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**Institutional Design and its Discontent:  
Coleman's Neglect of Social Rationality**

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# **Institutional Design and Its Discontent: Coleman's Neglect of Social Rationality**

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## Abstract

This paper tries to answer the question how it is possible that such a giant of sociology as James Coleman produced so little of what he considered the most important work for sociologists: good institutional design. I argue that the answer lies in the fact that the most serious problem for which Coleman pleaded for institutional design (i.e. to find a substitute for the vanishing primordial social organizations of family, church and neighborhood) could not even be adequately described let alone mitigated or solved by the highly simplified theory of action he borrowed from microeconomics. It is argued that a theory that would lend itself for institutional design in this area would have to be able to accommodate the considerable social influence on rationality.

## 1. Introduction

Institutional design is one of the major challenges for sociology and nobody has made that point more forcefully than Coleman (1993). But Coleman has done more by also telling us how it should be done. He argued that the only way to come up with good institutional design suggestions is to have good microfoundations (i.e. micro theories that are well suited for the explanation of collective phenomena.). The specific questions I will pose in this paper are the following. (i). Is Coleman right in giving such an important place to microfoundations in general and to microeconomics as microfoundation in particular? (ii) What can we learn from his own contributions to institutional design? (iii) Why are these contributions so meager, where is the problem and in what direction should we seek a solution? These questions are inspired by the fact that there is a curious contradiction in Coleman's work. In his eyes, institutional design and other theory-guided interventions are the major task of sociology, and yet he devoted surprisingly little serious work to this task. This may simply reflect his personal preferences for working on particular topics. But then, it is also possible that his approach did not really allow him to do the job he found most important.

## 2. What kind of microfoundations?

The basic idea that underlay virtually all of Coleman's work (the sociology of education, his work on microfoundations, and policy research) was that human beings increasingly intervene *purposefully* in their own societies by creating structures to form human beings (educational institutions) and create structures that govern human behavior (corporate actors). As sociologists, we have to understand how these structures work and how

they can be improved. Thus, sociologists need the tools that help them understand how man-made social structures, especially educational institutions and purposeful organizations (corporate actors) work. For this, they need to be able to trace the mechanisms by which the parts make up the whole (the micro-macro link), and they do this by working out the detailed theories needed to go from the explanation of human action to the explanation of macro phenomena, such as norms, systems of exchange, systems of authority and corporate actors. On this basis, sociologists can help improve the way these structures are constructed (policy research). Fundamental research (i.e. building the tools necessary for understanding the workings of these structures) is thus ultimately gathered in the service of policy research. “As the science of mechanics does for construction of the physical environment, the theoretical component of the new social science must provide a foundation for the purposive reconstruction of society.” (Coleman 1990, p.652). “Our task is not merely to describe and analyze the functioning of society...but is a task of institutional design.” (Coleman 1993, p.10). In order to be able to come up with theory-guided suggestions for institutional design and interventions, one needs to have a good grasp of how things work; of the mechanisms inside the system in which one wishes to intervene. The prototypical system in sociology is one in which individuals are the component parts. An explanation of how the system works thus necessitates a theory on how the component parts, i.e. the individuals act. This “methodological individualism” Coleman shares with many other social scientists. In addition, it is widely accepted that the theory on individual behavior should be a theory based on the assumption of purposive action. This too can no longer be considered very controversial. The importance Coleman gave to microfoundations for unraveling the functioning of social systems can be well defended (see Lindenberg, Coleman and Nowak 1986 and Hedstrom and Swedberg 1998).

However, a crucial question that divides scholars is which theory of purposive action should be used for explanations in sociology and for institutional design this makes a big difference. There are roughly two camps that differ strongly in their view of rationality. In one, scholars swear by what may be called the *natural rationality* approach. This approach assumes that people are rational in and of themselves and that social phenomena have to be explained on the basis of the interaction among rational individuals. Institutions are instruments for improving “collective rationality” so that nobody is worse off and at some are better off than before (i.e. Pareto improvements). In the other camp, scholars assume that individual rationality is something that is strongly affected by social processes. This holds for present interactions and structures but also for the evolution of certain features of rationality in the past. Social processes can increase or decrease individual and collective rationality and they can foster different kinds of rationality. This approach can be called *social rationality*. Institutions in such an approach would not just improve collective rationality but also individual rationality. For example, the natural rationality approach assumes that human beings are by nature farsighted and thus figure long-term consequences into their present decisions. The social rationality approach would point to research that shows strong myopic tendencies in individuals and then asks which social processes increase farsightedness, how do they do it and under what conditions. Once farsightedness is fostered by institutions, it may in turn influence the actions aimed at stabilizing these institutions. In that sense, social processes and rationality co-determine each other and the analysis necessitates a more complex theory of action. Champions of natural rationality, most frequently found among micro-economists and game theorists, argue that their approach allows them a stronger deductive tractability because the theory of action is simpler, better amenable to mathematical modeling, and it has epistemological advantages because the theory of action does not presuppose what it is meant to explain (namely social phenomena). Champions of the social rationality approach argue that the natural rationality approach is forced to make strong simplifying assumptions, which render it highly unrealistic. Social rationality allows

attention to more realistic explanations but also to more realistic descriptions of social problems (which often consist of the lack of natural rationality) and of solutions (which are often directed at increasing rationality).<sup>i</sup>

Coleman clearly belongs to the natural rationality camp. Early on, he suggested that in sociology, we should start with the assumption that man is wholly free, "unsocialized, entirely self-interested, not constrained by norms of a system, but only rationally calculating to further his own self interests." (Coleman 1964, p. 167)<sup>ii</sup>. He kept this view throughout his work. In his magnum opus, *The Foundations of Social Theory*, he maintained. "I will use the conception of rationality employed in economics" and "begin with norm-free, self-interested persons as elements of the theory" (1990, p.14, p.31).<sup>iii</sup> Why does he do that? His answer is twofold. First, by assuming natural rationality, he has more analytical power (tractability). Second, in order to keep the overall theory "manageable" and still have it contain enough complexity, there has to be a trade-off concerning the place of complexity. Complexity is either put into the theory of action or in the elements interlinking social organizational aspects and action. "I have chosen to trade off as much psychological complexity as possible in order to allow introduction of greater amounts of complexity in...the 'social organizational components.'" (op.cit. p.19). Added complexity in the "social organizational component" is for example strategic interdependence (game theory) and structural effects (network analysis). This is entirely in keeping with the natural rationality approach, and both additions are very useful. However, is it true that there is such a trade-off between the complexity in social organizational components and in the theory of action? Can we ever *compensate* complexity in one component by simplicity in the other (see Lindenberg, 1992)? If this is not the case, does this affect the use of "microfoundations" for institutional design?

### *2.1 The Principle of Sufficient Complexity*

The trade-off argument given by Coleman has yet another form: the trade-off in characteristics of an explanation. Among adherents of the natural rationality approach, it is generally assumed that simplifications affect the quality of the explanation. Thus, much simplification may reduce the realism of the given explanation but it also increases the understanding and the deductive tractability, whereas the trade-off is supposedly reversed for social rationality. The choice between natural and social rationality approaches is therefore seen as a choice concerning the trade-off among characteristics of the explanation. This seems quite a defensible position to take. Where it goes wrong is that adherents of the natural rationality approach implicitly believe that this is all there is to it. This also holds for Coleman. For example, he discusses research that shows that human beings deviate in important aspects from the microeconomic model (i.e. from a natural rationality approach). He brushes this research away by arguing that "the theoretical predictions made here will be substantially the same whether the actors act precisely according to rationality as commonly conceived or deviate in the ways that have been observed." (Coleman 1990, p.506). What Coleman does not see (and what is generally not seen and thus also not discussed) is that simplifications do not just have an effect on the quality of the explanation of a given phenomenon, they can also severely affect *what* is being analyzed and explained. For example, the very description of an institution may be rendered impossible by the simplifications made in the theory of action. This is generally the case if the simplifications assume away the problem that is to be solved by the institution.

A concrete instance of such a case is Williamson's advance over the neoclassical simplifying assumptions that the cognitive competence of economic agents is unlimited and that these agents blindly follow the rules. Williamson quotes Diamond as saying that the standard economic models treat individuals as playing a game with fixed rules which they obey. They do not buy more than they can pay for, they do not embezzle funds, they do not rob banks. These simplifications assume away many of the problems economic institutions

are meant to solve. According to Williamson, special institutions (governance structures) are devised in order to deal with the fact that human beings don't follow rules blindly but are generally opportunistic (i.e. lie, steal, cheat). In addition, cognitive limitations (bounded rationality) lead to a preference for governance structures that do not make large demands against cognitive competence (Williamson 1985, p.46ff). Note that the advance of transaction costs economics over the neoclassical study of economic transactions is not just a matter of offering better explanations. It is an advance in discovering a host of social and juridical arrangements and thus opening them up for economic analysis. The basis of this advance was doing away with simplifications in neoclassical theory that veiled attention to these arrangements by assuming away the problems that gave rise to them. Of course, Williamson took an admittedly important but also relatively modest step away from the neoclassical model. There are still many phenomena Williamson cannot even describe because of the simplifications he still holds on to. Nonetheless, the example clearly shows what simplifications can do. It drives home the point that Coleman is wrong in maintaining that one can shift simplifications (or complexity) at will either to the theory of action or to the "social organization", i.e. to the initial and boundary conditions for this theory. The kinds of problems that can be explained by a theory depend very much on the simplifications made in the theory itself. Thus working with highly simplifying assumptions in the theory of action cannot be compensated by allowing considerable complexity in the initial and boundary conditions.

In order to deal with both the desirability of deductive tractability and with the fact that simplifications can severely affect even the problems we can pose, we need two instruments. First, we need a method to realize as much deductive tractability as possible. This is the so-called "method of decreasing abstraction". Here one starts with simple models and makes them step-wise more complex (first in initial and boundary conditions and then, if necessary, also in the theory of action, see Lindenberg 1992). Second, in this method, we cannot start just with the simplest model we can imagine but we must start with a model that has enough complexity to describe the problem which we have roughly envisioned in the richness of ordinary language. This second measure has been called "the principle of sufficient complexity" (Lindenberg 2001a). It states that *the simplifying assumptions should always be complex enough to allow the explicit consideration of the phenomenon to be explained*. Thus, for example, if we want to explain how institutions create certain aspects of rationality (say, farsightedness), we may not use the simplifying assumption that human beings are endowed with this aspect. Similarly, if the explanandum contains human proclivities (such as myopia), the model may not exclude these proclivities by assumption. Let me hasten to add that I believe that the natural rationality approach (especially game theory) has proven to be of great value for institutional design in areas of activities for which people are very sensitive to changing material incentives. In these areas, the assumption that individual rationality is given is less damaging than in areas in which incentives do not work well or have perverse effects (as for example in the area of intrinsic motivation, see Frey 1997, Lindenberg 2001b). Can Coleman's major problems for institutional design *in sociology* be seen as belonging to the former or the latter kind?

### 3. A look at of Coleman's suggestions for institutional design

How is Coleman's own work hampered by the fact that he works with the assumption of natural rationality? Of course it is guesswork to say what he might have done if he had chosen the other path. However, there are a few pointers about things he says he was interested in doing but never did. Coleman sees the "new social science" is a kind of sociology that does not consider the search for knowledge as a goal in itself but as a means for the reconstruction of society through intervention and institutional design (Coleman 1990,

p.651). Clearly, he sees his own kind of sociology as an example of this new social science. According to Coleman, the major source of problems for which the “new social science” should find solutions is the fact that “there is progressive replacement of the natural environment by a purposively constructed one.” (Coleman 1990, p.552). The principal element of this constructed environment is the emergence of corporate actors. “Alongside natural persons is a newly evolved creature, the modern corporate actor that acts and is acted on, pursues interests, and controls events.” (op. cit. p. 553). This creates two major interrelated problems. First, the “primordial” social structures of family, neighborhood and church, vanish and with it the social resources, norms and values (in short, the social capital) that are important for human functioning. The question for institutional design then is: “What *does* constitute a substitute in the new social structure for the social capital that is eroding?” (op. cit. p.653). Second, many of these corporate actors have become extraordinarily large and powerful which renders the interactions between persons and corporate actors increasingly asymmetric. In order to reduce this asymmetry, the state (the largest and most powerful corporate actor in society) takes on ever-new tasks and programs and rights to intervene. Even this effort does not adequately redress the asymmetry. Instead, it increases the asymmetry in power between natural persons and the state. For Coleman this creates the crucial question how corporate actors can be made to be more socially responsible so as to wield their power more in the interest of natural persons.<sup>iv</sup>

*The social responsibility of corporate actors.* How did Coleman answer these two questions that are so central to the new social science? Let me begin with the social responsibility of corporate actors. Conforming to his view on the primordial social structures, Coleman first observes that the best way to instill social responsibility is socialization and social control. How does socialization do that? According to Coleman it induces responsibility in a person by increasing the weight of others’ interests relative to his own (op. cit. p.556). Yet, because of the increasing separation of ownership and control and because of the fact that the modern corporate actor consists of positions and not of natural persons, there is no target for socialization left and thus the king’s way of instilling social responsibility is not a viable solution for getting corporate actors to act socially responsible. What solutions are left? Coleman sees only three possibilities: increase the influence of important stakeholders (a term Coleman does not use himself) in the internal decision making, require external audits by law, and create appropriate tax incentives. The influence of stakeholders (for Coleman, employees and investors) can best be increased by changing the composition and functioning of the board of directors in favor of employees and investors. There is no analysis of the selection of stakeholders (why not also clients and NGOs?) and without much further analysis, he retracts the solution because it might have the opposite effect by reducing reinvestment and making the firm economically less efficient (op cit. p.656). A better solution might be a functional audit. An external firm would undertake to examine the corporation’s activities in all markets in which it participated, to ensure that those activities remained within the rules governing those markets (op. cit. p.568). Again, there is very little additional analysis. What is it exactly that the external auditor should look at? For example, what rules “govern” the food market? Would it be responsible for a producer to feed high levels of growth hormones to his cattle because this is what everybody else in this market does? At the time Coleman wrote his Foundations, there were already much more sophisticated suggestions concerning audits but there is no attempt to improve them, let alone to improve them on the basis of the tools Coleman developed for the very purpose of improving institutional design. A last suggestion to improve corporate responsibility is that the state creates tax incentives. The question here is what behavior should be encouraged by tax incentives and how the incentives could be made specific enough to bring about the desired behavior. Unfortunately, Coleman just poses this question but does not answer it. Considering that the topic of using tax incentives to increase corporate responsibility has

been around, and considering that they have not worked very well, there is again no visible effort to improve existing suggestions by the means of the theoretical tools developed in his book. There is not even an attempt to formulate criteria for corporate responsibility. "The problem is not a simple one, even conceptually" is all he says about it (op cit. p.561). Somehow, his heart is not in finding a solution to a problem which he considered to be one of the two major questions of sociology. How is this possible? My guess is that on the basis of the tools he developed, he could not come up with a theory-driven criterion of corporate responsibility and also not with suggestions for institutional design that satisfied his own high expectations concerning the "new social science"

*The replacement of primordial social capital.* How about the other major question? Does he come up with a more satisfying answer? This second institutional design question was: what constitutes a substitute in the new social structures (i.e. the asymmetric structure of corporate actors versus natural persons) for the social capital that is eroding? As for the previous question, Coleman focuses on socialization. For him, the social capital advantage of the vanishing primordial structure must be seen in terms of socialization and social control. He then goes into a detailed analysis of why this socialization is decreasing as corporate actors increasingly absorb the labor of fathers and mothers. Because corporate actors are only interested in certain actions and not in persons as a whole, there is no replacement of the lost attention from parents by corporations or agencies that would be interested in the whole child rather than just in certain actions of the child. This is likely to create even counter-productive influences on children. For example, many corporate actors are interested in influencing the child's ability to make the parents spend money on his or her behalf, thus fostering self-indulgence (as for example television advertisements directed at children). Coleman had worked out this analysis in a separate book called *The Asymmetric Society* in 1982. There he also made the suggestions to create age-balanced organizations in which the age-distribution would approximately mirror the age structure in society. Such an organization would contain a great number of activities and mimic the primordial social structure of the village where children learned from activities the adults performed in their daily routines and economic functions. Because this costs money and thus would necessitate subsidies, Coleman suggests trying this first in public-sector organizations. There are no concrete suggestions on how this might be organized. In the 1982 book, he mentions that while he happened to spend some time in two organizations (Rand Corporation and Russell Sage Foundation), he tried to persuade them to try it, yet he does not say what the result was. In the *Foundations*, he only mentions the age-balanced solutions once in passing and does not pick it up again.

Other than that, we find only one concrete suggestion for institutional design for the replacement of primordial social structures, in his presidential address for the American Sociological Association (Coleman 1993). There he suggests that the state should calculate the expected costs and benefits to the state of each child over its life course and then pay parents a "bounty" for lower costs and/or higher benefits. The incentives would be stronger for the "difficult" than for the average child because the potential gains to the state would be greater. This scheme would get parents interested again in maximizing the child's value to society. The benefits should be measured not merely by the traditional goals of schooling, but all those personal attributes that make a person valuable to society." (op.cit. p.14) He adds that care should be taken "not to introduce perverse incentives." Considering all we know about intrinsic motivation and socialization, this caveat about "perverse incentives" is like saying "do make an omelet but don't break the eggs". The likelihood that the scheme Coleman suggests would not produce perverse effects is very small indeed (see Deci and Ryan 1985, Deci et al. 1994, Rothbart et al. 1994, Frey and Jegen 2001, Ostrom 2002). Highly controlling behavior by parents and foster parents would be the most likely outcome of this scheme, greatly reducing the likelihood that the children will be socialized properly. In addition, the very process of marking each child with estimated lifetime costs and benefits to

society would create unmanageable problems of identity and self-esteem for the child, frustrating parenting efforts even if they were guided by concern for the child. On top of these problems comes the effect on parents' strategic influence attempts on the measurement outcomes and the exorbitant concomitant controlling costs by the state, both in terms of manpower and in terms of consistency with democratic values.

#### 4. Where is the problem?

We have to conclude that Coleman's contribution to answering the two questions he found most pressing for the new social science does not go very far. Assuming that we can rule out the possibility that he simply did not want to put time into finding these answers, the question is why the contributions are so meager.

According to the principle of sufficient complexity, we should look first and foremost to the limitations exerted by Coleman's theory of natural rationality on the analysis of the problems the new social science was supposed to solve. As stated above, simplifications do not just affect the quality of an explanation but also the possibility to formulate problems. Let us therefore have a closer look at Coleman's definition of the main problems. The root of the problem, according to Coleman, is a cultural invention (dating back to the thirteenth century), viz. the corporate actor and its phenomenal growth in numbers and power in the twentieth century, rendering society asymmetric. The primordial social structures of family, neighborhood and church in which natural persons hold sway become marginalized. As a consequence, individuals become undersupplied with what the primordial structures had offered as a by-product of daily living, viz. *social capital*. It mainly consists of three components: childrearing, insurance for times of dependency throughout one's life and norms plus sanctions (Coleman 1990, p.655). The question then is how can we find a substitute for the social capital that has eroded both for individuals and for corporate actors (i.e. social responsibility)?

Now here is the hitch. In order to look for a substitute, we would need to know what it is we are trying to replace. Yet, the very theory of action based on natural rationality does not allow us to even describe what might have been lost. There is ample evidence that Coleman gets into a quandary when trying to probe more deeply into what it is that is getting lost and at the same time holding on to his theory of action. First of all, he points to the importance of having a theory of social well-being. For example, he states that a failure to address the question how primordial social capital can be replaced with constructed social organization "places each of us and each of our children in the position of the 'poor little rich kid,' having an abundance of material resources but without the social resources necessary for satisfactory lives." (Coleman 1990, p.655). What is a "satisfactory life"? What are these resources need to achieve it? Clearly, they cannot be the primordial social capital, because Coleman is looking for a replacement, so there must be more general resources that could be produced either by primordial social capital or by its replacement. Yet, Coleman is very vague about what this might be.

The flip side of the coin is the understanding of people's behavior that helps others to be well socialized and to be able to lead a socially satisfactory life. Since his theory of action is explicitly tied to the assumption of the (child and adult) rational pursuit of self-interest, this poses a problem. Here he takes refuge to a general lack of knowledge about these matters. For instance, he claims that we don't understand yet how we can use incentives to get people to care about others. "The knowledge of how to use these extrinsic rewards to bring about interest in, attention to, and care for other is weak." (op. cit. p.654). Why "extrinsic" rewards? His theory already leads him to look for such rewards and his "bounty" proposal (see above) uses only monetary incentives to bring about care for children. Either the proposal was unfounded, because we don't know much about how to get people to care for others, or the

knowledge we do have does not fit into the assumption of natural rationality and therefore cannot be used. Probably the latter interpretation is the right one. We know actually quite a bit about the workings of rewards in relation to (prosocial) motivation and what we know certainly does not encourage contingent monetary incentives for getting people to care about others. Above, I mentioned already the literature on intrinsic motivation and socialization. In addition, we know that framing effects play an important role here (see Lindenberg 2001b). Such effects push certain costs and benefits into the cognitive foreground and others into the background. It takes very special circumstances to prevent monetary rewards from triggering a frame in which “gain” (measured in terms of money) is the central goal. In such a frame, the parents, interacting with their child, will not focus on the aspects that foster sensitivity, engagement, and acceptance, all three deemed quite essential for successful socialization (see Kochanska et al. 2000). This information was available at the time Coleman wrote his “bounty” suggestion, yet, framing effects do not fit into a natural rationality approach and thus he could not use them in his suggestions for institutional design<sup>v</sup>.

He followed the same strategy of “we don’t know enough” when he talked about the effects of socialization. According to him, we know very little about how parental care influences emotional and cognitive development of the child. Yet, “that knowledge would give understanding of the task to be accomplished in designing child-care organizations.” (Coleman 1990, p.654). Again, the knowledge that is available does not find its way into his suggestions for institutional design because it does not fit into a natural rationality approach. There is actually quite a bit of research on prosocial behavior in general and on what childrearing does in terms of emotional and cognitive development in particular, even at the time Coleman wrote about these matters. I will not review this literature here. The point is that in order to use the results of this research, Coleman would have had to abandon the natural rationality approach, a price he was seemingly unable or unwilling to pay. Of course, we still need a theory of purposeful action in order to fit the psychological research results into our models, but long before his death, such broader theories were available. Especially with regard to socialization, a mechanism that keeps coming up in his work as being crucial for social capital, it is clear by now that a social rationality approach is necessary. Economists sometimes argue that even if “pure rationality” depends at least in part on socialization, one can assume that adult participants in society are all more or less socialized and thus the simplification of the natural rationality assumption does not hurt much. Coleman once assumed the same. He stated that “the major aspect of socialization is not ‘the internalization of norms,’ but rather coming to see the long-term consequences of oneself of particular strategies of action, thus becoming more completely a rational, calculating person.” (Coleman 1964, 180). If, however, the fruits of socialization cannot be taken for granted and we should come up with substitutes or with new ways to invigorate socialization, this simplification simply will not wash. Parents’ and other interested parties’ efforts in socialization are directed to a large extent at increasing resources in the child that are assumed to be naturally given by the micro-economic theory used by Coleman. For example, many parents exert considerable effort in reducing the child’s impatience or impulsivity which are related to myopia. This shows up years later in self-reported number of friends, drug use, alcohol consumption, study habits, deviant behavior (see Gattig 2000). The fact that success or failure of this effort has a lot to do with the style of parenting has also frequently been demonstrated (see for example Hoffman 1983; Shoda et al. 1990; Sanson and Rothbart 1995; Kremen and Block 1998; and Kochanska et al. 2000). Imagine that fewer parents go to the effort of reducing their children’s myopia now than in former times (there are good arguments for that, see Lindenberg 1986), then two things would follow. First, with regard to institutional design one can ask directly what other arrangements (say in kindergarten or in school) would be able to replace the eroding effort of parents, using the extensive research in this area. Second, one could ask how organizations might deal with cohorts of new entrants that are more myopic

than previous cohorts (see Lindenberg 1993, 1995). In both cases the institutional design would be directed at increasing the command over or decreasing the necessity for resources (self-control and farsightedness) that are simply assumed to be part of human nature by the natural rationality approach.

But the effects of socialization that make individuals more rational in the sense of self-control and farsightedness, by no means exhaust the impact of socialization. Against his own early view, Coleman stated in 1993 that socialization had to bring about the ability of “managing one’s own affairs, taking responsibility for others, working in coordination toward collective goals, in brief, all the things entailed in becoming a mature adult.” (Coleman 1993 p.12). The use of the term “mature” rather than “(naturally) rational” is interesting because it very much conveys that the rationally functioning adult in society is a co-production of individual dispositions and massive social influence, in short, a form of “social rationality”. The institutional design would thus also have to be directed not just at self-control and farsightedness but also at increasing the resources needed to generate and maintain regard and responsibility for others. Though Coleman sees these aspects as necessary for being a “mature” adult, they have no place in his natural rationality approach. Coleman seems to have been well aware that this regard for others is not sufficiently produced from interdependence and a common shadow of the future among naturally rational individuals. Seemingly a special effort needed to be made during childrearing to bring this about. In the face of these insights it is even more difficult to understand why Coleman held on to what he once had called a “fruitful error”, to “start with an image of man as wholly free; unsocialized, entirely self-interested, not constrained by norms of a system, but only rationally calculating to further his own self interest.” (Coleman 1964, p.167)

## 5. The missing relational analysis

From a social rationality approach, the very diagnosis Coleman gives of the modern ills, would have to be reconsidered. Let us assume that his analysis of corporate actors (i.e. what they are, their growth in number and power) is correct. What would follow from this for the relationships among natural persons? In fact, he assumes that any “spontaneous” social order is identical to the primordial social organization so that with the waning of the latter there would only be a constructed social order left, unless we can rekindle some semblance of primordial social order, for example by a “bounty” scheme for parents for maximizing the child’s value to society. However, there is something missing. There is no analysis of what drives spontaneous social order, i.e. social relationships and groups, the role they might play for individuals, and the ability of individuals to establish or join them. It is thus no surprise that his operational definition of social capital focused on the density of the relationships (a structural aspect), not their content and multifunctionality. His models also contain only exchange between individuals and no attention to joint production.

What do individuals do to establish and maintain relationships that are important for a “satisfactory life” and how could institutions aid in this process? To answer such a question and still hold on to the advantages of a unified theory of action, a theory is needed that is at once considerably more elaborate than that of natural rationality and more open to mechanisms by which social circumstances affect expectations, preferences and wellbeing as well as skills for purposive action. There is no room here to go into the details of such a theory (see Lindenberg 2001a). Above, I already talked about myopia and problems of self-control. But consider in addition that if one of the most important goals for people is the approval from others, what consequences would this have for the spontaneous social structures, i.e. for the relationships people seek, for the efforts they would put into maintaining them and for the aids they could get from institutions? How would this confound self-interest and other regard? What are the cognitive and motivational mechanisms by which

self-interest and other regard are coordinated and what social arrangement would be necessary to further this coordination? How is wellbeing dependent on a combination of self-interest and other regard? Other regard is clearly not just a matter of inculcating “social” preferences in childhood, it is also linked to social needs and to a set of cognitive and motivational skills to realize one’s social wellbeing in a purposeful way. This is rational but not as the natural rationality approach would assume. Clearly such a line of analysis does not only apply to the question how to deal with the waning role of the family, but also to Coleman’s other big question, that of corporate responsibility. As the newest efforts in this direction indicate (see Vlek et al. 2002), the social element of corporate responsibility is a relational responsibility towards stakeholders, the more so, the higher the dependency of stakeholders on the corporate actor. The criteria for this can be worked out quite succinctly on the basis of social rationality approach and translated into measurement instruments for internal and external audits.

## 6. Conclusion

Coleman is rightly considered one of the great sociologists of the second half of the twentieth century. But there is one area where his achievement is disappointing. It so happens that this was in an area that in his own eyes covered the most important contribution sociology has to offer: theory-guided suggestions for the reconstruction of society, i.e. institutional design. How is it possible that such a giant in sociology squeezed so few suggestions for institutional design worth consideration out of his monumental foundational work? The answer I tried to give in this paper is that he held on to the simplifying idea that human beings are by nature fully rational (also in the sense that they are calculatingly self-interested) and that social problems had to be solved by guiding this rationality to the right kind of behavior via the right kinds of incentives. Whereas this approach might fit many institutional design problems in economics, is not well suited for the task of *sociological* institutional design, and especially not for the kinds of problems Coleman found most important. These problems were related to what he saw as the source of all modern social problems, viz. the loss of primordial social organizations (family, neighborhood, church) and thereby the loss of primordial social capital. This loss had been brought about by the growth of corporate actors both in number and in power. The major questions then are how corporate actors can be made to act responsibly towards natural persons, and how the loss of primordial social capital can be replaced. For both questions, it is important to see that rationality is in part a social achievement, both in socialization and in terms of social organization. This requires a theory of action that can handle this insight, viz. a theory of social rationality. Without it, we cannot expect much advance in institutional design.

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## NOTES

<sup>i</sup> The distinction between natural and social rationality approaches overlaps with but is not identical to “pure” versus “bounded” rationality. For example, Simon championed bounded rationality but he kept the social and the rational side of human beings separate (see Lindenberg 2002). Other overlapping but not identical distinctions are those between microeconomic theory and behavioral economics and between thin and thick rationality. The social rationality approach does not just add complexity to the theory of action (as is the case with assumptions on bounded and thick rationality, and with behavioral economics) it specifically pays attention to the social processes that influence individual and collective rationality, in both evolutionary and social processes.

<sup>ii</sup> In 1986, Coleman included this paper in a collection of essays, approvingly confirming this view of human nature in the new introduction (see Coleman 1986).

<sup>iii</sup> With regard to the self-interest assumption, Coleman follows microeconomic practice, even though most micro-economic textbooks maintain that their theory is mute with regard to self-interest and preferences in general.

<sup>iv</sup> That this is indeed an important issue can be gleaned from Galanter (1974).

<sup>v</sup> Coleman was clearly aware of these effects. He once mentioned such framing effects, and in that context, he did so as if they were a most natural part of rational choice theory (Coleman 1994, p.171)