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STATE TRAJECTORIES AND SOCIAL TRANSACTION COSTS: REFLECTIONS
ON DIFFERENTIATION AND SOCIAL ORDER

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ABSTRACT

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The paper addresses the classical sociological problem concerning the dual process of social integration and differentiation, and puts it in relation to the contemporary discourse of social capital. A number of analytical problems related to social capital are considered with specific reference to the theoretical development which turned the concept into an explaining variable of social integration. It is argued that the discourse of social capital represents a tendency in social science to employ unitary theories of societies based around a limited set of causal determinants; in this case, social capital refers to civic norms that contribute to social integration. Instead, I particularly emphasise the state's capacity to function as an integral part of society. As the capacity of any given state to achieve social integration within its realm is determined by a number of factors related to its distinctive trajectory, any theory on the issue has to be open to multi-causal explanations. I therefore propose an alternative conceptual tool for analyses of social integration in a given polity. The term *social transaction cost* designate the metaphorical costs of mergers and the forming of alliances and coalitions that favour the aggregation of interests and outlooks among and between groups, organisations and actors within a given polity. Finally I give a few examples of how the concept may be used for analyses of social integration in relation to a number of state trajectories with varying outcomes.

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Introduction

A prime focus of sociology ever since the early development of the discipline regards the dual process of differentiation and integration associated with modernity. The increasing division of labour entails increased specialisation, and thereby better possibilities to make use of human resources and knowledge in more efficient and creative ways. But, differentiation processes may also result in problems of societal integration as the detachment from small-scale household economies and makes social relations more impersonalised. When economic life is unchained from pre-existing integrative elements of culture, religion or community there is a need of some kind of social cement that counteracts the fragmenting tendencies associated with modern society. The differentiated society must allow credible commitments and complex forms of cooperation between its constituent actors in order not to disintegrate. The absence of social integration and generalised trust in many areas of the world is now recognised as an important source of economic stagnation and underdevelopment. The question is then how social integration comes about and how social order is constituted in a differentiated, complex society? This has been a key concern for various social theorists such as Tönnies, Simmel, Marx, Durkheim and Polanyi. More recently the concept of social capital has emerged as a popular explaining factor of social integration. It then refers to “a combination of features of social organisation such as trust, norms and networks that can improve the efficacy of society by facilitating co-ordinated action” (Putnam 1993:167). The concept is used for analyses of social integration, policy implementation processes and has been embraced as somewhat of a missing link in economic analysis (van Staveren 2003). This conceptual turn has brought about several analytical problems, not least since the original signification of the concept differs in several important respects from the meanings now generally attributed to the term. In this paper I set out to discuss a number of theoretical perspectives on differentiation and social integration and put them in relation to the discourse of social capital. At first I briefly present the theoretical development of the concept of social capital. I then discuss alternative perspectives on social integration and I demonstrate some problems related to the usage of the term social capital in this context. Next, I consider the role of the state as an integral part of society, and I will finally suggest an alternative concept, social transaction costs, to be used for analyses of social integration. Finally I relate the concept of social transaction cost to a brief analysis of various state trajectories.

Social Capital: The Transformation of the Discourse

The concept of social capital was originally introduced by Pierre Bourdieu. His conception of social capital is located within his wider theory of social life through which it is depicted by means of economic metaphors. According to Bourdieu, capital comprises all goods, material or symbolic, which are worthy of being sought after in a particular social formation. Bourdieu designates social capital as “the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalised relationships of mutual acquaintance or recognition” (Bourdieu 1985:248). Social capital is thus an individual asset determined by the size and range of one’s connections and networks and by the amount of resources tied to these connections (Bourdieu 1985). Bourdieu emphasised the intangible character of social capital relative to other forms of capital. Whereas economic capital is located in people’s bank accounts, social capital is inherent in the structure of relationships. To possess social capital, a person must be related to others since they constitute the actual asset. It is thus the interacting members of a group that reproduce and maintain social capital (Portes 1998:7).

Within the realm of sociology, most scholars now seem to agree that social capital refers to the ability of individual actors to acquire benefits through memberships in social networks. However, due to the intangible, relational character of social capital, doubts have been raised as to the analytical level at which the concept is to be located, that is, whether social capital is accumulated on behalf of the individual or the group. Since it is inherent in the structure of social relations the group level must be considered, and thereby, the focus may be turned to the processes of production and maintenance of social capital as a collective asset. It can thus be seen as a collective asset in that it is shared and generated by the members of a group (Lin 2001). Due to the intangible character of social capital, some scholars mainly consider it a structural feature. James Coleman argues that social capital is any socio-structural resource that generates return for an individual in a specific action. Hence, according to Coleman, social capital is defined by its function. Social capital is “some aspect of a social structure that facilitates certain actions of individuals who are within the structure” (Coleman 1990:302). In the last decade the concept has undergone a major “conceptual twist” as it came to be defined primarily as a structural property of large aggregates such as states (Portes 1998). Robert Putnam’s (1993) remarkable breakthrough has probably contributed the most to this change. Putnam founded his conception of social capital on an extensive investigation initiated in 1970 when the state of Italy reformed its regional administration and created new governments for each of its regions. Putnam discovered that

the regions of northern Italy were consistently more efficient in their internal operations and in implementing political decisions, and they were also significantly more prosperous economically. In the northern communities, which Putnam defined as civic communities, the population was characterised by a high engagement in public issues and was held together by a generalised trust, a general obedience of law and a belief in the popular government. The peoples of the civic regions were more active in social and political networks that tended to be organised horizontally in contrast to the hierarchically organised networks in southern Italy. In the civic communities, self-interest was defined in a context of broader public needs whereas public affairs in the south were conceived of as the business of somebody else (Putnam 1993:115). Putnam concluded that patterns of horizontal trust and cooperation in the civil society of the northern regions generated their good governance and economic wealth. The moral base of the civic communities was the interpersonal trust that was generated in the associational life and other social structures of cooperation. The economic and democratic success of the northern polities depended on the character of their citizens, or more specifically, their civic virtue (Putnam 1993:87-89). Civic norms therefore explain economic performance rather than the reverse and constitute a powerful predictor of contemporary civic communities, Putnam concluded (ibid:156). Social capital according to Putnam refers to a combination of features of social organisation such as trust, norms and networks that can improve the efficacy of society by facilitating co-ordinated action (1993:167). In the wake of Putnam's approach, social capital has come to designate a political culture of trust and co-operation, primarily within the realm of political science. Such a culture makes collective action possible and effective and enables the community to build political institutions with a capacity to solve collective problems (Hague and Harrop 2001). The economic literature on social capital focus on the level of generalised trust in a social formation, that is, the percentage of people who assert in surveys that most people can be trusted. According to van Staveren (2003), the empirical research on social capital usually employs three types of variables of social capital; trust, membership in formal and informal groups and the degree of acceptance of moral rules and norms. In a research project on social capital and poverty, the World Bank defines social capital as the institutions, relationships, attitudes and values that govern interaction among people and contribute to economic and social development (World Bank 1998). Hence, the conception of social capital as a particular normative structure that serves as a crucial input to economic growth and development is now well entrenched.

Power, Rationality and Societal Integration

Many scholars have been critical to this understanding of social capital and particularly the emphasis on civic culture. It has been argued that social capital theories implicate that the responsibility for a decline of trust and political performance in a society is put on the leisure behaviour of the masses rather than on economic and political changes, brought about by the corporate and governmental establishment (van Staveren 2003, Portes 1998). Marxist political economy generally conceives of social integration either as a result of power relations and domination, or as emergent of processes of bargaining between parties such as industries, workforces, trade unions, economic lobbies and social movements. If culture is taken into consideration at all, social order is then seen as founded on an ideology shaped by the dominant economic class (Holton 1992). Consensus-oriented variants of political economy highlight the positive consequences of political bargaining. It is argued that the functional differentiation and structural interdependence compel people into more contradictory relations with other groups in society and the ability to withdraw from the system is very limited. The myriad of linkages generate a political structure in which economic pressure groups are institutionalised, and as result of the complex interdependence, the actors involved have to seek for solutions within the existing economic system. As a result, bargaining, mostly between oligopoly capital and organised labour, becomes the best method to achieve political goals (Hyden 1983:74). The key assumption of modernisation theory was that societal integration will emerge from a process of economic development. The diffusion of communication and transport networks together with urbanisation and industrialisation would lead to the assimilation of the inhabitants of peripheral regions and their fusion into a homogenous nation (Simpson 1994). The emphasis on economic interdependence also characterised Tönnies' (1967) ideas on social order and differentiation. Tönnies distinguished between *gemeinschaft* and *gesellschaft* to designate the principal difference between pre-modern and modern differentiated societies. *Gemeinschaft* represents the face to face community founded on kinship, blood and closed villages, whereas *gesellschaft* signifies the secular and individualistic society, characterised by impersonal exchanges between self-interested individuals. According to Tönnies, *gesellschaft* takes place because instrumental, rational needs oblige people to collaborate. The neoclassical theory of economics posits that spontaneous market orders emerge between rational self-interested actors without the need of institutional support as long as no external power interferes. Institutional economics represent another variant of the rational choice approach. In contrast to neo-classical economic theory, institutional economics do not regard markets as self-regulating. Instead, social integration is

linked to the effectiveness of incentive-structures such as a legal framework that makes defection against communal rules contradictory to the self-interest of the actor (North 1990). Weber focuses on the legal framework as well but from a different angle. He was concerned with the question of how the stability of the capitalist order could be sustained. The order of traditional societies was founded on the force of habits and was justified by religion and traditions, but after the Enlightenment, political authority had to shift its claims to legitimacy from tradition and religion to rational, bureaucratic and professional sources. According to Weber the modern legal-rational order is founded on an instrumental rationality expressed in terms of increasing professionalism and bureaucratisation (Hunt 2002 in Bankar and Travers)

Culture, Norms and Social Order

A sole emphasis on rationality, self-interest or power as explaining factors of social integration is problematical. A social order based entirely on coercion is very unstable since the costs of compliance would be too high in the long run. Furthermore, the rule of the law must, in order to attain moral force, be generally recognised and founded on some kind of consensus, not only among those in control of the coercive means, but among the wider strata of the population. Moreover, with reference to the key assumptions of political economy, many bargaining conflicts are based on an underlying value-consensus. As Holton (1992) points out, industrial relations systems are dependent on several basic value-commitments such as the freedom of the parties to pursue bargaining in voluntary and peaceful manner. The neoclassical account of social integration neglects that markets do not reinforce social bonds but merely serve as a means of impersonal exchange of commodities through the medium of money. In themselves, markets are thus unable to resolve problems of social integration such as the achievement of legitimate government. Both political economy and neoclassical economics tend to neglect that markets and political orders require some degree of moral cohesion. Simmel noted that complex, differentiated societies presuppose a general kind of trust which very seldom is founded on rational proof. Differentiated societies would simply disintegrate without a multitude of tacit promises and agreements, Simmel assumed (1978:178-179). Durkheim also maintained that there is a need of some unity that transcends market rationality and divisions related to material interests. He believed that economic life and occupational order were not capable of generating sufficiently binding moral rules in a society. No social order can be entirely founded on naked self-interest, Durkheim argued. In order to cohere, the differentiated society requires a pre-contractual normative basis, that is, a unifying framework of moral bonds and obligations which recognise self-interest,

individualism and the institution of contract as binding. Therefore, culture necessarily enters into all social activities, including economic and political life according to Durkheim (Holton 1992).

Habermas also emphasises the importance of law in his account of social integration, but he claims that law is closely related to morality. Habermas distinguished between the lifeworld, a concept akin to civil society, and the system, referring to the state administration and the market economy. According to Habermas, the integration of the system is based on instrumental and strategic rationality, whereas the integration of the lifeworld is based on communication and presupposes a mutual understanding among the actors. The lifeworld functions as a productive ground for norms and moral values through processes of socialisation and cultural reproduction. Habermas holds that law is the primary source of normative integration, but it be installed under the principles of democracy and communicative ethics. When law is employed for instrumental means, the life-world suffers from systematically distorted communication and becomes colonised by the system, but when judicial and administrative powers are founded on communicative action, the law functions as the prime integrative mechanism in modern societies according to Habermas (Carlsson 2002).

Eisenstadt argues that the social integration of human societies is established by a symbolic and institutional construction of collectivities based on some criteria of for membership whereby a sense of higher unity, trust and solidarity are established among the members (Eisenstadt 2002). Lin also relates social integration to the existence of a shared sense of collectivity in a given social formation. A collectivity is an aggregation of socially negotiated interests among actors and primary groups which enables them to produce resources that belong to the collectivity rather than to specific actors. The coherence and persistence of a collectivity depend on a shared set of formal and informal norms and rules that establish differential obligations and rewards for the member actors. These rules shape and govern the members' behaviour in relation to each other as well as the access to and use of shared resources. The obligations of the collectivity both complement and compete with the objectives of individual actors, primary groups or corporate actors, which imply that there may be conflicts of interests. Therefore a collectivity needs to maintain a balance between providing opportunities for the members to acquire individual rewards while at the same time enforce their readiness to produce and maintain collective goods. The more important the collective interests are to the individual members and the more collective rewards can harmonise with individual rewards, the more likely it is that the actor will be loyal to the collectivity and contribute to the communal goods according to Lin (2001).

All human cooperation and communication presupposes at least some degree of cohesion around a meaning-carrying framework and certain obligations and rights which have relevance to all members of the society. A normative framework that regulates and shapes human interaction in a predictable way is an important integral factor of a differentiated society. However, even though there are cultural sources of social cohesion, this does not mean that human societies can be integrated through such bonds alone and what's more, cultural bonds may also contribute to social fragmentation and conflicts.

An Assessment of Social Capital as a Macrosociological concept

If a unifying framework of shared norms does constitute an important basis of social integration in a differentiated society, what are the problems with the discourse of social capital then? First of all, the concept originally referred to the individual benefits accrued from memberships in various groups or networks, not to shared values and norms that contribute to economic and social development. When an already established concept is entirely redefined, the heuristic value of the concept becomes endangered. The meanings now assigned to the concept of social capital are so numerous that social capital has pretty much turned into a pointless signifier of some ambiguous phenomena related societal trust. However, Putnam, and many of his followers, did not entirely abandon the original significance of the concept. He argued that the production of social capital at the aggregated level largely takes place within networks. But, using social capital as a macrosociological concept has problematical implications. The major problem is that Putnam maintains that personalised, network-mediated relations are a prime source of generalised, societal trust. Thereby he disregards the differences between social relations of smaller groups and those of large collectives. As Peter Blau points out, "a structure of social relations develops in a small group in the course of interaction among its members, but among members of a large community or entire societies where there is no direct social interaction, other mechanisms mediate the structure of social relations" (Blau 1964:253). The complex social structures that characterise large collectivities differ from the simpler structures of small groups in several respects. In the differentiated society, most social transactions are impersonal, not personalised and network-mediated. One may therefore argue that Putnam fails to differentiate between *gesellschaft* and *gemeinschaft*, and as a result, his definition of social capital is tautological as Portes (1998) observes. Putnam argues that a high degree of participation in social associations is made possible by civic norms, while he at the same time states that these norms are generated within the associational life. Therefore the argument is

logically circular since the existence of social capital is inferred from its outcomes, and as a structural property, social capital is cause and effect at the same time.

If the original meaning of the concept is to be maintained, social capital should not be mixed up with norms or culture. Network-mediated benefits may consist precisely of the ability to exceed existing rules and norms. Lin therefore argues that “divorced from its roots in individual interactions and networking, social capital becomes merely another trendy term to employ or deploy in the broad context of improving or building social integration and solidarity (Lin 2001:26). An urgent problem is that social capital offers comfortable explanations of why states and regions vary in their government and economic performance. Several critics have pointed out that social capital is often treated as a separate and distinct asset of a community (van Staveren 2003, Carrol and Stanfied 2003). By that social capital, i.e. norms and culture seem like fixed structural features without links to political or economic circumstances that shape the incentives of actors to behave according to the principles of civic virtue. The conceptual development of social capital reflect a long-standing tendency in social science to employ seductive, unitary theories of societies based around a limited set of causal prime movers such as power, self interest, rationality, or, as in the case of Putnam, civic norms. The integration of differentiated societies is determined by a merger of interrelated institutions through which individuals attain knowledge and form coherent notions about others likely behaviour, preferences and strategies. Commonly shared norms may be important for the integration of differentiated societies, but to solely focus on this factor entails that the importance of the entire institutional framework is disregarded. One thereby ignores how norms, values and culture constantly evolve in response to political and economic encounters. Therefore, when analysing variations in economic and political performance across polities one must move away from a simplistic focus on political culture and account for a country’s entire historically derived institutional structure which involves its economy, international relations, its structure of formal political institutions, informal institutions and norms of behaviour as well as the distribution social control between various organisations.

State and Society: the Distribution of Social Control

A full account of the dual process of differentiation and integration must consider the resources that state agencies possess in order to shape and regulate society relative to other domestic or transnational non-state actors that might contest the centralisation of laws.

Where the state lacks the capability to enforce laws effectively, most human exchange and interaction becomes limited to personalised social networks. Social exchange and cooperative behaviour are then confined to contexts where individuals repeatedly interact and have a great deal of information about each others (North 1990). Chabal and Daloz (1999) maintain that a properly institutionalised civil society, led by politically independent citizens separate from governmental structures only emerges where there is a strong state. Only then can a civil society which is capable of transcending primordial ties defend collective interests and act in a counter-hegemonic way relative to the state.

Hence, any approach that conceives of the state as an arena merely mirroring the demands of civil society overemphasises the societal inputs in relation to the impact of state organisations as such. States are not simply mediators of various interests in society. Rather, as Skocpol argues, states are organisations with enormous administrative, legal, bureaucratic and coercive systems at their disposal which give them the capacity to structure and shape relationships even within civil society. This means that under certain circumstances, states can achieve a certain degree of autonomy relative to other interests in society. States should therefore be conceived of as organisations that *may* articulate and pursue goals that do not simply mirror the interests of social groups, classes or society according to Skocpol. The capacity of a state is determined by its ability to transform noncompliant structures and behavioural patterns in society. Therefore, in order to determine the efficiency of a state organisation in relation to other powers in the society, all organisations or actors that may exercise social control besides the state must be considered. (Skocpol 1985).

Society can be seen as a mixture of various informal and/or formal organisations and groups that exercise various forms of social control. Social control refers to a whole array of sanctions, rewards and symbols which are employed to structure human interaction and make people behave according to certain rules and norms. Migdal (1988) argues that effective social control primarily is dependent on the ability to control material resources and services, but also on the capability to effectively make use of symbols that give meaning to social relationships. Hence, social control is determined by the capacity to regulate a whole bundle of rewards, sanctions and symbols that present to people the components required to form strategies of survival, relevant to their life situations (Migdal 1988:25). States are organisations that aim to administer law making and implement the binding rules for all the people and organisations within a given territory. The state might therefore contest clans, landlords, corporations, patron-client networks or ethnic groups that follow others rules than those sanctioned by the state. In order to displace or take control of such organisations, a

strong and capable state must achieve a tremendous concentration of social control. The state must attain the ability to regulate the main components for people's strategies of survival as well as creating circumstances whereby people feel that its symbols and codes of behaviour are essential to their well-being (Migdal 1988).

States emerge in a process of unification of different social, economic, cultural, educational and political fields according to Bourdieu, who particularly highlighted the symbolical dimension of state penetration. The modern state mainly exercises symbolic power Bourdieu argued. Symbolic power is put into effect through symbolic systems, i.e. instruments of knowledge such as the educational system, which makes possible a consensus within a community as regards the significance of the social world. The state brings about a domestic homogenisation of all communication as it concentrates and redistributes information and unifies all linguistic codes within its realm. Thereby the state institutes common mental structures and forms of thinking among its population. Bourdieu's definition of the modern state is a therefore variation of Weber's; "The state is an X (to be determined) which successfully claims the monopoly of the legitimate use of physical and symbolic violence over a territory and over the totality of the corresponding population" (Bourdieu 1998:40).

Political scientist Goran Hydén (1983) instead highlights the importance of the state's capacity to control material resources and regulate economic ties in order to effectively integrate and unify society. In highly industrialised societies where the division of labour is advanced and where various productive activities are dependent on each other, the macroeconomic affairs becomes everyone's worry as they are linked to the daily concerns of the constituent actors. State agencies are then endowed with the power to control the economy through the use of abstract information such as the manipulation of interest rates. In contrast, in state territories where the division of labour is rudimentary and where the participation in state sanctioned systems is not entirely necessary for the tasks of production, there is no structural interdependence that brings the different production units into interdependent relations with each other. Different groups within the territorial political system are then economically independent of each other and the mode of production does not give rise to an integrated superstructure which can be regulated by the state. Therefore the state cannot function as an integral mechanism of society in the same way as in industrialised societies. Similarly, where the formal sector of the economy cannot offer sufficient opportunities to a large number of people, or where more lucrative opportunities are available outside the state sanctioned economy, large groups of people may complement their formal sector incomes

with informal sector activities, or exit out of the formal system. The emergence of informal, parallel markets over which the state has no control may undermine its functioning and lead to a breakdown of the unified social order. Parallel markets are operating through personalised ties, thus only benefiting those people who have access to the actors that serve as brokers between the formal and the covert economy. When the structures of the formal system do not constrain the actors effectively and the state has a very limited degree of social control, the exercise of state power becomes more dependent on personal alliances and an authoritative use of naked power in order to reduce the effects of social fragmentation according to Hydén (1983).

State Capabilities and Historical Junctures

None of these approaches explain why only some states have achieved the capacity to challenge other sources of power in order to attain the main control of violence and symbolic systems and the ability to regulate the economy. Why do only some states penetrate society and manage to centralise social control? The powers of states are determined by a whole set of factors. State capacities are not fixed structural features but change over time due to both domestic and international transformations. Like theories on social integration, any theory on state capacity therefore has to be multi-causal and cannot be reduced to one prime mover such as culture, power, coercion or economic interdependence. Analyses of state capacities and social integration must consider the particular world historical circumstances in which the state subsists, such as interstate alliances of power, market flows and the international economic division of labour as well as patterns of intellectual communication (Skocpol 1985). As Migdal argues, the emergence of strong states is not a natural outcome of social transformations associated with modernity, but rather a question of who takes advantage of certain historical circumstances and establishes social control in times of dislocation. Migdal mentions a number of circumstances that may present the conditions for the creation of strong state organisations. First of all, a necessary condition for the creation of strong states is the existence of an independent and skilful social grouping whose primary interests and loyalties lie in the state and not in other bases of social control. The state must also have agencies capable of extracting resources as well as extending social control throughout society. In lack of sufficient social control, state executives might have found themselves an area where they have achieved some degree of limited power by balancing between different domestic and international powers. Concentrating social control means that the state challenges other powers which involve great risks that state leaders often want to evade. However, new

circumstances that threaten the political survival of state executives can change their risk calculus and lead them to concentrate social control. Threats of war may for example stimulate state leaders to take extraordinary risks in order to concentrate social control and institute the foundations of a strong state. In times of massive social dislocation the risks for state leaders to challenge other bases of social control may diminish, particularly if it occurs at a world historical moment in which exogenous political forces favour the concentration of social control (Migdal 1988). The state has a unique importance as a mediating mechanism in the twin process of differentiation and integration but its ability to function as an integral part of society is largely determined by its geopolitical location in relation to other powers.

Social Transaction Costs

A number of perspectives on social integration have now been considered and I have argued that social integration in a differentiated society is determined by a whole set of structuring properties that lend systematic form to social practices, but I have particularly emphasised the importance of the state. I conceive of the state as the principal provider of the overarching institutional framework that gives rise to societal integration. But, the capacity of states to function as integral parts of a given society is in turn determined by numerous interrelated factors such as cultural patterns, power structures and international orders which imply that the causal relationships between these variables are intertwined in various ways. Due to the extreme complexity of the issue it is very difficult to conceptually capture the degree of social integration in a polity. I have argued that the term social capital suffers from several problems in this respect, particularly in that the main cause of integration is inferred in the definition of the concept. Lin instead proposed the term public capital to designate the degree of willingness to comply with common rules and contribute to collective interests in a differentiated social formation (2001:137). However, I hold that the term capital is hard to grasp when it is used to designate such relational features as social integration and trust. By using the concept of capital, whether social or public capital, there is a risk that the signified social phenomenon is envisaged as a reified, distinct and isolated asset of a society. Any concept used for analyses of social integration and generalised trust has to be open for multi-causal explanations as well as rapid changes of circumstance. I therefore contend that the term *social transaction cost* is a more appropriate tool for analyses of social integration in a polity.

The term transaction cost is borrowed from economics and refers to the price of the information required to carry out an economic exchange. In the neo-classical theoretical

model, actors are fully informed about the terms of trade, but in fact there are asymmetries of information among the parties involved in an economic exchange. The transaction cost of an exchange consists of the costs of measuring the attributes of what is being exchanged, and the costs of protecting rights as well as policing and enforcing agreements. An exchange must be accomplished at a transaction cost such that the exchange is worthwhile to the parties involved. Transaction costs are determined by institutions. Without any institutional constraints at all, the uncertainty regarding the propensity of the other party to live up to the agreement inhibit the exchange from being carried out. In the absence of a rule-governed state that guarantees the enforcement of agreements, exchanges tend to be limited to personalised social networks. Historically, most exchanges have been based on repeat dealing, cultural homogeneity and a lack of third-party enforcement. These forms of exchange and cooperation were founded on informal structures with considerable stability, for example kinship bonds or other personalised attachments. The transaction costs of exchanges that stretched outside the immediate in-group were reduced by informal enforcing constraints such as merchant codes of conduct or religious customs and rituals, or even the exchanging of hostages, as formal contracting was not part of the exchange process. For advanced and differentiated market economies where most exchanges are impersonal, there is a need of a state that guarantees the enforcement of agreements, thereby decreasing costs of measurement and enforcement of impersonal exchange (North 1990).

How may the term transaction cost apply to the social life as a whole? First of all, the concept of social transaction costs must be distinguished from economic transaction costs. A social transaction can be seen as a mean to maintain and promote social relations, create social credits and social debts, and to accumulate social recognition (Lin 2001:152). Social transaction costs then refers to the metaphorical costs of mergers and the forming of alliances and coalitions that favour the aggregation of interests and outlooks among and between groups, organisations and actors within a given polity. The costs of social transactions also comprise the estimated efforts to form notions about the probable behaviour of others. The metaphorical cost of social transactions thus refers to the degree of efforts required in order to overcome mental barriers and other obstacles that hinder agreements and coalitions favouring the aggregation of interests to be achieved in a polity. Low social transaction costs entail a higher degree of certainty that the behaviour of others is trustworthy for the most part. A political culture of trust and co-operation which makes collective action possible and effective, and which enables the community to build political institutions with a

capacity to solve collective problems is thus characterised by a low level of social transaction costs.

Institutional Frameworks and Social Exchange

The distribution of social control, the degree of diversity in economic, cultural and political interests, the relative bargaining strength of various groups, the geopolitical context, the mode of production, normative structures as well as the character of the formal political institutions all affect the general level of social transaction costs in a polity. Where the mode of production brings people into interdependent relations with each other and generates returns for all actors involved, and where the extraction of resources to the commons becomes more easily corresponding to individual objectives, the social transaction costs may decrease. Furthermore, this brings about the conditions for mobilisation on principles of shared economic criteria rather than on vertical patterns of political organisation. The political mobilisation in such contexts can thus be founded, at least in part, on shared economic criteria (Hydén 1983:39-40). In contrast, where different groups within the territorial political system are economically independent of each other there are greater risks of conflict over resources, for example when a group suffers from acute scarcity of means. Such a structure may then give rise to increasing social transactions costs. We may also assume that, where valued resources are distributed more evenly across a territorial political system the general level of social transaction costs is lowered.

Social transactions between agents sharing similar habits, values and facilities of communication are made more smoothly than those between actors that do not share similar outlooks. If consensus on principal cultural values and norms is reached in a polity, this may decrease the social transactions cost, and the causal effectiveness in implementing a political decision will be greater, as it is more likely that a decision will be recognized and approved (Stinchcombe 1987:179). On the contrary, a complete lack of collective consent as to norms, rules and patterns of exchange would make a polity vulnerable to chaos.

The political structure must provide channels of communication and institutions devised so as to facilitate exchange between interest groups and make possible complex forms of cooperation and coalition formation, such as a representative legislative assembly that mirrors the interests of crucial constituent groups. Where there are no possibilities of transactions or mobility across differentiated levels, the social structure risks to disintegrate into fractions with a higher cohesion among participants situated closer to each other in the social structure. This increases the costs of social transactions and may lead to possible

conflicts. The organisational structure of the polity thus matters since it give rise to certain kinds of group formations and collective political actions (Skocpol in Evans, Rueschemeyer and Skocpol 1985).

Bargaining, Cooperation and Conflicting Arrangements

In some instances, the most fundamental oppositions within a polity are not translated into party oppositions in an assembly. Stein Rokkan's concept of cleavage structure refers to particularly strong oppositions within a population in a polity which stand out from the multiplicity of minor conflicts rooted in the social structure. The concept links the social structure and the political system since a cleavage only arise in relation to the development of territorial political systems. Previously existing solidarities may come to function as mechanisms of the political mobilisation that gives rise political cleavages. According to Rokkan, the first cleavages emerged as resistance from peripheral regions, linguistic minorities and culturally threatened groups that reacted against the attempts of centralisation and standardisation on the part of national elites and their bureaucracy. The emerging nation-state sometimes contended older identities and loyalties, and the state in the making was not always able to attain symbolic dominance (Flora et al 1999). In terms of social transaction costs, cleavage-structures may be defined as such major structural oppositions in the framework of territorial political systems that the perceived costs of mergers exceeds the costs of secession or armed conflict.

The degree of diversity in economic, cultural and political interests affects the overall level of social transaction costs in a polity, given the relative bargaining strength of the various interest groups. The bargaining strength of an organisation depends on its ability to exercise social control, i.e. its ability to regulate material resources and/or draw on collectively shared symbols so as to intervene in a given set of events and in some way alter them (Giddens 1985:7). If a high degree of societal fragmentation of interests is proportionate to the fragmentation of social control, the transaction costs in a polity increases, whereas if the social control is concentrated to a few actors with only minor differences of interests, the social transaction costs may decrease. In a situation where none of the central political actors in a polity, given their relative bargaining strength, consider it rewarding to alter the current agreements and arrangements, they achieve an institutional equilibrium (North 1990:86). Such a balance of interests may have very different outcomes depending on the condition under which it is achieved. The ability to solve collective problems may diminish if any changes or reforms that would improve the situation for the majority in the polity risks

antagonising powerful special interests and thereby threaten the institutional equilibrium. This situation is common in weak states where state leaders constantly have to weigh their need for effectiveness against the risks to their own political survival. Hence, in situations where social control is fragmented and no organisation monopolises law making in practice, state leaders and officials have to pursue what Migdal labels as the politics of survival. This means that they get involved in bargaining relationships with other organisations, but the operative rules of the bargaining process is not established in state legislation or bureaucratic decrees and as a result, the distribution of resources frequently opposes the official policy (Migdal 1988).

A state executive may increase its bargaining strength and thereby decrease social transaction costs by harmonising its interests with other powerful actors and organisations in order to manage interdependence. This may be done by establishing governing coalitions and the creation of policy networks that link the state with other central powers in society. Such networks may form entire systems of collaborative political arrangements which both constrain and enhance state capacity (Katzenstein 1985). Where the most important constituent groups in a polity are incorporated in the political system and have chances to influence public policy; the state sanctioned system may achieve a more wide-ranging support. If consensus on the basic, state sanctioned patterns of bargaining and exchange is achieved the involved parties mutually recognise each others claims. The state then sustains the institutional order by mediating antagonisms and provides channels for the bargaining processes between for example oligopoly capital and organised labour. A different form of institutional equilibrium, resting on several power reserves inhibiting unconstrained power, may then be reached. As the exercise of power within such structures is dependent upon several power-centres devoted to similar values and rules, the institutionalisation of collective rules makes the actions of the state and the crucial constituent organisations predictable, which decrease the social transaction costs (see Stinchcombe 1987).

State Trajectories and Social Transaction Costs

In several sub-Saharan African states such as Nigeria, the fragmentation of social control increased during the colonial period as a result of the colonial policies which made way for particularly high levels of social transaction costs. The British system of indirect rule involved a sharing of power between the British colonial administration and a multitude of colonised political authorities. When the British rule ended they left behind multi-ethnic state apparatuses where political power positions were distributed among different groups with differing loyalties and much divided opinions as to the making of the new post-colonial states

(Lema 1993). In the absence of a coherent social grouping with primary loyalties to the state as an independent organisation, many African states were not differentiated from society. Instead, the formal structure became a mere façade for patrimonial and personalised structures of power as social control and loyalties came to be distributed among a multitude of personalised networks that took advantage of kinship bonds and ethnic ties in order to serve patrimonial interests. This gave rise to a political tribalism where the base of politics remained grounded in patron-client dyads in which the legitimacy of the patrons rests on the capacity to redistribute resources to a number of clients. Chabal and Daloz (1999) argue that this kind of structure functions according to the principles of what they label as “the instrumentalisation of disorder”. Although Africa is marginalised in the world economy, the disorder of formal politics is used for informal trade which nourish patronage and parallel economies. Development would require the coordination and institutionalisation of agencies and economic entities that could operate above existing particularistic dynamics, but the problem is that the clientelistic practises are satisfactory from the micro-sociological perspective for the individuals they serve. The outlooks of the elites are therefore mostly concerned with the micro rather than the macro-picture of society, and the clients upon whom the legitimacy of the elites rest would not willingly surrender their privileges for any higher ambitions. African politics is therefore ‘instrumentalised’ according to a short-term logic of reciprocity, Chabal and Daloz contend (1999).

In Switzerland, a number of factors have contributed to decrease the social transaction costs. The population is tightly interwoven economically and shares a basic commitment to the overall objective of economic growth. Furthermore, Switzerland has a wide-ranging system of institutions and channels for political exchange. These circumstances have enabled a consensus politics based on a narrowing of power differences and an institutionalised political collaboration that rely on a collective self discipline. Despite the relative weakness of the Swiss state, the pressure to remain competitive in the international economy has decreased the social transactions costs and made way for political arrangements which closely link the state, business and labour in one policy network (Katzenstein 1985).

The entire European state system emerged as a result of century-long processes in a context where tensions between external and internal forces made way for a concentration of social control to a number of state apparatuses, reducing economic, cultural and political diversity within their respective realms. Thereby the overall level of social transaction costs decreased and the European states achieved an internal homogeneity and an institutional integration that that made possible very complex forms of functional differentiation. Through

processes of legal centralisation, nation-building and market unification, the European state came to constitute the overarching umbrella that enabled differentiation in society, making up the “very fabric of nationhood through which market forces could be unleashed to produce industrialisation” (Supple 1985).

According to Rokkan, the disintegration of the Western Roman Empire led to a crystallisation of ethnic structures in Europe which resulted in a specific multi-polar distribution of power between multiple centres and peripheries. This particular formation eventually made the model of the nation-state more dominant in Europe than in other parts of the world (Flora et al 1999). In order to guarantee their own political survival in this geopolitical context, the European elites were forced to take major risks to mobilise populations and extract resources to make war so as to overcome the threats of their neighbouring competitors. The ambitions of the elites were not to create large states, but to gain the necessary means of war-making, yet larger and more effective state apparatuses were required for the extraction of taxes and recruits from the territorial populations of the states to be (Tilly 1990). In the course of war making, the state leaders formed alliances with specific social classes who loaned resources and helped to ensure the compliance of the rest of the population in return for protection against their own rivals and enemies. At first the state leaders relied on indirect rule via local and regional leader but as their powers grew they extended their administrative systems to the local community by means of various strategies such the elimination, persuading or buying the loyalties of their opponents. Thereby they encouraged the creation of local administrative agencies and police forces that were directly subordinated to the government rather than to individual patrons, Tilly asserts (1985).

The early process of European state-making was instigated at the elite level through a political, economic and cultural unification that took place along with the enlargement of the state apparatus. Eventually the state apparatus could become the instrument of a major internal standardisation and nation-building through schools, media and the construction of channels for contact between elites and peripheries. But as more and more areas of life were politicised in conjunction with the increasing fiscal needs of the state, the popular demands on the state, in terms of participation, returns and influence over decision-making, grew. A crucial stage in the process of authorising modern statehood came out of the need to make taxation more acceptable and the European peripheries could therefore eventually increase their bargaining strength relative to the centres, which lead to an internal restructuring, the secession of peripheral regions such as Norway and Ireland and an opening up of opportunities for the periphery by the equalisation of rights of participation and the

redistribution of resources through the establishment of social citizenship (Flora et al 1999). The political power could then be directed at improving social and economic circumstances for the majority of the states' populations. When political power proved capable of improving the economic conditions for the majority of people, the loyalty to the nationwide political system increased (Carr 1985).

States do have an incomparable significance as mediating mechanisms in the dual process of differentiation and social integration. But all states have not been equally successful in attaining the capability to function in this way. The capabilities of states to function as integral parts have largely been determined by the conditions under which the differentiation processes of modernity have come to pass. The structures and processes of world capitalism have fostered very different social relations in the world. In order to obtain their goals, multinational corporations and colonisers collaborated with various classes, segments and parties within the territories in which they operated. This brought about very different institutional orders in the world. In some cases, state organisations were given the opportunity to centralise social control, whereas in others, the result was increasing fragmentation. Economic stagnation and underdevelopment has mainly occurred in the absence of a state capable of integrating society by means of responses to the erosion of community entailed by the unconstrained market economy. As Holton points out, there are not necessarily any evolutionary advantages related to differentiation as such. These are generally only evident "when political institutions and social movements emerge to address the problem of social integration" (Holton 1992:36). A key challenge to the contemporary world is to achieve new forms of societal integration when the differentiation of labour is increasingly global.

Conclusion

I have now considered various theoretical perspectives on differentiation and social integration and put them in relation to the discourse of social capital. I argued that the theoretical development which turned the concept of social capital into an explaining variable of social integration is problematical since it threatens the heuristic value of the concept. Social capital is to be seen as an individual asset determined by the resources linked to the size of an actor's social network, and should not be mixed up with norms or culture, not least since there is a risk that culture is seen as a fixed structural feature of a community. I have argued that the processes of differentiation and integration are very complex, and therefore, any theory on the issue has to be susceptible to multi-causal explanations. I have particularly

underscored that social integration is largely determined by the capacity of the state to function as an integral part of society. As an alternative to social capital, I therefore proposed the term *social transaction cost* as a conceptual tool for analyses of social integration in a given polity. Social transaction costs designate the metaphorical costs of mergers and the forming of alliances and coalitions that favour the aggregation of interests and outlooks among and between groups, organisations and actors within a given polity. I finally gave a few examples of how the concept may be used for analyses of social integration in relation to a number of state trajectories with varying outcomes.

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