

Discussion Questions: What are some answers to Mark Granovetter's call for integrating such different ideas about key institution necessary for transition to market economy? What could be the benefit to such an integration?

The basic tenet of his argument is the analysis of the economy as an institution should not merely be founded on the economic perspectives (rational and self interest driven) but also should be supported by sociological analysis (explanation of political actions, science and knowledge, family and kinship and other social pattern). Thus economic sociology, by combining economic and social purposes, tries to explain the rational for the motivation of people in the process of production, consumption or distribution of goods and services. In this process the motive of individuals is the result of both pure self interest and social context. The social context is characterized by

- horizontal relation which is based on trust and solidarity and promote cooperation and
- vertical relation which is based on power and compliance leading to domination and compliance

These relationships have varying repercussion on the economy and institutions, in his words interaction and cooperation as against intersection and compliance.

The issue is then,

- What are institutions and which are considered to be the key institution necessary for the market economy?
- And how do such institutions behave in order to facilitate the transition to market economy?
- What is the relevance of his argument to institutions necessary for transition to market economy?

Institution are defined as " a set of humanly devised behavioral rules that govern and shape interactions of human beings , in part by helping them to form expectations of what others people do" (Lin and Nugent in Dani Rodrik) and in the same paper Rodrik identifies the key institutions or social arrangements necessary transition to market economy, namely

- A clearly delineated system of property rights (no free rider in Mark Granovetter's argument) ,
- A regulatory apparatus curbing the worst form of fraud and anti competitive behavior and moral hazard (shared values and norms in Mark Granovetter's argument),
- A moderately cohesive society exhibiting trust and social cooperation (horizontal relationship in Mark Granovetter's argument) ,
- The presence of social and political institutions that mitigate risk and manage social conflicts (negotiation in Mark Granovetter's argument) and
- The rule of law and clean governance (democracy in Mark Granovetter's argument)

Through the integration of economics and sociology, the so called the theory of economic sociology, Granovetter tries to analyze the different types of relationship and the importance of social construction of economic institutions.

He emphasizes the free flow of information, resource and ideas (porous interaction among institutions) as a very desirable for the success of the economy. Negotiation, dialogue and cross cutting ties promote democracy and entrepreneurship (he sites the examples of Fiat and Alfa Romeo in Italy in the 70's and 80's in approaching conflicts and the outcomes as well as the success of the Silicon Valley /venture capital/ to demonstrate his argument.)