of Nations*, Book 4, Chapter 2, paragraph 9.

mechanism of the market, using the supply and demand relationship. With a combination of the invisible hand metaphor and the price-setting function of the market, we might say with hindsight that the economists and scholars of the generations following Smith have wrongly produced the current popular image or interpretation of the invisible hand.

This long explanation of the irrelevance of the popular interpretation of the invisible hand has a reason. It shows the possibility that Smith's original passage could be conveyed to subsequent generations not only with different nuances added owing to an amalgamation effect, but also with more impressive or convincing force. It is assumed that some amalgamative force has over time made a combination of the 'pursuit of self-interest' formula and the invisible hand metaphor, both of which he uses in his *Wealth of Nations*, more convincing than the original concepts by which he intended to send certain messages.

(2) The metaphor of 'the butcher, the brewer or the baker'

What I find more impressive than the invisible hand metaphor is the metaphor of 'the butcher, the brewer or the baker', hereinafter referred to as the 'metaphor of the butcher' in this paper. The metaphor is used in the following passage.¹⁰

In civilized society he stands at all times in need of the co-operation and assistance of great multitudes, while his whole life is scarce sufficient to gain the friendship of a few persons. In almost every other race of animals each individual, when it is grown up to maturity, is entirely independent, and in its natural state has occasion for the assistance of no other living creature. But man has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only. He will be more likely to prevail if he can interest their self-love in his favour, and shew them that it is for their own advantage to do for him what he requires of them. Whoever offers to another a bargain of any kind, proposes to do this. Give me that which I want, and you shall have this which you want, is the meaning of every such offer; and it is in this manner that we obtain

from one another the far greater part of those good offices which we stand in need of it. It 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. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.

Smith observes that we obtain what we want through exchanges because commercial operators in a town also pursue their own interest in selling goods, not because of their benevolence. It is apparent that Smith emphasizes the 'pursuit of self-interest' formula even if he does not directly use the words. This metaphor of the butcher, combined with the effect of the 'pursuit of self-interest' formula, more convincingly conveys to the following generations the message that players in a market are no more than self-interest pursuers. Economists of the later generations not only inherited the message, but also constructed theories of economics based on the idea which the message contains.

I do regard this metaphor of the butcher as Smith's rhetoric, although he himself did not have such an intention. And this rhetoric has had a great impact on the generations that followed. Why is this rhetoric? I will explain in the rest of this section.

The passage quoted on the previous page from the *Wealth of Nations* reveals that Smith was aware that human beings live in need of co-operation and assistance from others. In spite of his recognition of human beings needing assistance from others, Smith did not adopt the logic that human beings ought to live by helping each other, offering and receiving things in need. Instead of ruling out the logic of human interdependence, the logic of self-love assumed to exist in every person was officially incorporated in his discourse. An inward-look for self-reliance, an element which makes a man of self-reliance, a human model typical of modern times, was apparently preferred to an outward-look for assistance from others. This is, by our hindsight, where a crucial ramification was made.

Why is the adoption of this logic a ramification? The metaphor sheds a spot light on the relationship between the selling or supply side, and the

¹⁰ Adam Smith, *The Wealth of Nations*, Book 1, Chapter 2, paragraph 2.

purchasing or demand side, completely ignoring the networking relation being developed in the background of the commercial operator, the butcher in this metaphor, and its client. A butcher cannot live only with meat he or she sells. The butcher needs to purchase, for instance, vegetables in a grocery store and fish in a supermarket. A customer visiting the butcher ought to have some income sources in order to purchase things in need. In the background of every player in market webs of relationships, which is what I will later call 'exchange nexus,'¹¹ are naturally or spontaneously formed relationships among actors. Smith's metaphor of the butcher intends to carve the bilateral relationship between the butcher and its client out of the background relationships existing behind each of them in order to vividly illustrate a typical relationship in a market where each player is pursuing his or her own interest, each indifferent to caring or supporting another player. This metaphor, with magnified effect, was then placed in the base of the definition of what is the market in classic and neo-classic theories of economics in the 19th and 20th centuries.

Economists of the following generations have enshrined Adam Smith as the founder of economics, and they have constructed a formal system of economics on the founding concept of what the market is based on the supply and the demand. A reversal in the description of this development is tantamount to the statement that those economists failed to reinstall what Smith ignored into economic theory; they failed to incorporate into theories of economics what Polanyi called empirical economy.

3. Development of the concept 'economic man' and its problems

Let us then contrast this development of market with the development of the concept 'economic man'. As a concept of 'economic man' one may lend itself to an image of Robinson Crusoe. Hisao Ohtsuka, a Japanese social scientist of the 1960s writes on the economic man: "The concept 'eco-

nomic man' signifies a typology of human being which Adam Smith's economics assumed as a methodological base and Smith himself called as such."¹² Smith did not use, however, these very words in his *Wealth of Nations*. As is often the case, it is possible to draw from his works the essential type of human being which Smith postulated when he wrote down passages for his volumes. Ohtsuka hinted that Robinson Crusoe is a replication of the economic man model.¹³ Robinson Crusoe is, however, believed to rather be a model of a man of good management, not exactly one which Smith is supposed to have conceived in his writing. Ohtsuka was right in that he was not seeking an abstract model of human being in Smith's works.

Smith recognized that human beings are selfish. The man he assumed in the *Wealth of Nations* is broader than the image of a man who ruthlessly pursues his own interests at any time and place. A Japanese economist notes: "The Smithian concept of *homo economicus* is very much a historical product and so it should not be regarded as part of a generalized theory having universal validity."¹⁴

Classical economists like David Ricardo, Thomas Robert Malthus, and John Stuart Mill emerged in the late 18th century to refine and extend Smith's work. Ricardo contributed to "the modern view of price making, the interaction of supply and demand." Ricardo's theoretical and inductive ways may have made economics closer to a science. Nevertheless, the classical economists were followers of Adam Smith in the sense that they still referred to the natural price in addition to the market price, though their interest in and reference to the natural order apparently diminished. They also adhered to a version of what was long to be known as the labor theory of value, believing that labor, as Smith put it, "is the real measure of the exchangeable value of all commodities." They kept respect to links to something natural or the value of human labor at a time when temptations may have been felt toward an abstract construction of economic theory.

It is neoclassical economists of the late 19th

¹¹ Galbraith used the words 'market nexus' without a detailed explanation. John K. Galbraith, *Economic Perspective: A Critical History*, p. 268.

¹² Hisao Ohtsuka, *The Methodology of Social Science*, p. 98.

¹³ *Ibid.*

¹⁴ Tatsuya Nakajima, *A Theory of Market Economics*, p. 20.

century that severed the links. Carl Menger, William Stanley Jevons and Leon Walrus, who contributed to what is now called the 'Marginal Revolution,' held that the price of goods was determined not by the quantity of or the value of labor used for the goods, but by the marginality of utility, which led to the law of diminishing marginal utility, the validity of which is rarely challenged by economist of this day. The theory of marginality utility implies that prices of goods are relatively determined independently of the value of labor, and that it does not need be endorsed by something natural. This ironically enough provided a solid ground to the Smithian formula of pursuit of self-interest, having an effect of accrediting the model of a man pursuing his self-interest as the legitimate base of economics.

Karl Polanyi attributed the establishment of neoclassic schools of economics to Menger's *Principle of Economics*. This explains why Polanyi refers to Menger more than other classical economists. On the role of the two meanings of the word 'economic' mentioned earlier in this paper, Polanyi notes as follows:¹⁵

Because of the brilliant and formidable achievements of price theory opened up by Menger, the new economizing or formal meaning of economic became the meaning, and the more traditional, but seemingly pedestrian, meaning of materiality, which was not necessarily scarcity-bound, lost academic status and was eventually forgotten. Neoclassical economics was founded on the new meaning, while at the same time the old, material or substantive meaning faded from consciousness and lost its identity for economic thought.

The neoclassical economists later propounded a general equilibrium theory which is an abstraction from real economy. According to this theory, all the prices of products are determined through the interaction of the maximizing utility behavior of consumers on one hand and the maximizing profit behavior

of producers on the other, which implies a theoretical formulation of the Smithian 'invisible hand,' and at the same time it symbolizes the independence of the economic system as a self-regulating system separated from other systems of society. At the base of the self-regulating economic system or the economic theory of the neoclassical economists, a model of the 'economic man' pursuing his self-interest was formally enshrined. An economist characterizes the enshrinement of the model as 'a turn from an empirical typology of human beings to *homo economicus* as a methodological hypothesis.'¹⁶ This *homo economicus* model has been inherited by mainstream economists of this day, and many of the economics textbooks which are of current use respectfully refer to the general equilibrium theory.

According to a source¹⁷, the words 'economic man' appeared first in John Kells Ingram's *A History of Political Economy*, which was published 1888, while according to OED the Latin words *homo oeconomicus* made an earlier appearance in *The Groundwork of Economics* by C. S. Devas of 1883.¹⁸ The publication of Menger's *Untersuchungen über die Methode der Sozialwissenschaften und der politischen Ökonomie insbesondere* was made in 1883, and the publication of Walrus's *Éléments d'économie politique pure, ou théorie de la richesse sociale* was from 1884 to 1887. It is not a simple coincidence that at the time of the marginal revolution taking place, the words economic man and *homo oeconomicus* started to be used. This period, moreover, coincides with what Polanyi called the emergence of a self-regulating market.

Japanese economist Hirofumi Uzawa notes that neoclassical economists postulated an abstract economic man as an essential economic actor, saying:¹⁹

The concept of *homo economicus* represents an abstract being which separated from cultural, historical and social aspects, behaves according to economic calculation. It is presupposed that the subjective criteria by which individuals behaving like this economic man are to be determined are indifferent of the kind of social envi-

¹⁵ Karl Polanyi, *The Livelihood of Man*, p. 24.

¹⁶ Tatsuya Nakajima, *A Theory of Market Economics*, p. 21.

¹⁷ Stefan Zbieglik, "The Origin of the Term *Homo Oeconomicus*," pp. 123-130.

¹⁸ *Oxford English Dictionary*, [homo n.¹]b.

¹⁹ Hirofumi Uzawa, *How Economists Think (Keizaigakuno-Kangaekata)*, p. 79.

ronments this man was brought up and under what economic conditions this man has lived, and should be determined independently of how other people behave in economic situations.

It should be noted that evidence shows that economics started to rush for the refinement of abstract theories of economics without paying due attention to the 'ecology of economy' at the time of the emergence of neoclassical economists.

4. Definition of the market

It was shown in previous sections that the butcher metaphor of Adam Smith contributed to the establishment of the economic man model and to the formulation of the market concept in modern economics. This section will highlight the problems in the concept of market from the ecological view of economy and the concept of embeddedness of economy into society.

Jean McMillan notes: "Although economics is in large part the study of markets, the textbooks depict them abstractly. [The supply-and-demand diagram] leaves unexplained much of what needs to be explained."²⁰ Ronald H. Coase writes: "In the modern textbook, the analysis deals with the determination of market prices, but discussion of the market itself has entirely disappeared."²¹ In fact, it is difficult to find textbooks which explore in detail what the market is, what the demand is and what the supply is. But a few books do. For instance, Joseph Stiglitz's *Economics* contains a passage explaining the market: "To complete the [basic competitive] model, economists make assumptions about the places where self-interested consumers and profit-maximizing firms meet: markets."²² Markets are defined in this book as the places where self-interested consumers and profit-maximizing firms meet. As such, this definition accords to the basic assumption presented by the general equilibrium theory. In simpler words, the market is the place where the demand meets with the supply. This definition covers markets like

'traditional village markets,' but it intends to go beyond such a physically limited market to cover a generalized or abstract market.

A geographically or physically limited market like village markets no doubt existed even in the pre-modern times. Abstract markets, however, are a relatively new, at least a modern, phenomenon. As we have seen, the origin of an abstract concept of market can be traced back as far as Adam Smith on two grounds. One is the compelling effect of the butcher metaphor. Smith presented each side of players in a market pursuing his or her own interest, focusing on the demand-supply relationship modeled after that of the butcher and his client, making in relief the economically interdependent situations in which actual market players are embedded. This metaphor supposedly contributed to the construction of an abstract concept of market by neoclassical economists.

The other reason concerns the tendency of economists to link the end of production to consumption. Smith thought that consumption was the end of production, as he noted: "the whole annual produce of the land and labour of every country, is, no doubt, ultimately destined for supplying the consumption of its inhabitants." This philosophy has been shared by Alfred Marshall who notes in his *Principles of Economics*, that "consumption is the end of production."²³ John Maynard Keynes writes in his *General Theory*: "All production is for the purpose of ultimately satisfying a consumer."²⁴

An idea of linking consumption to the end of production leads to the idea that R. J. Hicks describes in his *Social Framework* as follows: "Production is activity to the satisfaction of other people's wants through exchange." According to him, the word of producer signifies persons working for production in this sense, and the consumer is defined as one whose want is satisfied. He continues: "On our definition the retailer is a producer just as much as the farmer. The work done by the retailer is a part of the process of satisfying consumers' wants, just as much as the work of the farmer."²⁵

²⁰ John McMillan, *Reinventing the Bazaar: A Natural History of Markets*, p. 8.

²¹ R. H. Coase, *The Firm, the Market, and the Law*, p. 7.

²² Joseph Stiglitz, *Economics*, p. 29.

²³ Alfred Marshall, *Principles of Economics*, Book 2, Chapter 3.

²⁴ John Maynard Keynes, *The General Theory of Employment, Interest and Money*, Chapter 5, p. 46.

The expression that “the retailer is a producer just as much as the farmer” is rarely seen to be used by other economists, but many economists lined up in the mainstream economics may probably agree with the core meaning of the statement. In the background of this statement, lies the idea that the whole production process ranging from source material up to final output consists of the supply of a product. The final product is yielded for consumption by which consumers’ desires are to be satisfied, and thus, the end of production is fulfilled.

The market which economists tend to conceive is an abstract conception representing a relation between the demand and the supply. Preoccupation with an abstract conception of market helps economists overlook exchanges of materials or parts made between business operators and their partners in a supply chain or a sequence of distribution processes. In each stage of a supply chain, for instance, there are exchanges among business players, and each player plays a pivotal role in making connections to another player or players. This can be called an ‘exchange nexus.’ This partly characterizes what I call an ‘ecological view of economy.’

5. An ecological view of economy

In the previous section I challenged the concept of market which mainstream economics presupposes as an underlining concept, and depicted, though not fully, an ecological view of economy in the contemporary context. In this section I will provide specific pictures of an ecological view of economy characterized by the concept of embeddedness.

An approach to an ecological view of economy requires an observer trying to comprehend human economical transactions in society to move away from the familiar concept of market usually assumed by economists. Observers need to look at what they can grasp without any filter, that is, human daily operation in society. The focus is not placed on a market centering on the concepts of demand and supply, but on mutual interactions or the relationships among actors. Actors are interlinked to each

other through the media of goods, currency, and information exchange. One illustrative example is provided by an organization which is engaged in activities especially for elementary school children. The significance of one activity is explained as follows:²⁶

Human beings cannot live alone. Meals are provided in a system of division of labor or a system of co-existence in which someone harvests crops, processes materials, and transports for others. As each person co-exists with one another through work or employments in our society, individuals live intertwinedly linked with the socio-economic whole. It is individuals’ industry that sustains the co-existence situation in society. That individuals can live owing to benefits or products made by others means that you can responsibly be such a person who is able to produce benefits for others. The existence of an individual has a great meaning in society.

This picture of co-existence in human society is close to what I would like to present under the term ‘empirical economy.’ Let me call this the ‘ecology of economy’ or an ‘ecological view of economy.’ An economy perceived in this way is certainly embedded in society. The following passage from Smith’s *Wealth of Nations* is implicative. “The taylor does not attempt to make his own shoes, but buys them of the shoemaker. The shoemaker does not attempt to make his own clothes, but employs a taylor. The farmer attempts to make neither the one nor the other, but employs those different artificers.”²⁷ Each economic actor or market player co-exists and co-dependes with each other owing to his or her business or economic relations. Some kinds of nexus or links are, in the course of interactions, assumed to be formed among actors. This recognition supports the concept of an ecological view of economy.

In contrast to the economists’ assumption, each economic actor depends on each other even in a market context. Because, in the economist assump-

²⁵ J. R. Hicks, Albert Gailord Hart, and James W. Ford, *The Social Framework of the American Economy: An Introduction to Economics*, pp. 27-28.

²⁶ Source: Public Interest Corporation, Junior Achievement Japan HP <http://www.ja-japan.org/aboutus/story_01.html>

²⁷ Adam Smith, *The Wealth of Nations*, Book 4, Chapter 2, paragraph 11.

tion, each actor is supposed to behave rationally in order to maximize his own utility independently of how other actors behave, interdependency among economic actors is theoretically nil: economists are not interested in interdependent relationships among economic actors. An interdependent relationship can be typically seen in a transaction in which economic actors are involved. This transaction could be called an 'exchange.'

Exchanges take place among economic actors, individuals or corporations, in various places and on various occasions. People go shopping in department stores, dine at restaurants, use transportation services, or buy tickets to be entertained. People pay charges when they use a mobile phone, or access the internet through personal computers. People's daily transactions involve exchanges, and these exchanges consist of markets. Between a supplier and a supplyee in a supply chain, for instance, there exists a market. Exchanges take place between business operators in a distribution process as well. At each stage of a distribution process an exchange takes place. Further, exchanges which take place every day and everywhere are not only economic but also social transactions among actors, economic and social. An exchange takes place in a given social context. It is thus embedded in society. It takes place not as an isolated phenomenon; an exchange has links to other exchanges as is seen in a supply chain or a distribution process with one exchange connected to another. Exchanges invisibly connected to each other can be called an 'exchange nexus.'

6. New categories of the market

I do not intend to demonstrate to what extent the mainstream economic theories depart from the realities of economic life, but to showcase as an image that there is a departure between theories and realities.

Up to this point, I have explained as a matter of academic procedure the embeddedness concept and raised some criticism of the concept of market enshrined in mainstream economics. Although my arguments for the concept of embeddedness constitute an underlying tone of my claim in this paper, my criticism of the market concept does not. It is only a procedural requirement to introduce the idea that will be explained below, and it in no way con-

veys an intention of denying the significance of the intellectual tradition of economics or economic theories. If there is any other intention at all, it is to warn against falling into what Polanyi called "economic solipsism," or a dogma wherein only the concepts propounded by modern economics are worth believing.

As noted above, I adopt the stance that economy is embedded into society. It follows from this that markets are also embedded in society. The concept of market here may differ from what economists consider it to be; the market does not have to be a generalized, abstract construction as economists usually envisage. The concept of market, approached by the 'ecologically viewed economy' perspective, purports to include every economic 'exchange' taking place between economic actors, human or organizational, in society. The degree of embeddedness varies by the character of objects to be traded in the market. Below, I will characterize the market according to the degree of embeddedness.

In brief, let me simply put forward distinctions of the two categories of the market: 'hard market' and 'soft market'. A market whose degree of embeddedness is low, or thin, can be called a 'hard market,' while a market whose degree of embeddedness is relatively high, or thick, can be called a 'soft market.' Each of these will be redefined later in relation to how players in markets actually behave; the definitions of the markets presented here are just temporary definitions. It should also be noted that this formula is not a strict dichotomy; the difference of degree matters. An actual market could stand somewhere between the two extremes.

With what measure should we assess the degree of embeddedness of economy in society? The criterion which I propose concerns the question of whether economic theories, represented by the supply and demand market mechanism, holds true in a given market situation. Economists assume that the market mechanism works in a free and competitive market as the supply and demand relation promotes the equilibrium price of a commodity. A market that appears close to an idealized free and competitive market can be regarded as a hard market. Stock exchanges or foreign exchange are typical examples of hard markets. On the contrary, a market that does not seem to work according to

economic theories, as seen in a non-competitive market, can be regarded as a soft market. Many economic exchanges which comprise ordinary citizens' daily transactions, ranging from shopping, to using transportation services, to working for firms, to operating businesses, and so on, could be seen as transactions in soft markets.

In a hard market, the market itself functions to determine the price of a commodity, and the price most often fluctuates as supply and demand relations change. As the hard market is a market close to a competitive market, economic theories hold true. Competition among players in a hard market may characterize the market's appearance. In the soft market, prices of commodities or services vary. In many cases, prices are fixed by supply-side enterprises. The characteristics of this fixed price market may have effects on the supply and demand relation, and also never fail to have effects on how players, on whichever side of demand or supply, think and behave. What kind of behavioral patterns will dominate is left for empirical studies; however, it can be said that players in soft markets can take economic actions, buying and/or seeking, rather routinely and less motivated by pecuniary interest. Mainstream economists do not typically want to look at these patterns because these phenomena are not within the scope of their interest.

The economic man model has been enshrined on the basis of the intellectual tradition of mainstream economics since the establishment of the neoclassical school in the late 19th century. The human model is presumed to pursue its maximum interest without considering that of other players. The economic man model has been criticized for more than a century. No economists so far have succeeded in removing the economic man model from economics. Why? Two reasons can be pointed out. One is that the model so perfectly reflects a certain part of humanity, that is, selfishness or a self-interest pursuit propensity. Human actors however do not always behave selfishly. The model explains only a limited part of humanity, not all. That is the

reason an alternative model for explaining humanity more completely has been overdue. The other reason the model has not been removed concerns the definition of the market. The economic man model and the market definition represent both sides of a coin. As they cannot be separated, if one component needs to be removed, the counterpart needs also to be replaced with another, or at least modified to accommodate a replaced actor model.

Allow me to try at once to propose first an alternative to the economic model, and second to introduce an alternative to the market model. I am introducing a new model of economic actor to take the place of the economic man model. It has been observed that people in a non-market context may, not always but sometimes, behave in an altruistic or other-regarding way. This could, and does, happen in a market context. This is the point I propound especially in a soft market context. This non-selfish aspect of an economic player should be incorporated into a human model. Specifically, the combination of elements of *homo economicus* with elements of *homo reciprocans*, a concept which Bowls and Gintis introduced in the 1990s²⁸ will make a new human actor model. This human model I am introducing here could be called '*homo socio-economicus*.'²⁹ It derives from the recognition that human beings have both characteristics, though the two aspects are not exhaustive.

This new model of a human actor and the market concepts explained above lead us to conceive a meta-level model of the market and the economic actor which are able to interact with each other. When economic actors behave selfishly in a market, the market will manifest itself as a hard market in which each actor competes to maximize his or her self-interest, while in a soft market economic actors are seen to behave routinely. The pursuit of self-interest by actors is not a common pattern of behaviors for economic actors in soft markets. Players in soft markets are not always motivated by self-interest but by other social motivations; they may sometimes act out of concern for others or a

²⁸ Samuel Bowls and Herbert Gintis, *Recasting Egalitarianism: New Rules for Communities, States and Markets*, p. 370.

²⁹ An academic paper in which the first use of the term '*homo socio-economicus*' can be identified is O'Boyle's 2005 paper. He used *homo socio-economicus* in contrast to the conventional economic actor model of *homo economicus*. *Homo socio-economicus*, according to O'Boyle, is not only want-satisfying and utility-maximizing, but also other-centered, communal, dependent, culture-bound. O'Boyle, Edward J., "Homo Socio-Economicus: Foundational to Social Economics and the Social Economy," *Review of Social Economy*, 63(3), September 2005.

community. This integrative model indicates that we can hypothesize an interaction between a market and economic actors in the market: behaviors of economic actors may affect the market where they act, and in turn, characteristics of a market may determine how economic actors behave in the market.

This interactive model of the market and the market player involves the concept of embeddedness which I raised at the beginning of this paper. Accordingly, I adopt the stance that all economies are embedded into society. The degree of embeddedness varies from economy to economy, or more appropriately, from market to market: some markets are more embedded than others in society. Economists usually presume an abstract image of market so that every part of a market functions as a market mechanism in the same way. This implies a flat or level market. In my framework, however, some markets are recognized to be embedded while others are less so. The embeddedness is a matter of degree. It is this different degree of embeddedness of market in society that distinguishes the 'hard market' (relatively less embedded) from the 'soft market' (relatively more embedded).

That a market is relatively embedded allows economic theories to explain economic realities to a greater extent, or more empirically. The movements of prices and the behaviors of players in the hard market manifest themselves to be close to what economic theories foresee because in the hard market the prices fluctuate and players behave much as economic theories dictate. There ought to be little gap between economic theories and economic realities in the hard market, where each player is supposed to struggle for maximum gain. On the contrary, in the soft market, most prices of goods and services are fixed, as Hicks said, and players do not always behave with self-interest, resulting in realities that cannot align with the conditions dictated by economic theories. Significant discrepancies usually appear between economic theories and economic realities in the soft market context.

The closeness of realities to theories is a characteristic that can be seen for the hard market. A market economic phenomenon moves or fluctuates by its own logic as closely as economic theories explain, detached from social systems for which economic theories often do not hold true. To that

extent, it can be said, hard market phenomena appear as if they were separated from, although in reality were still embedded in, society. What Polanyi called a self-regulating market is a typical example of separateness of the market system from the social system. He was wrong, however, in depicting a self-regulating market as dominating the whole economy at a certain time in history. What appears to be a self-regulating market, if it exists, is a hard market, which emerges in a corner of an economy, while the rest of the economy may be characterized as a soft market. An economy includes hard markets and soft markets, and in my observation, the latter account for the greater part of an economy.

Concluding remarks

In this paper I proposed alternatives to the conventional concepts of the market and the market player as well as a new interactive model of the market and the market player, drawing on the concept of embeddedness of economy in society. The underlying idea to distinguish the soft market from the hard market helps provide a theoretical support or a source of legitimacy to the ongoing activities or philosophies that seem to have been marginalized by mainstream economics. Such movements include social enterprises, local movements to introduce community currency, third-sector businesses including co-operatives, NPOs, fair-trade movements, microfinance movements, sharing economy and ethical or moral consumption movements, etc. These movements indicate that economic actors, human or organizational, can behave even in markets out of various motivations. They need a theoretical buttress; mainstream economics seems to threaten to engulf a whole economy with the hard market philosophy that each economic actor is allowed to, and should, pursue to self-interestedly maximize his own benefits in markets.

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