ACTION THEORETIC FOUNDATIONS OF ECONOMIC SOCIOLOGY
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Introduction.
The component parts of modern economies include the following: markets for goods,
services and labour; production units; means of transaction (money and credit) and financial
institutions; information and communications media; ownership rights and property relations;
and finally, politico-legal frameworks. As with any descriptive statement the list of items
mentioned here could be contracted or extended, depending on the purpose of investigation or
the level of analysis. Theoretical examination of these empirical elements will typically
resolve them into their structural or institutional or behavioural characteristics. The structural
form can be understood as having a *sui generis* presence, relatively uninfluenced in its
operations by either regulatory rules or the actions of particular individuals. Such things as
demographic factors, cultural inheritance, patterns of inequality and scientific technologies
are generally regarded as largely structural forces in economies. The institutional form, on the
other hand, exists by virtue of socially current rules and standards. Transaction relations,
property rights and governance procedures can be regarded as predominantly institutional in
the sense indicated here. The operations of institutions are without the relative independence
of structural forms because they are instead dependent on the shared perceptions of those
subjected to them. Finally, the behavioural form includes the action prerogatives of
individuals or groups of individuals. It exists in terms of the choices between alternative
courses of possible action taken by persons animated by their subjective intentions.

Any given theoretical account of economic phenomena may render its subject in
relation to the relevant previously mentioned forms, or some combination of them.
Explanatory theories of labour markets, for instance, may emphasize structural, institutional
or behavioural aspects depending on what is to be accounted for and also the intellectual
tradition upon which the account draws. Theoretical accounts, then, tend to function in terms
of one of the three possible forms serving as an *explanans*, in which case one or other of the
remaining forms thus appears as an *explanandum*, as when an economic structure, for
instance, is used to explain a pattern or incidence of behaviour, say, or a particular institution.
The selection of explanatory forms in economic sociology, however, has not been so open
ended. No doubt because it has fashioned itself in contrast to neo-classical economic theory,
in which individual preference animates exchange between market actors, economic
sociology tends to provide either structural or institutional, but seldom behavioural
explanation. If this brief statement is correct, then a double error can be revealed. First, the
characterization of neo-classical economic science, as action theoretic, is inaccurate insofar
as the choices of *homo economicus* are in its own terms chimerical because specification of a
utility function and identification of its constraints are sufficient to determine efficient
behaviour. In other words, the putative choices and actions of *homo economicus* are not
choices and actions in any meaningful sense. More will be said of this below. Second, only
an action theoretic explanation but never a structural or institutional framework can provide
an account of economic dynamism and innovation.

The last statement above encourages a digression in intellectual history.
Commentators have characterized as structural Marx’s account of capitalist dynamic. Marx
explained that the progress of capitalist economies occurs through a developmental
contradiction between the relations and forces of production. He held that during the period of their initial growth the forces of capitalist production (scientific technologies and the industrial organization of labour and management) were entirely compatible with the relations of production contained in private ownership of the productive means and the associated class-based distribution of income. As the capacity of the productive forces expands, however, through their inherent logic, the given relations of production are unable to absorb the increased output of the productive forces. The ensuing crisis and the processes generative of it are fully explicable in structural terms. Marx went on to insist, however, that the dynamic process of this structural contradiction could only be realized and resolved by the actions of persons, not by structures, even though the situation is structurally framed. Indeed, the actual direction of change, according to Marx, is determined by which category of persons successfully act within the crisis situation and by the correlative actions they engage: the revolutionary actions of organized workers will direct the economy in a different direction than the entrepreneurially innovative actions of owners and their agents under the same structural conditions. Actors and their actions, then, are indispensable in the resolution and reorganization of structures of capitalist development, according to Marx.

There are two general conclusions to be drawn from this well known but not always properly understood formulation of a leading nineteenth-century economic sociologist. First, it should not be assumed that an action theoretic approach has general relevance. Emergence of the structural contradictions of capitalism indicated by Marx do not require an action theoretic explanation: the behaviour of persons implicated in the contradiction between the forces and relations of production are at this level of analysis ‘locked in’ and without choice or independent purpose and for this reason are frequently described as ‘bearers of structures’. Institutional economists have similarly indicated that the actions of individuals within stable institutions can be explained in terms of overarching norms or values that animate behaviour at the individual level. In such a situation volitional choices of persons and consciously selected purposes of behaviour, essential in action theoretic accounts, are unnecessary in structural or institutional explanation and can heuristically be regarded as ‘absent’. More shall be said about this issue below. The second point to make, though, which also comes out of the Marxian account above, is that structural contradiction disburdens persons from the weight of structural determination: structural imperatives lose their compulsion under these conditions and situations are therefore generated in which actors have no alternative but to choose between emergent opportunities and in doing so are responsible for ensuing change. Such transitions can only be accounted for in action theoretic terms. Crises of institutions promote the same considerations. This too shall be elaborated below.

There are additional issues to be treated in the present discussion. The action theoretic approaches that are best known in economic sociology tend to assume that action is rationally responsive, that action is predicated on goals, purposes, values and preferences that actors bring to the situations in which they act and that means are recruited to ends via considerations of efficient application. There is a connected supposition in standard action theoretic approaches, namely that an actor’s goals, etc that are connected with a present action designed to realize some future good or interest, will remain the same when that future good or interest is achieved. This is the assumption that a person is more or less the same at the end of an action as she was at the beginning, that time is irrelevant in the identity, purposes, tastes and preferences of actors, that any given actor will possess a continuous identity on which the outcome of their actions will have no consequence. It will be shown in the discussion to follow that a consistent action theoretic foundation of economic sociology must also challenge and reject both of these conventional and widely held notions concerning preferences and instrumental rationality on the one hand and continuous identity on the other.
Behaviour as habit and action.
Parallel to Marx’s account of capitalist structural contradiction, which indicates the indispensability of the action theoretic approach to an understanding of capitalist dynamic, consideration of institutional change similarly reveals the relevance of action and its theorization to an understanding of innovation. But before turning to institutional change it is necessary to indicate the individual-level mechanisms that sustain institutions in the economy, which previous writers have identified as habit or skill, and to show the relationship between habit on the one hand and action on the other in situations of economic transition and innovation. Institutions imply rule governed and established patterns of behaviour which provide participants with firm expectations. It follows, then, that the activities of persons within institutions will have the regularity of appropriately coordinated and stable habits (Hodgson 2003, 2004). The importance of habit to economic institutions was noted by Thorstein Veblen, among others, who acknowledged William James’ account of habit as his source (Veblen 1946). As James’ discussion continues to provide the clearest account of habit, it shall be the basis of its brief representation here.

According to James, habit ‘economizes’ on the expenditure of ‘nervous and muscular energy’ by simplifying ‘the movements required to achieve a given result’, and in doing so it reduces fatigue and enhances accuracy (James 1931: 112-3). The economizing characteristics of habit have a basis that sets habit clearly apart from action insofar as the later requires conscious selection of a course of conduct from among a number of options or choices, whereas habit, on the other hand, occurs ‘without reference to the conscious will’ (James 1931: 114). Indeed, even the most complicated sequence of behaviour can be achieved through habit without involvement of the ‘upper regions of the brain’ (James 1931: 115-6). By avoiding reliance on consciousness and volitional choice habit is not only more economical than deliberative action but also under specifiable conditions more accurate. The accuracy and efficiency of habitual behaviour are each achieved by the sequencing of appropriate options or ‘choices’ within the framework of learned responses. Inaccurate and inefficient options are selected to be not taken by a preceding phase of learning through which habits become established. No doubt because of the accuracy and efficiency that can be provided by habitual behaviour Richard Nelson and Sidney Winter use the term ‘skill’ in this context, rather than ‘habit’. Nelson and Winter say that ‘individual skills are the analogue of organizational routines’ and that by skill is meant ‘a capability for a smooth sequence of coordinated behaviour that is ordinarily effective relative to its objectives’, and which involves, first, sequenced successive steps, second, tacit knowledge embedded in the performance, and, third, that choices are inherent in the skill and do not require ‘awareness that a choice is being made’ (Nelson and Winter 1982: 73).

It is clear in the accounts of James and also Nelson and Winter that habit/skill on the one hand and volitional action on the other are quite distinct behavioural practices in so far as choice is internal to the established sequence of coordination embedded in the habitual or skilled capacity whereas choice is a matter of explicit deliberation and conscious consideration in action (James 1931: 115; Nelson and Winter 1982: 82, 84). This distinction, together with recognition of the prevalence of institutional behaviour in economies, in which habit/skill is central, suggests that the assumption of hyper-deliberativeness found in mainstream statements of action theory, and especially its rationalist variants, is somewhat overstated. This is not to say that deliberative choice does not occur even within institutional contexts, but it does not ordinarily occur and, most importantly, the circumstances in which it is appropriate or required must be specified. As intimated above, for instance, in the learning of habits or skills deliberative choice is necessary. As Nelson and Winter acknowledge, ‘it is the novice who really chooses’ (Nelson and Winter 1982: 83; emphasis in original). An original specification of action, then, vis-à-vis habit, is in the learning cycle when actors must
deliberatively choose between possible options prior to behavioural sequences becoming learned or habitual. Putting this in a more economy-wide and less individual context, situations in which actors must choose between behaviour sequences typically arise when new sets of practices must be initiated. This is likely to occur when established institutional norms and procedures are found wanting either because of changes in the organizational or economic environment or through destabilizing internal developments within institutions, possibly associated with such things as generational change, phasal technological developments and so on.

The flexibility and adaptability that is offered to behaviour by deliberative action is necessarily at a much higher level than that which could be generated by habit or skill, the advantage of which is, rather, stability, focus and durability. Relatedly, the costs of non-embedded choices in action are higher than the costs of established coordinated sequencing because the required efforts and the possibility of behavioural interruption through error are higher. Nevertheless, under certain circumstances the costs of engaging habits that have become inappropriate, irrelevant or even dysfunctional under conditions of institutional debility or default may be much higher than the acknowledged high costs of deliberatively selecting alternative behaviour sequences that are felt necessary to initiate new practices in order to replace older and failing institutional patterns. Action, involving explicit decisions and choices made and taken by self-conscious actors, is required when developing new learning sequences that will give rise to new institutional habits and skills. Thus innovation, or change in routine (Nelson and Winter 1982: 128), is a situation in which action displaces existing habit or skill in order to generate new and newly appropriate habit and skill. Any reference to innovation, therefore, calls up the action theoretic foundations of economic sociology, for innovation specifically requires the discretionary choice of attention to non-routine and newly appropriate purposes that generate alternate futures.

The characterisation of action, in terms of explicit choices between alternative possibilities orientated to future outcomes, is entirely non-controversial insofar as it corresponds with key aspects of well known formulations in both economics and sociology (e.g., Keynes 1981: 153-63; Parsons 1968: 43-8). It is, nevertheless, significantly unlike some recent statements which emphasize not choice but the precondition of choice in ‘skill’ and not orientation to a future outcome but a capacity of action ‘to attain cooperation with others’ (Fligstein 2001: 107). The centring of such contingent possible aspects of action to necessary core attributes, however, in this later revisionist understanding of action, is unsatisfactory for a number of reasons. First, in ignoring or downplaying the integral relation between a present action and its future outcome, the revisionist notion of action focuses on current socially cumulative and associative prospects that are neither general nor necessary aspects of social or economic action. Both cooperation and involvement with other persons are conditional on the specific future outcome anticipated or intended by the actor, which could instead have an object that is indifferent to or even opposed to either one or both of these. Indeed, even in action involving others there is an unavoidable tension between the actors implicated in joint activities. Why this is so is implicit in the second reason for the unsatisfactory nature of the revisionist concept of action.

Second, sociological antipathy to methodological individualism erroneously leads to the view that action must be sociologically understood as cooperative or collective (Fligstein 2001: 106). But a statistically significant proportion of social action is undertaken by individual persons in ambiguous or multifaceted and possibly antagonistic relationships with others, and sociological explanations of such configurations cannot proceed if it is assumed that only collective action is sociologically meaningful or relevant. Indeed, the so-called principal-agent problem exemplifies situations in which the structure of relationships tends to encourage an outlook in participants which causes reflection on their own best interests in
contradistinction to those of others. As a large proportion of social and economic action is undertaken on behalf of others – that is, has the form of an agent of a principal – this problem deserves particular attention. Action undertaken in families, voluntary organizations, employment and even in social movements frequently gives rise to principal-agent considerations in which one acts on behalf of another and in doing so faces consideration of heterogenous and possibly diverging interests and therefore the possibility of subjection from the other of self-interested monitoring, a situation which is only exacerbated by the asymmetry of information between the parties involved which is a further chronic feature of principal-agent relations. While discussion of this problem of agency in the economics literature often focuses on ameliorating compensation and incentive arrangements, the sociologically significant issues have been identified by Kenneth Arrow when he observed that even in (employment) market contexts ‘the variable to be determined is not a price but a complicated functional relationship’ (Arrow 1985: 44).

Third, while the revisionist notion of action appropriately connects action and institutional innovation or the construction of ‘fields’, it pays insufficient attention to the distinction, drawn by David Lockwood, for instance, between ‘system integration’ in which the articulation of the parts or elements of the system prefigure or determine social relations, on the one hand, and ‘social integration’, on the other hand, in which the actions of persons predominate (Lockwood 1992). It has been indicated in the discussion above that the achievement of structural and institutional change through action is conditional on the generation of possibilities of choice within the relations between the structures and institutions themselves and that action cannot create its own efficacious preconditions. It is true that ‘possibilities of choice’ are partly the result of the interpretations of the actors involved, but such interpretation is itself conditional on structurally given opportunities and resources. While action is in a significant sense ipso facto innovative, it always requires appropriate structural and institutional conditions.

**Innovation and action.**

The special relevance of the action theoretic perspective to an understanding of innovation draws attention to a number of issues associated with conventional models of action in economic sociology. The basic assumptions of theories of rational action are, firstly, that behaviour is directed toward attaining goals chosen by the actor who, secondly, selects what she believes to be the most efficient available means which will achieve her purpose. The elaboration and supplementation of these minimum rationalist assumptions can be found in a large and growing literature, but it is necessary here to only draw out the implications of these axiomatic claims of ‘choice of goal’ and ‘efficiency of means’. It will be shown that innovative action diverges significantly from these necessary assumptions of rational action, and in doing so raises general questions concerning the meaningfulness of rationalist theories of action and more clearly specifies the conditions of the action theoretic foundations of economic sociology.

It is widely assumed that a commitment to rational action is a commitment to self-interested or maximizing behaviour. While accounts based on assumptions of self interest and maximization are usually variants of rationalist approaches to action it is not required that rational action is necessarily self interested. Other-interested actions and even self-sacrificing actions may be rational under appropriate conditions. On the basis of the two minimum assumptions mentioned in the preceding paragraph, if one chooses to support a charity, say, and selects appropriate means, then the corresponding action may be rational even though it leads to a net reduction in the actor’s disposable income. It might be asked whether the prior choice to support a charity were itself rational. If the choice were freely made and did not constitute a failure of will or volitional incontinence but was consistent with some
instrumental purpose or held values, then such a choice would meet the prevailing understanding of rationalist preconditions. The maximizing tendency of rationalist accounts of action follows less from a requirement that the choice of action be self interested and more from the purported efficient relationship between the means and ends of an action. This requirement guarantees the maximized satisfaction of whatever purpose any action sets out to achieve. The means-ends axiom of rationalist accounts of action is conditional, however, on the factual specification of the ends of the action in question at the time that the means are selected. The difficulty, of course, is that by its nature innovative action has an end that cannot be known at the outset of the action, which is when the means are selected. Indeed, it will be argued here that in general terms the ends of any action cannot reasonably be known until the action is concluded.

The notion of ‘the ends’ of an action is an umbrella category that can cover a range of distinct phenomena. An action can be understood as a behavioural effort to produce a certain future event. All action is predicated on a purpose of will which in a sense prefigures an action through a number of related discriminations or choices concerning the intended outcome of the action. The actor’s preferences, motives, purposes, goals, and other appellations of intention can all be mentioned as members of a family of action-initiating orientations. The salient point here, however, is that action is necessarily directed to a future state of affairs and the initiating orientation and intention of the actor is only one of a number of possible determinants of the future which, by its nature, must remain unknown at the time that the action proceeds. The issue of uncertainty is therefore central for economic sociology (Beckert 1996) even though a related term, ‘risk’, reflecting a probabilistic level of prospective knowledge, is favoured in general sociology. The uncertainty associated with the future, however, is fundamental. In sociological terms the future is necessarily uncertain because, as the outcome of any one action changes the conditions for all subsequent actions, and as no actor can control the behaviour of all other actors, no given actor can acquire knowledge indicating the outcome of any action including their own. The future will remain unknown even with the passage of time. Under these conditions, then, of fundamental uncertainty, the intended end of an action and its actual outcome will be empirically indifferent to each other. The preceding discussion indicates how the two minimal assumptions of theories of rational action cannot be readily satisfied: The selection of efficient means to action is disrupted when the ends of the action cannot be known, and it is therefore not possible to know what means is more efficient than another; and the choice of a goal of an action, while arguably necessary for the initiation of the action, is inconclusive for the outcome of the action. There are various corollaries of the basic assumptions of rational action mentioned above that are similarly weakened by the uncertainty of the future.

While the postulate of fundamental uncertainty was classically developed in economics by Frank Knight (1971) and John Maynard Keynes (1981), the vast body of current economic writing rejects this postulate by shifting the focus of analysis from profit and investment as paradigm cases of objects of economic theorizing to consumer behaviour. Whereas profit and investment – and innovation – are achieved by future-oriented actions, consumer behaviour in mass retail markets is typically directed to actions with almost immediate conclusion. Although not generally treated in this context the objectivist and behavioural turn in neo-classical economic theory completed the removal of appreciation of the significance of uncertainty. Paul Samuelson is generally credited with the move away from subjective utility, and therefore the psychological mechanisms involved in individual consumers making choices, by introducing the concept of ‘revealed preference’ which addresses only their observable behaviour (Samuelson 1938). This development formalizes a trend that began, however, at least with Alfred Marshall’s discussion of measurable desires indicated by observable actions as opposed to the inaccessible psychological feelings of
utilitarian pleasures and pains (Marshall 1952: 13-9). Marshall’s approach inspired Philip Wicksteed’s more thorough de-psychologisation of the foundations of economic theory (Wicksteed 1910). Anything approaching variation between individuals and therefore the discretionary choices persons might make was in parallel fashion eliminated from economic theory with the Stigler-Becker proposition in which consumer preferences are assumed to be invariant and indifferent between persons in the determination of price (Stigler and Becker 1977). The culmination of these developments in economic theory, in which the subject is constructed in terms of purely observable, determinate and therefore predictable behaviour, performs the double feat of eliminating choice and therefore action from the actor and uncertainty from the economy.

Action, the discovery of goals and rationality.
The concepts of revealed and invariant preferences, and the implications they generate for understanding economic behaviour, have not gone unchallenged even within economics. They are mentioned here to indicate the intellectual apparatus that removes critical consideration of the relationship between an individual actor’s (subjective) goals or preferences and the outcome of their actions. An entirely different relationship between goals and outcomes of action than the one typically underlying neo-classical economic theory informs consistent action theory. Independently of the argument concerning the future’s fundamental uncertainty, but not in tension with it, is the fact that persons discover their goals, purposes and preferences through their actions. This proposition is central to the action theoretic perspective and informs a more meaningful conception of rationality than the one associated with conventional economic theory.

A common-sense assumption of many theories of action is that prior motives, goals, tastes, values or preferences, under given constraints, lead to or animate actions, that they determine the quality as well as the outcome of action. This assumption is required in rationalist accounts, for instance, insofar as they hold that at the outset of an action the actor or someone who observes that actor can know whether her action will meet the conditions of rationality. Such an account raises a number of fundamental questions concerning such things as the social sources of the actor’s goals or preferences, the opportunity structure in which the action takes place and the resources at the actor’s disposal, all of which may encourage or even engender the choices actors make. Such questions can be readily answered by conventional sociological approaches and, to the extent that they are prepared to pay attention to the context in which an action occurs and how it might be characterized, also by economic researchers. A second type of question, however, concerning how the phases of action – where and when a given action begins and ends – is likely to be more difficult for conventional approaches in both disciplines to answer. Conventionally, actions are understood as discrete event sets, proceeding from a knowable starting point – the actor’s expressed preference – and concluding with an outcome which, while not necessarily realizing the actor’s purpose, is to some degree regarded as a consequence of it. But such an approach fails to realistically address the mutuality, discursivity and cybernetic or self-informing nature of action. Actions do not exist in isolation from each other and cannot adequately be conceived as discrete nor even serial events. Neither are the outcomes of actions to be confined to a product that leaves the elements of the action, including its context and the actor herself, unchanged (see Veblen 1990: 74-5). In what remains of this section consideration will be given to the question of the relationship between an actor’s preferences and the outcome of her actions, and in the following section the issue of the actor’s changing identity will be examined.

The actions of any given actor occur in arenas of action, such as market places, in which a number of other actors are also engaged. Even if the limiting assumption of an
absence of interaction is accepted, namely that actors do not relate to each other but only the objects, say, of market exchange, then the action of any given actor will be affected by the actions of the other actors. In neo-classical terms, the constraints of demand and supply influence any given market action. But the provision of goods in markets is necessarily by contract (implicit or formal) if possession or ownership and stable exchange between owners is to be achieved, and such exchange relationships are always potentially subject to failure, including the exploitation of one party by the other, through involvement of possibly guilefully self-interested actors. When it is acknowledged, then, that actors relate not only to goods or commodities but also to each other through their actions, and that the experience of action is one in which learning might occur, then the relationship between any given actor’s purposes or preferences and the outcome of their action must be seen in a rather different light than the one projected by conventional approaches. In summary, in the course of any given action and especially when its consequences are experienced, then the actor in question is in a position to form an understanding of the action they have engaged, and in doing so find some meaning in it and take some value from it. It is at this point that an actor may discover what her preferences might be and how they differ from what they were at an earlier phase of the action. While these new preferences may be at play at the beginning of a subsequent action, the outcome of that action will also include not only a discernable product but this action’s impact on the actions of others and the effects of other’s actions on it, and also what the actor has ‘learned’ through the whole experience. This is to say at least that a person’s actions and the outcome of those actions influence the actor’s future preferences.

If an actor’s future preferences are a consequence of their present actions, then it is likely that actions may be chosen not as a result of the actor’s preferences but in order to generate or achieve them. Indeed, the attainment of competence, for instance, requires a selection of actions that the actor believes will have consequences on their future abilities and associated preferences. More generally, as indicated above, persons may use present actions to uncover currently obscure or construct new and future preferences. It is likely that this prospect is reasonably typical as it represents the general form of curiosity-driven behaviour. Learning about new situations and opportunities is exploration for new preferences. The implications of these propositions for an understanding of rationality are highly significant and subversive of convention, for it follows from the above that it is rational to be strategic about preferences, to specify goals different from the outcomes an actor would wish to achieve. As James March puts it: ‘we consider the choice of preferences as part of an infinite game with ourselves in which we attempt to deal with our propensities for acting badly by anticipating them and outsmarting ourselves. We use deadlines and make commitments’ (March 1978: 597). This is the strategic corollary of the idea indicated above that actors are able to make sense of their actions only after the consequences of those actions become apparent. In this sense, then, preferences are the outcomes not the basis of actions and acquire clarity subsequent to and as a consequence of action.

While the future consequences of a present action are necessarily uncertain, an individual’s preferences for those unknown consequences of present action will also be uncertain. Thus, against the expectation of rationalist theories of action, the stability of preferences and also their precision will necessarily be imperfectly achievable. In terms of the experience of economic actors this means that preferences cannot be pre-given and unaffected by time but are achieved through engagement, discovered in the meaning that actions acquire in terms of their consequences, and constructed through curiosity and the acquisition of various competences. Indeed, it would therefore be irrational for an actor to base their actions on their prior preferences. This is contrary to the typical understanding of rational action in which it is held that an actor’s preferences, if they are to select a course of action that satisfy the actor’s self interest, must be consistent, stable and prior to the action
undertaken. But this latter conceptualization of rationality derives from a formulization of
technique at the expense of substance. The historical core of rationality has not been
calculative reason or preference realization. When the concept of rationality first became
important, in sixteenth- and seventeenth-century Europe, humans – or rather Christians –
were distinguished by possession of a rational soul while vegetative and animal souls were
had in common with other forms of life. The rational soul facilitated moral virtue and through
its faculties correct or appropriate moral choices were made. The vegetative and animal souls,
on the other hand, gave growth and movement respectively (see Burton 1941; Wright 1971).
The historically enduring quality of rationality is ability or propensity to choose
appropriately, to make reasonable decisions. In the movement from a theological to a
commercial world the earlier moral focus of rationality has shifted to a concern with efficient
means to achieve mundane ends. In each case there is requirement of choosing between
alternatives. The concept of rationality in rationalist accounts is abstracted from their
understanding of the substance of economic action and has no independent basis of authority
or accomplishment. A different appreciation of the relationship between actions and
preferences, as indicated above, need not be burdened with the inappropriate attenuation and
direction of the concept of rationality found in what we might now describe as ‘so-called
rationalist’ theories.

Time and identity.
Action occurs through time and promotes change. This change is not simply in the realization
of a purpose or interest, but more fundamentally there is inherent in the process of action a
capacity to change the very (self) interest to which the action relates and therefore also to
change the actor. This element of the dynamism of action is almost universally ignored in
both economic and sociological thought but essential to a consistent action theoretic
perspective. Although it was just mentioned that these questions of time and identity are
absent from the relevant literatures some highly suggestive indications of the issue are to be
found in the writings of particular economists. It should be mentioned, however, that the
instances of insight related below are not only unusual but deviant in the context of
mainstream economic thought, and they are not taken up or developed further by the writers
who make them.

Alfred Marshall, for instance, after stating that the marginal utility of a thing
diminishes as the amount held by a person increases, notes its principal limiting condition,
namely ‘that we do not suppose time to be allowed for any alteration in the character or tastes
of the man himself’, which is to say that the law of marginal utility assumes timelessness and
the absence of change in a person’s character (Marshall 1952: 79). He goes on to indicate
some specific contrary cases, including that ‘the more good music a man hears, the stronger
is his taste for it likely to become’, and in such cases, he continues, ‘our observations range
over some period of time; and the man is not the same at the beginning as at the end of it’
(Marshall 1952: 79). Perhaps even more remarkable is Marshall’s discussion in the
immediately preceding chapter of Principles, ‘Wants in Relation to Activities’, in which he
argues that consumption is not the end of economic activity and approvingly quotes
McCulloch that ‘The gratification of a want or a desire is merely a step to some new pursuit.
In every stage of his progress he is destined to contrive and invent, to engage in new
undertakings; and when these are accomplished to enter with fresh energy upon others’
(Marshall 1952: 76). Although this revelatory pronouncement is not fully developed in
Principles, or elsewhere in Marshall’s work as far as I am aware, the claim in it, that the ends
of market activity are not the consumption of a good or service but the process of activity
itself and therefore the changes that activity provides, simply undermines the notion of a
stable utility function on which modern economic theory depends. The conclusions of
Marshall’s antithetic propositions described here are totally transformative of neo-classical conceptualizations and concerns, and instead point in the direction of a consistent action theoretic perspective sketched in the present paper.

More recently, and from the other side of the fence of economic theory, as it were, Amartya Sen has attempted to go beyond the notion of maximizing self interest, core to *homo economicus*, by distinguishing between sympathy and commitment (Sen 1977). This distinction is necessary, according to Sen, because while sympathy for another may be seen as an alternative to self interest it is in fact experienced in terms of a person’s own satisfaction and therefore ultimately their self welfare. Through this route the apparent other-interestedness of sympathy returns to a consolidation of the primacy of self interest. Commitment, however, may lead a person to choose ‘an act that he believes will yield a lower level of personal welfare to him than an alternative that is also available to him’ (Sen 1977: 327). The significance of the concept of commitment for Sen, therefore, is that unlike sympathy it ‘drives a wedge between welfare and choice’ (Sen 1977: 329). It is relevant for our discussion here to recognize that Sen’s distinction between sympathy and commitment assumes distinct functionalities within a market actor. Sympathy, like self interest, relates directly to utilities and the satisfactions of interest they afford. Commitment, on the other hand, concerns a person’s relations with rules of conduct, principles of action, preference-ordering protocols or some similar characterization of decision making and its mechanisms. Commitment, then, is about how to proceed rather than what to achieve. In each case the actor is constant and unchanging even though possibly divided between these two distinct functionalities which nevertheless leave the integrity of the actor intact.

In developing his argument concerning the distinction between sympathy and commitment, and the behavioural foundations of economic theory in general, Sen raises a very different consideration which relates to a different order of an actor’s being than the ones he treats, mentioned above. Sen observes that in standard economic models it ‘is possible to define a person’s interests in such a way that no matter what he does he can be seen as furthering his own interests in every isolated act of choice’ (Sen 1977: 322). The problem with this notion, Sen records in a footnote, is that:

> If a person’s actions today affect his well-being in the future, then under this approach his future interests must be defined in terms of the way they are assessed today. In general, there is no reason to presume that the future interests as assessed today will coincide with those interests as assessed in the future (Sen 1977: 322, note 9; emphasis in original).

It is acknowledged that this consideration ‘adds an additional dimension to the problem’, but Sen does not say what that dimension is nor what its significance might be. In effect this footnote correctly indicates that all current actions are directed to future outcomes and that the actor’s interests will be different in the sequential phases of the action. It follows that the actor herself will therefore have changed – be different – at the end of the action from what she was at the beginning. This is indeed a very different consideration than the distinct functionalities of an unchanging actor, and one that is outside of Sen’s concerns and discussion.

The issues raised in the passages from Marshall and Sen indicated above are fundamental for an understanding of action but unexplored in mainstream economic and sociological theories, no doubt because they are subversive of those theories. In simple terms the Marshall-Sen insights remind us that action necessarily occurs through time and that this is because action is necessarily and inherently productive of change. This latter claim could never be made of structures or institutions, which by their nature serve to generate the conditions of stability, and therefore to constrain action and contain or at least manage change. While structures and institutions exist in time, they do not operate through time in
which alternate futures are apprehended and in so being close the horizon of a given present to become a no longer existing but only recorded or remembered past. Because of the future-oriented trajectory of all action, these considerations are consonant with the discussion above concerning uncertainty, but they add a new dimension to those earlier comments in so far as key elements of the mechanism of uncertainty, including changes in an actor’s interests through the course of a given action, and therefore changes in the actor herself, are acknowledged and given substance. Marshall, as shown above, is aware that through time learning may occur which will change the actor’s tastes or preferences in such a way as to render invalid the law of marginal utility. Marshall also acknowledged, again as indicated above, that market actions may not terminate with consumption but that each such action operates merely as a stage in an unfolding quest for invention, novelty and, to use the term again, change. In this way the basis of stable utility functions in market explanation become redundant. Sociological theory, in this regards similar to mainstream economic theory, is ill-disposed to incorporate the full weight of the change-through-action notion in its conceptualizations. Sociological theories of power, for instance, typically see power as a means of realizing an interest and fail to appreciate that the exercise of power itself transforms the interests of those who exercise it and not only those who are subjected to it. Sen’s remarks above regarding the likelihood of a difference between an actor’s present interests and their future interests alert us to a quite different prospect in which action incidentally transforms the identity of the actor, whereas sociologically it is assumed that action serves to realize and consolidate an actor’s given and stable identity.

There is a further aspect of the futurity of action which comes out of these reflections that is integral to an action theoretic perspective and essential for the development of economic sociology but which can be adumbrated only at the expense of axiomatic propositions in mainstream economics and sociology. The individualism of *homo economicus* is captured most efficiently in the notion of the essential nature of self-interested action. The set-piece sociological rejoinder has been to point to the social context of self interest, its prior ontological or causal determination by collective factors, and its structural and interactional preconditions and temporizing influences summarized in such concepts as ‘embeddedness’ (Granovetter 1985). It has been shown, however, that such accounts step over rather than provide an alternative to those premised on self-interested action and fail to provide an adequate examination and critique of the latter: indeed, they tend to leave the question of action itself in doubt (Beckert 2003). The action theoretic approach, though, does not require treatment of the social structural context of individual action nor of the unavoidable nexus between persons and the networks of associations in which they are located, nor a supplementation of self interest with trust and compliance (Granovetter 2003). It can proceed, rather, from the temporality of action in which orientation to future outcomes is germane, and the variable experience of self and identity through action. Sociality inheres in the action theoretic foundations of economic sociology through the demonstration that the future self of any social actor bears the same relation to her present self as it does to any other self and that in a significant sense self-interested and other-interested actions are indistinguishable.

While a market actor’s present interests are known to them by sensation from the objects of their satisfaction, objects of their future interests can only be apprehended by imagining them. Thus there is a fundamental distinction within the category of self interest that does not simply relate to temporality – the distinction between present and future interests – but also the means through which an actor knows their interests. There are suggestions of this in Keynes’ discussion of future-orientated action in terms of confidence and an urge to act, of projection from the known present to an unknown future (Keynes 1981: 145-9, 151-3, 162-3). Less well-known but even more clearly Frank Knight shows that the objects that provide future satisfaction, attained by present action, are ‘more an imaginative
construct than [known through] a direct communication from the nerve terminal organs’ (Knight 1971: 202). The significance of the apprehension of future objects of self interest through imagination is that this is the same means by which an actor apprehends another person’s interests, by imaginative construction in sympathy. From the perspective of action theory, therefore, the distinction between self-interested and other-interested action is less conclusive because of the prior distinction between an actor’s present and future interests. The significance of this breach in the distinction between self-interested and other-interested action, a distinction fundamental to economic thought and inherent in the architecture of sociological explanation, is large and warrants close attention though it has attracted none (but see Barbalet 2008). It is, however, a necessary implication of the action theoretic foundation of economic sociology.

Conclusion.
The sketch above of a consistent action theoretic foundation for economic sociology presents an unconventional picture from the standpoint of established approaches. The limiting conditions of application for action theory are institutional innovation and structural change. Rather than compete with institutional and structural accounts action theory complements them and indicates to what they might appropriately be applied. The postulate of uncertainty, and of the actor’s discovery of her preferences through action, implies the need to radically rethink the received notion of rationality. A consistent action theoretic perspective offers some direction here as well. By focussing on change and through its sensitivity to questions of uncertainty an action theoretic approach has important things to say concerning the interconnectedness of actions, the significance of learning and imagination in action, and the discontinuities in an actor’s identity through action. Not only do these issues have present currency in economic sociology, they also open it to a range of new possibilities both for theoretical and empirical investigation.

References.


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