

## **The Problem Of “Embeddedness” And Global Economic History**

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This survey paper reviews and affirms the demise of substantivism in economic historiography; notes that this redefines rather than solves the problem of assessing the economic consequences of the fact that economic behaviour occurs in a cultural setting (the analytical ‘problem of embeddedness’); and discusses several interesting routes forward which have been pioneered in recent literature. For clarity, this paper tries to distinguish culture from institutions. Thus, here, ‘culture’ refers to values, and not to rules, formal or informal, though values may find expression in such rules.

Economic rationality is defined here in the broad sense of maximising the ratio of output to input. It thus assumes scarcity (though, in the classical as opposed to neoclassical tradition, not necessarily that *all* inputs are scarce). Also, it would be unworkable without the further assumption that preferences are stable, at least in the short term. Following now long-established precedents in ‘mainstream’ economics, however, it is accepted that economic rationality does not preclude the proposition that maximising behaviour may be pursued within the constraints of risk, imperfect information and transactions costs. For example, it would strain the meaning of ‘rationality’ beyond breaking point to include the maximisation of profit where that would entail the likelihood of early death (as in sacrificing food security to maximise cash income: cf. Lipton 1968; Ball and Pounder 1996). But rationality ceases to be ‘economic’ unless the behaviour concerned is consistent with maximizing the ratio of output to input, albeit often subject to constraints.

### **Substantivism: appealing, but now falsified**

The notion that economic behaviour is purely rational in this sense, and therefore independent of values, seems to me to be counter-intuitive. After all, there are numerous examples of people willing to sacrifice their lives for a cause. Again, on the battlefield, where the price of competitive failure is death, there are documented cases in which military efficiency was overridden (or perhaps not even considered) were it would have conflicted with culturally-defined notions of courageous behaviour (e.g. Caesar on the Gauls, Clendinnen on the Aztecs [Clendinnen 1985]). One might think it was much less likely that rational behaviour would predominate where the price of departing from it was usually much less, or at least less immediate, as in economic life.

Marxists and modernization theorists basically agreed that economically rational behaviour was specific to capitalist societies. The fullest and most sophisticated theoretical elaboration of this proposition was provided by Karl Polanyi and his students, particularly with reference to the 'civilizations of antiquity', to Europe over many centuries, and to pre-colonial West Africa (Polanyi's last book was a study of the kingdom of Dahomey: Polanyi 1966, see also Bohannon and Dalton 1962, Bohannon and Bohannon 1968, Dalton 1976). Substantivism inspired and provoked a generation of historical research.

In the case of West Africa, the substantivist interpretation of pre-colonial economies was rapidly discredited by the research of the 1960s and 1970s (see Hopkins 1973; also Latham 1971, Law 1977, Johnson 1980). Thus it was over a quarter of a century ago that Polly Hill, even while criticising the major formalist synthesis for West Africa, declared that substantivism was 'a dead duck' in relation to the region (Hill 1978). Ironically, it was only after this was already widely accepted among

economic historians that the most forensic demolition work on substantivism in West Africa was done, with systematic case-studies of specific substantivist propositions, about price-fixing and 'ports of trade' (Lovejoy 1982, Law 1992). Douglass North had worried that Substantivism was untestable (North 1977). It turned out that it is indeed testable; and that when tested, it failed. At least, this seems very clear in the West African context. I agree with Geertz that's comment to the effect whether or not substantivism applies is an empirical question, the answer to which may differ between societies (Geertz 1980:198).

As it happens - though I suggest this more cautiously, because here I venture outside my specialist area - it seems that the same conclusion has been reached in Polanyi's other chosen cases. Braudel made a sharp attack on Polanyi's historical scholarship, primarily with reference to pre-industrial Europe, commenting for instance that by the twelfth century prices 'were fluctuating in unison across Europe' (Braudel 1982: 225-8, 238 quotation at 227-8). More recently Hoffman et al. (1999) have renewed the attack on the notion of a 'great transformation' between pre-capitalist and capitalist periods in the economic history of western Europe. A powerful recent article on eastern Europe refutes the substantivist position in that setting in terms familiar to West Africanists (Ogilvie 2001). Even for classical antiquity, the case in which the substantivist tradition had perhaps its deepest historiographical roots and in which its influence was most enduring (e.g. Finlay 1975), a reviewer of the second edition of Morris Silver's *Economic Structures of the Ancient Near East* (Silver 1996), complained that Silver devoted much too much space to reiterating his critique of substantivism.<sup>1</sup>

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<sup>1</sup>Review in *Journal of Economic History* [reference to be completed].

Rather than controversial, this was now banal - at least according to that reviewer (see, further, Jongman ...).

The substantivist torch was famously relit by James Scott, in the context of peasant communities in colonial, twentieth-century, southeast Asia. His *The Moral Economy of the Peasant* (1976) remains by far the best-known contribution to that regional debate. But its thesis appears to have been pretty comprehensively refuted by a mass of subsequent scholarship (e.g. besides Popkin 1979 see also, e.g., Adas 1980, Peletz 1983, Haggis et al 1986).

Despite the recently-fashionable challenges to the possibility of progress in knowledge about the past, I think it is reasonable to claim that the refutation of substantivist and neo-substantivist positions is a major achievement of empirical research in economic history. It a theme that, as argued above, emerges from discrete specialist debates across a range of periods and places. The apparent specificity of these particular debates has obscured the generality of the consensus which has emerged from them. That this conclusion is counter-intuitive adds to its interest and analytical importance.

Thus it makes sense to abandon the idea that economic rationality (more precisely, behaviour consistent with the assumption of economic rationality) is historically the exception rather than the rule, because specific to 'capitalist' societies as Polanyi had maintained.<sup>2</sup> For global historians, focussing on the comparisons and connections between countries/regions that may explain (in Landes's phrase) 'why some are so rich and others so poor' (Landes 1998), the implication is that we should reject the proposition

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<sup>2</sup>Even Christopher Hann's effort to re-launch Polanyi seems to me to make no attempt to engage with the mass of critical economic historiography (Hann 1998).

that the answer lies in a *general* contrast between cultures (whether over time or space) in terms of cultural antipathy to economically rational behaviour.

### **Embeddedness after Substantivism**

Granovetter's celebrated paper of 1985 took this apparently exhausted debate forward, not least by highlighting the observation that, while Substantivist and related arguments had exaggerated the degree to which economic behaviour in pre-capitalist societies was affected by the cultural context, they also under-estimated the extent to which that values affect economic behaviour in capitalist societies. The exploration of trust in industrial capitalist economies is one important agendum for further research (a pioneering contribution is Offer 1997). For let us return to pre-industrial and industrializing societies, or at least to earlier centuries, for this is the terrain on which global historians seek to explain the historic divergences in the wealth of nations. There were, and are, several directions in which historians could go in tackling the analytical problem of embeddedness following the demise of substantivism and related doctrines.

The most actively pursued approach has been to shift the focus from individual calculus to the structures conditioning individuals' behaviour. Among West Africanists, this endeavour was pioneered by French marxists, as they hunted for 'the African mode of production' in the 1970s (e.g. Meillassoux 1972). More widely and persistently influential, however, was of course the 'new institutionalist' economic history initiated in relation to the 'European miracle' by North and Thomas (1973), and much refined, criticised, revised and reaffirmed since (for an interesting retrospect, see North 1996). I do not propose to discuss the institutional approach here

further, partly because I have a forthcoming book which attempts to test it in a West African context (Austin, forthcoming 2004), but mainly because for this conference it seems more appropriate to concentrate on values. I will devote the rest of the paper to a discussion of some lines of research under this heading.

### **Exploring specific links between values and economic behaviour**

What these initiatives have in common, I think, is the attempt to define links between particular values or value-systems and the economic behaviour of specific groups in specific historical contexts. Thus they depart - move forward - from the generality and fundamentalism of the debate over substantivism.<sup>3</sup> They offer little comfort to those (such as Landes 1998) who invoke 'culture' as a residual explanatory category, to fill (how?) the gaps in materialist interpretations. The following discussion considers some examples of this work; it does not purport to be comprehensive.

Let us start with 'moral economy', not in Scott's blunderbuss sense, but in the narrower sense used in E. P. Thompson's original article (1971). It was not intended, as I read it, as a means of resurrecting a broad substantivist position. Thompson made this clear. In a retrospective paper, he attacked those of his critics who put up the fat-headed notion that there has been proposed [by Thompson] an absolute segregation between a moral and a market economy' (Thompson 1991). Scott and Thompson have in common the fact that they used the term in historical contexts in which market relations were becoming more salient, and were (in their view) the

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<sup>3</sup>Cf. a distinction made by Hill: 'the economic behaviour of individual West Africans is basically "rational" and responsive, but ... the structure of that rationality requires studying in the field' (Hill 1970: 4).

subject of morally-motivated popular protest or (in Scott's case) rebellion. But the idea of a 'moral economy', a belief or set of beliefs about what constitutes morally worthy and unworthy economic behaviour,<sup>4</sup> surely need not be confined to cases in which it is 'counter-capitalist'. It is an empirical question whether a particular moral economy, for example, opposes a particular kind of transaction or, say, reduces transactions costs. I am in the process of revising a working paper on the 'moral economy of accumulation' in the pre-colonial kingdom of Asante and its colonial 'successor' (now part of Ghana). In Asante, I argue, if there was a moral economy it supported the self-acquisition of wealth; and while it imposed conditions on the social approval of wealth (the rich were supposed to be generous), the overall effect was to facilitate private accumulation by offering esteem, and by supporting practices which in other cultures might have been denounced unambiguously as usurious or otherwise exploitative.<sup>5</sup> In nineteenth and early twentieth-century Asante, unlike in west-central Africa it seems (Harms 1981; Austen 1993), witchcraft accusations were mostly directed against the envious poor rather than the newly rich. This kind of observation may illuminate the problem of why some parts of Africa became wealthier than others. It also warns us of the risk of over-simplifying the problem of explaining why one region or continent became much richer than another. For the pattern of witchcraft accusations in Asante, so different from the

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<sup>4</sup>In a current working paper which I hope to submit this summer (2004), I define moral economies as 'beliefs about what constitutes just economic behaviour: about the proper purposes, forms and boundaries of economic activity. A moral economy may be said to exist - or to exist in a form which makes a difference, culturally and socially and perhaps politically and economically - where violation of such a belief provokes disapproval which exceeds what can be accounted for by the material outcome itself.' Austin, 'Moneylending and witchcraft: the moral economy of accumulation in colonial Asante' (presented at the Modern Economic History Seminar, LSE, 8 May 2003).

<sup>5</sup>*Op. cit.*

Congo, recalls Keith Thomas's account of early modern England (Thomas 1971).

This leads us to work which points to cultural phenomena in generally pre-capitalist, often non-Western, societies which promoted rather than obstructed economic growth. The best-known example is perhaps the ethnic and/or religious trading Diaspora, whose members shared beliefs enable them to constitute a 'moral community' within which potential problems of trust and information asymmetry may be resolved (Cohen 1971; for a formal treatment see Landa 1994). There is a large literature on this in various regions and periods, including specifically in the perspective of world history (Curtin 1984). In substantivist days these studies were valuable in combating the assumption that culture, especially outside the capitalist West, was necessarily an impediment to economic activity. But this argument begs a question, which is a sharpened form of the broad question raised by the demise of substantivism: if pre-capitalist cultures were not generally inimical to 'rational' economic behaviour, where then lies the explanation for the divergences in the prosperity of nations? More specifically, if ethnic-religious trading diasporas were so good for commerce and, by extension, for economic growth, and if they were strong outside as well as inside western Europe in the early modern period, their economic functionality may have very little to do with the divergences that occurred during that period. Or if it did, perhaps it was in a negative way. Jean-Philippe Platteau has argued that a 'limited-group morality', of which the moral community of the trading Diaspora is a paradigm example, is insufficient to provide the level of trust required for the kind of economic development represented by industrialisation (Platteau 1994). In that perspective, changing global historians might be interested again in broader changes in religion and other



aspects of world views which may have affected economic behaviour, particularly by reducing problems of cooperation.

Finally, let us consider the methodological dimension. In 1978 A. G. Hopkins posed the question of how it might be possible to reconcile the explanations of entrepreneurial behaviour based on supply and demand ('externalist' explanations, grounded in 'the logic of the situation') with explanations based on individuals' values (Hopkins 1978). The historiographical context of his paper was the fact that in the study of entrepreneurship economic historians had increasingly formed a consensus analogous to that which had emerged against substantivism - clearly, for related reasons. Following a pattern which may be said to be exemplified by Gerschenkron on nineteenth-century Russia and France (Gerschenkron 1962), major works in contexts including early industrial growth in Brazil and Indian manufacturers and traders under British rule (Morris 1967; Dean 1966) concluded that entrepreneurship in these cases had not been significantly inhibited by supposedly religious beliefs (whether Hindu or Catholic). The methodological logic of such arguments was impeccably Occamite: the outcomes concerned could be explained sufficiently by opportunity and incentive, by the logic of the situation, hence there was no need to encumber the interpretation with culturalist baggage. Hopkins noted, however, that the opportunities concerned fell to more people than responded to them. A further level of explanation was required, and this, he argued, could be provided by examining individual entrepreneurs' motives more closely, by reading evidence about what they thought they were doing. In the case he studied - the African pioneers of cocoa farming in Lagos - records written by the actors themselves were available. As he acknowledged, this is often not the case (Hopkins 1980). Where it is, however, this is an approach well worth adopting. It promises conclusions

which may not be as neat by the criterion of ‘explaining much by little’ (Friedman 1953), but which should achieve a higher  $R^2$ .<sup>6</sup>

Such an approach extends rather than abandons the mainstream economic history approach in the sense that in seeking a full explanation it works out from the externalist to the internalist, and from the economic to the cultural. The opposite approach can also be fruitful, and in the revised and fuller version of this paper I will offer an example (based on Cooper 1996). Overall, though, it is disappointing that the dominance of cultural history on the general historical agenda since the 1980s seems not to have provided more illumination on the material origins of the unequal world in which we live. Global economic history can benefit from adopting an interdisciplinary culture, not least at the level of the sub-disciplines of history.

To summarise, this paper argues that attempts to explain economic contrasts in global history cannot credibly be founded upon notions of general cultural hostility to or support for ‘economically rational’ behaviour. Our task is better seen as the exploration of a variety of more particular relationships between values (or a value) and specific economic actions in certain historical contexts. This is the more true if the world from which industrialization emerged was indeed one of ‘surprising resemblances’ (Pomeranz 2000). For if there were far fewer big differences, the smaller - or at least more subtle - ones probably matter more. Contrasts - or just variations - much less stark those envisaged by Weber and Polanyi may turn out to have been critical.

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<sup>6</sup>To borrow Richard Thaler’s phrase when arguing a different case: for the replacement of *homo economicus* by *homo psychologicus* in economic thought (Thaler 1996: 236).

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