

The Mutual Interdependence between Human Action and Social Structure in the Evolution of the Capitalist Economy

Alessandro Morselli

Lecturer of Complements Economic Policy, Department of Economic and Law, Faculty of Economics, University of Rome "La Sapienza"

Abstract The *agency/structure* relationship is not sufficiently explained by economic theory. On the one hand, neoclassical economics does not solve the problem because it leads to the actions of the agents, within an unrealistic representation of individual behavior and of the capitalist system's functioning; on the other hand, the theoretical approaches that have most contributed to the analysis of capitalism such as Marxism and evolutionist Institutionalism, do not provide a complete explanation. The theoretical inadequacy is reflected in the empirical analysis: if the Marxist analysis has difficulty in interpreting the unforeseen development of capitalism in the twentieth century, the evolutionist-Institutionalist analysis fails to anticipate the centrality of conflicts between capital and labor and of the commodification of labor force in the development process. This work shows that the combination of the Marxist analysis of capitalism and of the individual action theory borrowed by evolutionist institutionalism can provide a valid theoretical answer to the *agency/structure* problem and strong support to the empirical analysis.

Keywords Agency, Structure, Marxism, Evolutionist-Institutionalist, Capitalism

1. The Relationship between Agency and Structure

The relationship between individual action and social structure is a theoretical-methodological topic with important empirical implications. It is tied to many questions, ranging from the definition of the individual action (*agency*) and of the social structure (*structure*) to the forms of interaction between them, and finally to the superiority of one over the other in the interaction process.

The relationship between *agency* and *structure* is very controversial in social science. An important part of the debate concerns the fundamental and distinctive characteristics of individual action: Is intentional and conscious action a specific prerogative of the human being? Is human behavior always intentional and conscious or are there cases of unconscious and repetitive actions? Are individuals independent making their own choices freely, or is individual behavior conditional? How are the desires and objectives of agents formed?

Of equal importance are the questions about the nature of the social structure: what is the essence of society? Is society simply the sum of several individuals, each with their own

characteristics, or is it something more? If one accepts the hypothesis that the coexistence of individuals produces social relations, what is their nature? Is it possible to think that social relations are reproduced in time and space, acquiring more and more importance until they become social structures, i.e. the rules that govern and influence the interactions between agents? Is it possible to think that the analysis of society must include the study of individuals together with the study of social structures?

Thus, the concepts of *agency* and *structure* are presented as opposites. The first refers to the individual and relates to the motivations behind the action, the will and the choice, the freedom and the intentionality. The second refers to the society and the environment in which individuals put their own choices into operation and act them out. The debate on the relationship between *agency* and *structure* raises other questions: how does social structure influence individual action? And, conversely, how does individual action create and transform social structure? What is the causal mechanism that links the two entities? Which one is dominant?

In recent debate, the problem of the relationship between *agency* and *structure* has been addressed by two very different answers: methodological individualism and methodological collectivism.

In reference to methodological individualism, the common assumption is that deliberate and conscious action is an exclusive feature of the human being and that social

* Corresponding author:

alessandro.morselli@uniroma1.it (Alessandro Morselli)

Published online at <http://journal.sapub.org/m2economics>

Copyright © 2014 Scientific & Academic Publishing. All Rights Reserved

processes can be interpreted as an expression of the individual, of his characteristics, of his objectives and desires. Society is a specific product of human actions, which can create social structures based on individuals' preferences, without the influence of structures (Hodgson 2004, 17-18). As Archer (1995, 251) affirms, according to methodological individualism, the features of society are incorporated within the individual; society is a collective of individuals and the burden of the interpretation of development and change falls on the individual and on the motivations for his actions. This means that the problem of *agency/structure* does not exist, everything being reduced to a problem of *agency*.

A significant example of methodological individualism is made from the basic model of neoclassical economics, in which society is a sum of individuals and the economic processes are the product of individual actions carried out on the basis of preferences and objectives defined outside the model. In this case, the logic of methodological individualism is taken to the extreme because while it is assumed that the structure is fully explained by the individual action, the choices are attributed to the preferences that are independent of social conditioning.

Even the modified versions of the neoclassical model continue to provide an answer to the problem of *agency/structure* through methodological individualism. This situation is illustrated by neoclassical Institutionalism. As shown by Hodgson (2004, 19), even in this model the conundrum of *agency/structure* is a problem of *agency*. While we admit the existence of a social and institutional fabric, it is stated that the structures and institutions which compose it are the product of the interaction between agents, each of which pursues its own individual interest. However, even the preferences are pre-determined and the model does not provide an interpretation of the interactions between agents, or those between agents and structure.

Methodological collectivism analyzes the relationship between *agency* and *structure* in a different manner. The actions and motivations are explained in terms of social phenomena and are determined by the structure. The theories of Methodological Collectivism show two main problems that affect their ability to interpret the relationships between agents and structure. The first is that the role of agents is assigned to social structures. Agents have their own will and resolution (a role that methodological individualism considers to be specific to human beings). The second is that there is a real risk of deterministic drifts: behavior of agents is determined by the structure that transmits them, along with the ability to deliberate, and the agent's desires and goals. Thus one can observe various forms of determinism which are dependent on the components of the prevalent structure in question (e.g. the economy, culture, technology), these will influence the choices of the agents. In these cases, the social structures associated with different phenomena assume the function of agents, relegating humans to the role of robot without capacity for deliberation (Hodgson, 2007, 99). Hence methodological collectivism, just as methodological individualism, avoids the problem *agency/structure*,

reducing it only to features of social structures.

A major advance in the analysis of the *agency/structure* relationship is illustrated by Giddens' theory of "structuring" (1984). Rejecting the dualism of *agency/structure* as a false dichotomy, Giddens introduces the concept of "duality of structure" with which she affirms the interdependence between agents and social structure, understood as interactive entities that are constitute mutually. Its main objective is to connect human action and the evolution of social structure. Individuals are in the social structures and social structures are within individuals (Giddens 1984, 53).

Individuals act in a social context that includes both the actions of other individuals and the constraints and opportunities created and offered by social structures (Giddens 1984, 25).

Although Giddens has had the merit of having emphasized the mutual interdependence between social structure and human action, its solution has been criticized a lot. The strongest criticism is that by using the concept of "duality" it is implied that social structure and human action are not separable entities because each enters into the constitution of the other. Consequently, the "*structuration theory*" does not solve the *agency/structure* problem because it produces a form of fusion between the two concepts (Archer 1995, 101-137). Thus, the emphasis on the mutual interdependence of structure and action makes it impossible to analyze the relationships between them, the effects that one exerts on the other, the impact they have on change and development.

Archer, criticizing Giddens, builds his analysis of *agency/structure* relations on the assumption that social reality is layered. Each component belongs to one layer and, while maintaining links with the other layers, each layer is independent. The layers are separated by the existence of "emergent properties" (Hodgson 2004, 32-53), namely properties that occur in the transition from a lower layer to a higher one and which are not possessed by the lower layer. Consequential emergent properties are that entities localized in the upper layer cannot be considered epiphenomena of those located in the lower layer.

Archer's analysis is based on a form of "analytical dualism": *agency/structure* are understood as separate layers and irreducible to one another due to their possession of different "properties". Archer's analysis is then based on the need to explain social reality on the basis of the relationships that exist between the properties of one and the properties of the other. This leads to the development of his "morphogenetic approach". Human beings are born into a pre-existing structural context and the structure is characterized by emergent specific properties, and therefore can not be explained entirely by human action (Archer 1995, 91-205).

With the morphogenetic approach, Archer (1995, 65) makes an important contribution to the analysis of the relationship between *agency/structure*, in order to reach the objective of explaining the relationship between the two entities without "merging them", and so avoiding the mistakes of individualism and collectivism. However, as

stated by Hodgson (2004, 37), the morphogenetic approach does not provide an entirely satisfactory explanation of the relationship between *agency* and *structure*, due to insufficient analysis of the mechanisms at the origin of human action. While it seems to be an appropriate interpretation of the change in the structure, which is attributed to the interaction with the agents, the morphogenetic approach does not offer an adequate interpretation of how change occurs in the agents themselves, especially as they form and change the goals and desires at the base of human action.

Therefore, the solution of the *agency/structure* problem requires: 1) that the ontological differences between the two entities are not denied and that any form of reductionism interpretation is avoided; 2) that conceptual categories are employed which are able to capture and represent the causal interactions between structure and individual in order to produce an interpretation of economic processes in which the formation and transformation of the preferences and goals of individuals are analyzed simultaneously with the transformation of the structure.

2. Marxist Theory and Evolutionist Institutionalism, Analysis of the *Agency/structure* Relationship

An “orthodox” reading of classic Marxism suggests an approach to the relationship between structure and human action that leads to the methodological collectivism (Callinicos 2004). The motivations of individual action are traced to the interests of class and the positions in the classes determine individual behavior, while individuals act in a “rational” way, pursuing their own interests. The agent is the class which transmits goals and desires to the individuals.

The main theoretical support for this interpretation is provided by Althusser (2005), who seeks to show that Marx’s theory is a science devoid of ideological conditioning. Marx leaves consideration of puts the individual agent’s refusal in order to focus on the relationships of production. Thus, the object of the analysis becomes economic development, which is explained by expressive processes of the structure. The individuals’s actions are seen as responses to the imperatives of the structure.

Althusser’s analysis shows that classical Marxism does not solve the *agency/structure* problem Marxist theory does not explain how individuals acquire their aspirations and beliefs, and how these are transformed into preferences and objectives; it does not explain the link between class interests and actions needed to pursue them; and finally it does not provide the analytical tools to analyze the interaction between individual change and social structure. The function of the individual agent is denied and the interpretation of the change process is based entirely on the structure (on the class).

The inadequacy of the analysis of human action as proposed by classical Marxism is widely perceived by analytical Marxists, which rank among the scholars of Marx

more sensitive to the problem of *agency*.

In general, the analytical Marxists attribute a fundamental role to “intentional actions of individuals”>> (Wright 1989, 39), this is a vision that lays the foundation for a methodological-individualist vision. However one can observe differing perspectives. Some analytical Marxists such as Elster (1986) and Roemer (1986), declare their adherence to methodological individualism in the wording which is assumed in neoclassical economic theory. Therefore they accept the hypothesis of rational and optimizing behavior and exogenous preferences, and explore individual behavior on the basis of mathematical models of rational choice. Others (Levine, Sober and Wright 1992) when confronted with the *agency/structure* problem, stress the need to move beyond the sphere of *agency* to analyze the relationships between individuals and social structures. Even they do not question the priorities of the individual, conscious and deliberate action, and are favorable toward the use of mathematical models to analyze it.

As can be seen, Marxism does not contain a theory of the *agency/structure* relationship which is capable of satisfying the criteria set out in the conclusions of the previous paragraph, nor able to avoid any reductionism while producing a simultaneous interpretation of the changes in the structure and agents.

On the other hand, an effective theory of agency, which represents a solution to the *agency/structure* problem, is contained in the theory of evolutionist Institutionalism. Specifically this is in the analysis of the functioning of the capitalist economy that is based on the workings of Veblen (1919, 239-255) and on the critique to the hypothesis of optimizing rationality. Rationality is not a possible consequence of the limitations of the human brain and the limited availability of information. Human behavior is the product of the interaction between the instincts that influence the perception of reality, leading to the formation of preferences (preferences are endogenous).

There is a twofold interaction between individuals and institutions: institutions affect individuals, constraining choices and actions, shaping goals and desires. Individuals influence institutions, creating and changing habitual thought and social rules, until new institutions are created which adapt pre-existing institutions to emerging needs.

This dual interaction provides the institutionalist/evolutionist solution to the *agency/structure* problem. Human actions are not entirely formed by the context in which individuals are placed, just as they are not entirely explained by the characteristics of individuals. They are the product of an interaction that reproduces itself over time in a process of social evolution.

Thus, the theory of evolutionist institutionalism provides an answer to the problem of *agency/structure* that meets the individual requirements in the conclusions of the previous paragraph. The ontological separation between the two entities is clearly established and the model is able to simultaneously interpret the changes of the structure and of the agents. In addition, there is a conceptualization of social

evolution in terms that closely resemble the morphogenetic cycle of Archer.

3. Capitalism and Relationship *Agency/structure*

The analysis of capitalism reflects the way in which human action and the relationship between this and the social structure are conceptualized. This is observed in both Marxism and in evolutionist Institutionalism.

The collectivist methodological approach emerges from the abstract representation of Marx that describes capitalism as a system of production of goods, which is based on the commodification of labor and that is driven by the conflict between capital and labor. In this system, the commodification of labor is a necessity for production, while the dissolution of capitalism is a consequence of the conflict between productive forces and relations of production and is attributable to class conflict.

In this representation, the classes send goals and desires to the agents, and under the influence of the material conditions of life and work, individuals behave in a rational and conscious way. The capitalists and workers are analyzed in abstract terms, not as individuals, but as the personification of economic categories, an expression of particular class relations and class interests. Capitalism's laws are derived from capitalist and worker behavior, they lead to the end of capitalism as a production method.

Historical experience has strongly criticized this interpretation of capitalism. Some "anomalies" have falsified important segments of Marx's theory (Gouldner 1980, 14). The inadequacy of the analysis of individual behavior and the class dynamics has become apparent. The most significant case is represented by the weakness of the class struggle in the twentieth century, a situation that cannot be explained if we assume rational behavior of agents that operate on the basis of defined objectives by their position in the social relations of production (Burawoy 1990, 781). Another equally significant case is the persistence of structures and social relationships that respond to non-market logic in the contexts of advanced capitalist development: "impurity" of capitalism, rooted in history and culture, that the predominance of rational and optimizing behavior should take away (Hodgson 2001, 63-82).

Thanks to his theory of agency, evolutionist institutionalism helps to explain these "anomalies" and these "impurities". The double interaction between individuals and institutions, together with the removal of the hypothesis of optimizing rationality enables us to recognize the importance of culture and history in change and development processes. So it is possible to explain why the choices and actions of individuals are not inspired only by the placement of the class, but also reflect ideological and institutional constraints; why class interests and non-class interests co-exist and are in conflict with each other; why the capitalist society is crossed by forms of social stratification produced by cultural

processes, (as well as economic); and why contemporary capitalism shows an increasing variety of organizational forms. The theory of evolutionist institutionalism has the merit of having theoretically conceptualized and justified the "institutional rooting" of economic and social processes, showing that institutions are a product of social interaction, and not simply structures created by rational, maximizing agents to pursue individual interests.

Opposed to this important contribution, the evolutionist Institutional approach, however, has a shortcoming: it does not allow us to identify the specificity of capitalism as compared to other modes of production. While recognizing that the capitalist society is unequal and conflicting, ultimately it does not value the importance of *class* as an analytical category, losing sight the centrality of "class inequality" and of the conflicts that derive from it.

It is true that *class* is not an agent and therefore cannot be assigned the specific functions of human beings but it is an institution that represents and recognizes individuals' behavior in a process of continuous interaction.

Societies and capitalist economies are crossed by many forms of stratification and inequality, which are the product of the action of institutions rooted in history and culture. Some of these institutions, such as family, or religion, are also common to other types of society, as well as sharing the forms of inequality connected to them. Moreover, inequality between capital and labor is specific to capitalism and exerts a decisive influence on other forms of inequality. As stated by Sen (2005, 205-207), *class* affects the essence of inequality in the capitalist economy, as it makes the influence of other sources of inequality much more acute. *Class* transforms the nature of the other factors of inequality, strengthening their impact and etching a deep mark on the production relations.

4. Marxism and Evolutionist Institutionalism for the *Agency/structure* Problem

The evolutionist Institutionalism theory manages to resolve the *agency/structure* problem in a theoretical manner, but falls short of an effective analysis of the role of the class as an institution that significantly influences the dynamics of the capitalist economy.

A solution may come from the dialogue marxist/institutionalist, in terms of a better understanding of contemporary capitalism.

Firstly, Veblen (1906) has highlighted the inadequacy of the Marxism theory of *agency* of and considered the possibility of a marxist/institutionalist dialogue, based on the common critical view of capitalism.

After several years of joint debate between Marxists and Institutionalists (e.g. Dugger and Sherman 2000), it has come to a twofold conclusion. Dialogue between Marxists and Institutionalists is possible, although there are significant theoretical and methodological differences, and it improves

the understanding of contemporary capitalism; the dialogue presupposes the rejection of methodological individualism and of every form of determinism, requiring adaptation by both the parties on questions where the theoretical contrast is greater, i.e. the analysis of classes and the *agency's* theory.

Firstly, it is necessary to recognize the importance of empirical evidence. In Marxism this means the rejection of dogmatism and the theological view of history, with the explicit acceptance that class-structure is not polarized and that other factors, beyond Class, influence economic processes. In Institutionalism this means the acceptance of the primacy of class stratification and class interests above other forms of stratification and vested interests.

It is also necessary to identify the theoretical approaches which are more compatible, both in Marxism as much as in evolutionist Institutionalism. In general terms, the Institutional approaches built on Veblen agency theory are basically suitable, the discourse for Marxism is more complex.. It is evident that the orthodox interpretation of classical Marxism is not adequate and that it is necessary to apply the formulations of Marxism produced in an attempt to explain the "anomalies" of capitalism and its unforeseen developments in the twentieth century.

These are widely compatible with the evolutionist institutionalism contributions of American neo-Marxists. In fact, Resnick and Wolff (2006) theorize the rejection of any form of determinism, basing their analysis on the Althusser concept of "overdetermination" (2005, 173-177). Moreover, the new theory of van der Linden (2008, 33) is compatible with evolutionist Institutionalism, which may help to explain the complexity of the relations between capital and labor in contemporary capitalism. He distinguishes between different forms of commodification on the basis of who owns the work force and what are the agents in the process of commodification. He further inserts all those who sell or rent their workforce into the working class as being under the influence of economic factors, regardless of who is the bearer of the work and regardless of who owns the means of production.

This combination of segment theories produces a broad ranging conceptual structure. It is hybrid because it combines Marxism and evolutionist Institutionalism but also because, within these broad approaches which select concepts of different contexts, they are united by the rejection of all forms of determinism and the belief that individual behaviors are socially shaped by institutions and ideologies.

Through the use of Veblen's theory of *agency*, the hybrid scheme excludes both methodological individualism and collectivism. While the individual is the agent, society is a strong determinant in economic processes. It is not simply the sum of the individuals but something more. Social structures produced by the interaction between agents, adapt and transform into a set of rules that condition and enable human action. In the theory of evolutionist Institutionalism, the interaction between individuals and institutions form goals and desires in a continuous process of institutional

change. Just as in the non dogmatic theory of Marxism, *class* is without a doubt the most important aspect for its influence on production decisions, including the introduction of technology.

This hybrid conceptual framework helps us to understand the complexity of contemporary capitalism that results from the co-existence of a variety of organizational and institutional forms, many forms of class inequality and not just class. It describes the capitalist's economy as a socio-economic system based on the commodification of labor, in which their exist conflicts between capital and labor which are the driving force of development, and where change is rooted in institutions, while the system moves along a path marked by history.

5. Conclusions

We have seen the theoretical implications and empirical implications of the *agency/structure* problem. We have observed that neo-classical economics and Marxist theory (in its orthodox formulation) contain an insufficient theory of agency, even if they identify key factors to the development of capitalism. Finally, it was found that the theory of evolutionist Institutionalism solves the *agency/structure* problem but does not consider the elements that distinguish the capitalist economy from other economic systems. From the dialogue between Marxism and evolutionist Institutionalism emerges a hybrid form of conceptualization, which helps us understand contemporary capitalism more effectively.

This very hybrid and heterodox approach allows us to interpret the empirical evidence with logically consistent conceptual tools. This exercise does not reject the possibility of finding a strong critique by those who defend the purity of the economic discipline. However this hybrid attitude is the price that must be paid to the supremacy of the empirical evidence over the rigor of the theoretical concepts. Although it is evident that the theoretical representation of socio-economic relations between agents should provide support for any empirical analysis, it is equally reasonable to assume that the theory is a social construction that has as its primary objective the explanation of the real world.

REFERENCES

- [1] Althusser L. (2005), *Pour Marx*, Editions La Découverte, Paris.
- [2] Archer S. M. (1995), *Realist Social Theory: the Morphogenetic Approach*, Cambridge University Press, Cambridge.
- [3] Burawoy M. (1990), "Marxism as Science: Historical Challenges and Theoretical Growth", *American Sociological Review*, vol. 55.
- [4] Callinicos A. (2004), *Making History. Agency and Change in*

Social Theory, Brill, Leiden-Boston.

- [5] Dugger W. M. and Sherman H. J. (2000), *Reclaiming Evolution. A Dialogue Between Marxism and Institutionalism on Social Change*, Routledge, London.
- [6] Elster J. (1986), "Further Thoughts on Marxism, Functionalism and game theory" in Roemer J. (ed.), *Analytical Marxism*, Cambridge University Press, Cambridge.
- [7] Giddens A. (1984), *The Constitution of Society: The Outline of the Theory of Structuration*, Polity Press, Cambridge.
- [8] Gouldner A. W. (1980), *The Two Marxisms: Contradictions and Anomalies in the Development of Theory*, Macmillan, London.
- [9] Hodgson G. M. (2001), "The Evolution of Capitalism from the Perspective of Institutional and Evolutionary Economics", in Hodgson G. M., Itoh M. and Yokokawa N. (ed.), *Capitalism in Evolution. Global Contentions – East and West*, Edward Elgar, Cheltenham.
- [10] Hodgson G. M. (2004), *The Evolution of Institutional Economics. Agency, Structure and Darwinism in American Institutionalism*, Routledge, London.
- [11] Hodgson G. M. (2007), "Institutions and Individuals: Interaction and Evolution", *Organization Studies*, 28(1).
- [12] Levine A., Sober E. and Wright E. O. 1992), *Reconstructing Marxism: Essays on Explanation and the Theory of History*, Verso, London.
- [13] Resnick S. and Wolff R. (2006), *New Departures in Marxian Theory*, Routledge, Abingdon-New York.
- [14] Roemer (1986), "Rational Choice Marxism: Some issue of Method and Substance", in Roemer J. E. (ed.), *Analytical Marxism*, Cambridge University Press, Cambridge.
- [15] Sen A. K. (2005), *The Argumentative Indian*, Penguin Books, London.
- [16] Van der Linden M. (2008), *Workers of the World. Essays toward a Global Labor History*, Brill, Leiden-Boston.
- [17] Veblen T. (1906), "The Socialist Economics of Karl Marx and His Followers", *The Quarterly Journal of Economics*, vol. 20.
- [18] Veblen T. (1919), *The Place of Science in Modern Civilisation and Other Essays*, Huebsch, New York.
- [19] Wright E. O. (1989), "What is Analytical Marxism?", *Socialist Review*, n. 19.