

Feature Article 【專題論文】

The Relational and Transactional Rationality:
Exploring Eastern and Western Bases of Exchanges[§]
**關係理性與交易理性：探討
東西方交換的基礎**

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Keywords: Rationality, East-West comparisons, relations, transactions, exchange

關鍵詞：理性、東西比較、關係、交易、交換

§ An earlier version of the essay was presented at Seoul National University Conference on "East Meets West: A Quest for New Civilization in the New Millennium," Seoul, Korea, March 22, 2002.

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Abstract

In this essay, I explicate a theory of cultural identity based on exchanges. Exchanges have two components: economic transaction and social relations. Both are rational in that each involves deliberate decisions among choices. Economic transactions favor benefit over cost in gains in transactional trades; social relations favor benefit over cost in gains in social relations. Economic transactions accumulate to wealth—economic standing; social relations accumulate to reputation—social standing. In optimal situations, exchanges may promote both transactional and relational gains. However, through historical and experiential processes, the priority ranking between the two rationalities becomes institutionalized in a given society or community. In some societies (e.g., North America and Western Europe) transactional rationality has become dominant, while in others (e.g., East Asia) relational rationality has prevailed. Immersed in each institution, individuals in each institutional field acquire its value and resources as the focal identity. Thus their ideology and behaviors reflect the affinity and affirmation for wealth or reputation.

摘要

本文基於「交換」的概念，闡釋文化認同的理論。所謂「交換」包含兩種成分，及經濟交易和社會關係。因為兩者均包含了在多種選擇中做決定的過程，因此皆具有理性基礎。經濟交易著重在貿易往來中，使利潤大於成本；社會關係則著重在人際互動中，使利潤大於成本。經濟交易通往財富，即經濟地位；社會關係則通往名聲，即社會地位。在最佳的情況下，上述兩種「交換」可同時提升經濟的和社會的利益。然而，在歷史經驗中，這兩種理性常有先後之分，特定的社會或團體又往往將排序的過程予以制度化。在諸如北美或西歐等社會，「交易理性」居於首出地位，然而在東亞，則是「關係理性」佔了上風。生活在不同的制度裡，人們會對該制度所提供的價值觀與資源產生認同，他們的思想與行為模式也因此反映了各自對於財富或名聲的重視程度。

INTRODUCTION: Exchange and Identity

Cultural identity, like most other concepts, has both definitions and theories. For the lack of a consensus, I will simply here define cultural identity as the affirmation of a group of people in regard to certain symbolic and materialistic resources and their affinity with social institutions that value such resources. Affirmation reflects the affect attached to the resources and affinity describes the cognitive and behavioral adherence to institutions in upholding such values and resources. Identity can be forged on shared values on ascribed (e.g., race, gender, family, or physical location) or acquired (e.g., education, occupation, moral symbols, or behaviors) resources and such shared and valued resources can be upheld in social institutions such as family, clan, village, religion or nation-state. There are also multitudes of theories about cultural identity. My interest, being a sociologist and a social network person, focuses on a theory assuming cultural identity is forged and sustained in social exchanges. The assumption is that people form identity through shared understanding and orientation through exchanges and their exchanges further maintain and sustain their identity. Thus, social exchanges offer an arena of inquiry that unveils collective as well as individual identities. They thus also reveal the values and resources embedded in identity.

In this essay, I will construct two prototypes of exchange rationality: relational rationality and transactional rationality. The essay is an extension of my theoretical discussion on the two types of exchanges in the context of social capital, available elsewhere.¹ Here, I will explicate these two rationalities and explore how these prototypes may shed some light on a possible contrast of identity between the East and the West. The argument can be summarized as

¹ Nan Lin, *Social Capital: A Theory of Structure and Action* (London and New York: Cambridge University Press, 2001), Chapter 9.

follows. Exchanges have two components: economic transaction and social relations. Both are rational in that each involves deliberate decisions among choices. Economic transactions favor benefit over cost in gains in transactional trades, social relations favor benefit over cost in gains in social relations. Economic transactions accumulate to wealth—the economic standing; social relations accumulate to reputation—the social standing. In optimal situations, exchanges may promote both transactional and relational gains. However, through historical and experiential processes, the priority ranking between the two rationalities becomes institutionalized in a given society or community. In some societies (e.g., North America and Western Europe), transactional rationality has assumed the dominant institution, while in others (e.g., East Asia) relational rationality has prevailed. Immersed in each institution, individuals in each institutional field acquire its value and resources as the focal identity. Thus their ideology and behaviors reflect the affinity and affirmation for wealth or reputation.

EXCHANGE: Social and Economic Elements

Exchange, a central concept in sociological analysis, can be defined as a series of interactions between two (or more) actors in which a transaction of resources occurs. By this definition, exchange has two central components: it requires a relationship between the actors, and it evokes resource transaction. Thus, exchange is social in that the relationship can be seen as interactions² in which the action of an actor during the process takes into account the action of the other actor(s).³ The process can be seen as economic since transaction of resources is typical of economic acts. Therefore, an elementary exchange,

2 Georg Simmel, *The Sociology of Georg Simmel*, trans. and edited by Kurt H. Wolff (Glencoe: Free Press, 1950).

3 Max Weber, *The Theory of Social and Economic Organizations* (New York: Oxford University Press, 1947), pp. 111-115.

evoking a relationship between two actors and a transaction of resource(s), contains both social and economic elements. It is useful here to refer to the relational aspect of the exchange as social exchange and to the transactional aspect as economic exchange.

This distinction between the social and economic elements of an exchange is often blurred in the research literature, due to the common co-occurrence of both elements. This is especially true for the usage of the term social exchange. That social exchange is more than social interaction is reflected in the understanding that social exchange contains the added element of resource transactions. As a result of this common usage, social exchange as a concept has been employed by scholars who have selectively focused on one of the two elements in their theoretical or research schemes.

The focus on the economic element in the discourse on social exchange can be traced to Weber. While pointing to four types of action (goal-oriented, value-oriented, affectual and traditional action), he concentrated his analytic effort on instrumentally rational (or rational goal-oriented) actions, which are based on the calculation of alternative means to the end.⁴ Value-oriented action is determined by a conscious belief in the value (for its own sake) of some ethical, aesthetic, religious, or other form of behavior independent of its prospect. Both types of action are based on consciously regulated comparison and choice—that is, on rationality.⁵ The theoretical embedding of the transactional aspect of exchange in rationality of action was thus identified.

This line of argument was brought home forcefully by George Homans who clearly stated this position: "Interaction between persons is an exchange of goods, material and nonmaterial."⁶ An incidental advantage of an exchange

4 Max Weber, *Economy and Society*, edited by G. Roth and C. Wittich (Berkeley: University of California Press, 1968), p. 25.

5 Barbara A. Misztal, *Trust in Modern Societies: The Search for the Bases of Social Order* (Cambridge, England: Polity Press, 1996), p. 54.

6 George C. Homans, "Human Behavior as Exchange," *American Journal of Sociology*, 63, 6

theory is that it might bring sociology closer to economics—that science of man most advanced, most capable of application, and, intellectually, most isolated." For Homans, social behavior or exchange⁷ focuses on the gain (value) and cost for an actor in the transaction; "the problem of the elementary sociology is to state propositions relating the variations in the values and costs of each man to his frequency distribution of behavior among alternatives, where the value (in the mathematical sense) taken by these variables for one man determines in part their value for the other." Thus, the interests of two actors in continuing interactions or the relationship are contingent on the relative utility or pay-off to each in each transaction. Interest in the relationship diminishes as the relative payoff (the marginal utility) decreases. It is logical, therefore, for Homans to argue that "the principles of elementary economics are perfectly reconcilable with those of elementary social behavior, once the special conditions in which each applies are taken into account."⁸

Blau's work on exchange also reflects this emphasis.⁹ While admitting that social exchange may follow from social attractions, a primitive psychological tendency left as exogenous,¹⁰ the major theoretical focus of his analysis is the linkage between transactions in exchanges and the distribution of power. When an actor (ego) is unwilling or unable to reciprocate¹¹ transactions of equal values

(1958), pp. 597-606.

7 Homans sees social behavior "as an exchange of activity, tangible or intangible, and more or less rewarding or costly, between at least two persons." See George C. Homans, "Human Behavior as Exchange;" George C. Homans, *Social Behavior: Its Elementary Forms* (New York: Harcourt, Brace and World, 1961), p. 13.

8 George C. Homans, *Social Behavior: Its Elementary Forms* (1961), p. 68.

9 Peter M. Blau, *Exchange and Power in Social Life* (New York: John Wiley and Sons, 1964), p. 22.

10 "The basic social processes that govern associations among men have their roots in primitive psychological processes, such as those underlying the feelings of attraction between individuals and their desires for various kinds of rewards. These psychological tendencies are primitive only in respect to our subject matter, that is, they are taken as given without further inquiry into the motivating forces that produce them, for our concern is with the social forces that emanate from them." See Peter M. Blau, *Exchange and Power in Social Life* (1964), p. 19.

11 Reciprocity, in this case, and in many other sociological works, implies balanced exchange or transactions of equal value (e.g., in price or money) This requirement for interaction goes

in an exchange with another actor (alter), one choice available to ego to maintain the relationship with the alter is to subordinate or comply with the alter's wishes—the emergence of a power relationship. Collective approval of power gives legitimacy to authority, the backbone of social organizations. Thus, in his theoretical scheme, patterns of transactions dictate patterns of relationships, and this fundamental microstructural process evokes, though not necessarily explains, the much more complex macrostructural (organizational) process.

Coleman carried this analysis further in his theory of social action, in which social exchange is a means by which actors with differential interests and control over resources (events) negotiate (through relative value of the resources one controls, or power) with each other to maximize control over interested resources (a new equilibrium).¹² The mechanism between exchanges and power seems quite similar to Blau's scheme, but the focus is on an actor's maximization of gain (control over interested resources) in this process.

By now, the sociological explication of the process of exchange seems to have fulfilled Homans' prophecy or design that sociology is being brought very close to, if not identical to, the economic stance on the centrality of rational choices in economic behaviors. That is, given choices in the market place, an actor will choose a transaction to maximize profit (e.g., more reward at less cost). Neo-classical economists have realized that certain assumptions of this profit-seeking theory are not likely to be met in reality (perfect market, full information, and open competition), and have proceeded to specify conditions or institutions (bounded rationality, transaction costs, market failure) under which profit-seeking behavior may be moderated and other non-economic institutions (e.g.,

beyond Weber's original conceptualization about social action, which only requires taking the other actor's interests into consideration. In that context, reciprocity does not require balanced exchange.

12 James Coleman, *Foundations of Social Theory* (Cambridge: Harvard University Press, 1990), pp. 134-135.

the government, organizations) be brought to bear.¹³ Many of the same arguments and conditions have been adopted by sociologists in analyzing organizational behaviors, power relationships, institutions, and social networks and social exchanges, under the general rubrics of neo-institutionalism or economic sociology.

However, the significance of relationships in exchanges has not been ignored. From early on, anthropologists have paid attention to the relational aspect of exchanges and argued strongly that many of these patterns are not based on economic or "rational" calculations. For example, Radcliffe-Brown described the process of exchange among the Andaman Islanders as "a moral one—to bring about a friendly feeling between the two persons who participate."¹⁴ Malinowski drew sharp distinctions between economic exchange and social exchange (ceremonial exchange) in his analysis of Kula exchanges in the Trobriand Islands. He suggested that "the real reward (of exchanges) lies in the prestige, power, and privileges which his position confers upon [the person engaging in the exchange]."¹⁵ Levi- Strauss cited studies by Mauss, Firth and other anthropologists in his argument that exchanges¹⁶ including economic transactions, are "vehicles and instruments for realities of another order: influence, power, sympathy, status, emotion (and) it is the exchange which counts and not the things exchanged."¹⁷ For example, gifts are transacted between actors, but buying oneself a gift at Christmas is quite meaningless.¹⁸

13 Ronald H. Coase, "The New Institutional Economics," *Journal of Institutional and Theoretical Economics*, 140 (1984), pp. 229-231; Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990); Oliver E. Williamson, *Markets and Hierarchies: Analysis and Antitrust Implications* (New York: Free Press, 1975).

14 A. R. Radcliffe-Brown, *Structure and Function in Primitive Society* (New York: The Free Press, 1952).

15 Bronislaw Malinowski, *Argonauts of the Western Pacific* (London: Routledge and Kegan Paul, 1922).

16 Claude Levi-Strauss, *Les Structures Elementaires de la Parente* (Paris: Presses Universitaires de France, 1949).

17 Claude Levi-Strauss, *The Elementary Structure of Kinship* (Boston: Beacon Press, 1969), p. 139.

18 Peter P. Ekeh, *Social Exchange Theory: The Two Traditions* (Cambridge: Harvard University

Among sociologists, Comte spoke of subordinating personal to social considerations,¹⁹ and Durkheim refuted Spencer's economic assumptions regarding the development of social groups. None of these scholars deny the implications of economic transactions in social exchanges, but they also emphasize the supra-individual²⁰ and supra-economic²¹ nature of social exchanges and the significance of relationships. In each of these schemes, the relational orientation to social exchange is demonstrated in the commitment of specific actors to the exchanges on grounds other than the utility of specific resources transacted.

How are these two perspectives on exchanges to be reconciled? Several positions have been taken. One approach would simply dismiss the significance of relationships in that any particular relationship is subjected to the decision-making choice of maximizing or optimizing profit. When a relationship generates a profit in transactions, it may be maintained; when it does not, then it is not. However, most neo-classical economists and their sociological allies take a moderate position, treating relations as the necessary "transaction cost" or "calculative trust"²² in an imperfect market and under the condition of less than full information. In this modified position, the relationship is recognized but clearly subsumed under the transactional analysis.

Alternatively, relationship-inclined scholars have argued that relationships are necessary and significant because not all behaviors and interactions are "rational." This argument agrees that economic behavior follows the principle of rational choice, but points out that not all behaviors are economic, and thus

Press, 1974), p. 47.

19 Auguste Comte, *General View of Positivism* (Stanford: Academic Reprints, 1848).

20 Claude Levi-Strauss, *Les Structures Elementaires de la Parente* (1949).

21 A. R. Radcliffe-Brown, *Structure and Function in Primitive Society* (1952).

22 Oliver E. Williamson, *The Economic Institutions of Capitalism* (New York: Free Press, 1985); Oliver E. Williamson, "Calculativeness, Trust, and Economic Organization," *Journal of Law and Economics*, 36, 1-2 (1993), pp. 453-486.

rational. Social attractions and attachments are primitive survival instincts rather than the result of calculating alternative gains and losses. The problem here is that rational choices are in fact seen as natural tendencies: rewards or reinforcements elicit actions and transactions, and the survival of the fittest. Consciousness or unconsciousness is irrelevant as this principle applies to pigeons as well as to men.²³ Furthering this analysis, it becomes problematic why some instincts are "rational" and others are not.

Still another identifiable argument concedes, sometimes more implicitly than explicitly, that rationality applies to social exchanges; and that there are rational principles other than the individual's profit-seeking motive. Since human beings take into account each other's interests in interactions and exchanges, relationships may be maintained to accommodate this rationality. There are many sub-arguments along this line of reasoning. Two seem quite pervasive in the literature. First, there is the argument that social approval, esteem, liking, attraction and such are important motives for exchange. Notably in exchanges where the transactions are imbalanced, the reward for the short-changed actor may be the approval, esteem, like, or attraction from the other actor. In this case, these symbolic rewards, rather than material rewards (and their generalized medium, money) usually identified with economic exchanges, constitute meaningful rewards. However, for Homans, Blau, and Coleman, such rewards are different in kind but not in nature. Whether material or symbolic, as long as they represent value (or profit, or interest), they are part of the rational calculation. Further, how such values have been developed is irrelevant to the theoretical development of social exchanges.

Second, another sub-argument is that human beings need trust.²⁴ Trust may be defined as confidence or expectation that an alter will take ego's interests into

23 George C. Homans, *Social Behavior: Its Elementary Forms* (1961), p. 80.

24 Bernard Barber, *The Logic and Limits of Trust* (New Brunswick: Rutgers University Press, 1983); Niklas Luhmann, *Trust and Power* (Chichester: Wiley, 1979); Barbara A. Misztal, *Trust in Modern Societies: The Search for the Bases of Social Order* (1996).

account in exchanges. It represents a faith that an event or action will or will not occur, and such faith is expected to be mutual in repeated exchanges. It is faith in morality. Misztal argues that trust serves three functions: it promotes social stability (as a habitus), social cohesion (friendships), and collaborations.²⁵ In other words, its motive is to maintain a group or community. Durkheim suggested that feelings of obligation and altruism as well as moral pressure, which restrain egoistic behavior, are the bases of solidarity.²⁶ "Men cannot live together without acknowledging, and consequently, making mutual sacrifices, without tying themselves to one another with strong, durable bonds".²⁷ Durkheim strongly asserted the existence of a moral element in social life, which may entail the sacrifice of rewards, in quality and/or quantity, on the part of the actors.

If solidarity and community are fundamental elements in human survival, why can they not be based on rational choices or economic behaviors? Simmel attempted one response, positing that exchange involves "a sacrifice in return for a gain (and exchange) is one of the functions that creates an inner bond between people—a society, in place of a mere collection of individuals".²⁸ He adds, "without the general trust that people have in each other, society itself would disintegrate, for very few relationships are based entirely upon what is known with certainty about another person, and very few relationships would endure if trust were not as strong as, or stronger than, rational proof or personal observation".²⁹ The functioning of complex societies depends on a multitude of promises, contracts, and arrangements. Since "the single individual cannot trace and verify their roots at all, (we must) take them on faith".³⁰ Faithfulness, or loyalty, refers to the feeling of "the preservation of the relationship to the

25 Barbara A. Misztal, *Ibid.*

26 Emile Durkheim, *Moral Education: A Study in the Theory and Application of the Sociology of Education* (New York: The Free Press, 1973).

27 Emile Durkheim, *The Division of Labour in Society* (New York: Free Press, 1964), p. 228.

28 Georg Simmel, *The Philosophy of Money* (London: Routledge, 1978), p. 175.

29 *Ibid.*, pp. 178-179.

30 Georg Simmel, *The Sociology of Georg Simmel* (1950), p. 313.

other".³¹ This need for rules of interactions and trust in complex modern society is clearly demonstrated in Parsons' proposal that trust is the basis for legitimating power so as to achieve collective goals and societal integration.³² Hechter's analysis of group solidarity, likewise, advances the rational basis for collectivity.³³

Luhmann further elaborates Parsons' media theory and his concept of symbolic generalization.³⁴ Trust is seen as one of the generalized media of communication (others being love, money, and power), and as such reduces the complexity of the world faced by the individual actor by providing the capacity for "intersubjective transmission of acts of selection over shorter or longer chains".³⁵ However, Misztal points out that "Luhmann is less forthcoming on the issue of how this function of trust helps to explain the actual formation of trust."³⁶

The explanatory basis for trust, then, is the need in a complex society for individuals to rely on rules that are accepted by many people and would guide both interpersonal and impersonal exchanges—the institutions. Without such consensual rules and trust in them, societal functioning would cease. But Homans reminds us that "institutions, as explicit rules governing the behavior of many people, are obeyed because rewards other than the primary ones come to be gotten by obeying them, but that these other rewards cannot do the work alone. Sooner or later the primary rewards must be provided. Institutions do not keep on

31 Ibid., p. 387.

32 Talcott Parsons, "On the Concept of Influence," *Public Opinion Quarterly*, 27 (1963), pp. 37-62.

33 Michael Hechter, "A Theory of Group Solidarity," in Michael Hechter (ed.), *The Microfoundations of Macrosociology* (Philadelphia: Temple University Press, 1983), pp. 16-57.

34 Niklas Luhmann, "Familiarity, Confidence, Trust: Problems and Alternatives," in Diego Gambetta (ed.), *Trust: Making and Breaking Cooperative Relations* (New York: Basil Blackwell, 1988), pp. 94-107.

35 Niklas Luhmann, *Trust and Power* (1979), p. 49.

36 Barbara A. Misztal, *Trust in Modern Societies: The Search for the Bases of Social Order* (1996), p. 74.

going forever of their own momentum".³⁷ By primary rewards, of course, Homans is referring to the basic individual need for profit. Misztal agreed: "In Parsons' theory the significance of trust as a single explanatory device is clearly overstated. The notion of trust, used as a substitute for familiarity, conformity and symbolic legitimation, does not provide us with an effective instrument with which to analyze social reality."³⁸ According to Williamson,³⁹ unless cooperation also serves an egoistic motivation, the practices of cooperation will be unstable. This means that a social order based on trust not grounded in self-interest will be unpredictable and unstable, and, for this reason, trust is not always functional.

In summary, none of the arguments thus far which defend the significance of relationships in exchanges, once the transactional rationality is presented, seem satisfactory. What I will propose in the remainder of the essay is another attempt to assert the significance of relationships in exchanges. The argument begins with the premise that rationality should be used as the basis for the theoretical development. Rationality is not a matter of conscious versus unconscious behavior. Nor does it rely on some norms or institutions; these come later. It is also not based on an expectation of ultimate transactional balance in the long run (e.g., repeated transactions will balance out gains and losses. See Homans' refutation of these arguments for treating elementary social behaviors as rational).⁴⁰ Here, simply, an exchange is seen as a process engaging two actors whose actions are based on calculations of gains and losses and on alternative choices in relationships and transactions. As long as such calculations and choices are made, it is considered as rational. Further, I assume these calculations and choices are self-interest based. This assumption does not rule out considerations of collective interest. What is assumed is that collective interest

37 George C. Homans, *Social Behavior: Its Elementary Forms* (1961), pp. 382-383.

38 Barbara A. Misztal, *Trust in Modern Societies: The Search for the Bases of Social Order* (1996), p. 72.

39 Oliver E. Williamson, *The Economic Institutions of Capitalism* (1985).

40 See George C. Homans, *Social Behavior: Its Elementary Forms* (1961), pp. 80-81.

comes into calculation only when it is embedded in self-interest—there is a self-gain if the collective interest is served. What is not assumed is that collective interest, excluding self-interest, drives calculations and choices.

Transactional and Relational Rationalities

The critical element, instead, is the ultimate pay-off: what kinds of rewards or resources sustain or interrupt relationships and/or transactions? There are two ultimate (or primitive) rewards for human beings in a social structure: economic standing and social standing.⁴¹ Economic standing is based on the accumulation and distribution of wealth (as indicated by commodities and their symbolic value representations, such as money). Social standing is based on the accumulation and distribution of reputation (as indicated by the extent of recognition in social networks and collectivities).⁴² Each standing reflects the ranking of an individual relative to others in the structure over the command of the "capital" concerned. Wealth, therefore, is a functional calculus of the worth of commodities in terms of their value representation, money; and reputation is a functional calculus of the worth of public awareness in social networks in terms of its value representation, recognition. Wealth is indicative of economic capital because the commodities and their value representation can be invested and reinvested to generate certain returns. Likewise, reputation reflects social capital because the social networks and their value representation can be mobilized to generate and reproduce certain returns. Through reputation, it becomes possible to mobilize the support of others, for both instrumental and expressive actions. The capacity

41 A third reward, political standing (or power), is also important, but probably not as primitive as the other two rewards. Power or the process of legitimation reflects a process by which the other two primitive rewards are preserved or gained. The relationships among wealth, reputation, and power (legitimation) emerge in the discussion in this essay.

42 The usual indicators of social standing include status (for position) and prestige (for occupant) (see Nan Lin, *Social Capital: A Theory of Structure and Action*, Chapter 3). I adopt the more general term, reputation, to capture both, as an overall esteem accrued to an actor by others.

of resource mobilization through social ties, or social capital, makes social relationships a powerful motivation for individual actors to engage in exchanges. Both economic and social standings enhance an individual's power and influence in the structure (over other members) and, thus, the individual's psychic well-being and physical survival, as well. Both economic and social standings of individuals have implications for the larger entity—a group or a nation. The topic is beyond the scope of this essay, but it should be recognized that through certain accumulation processes and collective actions, individual accumulations can be extended to the economic and social standings of a nation, for example.

Economic standing and social standing are complementary in that the former requires social legitimation and enforcement for its symbolic value (money), and the latter builds on the economic well-being of the group (or embedded resources in the network) in which the reputation is sustained. Without social enforcement, economic standing collapses; and without collective wealth, social standing is meaningless. Yet, each standing can be seen as an independent motive in exchanges. Exchanges can be used to extract economic capital (resources through transactions) or to extract social capital (resources through social relations).

Thus, transactional rationality drives the calculations of transactional gains and costs in exchanges, and relational rationality propels the calculations of relational gains and costs. Transactional rationality sees relationships as part of transactional gain-loss calculations and relational rationality sees transactions as part of relational cost-benefit calculations. Relational rationality favors the maintenance and promotion of the relationship even when the transactions are less than optimal. Transactional rationality favors the optimal outcome of transactions, even if it is necessary to terminate specific relations. While both rationalities are enacted by actors in most exchanges, for a given society at a particular time, institutions favor one rationality over the other, allowing moral judgment on the relative "merits" of one type of capital (economic or social) over

the other. Indeed, one may argue that cultural identity, to a significant extent, is based on the favored exchange rationality. The remainder of this essay will elaborate on these arguments.

Relational Rationality Elaborated

It seems intuitive, due to the natural law and natural instinct, to understand the argument of transactional rationality—gain over cost in transactions and maintenance and accumulation of resources through transactions. Further, its calculation is helped enormously with the generalized medium of money.⁴³ Gains and losses can be counted, and credits and debts documented, with ease. Accounting in relational rationality is not so easy or clear, even though Coleman notes that social credits (or credit slips) are central to the notion of social capital as well.⁴⁴ In economic exchanges, not every episode is symmetric or balanced in the trade of goods. Imbalanced transactions incur economic credits and debts. However, it is strongly assumed that the balance of credits and debts will be achieved in the long run, but in a finite time frame, in repeated transactions.

In social exchanges where persistent relationships take on significance, episodic transactions are not necessarily symmetric or balanced. However, even in repeated transactions in a finite time frame, balanced transactions are not required. The critical element in maintaining relationships between partners is social credits (and social debts). In a persistent relationship where transactions are not symmetric even in the long run, the engaging actors are in an ever greater creditor-debtor relationship—the tendency of one actor giving "favors" to another in imbalanced transactions. While the debtors gain, why would the creditors want to maintain the relationship and thus "suffer" transactionally? It is argued that the

43 Georg Simmel, *The Philosophy of Money* (1978).

44 James Coleman, *Foundations of Social Theory* (1990).

crediting actor gains social capital in maintaining the relationship. How? Presumably the creditor could call on (or threaten) the debtor to repay the debt. But so long as the creditor does not make such a demand, the debtor is perpetually indebted to the creditor. To be able to maintain the relationship with the creditor, the debtor is expected to take certain social actions to reduce the relational cost (or increase the utility of exchanges) for the creditor. That is, the debtor should propagate to others through his/her social ties his/her indebtedness to the creditor—a social recognition of credit-debt transactions, or social credit given to the creditor. Propagation of indebtedness, or social recognition, is a necessary action on the debtor's part for maintaining the relationship with the creditor. It leads to greater visibility of the creditor in the larger social network or community, and increases general awareness (his/her reputation) that this is an actor who is willing to take a transactional loss in order to sustain the well-being of another actor in the community. The greater the social debt, the greater is the need for the debtor to make an effort to disseminate (recognize) the indebtedness. From the creditor's point of view, imbalanced transactions promote the creditor-debtor relationship, and the propensity to generate recognition.

Furthermore, two actors can maintain a relationship when each becomes creditor and debtor to the other, as imbalanced transactions over different kinds of commodities take place between them (giving different favors to each other). Each, then, is expected to propagate the favors rendered by the other in his/her social circles, thus promoting recognition of the other. Transactions are means to maintain and promote social relations, create social credits and social debts, and accumulate social recognition.

In a mass society, recognition can be accelerated with the use of public media as the means of transmission. Public recognition in a mass society makes recognition a public good, just as money is. Public recognition may take on a variety of forms, including testimonies and banquets in one's honor, honorific titles, medals of honor, awards of distinctions, certifications of services, and

ceremonies of all types, none of which need involve any substantial economic payback. Thus, recognition can transcend particular social networks and become a mass-circulated asset, like money, in a social group.

Reputation, then, is defined as a function of (1) the creditor's capability to sustain unequal transactions (human and social capital), (2) the persisting credit-debt relationship, (3) the debtor's propensity (willingness and ability) to acknowledge the relationship through his/her social networks (recognition), and (4) the propensity (size) of the social networks (and generalized network—the mass network) to relay and spread recognition.⁴⁵ Reputation, then, is the aggregate asset of recognitions received. It is a function of the extent one receives recognition in a social group. Collectively, a group's reputation is defined as the extent of reputed actors in the group and the extent recognition is shared by the members known in other groups. Thus, the reputation of actors in social networks and a social group promotes the collective reputation of the social group.

Social credits, recognition and reputation are all relationally and structurally based utilities. Without persistent social relations, these profits vanish. It is therefore rational for actors to engage and commit in persistent relations that allow social credits and social debts to remain meaningful, and to facilitate recognition. The greater the reputation of certain actors and the more actors enjoy a high reputation, the more the group's reputation increases. Identification with a more reputable group also enhances an actor's own reputation. Thus, there is an association between a group's reputation and the incentive for individual members to engage in persistent and maintained social exchanges and to identify

45 Another element, density of the network or strength of relations among actors, may also figure in the formulation of reputation. However, the association is not necessarily a linear one (neither positive: the denser the network, the more likely recognition will spread, nor negative: the more sparse the network the more likely it will spread), as rumors do spread, sometimes quickly in less dense networks, as presumably more bridges become available (Ronald S. Burt, *Trust, Reputation, and Third Parties*, Chicago: University of Chicago, 1998). Because of the uncertainty in the association, I have left it out of the present formulation. Further research may identify the proper form of association, if any.

with the group—group identification and group solidarity. Likewise, the group's reputation and the reputation of an actor in the group propel the actor to continue engaging in exchanges in which he/she may remain a creditor. Reputation and group solidarity enhance the sharing of resources—the creation and sustaining of public capital. At the same time, reputation and group solidarity provide positive feedback and reinforcement of unequal transactions, social creditor-debtor relationships, and thus social capital, for the actors.

This micro-macro link can be elaborated. For the sake of description, the process may begin at exchanges where transactions are seen as the means by which social creditor-debtor relationships emerge. Such creditor-debtor relationships then propel the spread of recognition in social networks, which eventually creates a generalized reputation which reinforces group solidarity and encourages public capital. With reputation and group solidarity, the social creditor and debtors gain social capital (embedded in social networks with strong ties and rich resources), and are further reinforced to engage in exchanges. Here, the reciprocal and interactive processes between micro- and the macro-level linkages are seen as being facilitated by social networking—an essential element between exchanges and capitalization.

A group may promote solidarity and reputation by recruiting actors with a reputation established elsewhere in the society. By conferring recognition to specific actors, the group expects that these actors will identify with the group and be prepared to engage other members of the group in future exchanges. In this process, reputation and recognition are not consequences of micro-level exchanges, but antecedents to them. While the actors granted with such recognition and reputation may not have been exchange partners with others in this particular group, they will become obligated to carry out such exchanges in the future, should they accept such recognition and added reputation. In this sense, micro-level exchanges and more macro-level recognition and reputation are eventually reciprocal in causal relations.

A Summary

To summarize, some distinguishing characteristics of the two rationalities are presented in Table 1. The contrasts are necessarily sharp to highlight the comparison. In transactional rationality, typically implicated in the analysis of economic exchange, the interest is to gain economic capital (resources through transactions). The interest lies in the transactional aspect of the exchange—the extent to which resources are transacted and sometimes mediated by price and money. The utility of the exchange is to optimize transactional profit, and the rational choice is based on a conduct of an analysis on alternative relationships producing varying transactional gains and costs. On this basis, there are two rules of exchange participation. First, if the relationship with a particular alter produces relative gain, then the decision is to continue the relationship for further transactions. If the relationship fails to produce relative gain, then there are two decision choices: (1) to find an alternate relationship that may, or (2) to maintain the relationship but to suffer or to reduce the transactional cost. The decision between the two choices is based on the relative weights given to the likely gain from a likely alternate relationship and to the likely transactional cost or its reduction in the maintenance of the current relationship. The critical analysis in economic exchanges focuses on symmetric transactions in episodic or repeated transactions.

Table 1. Rationality of Economic Exchange and Social Exchange

Element	Economic Exchange	Social Exchange
Exchange Focus	Transactions	Relationships
Utility (optimization)	Relative gain to cost in transactions (Transaction at a cost)	Relative gain to cost in relations (Relationship at a cost)
Rational Choices	a. Alternative relations b. Transactional cost and reduction	a. Alternative transactions b. Relational cost and reduction
Episodic Payoff	Money (Economic credit, economic debt)	Recognition (Social credit, social debt)

Generalized Payoff	Wealth (Economic standing)	Reputation (Social standing)
Explanatory Logic	Law of nature: a. Survival of the actor b. Optimization of gains	Law of humans: a. Survival of the group b. Minimization of loss

Transactional rationality can be seen as a neo-Darwinian theory applied to exchanges—the survival of the fittest individuals. It is instinctual to find the partners optimizing gains of resources through transactions to ego. The ability of ego to find relationships so that the transactional gain is relatively high or positive and the transactional cost is relatively low or none follows this instinct. Commitment to a particular alter-actor tends to be episodic and short-term, and the expectation is that the transactions are fair (more gain and less cost). Partnerships are incidental to the transactional requirements and may become binding through contractual rules so that the relationships reduce the transactional cost and justify their persistence. Therefore, transactional rationality follows the natural law and the rationality of natural choice. The actors benefiting more from repeated transactions not only enrich themselves, but also collectively build a richer collectivity. Such is the argument for the invisible hand of transactional rationality.

Relational rationality, on the other hand, as implicated in social exchange, focuses on the relational aspect of the exchange—the extent to which a relationship is maintained and promoted, usually mediated by recognition (or expectation in the other actor to spread it). The motivation is to gain reputation through recognition in networks and groups and the utility of an exchange is to optimize relational gain (maintenance of social relationships)—also an analysis of gain and cost. On this basis, there are also two exchange participation rules: One, if a specific transaction promotes a persistent relationship and the spread of recognition, then the transaction will be continued. Two, if the transaction fails to promote a persistent relationship, then two choices are considered: (1) either to find an alternate transaction that will (e.g., to increase favors in transactions to

entice and encourage recognition), or (2) to maintain the transaction and to suffer or reduce relational cost (no or reduced gain in recognition). Again, the decision is a weighing process involving the relative likelihood of finding an alternate transaction and the relative relational cost.

Persistent relations promote the extension and dissemination of one's recognition through social connections. More persistent relations increase the likelihood of the spreading of recognition. For recognition to keep spreading, the maintenance and promotion of persistent relationships is paramount. Social standing takes on meaning only when a network or group of individuals sharing and spreading the sentiment toward a particular actor persists. Thus, the larger the social connections (direct and indirect), the greater the effect of recognition and reputation. Individuals depend on the survival, persistence, and indeed, ever-expanding social circles to sustain and promote their social standings. Even those lower in social standing may gain transactionally if they remain participants in the social network and group.

Transactional rationality is seen as invisible as it builds collective capital from individual capital, yet it depends on the generalized medium of money—a very visible form of capital requiring documentation in every transaction. Relational rationality builds on collective capital from individual capital also; the more reputation its members possess, the greater the standing of the group. This relies on an even less visible medium: recognition, or the spread of the sentiment toward an actor in a social group. It is this invisible hand that drives persistent social relations and group solidarity.

Transactional rationality can survive on an individual basis, where partners in exchanges are interchangeable as long as they meet the requirements of transactional utility. Relational rationality depends on the survival of the group and group members. The more resources embedded in the social networks and

the stronger the ties, the greater the collective benefit to the group and relative benefit to each actor in the group.

Relational rationality is based on the principle of survival of the fittest group, a group with persisting relationships among its members. While animal instincts also show such relational rationality for family and clan members, it is only humans who show extensive and generalized relational rationality for solidarity of constructed groups beyond kin and clan criteria. Humans show an interest and ability to maintain persistent and profitable relationships at a reasonable transactional cost. Thus, relational rationality is a human law and based on the rationality of human choice.

Further Analyses

Several further issues need clarification. First, why is the term reputation preferred to other terms such as social approval, social attraction, and particularly mutual recognition or social credits already available in the literature? Second, why is there empirically a tendency in one community or society to focus on one type of rationality (transactional or relational) rather than on another? Further, is it an indication of a historical tendency to have one rationality (transactional) superceding another (relational)? Third, what breaks down this exchange-collective solidarity linkage? Finally, are social and economic capitals two polarized points on a single dimension, thus dictating a choice?

Reputation as an Individual and Group Capital

So far, the argument for social standing such as reputation or social capital does not seem to differ from other similar arguments. Credits are seen as debts to be collected in later exchanges. Pizzorno, for example, argues that mutual

recognition promotes self-preservation.⁴⁶ In order to preserve oneself, the price to pay is to recognize that others will preserve, which presumably brings about others' recognition for one's right to preserve, a principle consistent with the argument here. However, one difficulty of using mutual recognition as the motive or justification for exchange is that mutuality implies reciprocal and symmetric actions, and equity in ranking among actors. These actions and interactions would lead to cohesive but homophilous memberships in a group—group solidarity without differentiation among members. What has been developed here is that recognition can be asymmetric, in return for favors received in transactions, and an episodic account of actions and reactions. Other terms such as social approval and social attraction also suffer from a similar problem. What is argued here is to take the next step: that it is possible to have unequal transactions in relationships, and these unequal transactions form the basis of differential social standing (reputation) among actors in a group.

Recognition legitimizes the alter's (the creditor's) claim to his/her resources. As recognitions increase in episodes and spreads in the networks, we need a more generalized notion to capture the aggregation of episodes of such recognition accrued to an actor in a social group or community. Reputation is the choice proposed here, as it captures the notion that the asset can be possessed and differentiated by groups or individuals. A group can build, maintain or lose a reputation. Likewise, within a group, individuals acquire, attain or suffer from different levels of reputation or ill repute. Thus, like wealth in economic exchanges, reputation is both an individual and a collective asset. Two other concepts seem to capture such an asset: prestige and esteem. However, prestige has been appropriated and understood in the literature to grade positions in the hierarchical structure (e.g., occupational prestige). Esteem is widely used as either a social or psychological process (e.g., self-esteem).

46 Alessandro Pizzorno, "On the Individualistic Theory of Social Order," in Pierre Bourdieu and James S. Coleman (eds.), *Social Theory for a Changing Society* (Boulder: Westview Press, 1991), pp. 209-231.

In the present argument, reputation is understood as a network asset (see, for example, Burt, 1998b). It is built on the processes of transactions and creditor-debtor relations, and the acts of recognitions and dissemination in social and mass networks (see Figure 1). It reinforces the legitimacy of certain actors claiming their resources and positions, and at the same time, offers incentives for further social exchanges and unequal transactions among actors, enhancing their social capital. It also enhances group or collective reputation, and thus solidarity and the building of public capital. I do not rule out other pathways leading to reputation; however, the present argument makes explicit a pathway to the construction and utility of reputation.

Institutionalization of Rationalities

If transactional rationality follows neo-Darwinism and natural law, it may be deduced that the natural selection process will eventually favor transactional rationality over relational rationality. Indeed, many examples and studies demonstrating the relational imperative of exchanges, especially from anthropological studies, draw on data and observations from ancient or primitive societies. It has been suggested that emphasis on interpersonal relationships reflects the nature of communities that are more homogeneous, less technologically developed, and less industrially developed, and where rituals, ascription, and emotion define exchanges. As a society develops technologically and industrially and becomes more diverse in skills, knowledge and production, division of labor requires more rational allocation of resources, including the increasing importance of rationality for resource transactions in exchanges. It has further been argued that the relational significance in economic exchanges today represents residual effects from the past. As the selective process proceeds, relational significance will eventually be superseded and replaced by transactional significance. An analysis of exchange relations can be seen in a

particular society, such as *guanxi* in the Chinese context,⁴⁷ or *blat* in the Russian context.⁴⁸

This view is paradoxical in that if transactional rationality is the law of nature, then one would find exchanges in more primitive or archaic communities to resemble natural instincts more closely. Indeed, Homans sees the development of more complex societies with increasing institutions as evidence of why more "primary" social behaviors (and exchanges) are becoming less visible.⁴⁹ However, these "subinstitutions" remain powerful, and unless satisfied by the new institutions and "good administration," they can come into conflict and disrupt them. Modern society and its multitude of institutions, then, are seen as the enemy of both transactional rationality and relational rationality.

Further, this thesis simply is not supported by empirical facts. Studies show that in contemporary societies (such as China, Japan, northern Italy, and much of East Asia), even among those well-developed and economically competitive societies as the United States, Britain, Germany and France, relationships remain an important factor even in economic transactions. The evidence is that the significance of relationships in exchanges not only exists, but thrives in diverse contemporary societies.⁵⁰

If there is no logical ground or empirical evidence to support a developmental view between relational rationality and transactional rationality, what, then, accounts for the dominance of one rationality over the other? I propose that the dominance of a rationality as an ideology reflects the stylized accounting of a society for its survival using its own historical experiences as

47 Nan Lin, "Guanxi: A Conceptual Analysis," in Alvin So, Nan Lin and Dudley Poston (eds.), *The Chinese Triangle of Mainland China, Taiwan, and Hong Kong: Comparative Institutional Analysis* (Westport, Conn.: Greenwood Press, 2001), pp. 153-166.

48 Alena Ledeneva, *Russia's Economy of Favours: Blat, Networking, and Informal Exchange* (New York: Cambridge University Press, 1998).

49 George C. Homans, *Social Behavior: Its Elementary Forms* (1961).

50 Nan Lin, "Chinese Family Structure and Chinese Society," *Bulletin of the Institute of Ethnology*, 65 (1989), pp. 382-399.

data. The theorized accounting becomes "truth" as it becomes embedded in its institutions.⁵¹

It is not hard to document that in some societies, survival and persistence are attributed to the development of wealth. Theories of wealth and its development dictate institutionalization of transactional rationality, as it characterizes the building of individual wealth, and thus of collective wealth. Competition, an open market (and thus free choices of relations in transactions), and reduction of transactional costs dictate analytic assumptions and organizational principles. In other societies, survival and persistence are attributed to the development of social solidarity. Theories of group sentiment dictate the institutionalization of relational rationality, as it characterizes the building of collective solidarity, and thus of individual loyalty. Cooperation, networking, and thus maintaining *guanxi* even at the cost of transactions, also dictate analytic assumptions and organizational principles. Once rationality becomes the dominant ideology, institutions are developed to implement, operationalize, and reinforce specific individual and collective actions. Further, its explanatory scheme treats the other rationality as irrationality, noise or constraint.

The prevalence of institutional rules and the dominant ideology ebbs and flows in accordance with the fortune of the historical experiences as theorized. Since the 19th century, the Anglo-American experiences of industrialization, technological innovations, and electoral democracy have clearly led to its theorizing of accounting as the dominant ideology. Wealth-building takes the central stage in political strategies and intellectual analysis. Social exchanges are markets for transactions. Any relations that sacrifice transactional gain are attributed to an imperfect market due to lack of information, and social organizations and social networks are necessary constraints due to such imperfections. Even then, they inevitably incur transactional costs and should be analyzed as such.

51 Nan Lin, "*Guanxi: A Conceptual Analysis*" (2001).

On the other hand, there exists in many societies and communities, as, for example, *guanxi* in the Chinese context, the willingness to maintain social relations is seen as expressions and practice of the higher-order law of morality, ethics, and obligations to other human beings. An actor's social reputation and social standing are paramount. Reputation and face are the core concepts in political strategies and intellectual enterprises, and transactions are of secondary importance in exchanges. Sacrificing relationships for the sake of transactional gain is considered a lower-order rationality; as immoral, inhuman, unethical, or animalistic.

Misrecognition and Ill-Reputation

Breakdown of the linkages among exchanges-relationships-recognition-reputation can occur at every link of the process. It may begin at the exchange level, when a rendered favor in transactions is not recognized. When a creditor-debtor relationship is not recognized, then the only basis for persistent exchanges is transactional utility, where relations and partners are accidental and secondary in choice considerations. When the transactional cost exceeds the benefit, then the incentive to maintain the relationship no longer exists.

When recognition for a rendered favor does take place, the creditor can still disengage from the relationship, if the network in which the recognition takes place is not resource-rich for the creditor. Recognition in a circle of braggers is not meaningful for a fashion designer or scholar. Recognition in the "wrong" network or group may also be useless or even undesirable for a creditor. Acknowledging a scholar's advice in a publication in a third-tier journal will not help the reputation of the scholar and a piece in a mimeographed journal may even damage the scholarly reputation. Further, if the recognition is not sufficient to reflect the extent of the favor given, disengagement may result. For example, acknowledging one's help in a footnote while the helper did all the data collection and analysis would provide a disincentive for such help in the future.

Negative recognition may also occur if the debtor does not consider that the favor rendered meets the expectation. Spreading a bad word in the network can lead to negative recognition and bad reputation (ill-repute). In this case, the creditor can decide either to increase the favor in future transactions, reverse the direction of recognition, or disengage from future transactions. The decision is a weighing process where the relational gain (or recognition gain) is weighed against the added transactional cost, or the cost of disengaging from the debtor and possibly from the network is weighed against having a tarnished reputation but remaining in a resource-rich group.

Similar considerations can be given from a debtor or group perspective. When would a debtor be expelled from further exchanges? Is it the behavior of spreading bad word while gaining transactional profit, or playing the debtor game without ever considering granting favors? When would a group's solidarity begin to break down? If group solidarity is indeed based in part on the extent of reputation among its members and the extent of reputation of its leading "citizens," then is it the group size, or the relative sizes of debtors and creditors, or a function of both that would bring about the erosion of group solidarity?

In short, while the present paper focuses on the "positive" processes, there is a great deal to be developed regarding breakdowns in social exchange processes. Such developments are just as important for a theory of social exchanges.

Complementarity and Choice between Social and Economic Capital

These stylized arguments suggest that both economic and social standings are meaningful criteria for survival, and constitute fundamental bases for rational choices. Lest it sounds as if it is being argued that the two types of rationality are polarized values on a continuum, and that the two types of rationality are mutually exclusive (an either-or proposition), then let me hasten to add that there is no theoretical or empirical reason to propose that this should be the case. It is

conceivable that relational and transactional exchanges are complementary and mutually reinforcing under certain conditions. In an ideal situation, a particular relationship may be profitable for both relational and transactional purposes. It generates transactional gain for both actors and both actors engage in social propagation of the other party's contribution to one's gain, thus increasing each other's social capital. In this case, it is said that there is an isomorphic utility function for both the relationship and the transactions. An isomorphic utility function promotes exchanges between two actors, as the survival of each individual and the survival of the interacting group are both being enhanced. In this idealized situation, the two types of rationality co-exist, complement, and interact.

This does not hide the potential violence between the two rationalities. Transactional rationality recommends abandoning a particular relationship in favor of better-off transactions. Partners in exchanges are incidental, so long and only to the extent that such partnerships generate transactional gain. This principle clearly puts relational rationality in the second-order of choice criterion. Thus, more often than not, a choice needs to be made between transactional rationality and relational rationality.⁵² That is, optimal transactions do not match optimal relationships. According to the decision rules specified earlier, then, optimizing transactions would lead to seeking alternative relationships, and optimizing relationships would lead to imbalanced transactions. We may speculate that the choice over the two types of exchanges is related to public capital—wealth and reputation—in the larger group. Several alternative hypotheses may be posited. First, when one collective capital, say wealth, is low, it is expected that individuals favor the gaining of the other particular capital, say reputation. In this situation, two alternative and competing hypotheses are possible. In one formulation, the marginal utility principle would guide the

52 For primordial groups, the choice seems to favor relational rationality over transactional rationality (transmission of properties to children, see Nan Lin, *Social Capital: A Theory of Structure and Action*, 2001, Chapter 8).

explanation. What is expected, then, is that in a community abundant with wealth but lacking in reputation consensus (say, in a community with a great number of newcomers and immigrants, but with plenty of physical and economic resources), reputation is more valuable for individuals than wealth. Likewise, in a community abundant with reputation but lacking in wealth (say, a stable community with scarce physical or economic resources), then individuals would tend to favor gaining wealth. However, in another formulation, the collective utility drives individual desires as well. When the collective asset is low on one capital, say wealth, but high on another, say reputation, then the collective would favor standings based on the more abundant capital, reputation. Individuals, likewise, would ascribe a higher value to reputation as well. Here, I speculate that it is the collective utility principle that should operate.

Second, when both types of public capital are abundant, then it is expected that there is a strong correspondence and calculus between the two types of capital. That is, having more of one type of capital increases the desire and likelihood of having more of the other type of capital. In a community where both wealth and reputation are abundant, then either choice of striving for more wealth or for reputation is a rational one. The gaining of one type of capital would also increase the likelihood of gaining the other type of capital. Thus, in a stable community with abundant physical and economic resources, both wealth and reputation are important and complementary.

When a community lacks both wealth and reputation (unstable population and scarcity of physical and economic resources), it is expected that the community will be fragmented and contested in terms of valuation assigned to wealth and reputation. Individuals are expected to strive for either wealth, reputation or both, depending on the size of the social networks one is embedded in (the larger the network, the more likely reputation gains will be favored), and accessibility to physical and economic resources. The lack of collective

consensus and patterns of exchanges make such a collectivity vulnerable to chaos or change. These conjectures should be investigated.

Nevertheless, beyond a level where bare survival is at stake, or where capital has been accumulated by only a few members, desirable economic and social capital can be obtained in exchange relationships. An actor with a high social status and a wealthy actor can "borrow" each other's capital, further promoting their own capital or building up the other type of capital. Accumulation of one type of capital also allows the actor to engage in exchanges promoting his/her other type of capital. If a wealthy banker donates money to the needy and the transaction is well publicized, it generates social credit and social recognition for the banker. Likewise, an esteemed physicist may lend her/his reputation in advertising a product and generate handsome monetary returns. Good capitalists understand that they must be both instinctive and human, and that this is good for them and for others as well.

It is also important to note that in the final analysis both transactional and relational rationalities are socially based. Without the legitimization and support of a social and political system and its constitutive members, the economic system, based on its symbolic and generalized medium—money—simply cannot exist. To say that relational rationality is subsumed under transactional rationality is instinctively attractive, but humanly impossible.

Eastern Rationality and Western Rationality as Bases for Identify

By now, we may reflect on the "cultural" significance of my effort at delineating relational rationality in contrast to transactional rationality. It would be wrong to argue that the Eastern culture favors relational rationality in exclusion of transactional rationality or/and that the Western culture favors

transactional rationality in discarding relational rationality. Nor is it correct to argue that only one type is rational and the other type is merely irrational. In every culture, I argue, both types of rationality are present. However, history plays a huge and decisive role in elevating one type of rationality over the other as a favored institution. Due to a combination of political and economic events (e.g., failures of imperial and urban/rural elites, decentralized urban centers and markets), technology (e.g., textile machinery, and steam engines) and resource acquisitions (e.g., silver in the New World), success (e.g., material triumphs in colonies and "spiritual" triumph in the New World) gradually formed ideations of individualism, freedom, and competition over time and a cultural identity based on transactional rationality in exchanges emerged. Over time, such ideology has formed the basis of identity—people believe in its values and merits, sustain them as favored institutions, and behave and interact by the rules.

In contrast, the East, principally in China, relational rationality has had its own deep and historical root. Over time, Confucian scholars consolidated the meaning and significance of relational rationality as institutions and empires reinforced the ideology and implemented it in the construction of bureaucracy and local organizations. Individuals are expected to take reputation as the guide in behaviors and exchanges.

It should be noted that relational rationality has always existed in the West, even during the heyday of the industrial revolution and colonial expansion (see Adam Smith on sentiment). Transactional rationality also persisted in China and elsewhere in the East. But the priority of institutions in identity is clear. Individual freedom and "rational choice" are favored in intellectual and political arenas in the West. Group solidarity (e.g., a harmonious society) and reputation remain paramount in intellectual and political discourse in the East.

Yet in the prevailing scholarly discourse, largely dominated by the Western identity, transactional rationality has become an overwhelmingly favored

"theory." This essay to an extent reflects the roots of the "Eastern discontent" in theoretical contributions to the normative practices of science and the historical development of sociological theories during the 19th and 20th centuries in Western Europe and North America. Since scientific communities are expected to transcend national or societal boundaries, and theories are attempts at universal principles, scholars in the East are constrained in the number of options available to them in order to receive acceptance and recognition in the global scientific community dominated by practitioners from the West. Discrepancies of evidence from other societies are often questioned for their "generalizability" or explained by way of contingencies. Further conservation of received theories was made possible with the extension of the received theories through developmental theories.

Theoretical formulation or paradigmatic contribution is very difficult, because it represents a challenge to received theories. For this challenge to occur, several conditions are necessary. First, there must be consistent and persistent evidence that the alternative theory explains a set of phenomena that cannot be adequately explained by an existing or received theory. Secondly, there has to be a critical mass of scholars who support this claim. And, thirdly, it must be demonstrated that the alternative theory may supplement a received theory, or supersede a received theory. Supplementation indicates that there are phenomena that are outside the realm of prediction from the received theory, but can be explained by the alternative theory. Superseding means that the phenomena that can be explained by a received theory can also be explained by the alternative theory, and yet, there are additional phenomena that the received theory cannot explain but the alternative theory can.

Placing relational and transactional rationalities on an equal footing in intellectual discourse is a preliminary step in engaging such a challenge. Placing the discourse in the context of cultural identity may be one viable perspective in this challenge. Just like transactional rationality benefited from the rise of the

industrial West, relational rationality may as well gain a good footing as the industrial East emerges.♦

♦ Responsible editor: Yi-Hsin Cheng (鄭以馨).

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