

The Global System of Finance

Scanning Talcott Parsons and Niklas Luhmann for Theoretical Keystones

By ALEXANDRA HESSLING and HANNO PAHL

ABSTRACT: In the last decades revolutionary changes of financial markets, instruments and institutions have stimulated empirical and theoretical investigations on the interaction of the financial and the 'real' side of economic systems. While a considerable body of empirical investigations seems to provide evidence of positive correlations between stock market development and economic growth, there is no consensus in other social sciences whether there are two-way linkages, and if so, how to conceive possible mechanisms of interaction. Particularly the hypergrowth and ubiquity of financial markets has triggered off controversial debates on how to understand today's economic landscape. With the objective of clarifying the relationship between finance and economy, this paper restructures the present debate through the lenses of Talcott Parsons' and Niklas Luhmanns' theory of social systems.

Both contributions are going to be scanned for theoretical keystones to put the relations between global finance, economy and society on more theoretical grounds. For these purposes, we will start with introducing some basic conceptual ideas. The second section is thus dedicated to search out finance in the context of the economy and society along the lines of Talcott Parsons' analytical boundaries of the AGIL scheme. From this analytical perspective, special attention is given to patterns of differentiation in society and economy and to credit mechanism and financial markets at the boundaries between society's and economy's subunits. At this juncture we will focus on Parsons' *Economy and Society*, where he certainly has worked out his most sophisticated ideas on financial markets and the economic system.

The German sociologist Niklas Luhmann has taken up these ideas and further developed Parsons' theory of social systems. To draw a distinction between both approaches, Luhmann's adaptation will be presented separately in a third section. The theory of social systems radically disclaims any model of causality. That is to say, neither do financial activities reflect 'real' economic activities, nor do they simply destroy or foster them in a linear measure. Instead, we can understand the hyper-growth of finance as a social phenomenon that derives from processes of internal differentiation in economy and society. The financial system has developed from evolutionary peculiarities of the economic system. And this is why their relationship is ought to be explained in terms of co-evolutionary and functional (not causal!) interdependency, while the financial system itself builds on its own and autonomous mode of operation.

The fourth section enters empirical grounds and takes up current changes of financial markets, instruments and institutions. At this instant, we will refer to various academic contributions in order to supplement empirical investigations to our theoretical presumptions about the autonomy of global finance. The concluding section summarizes the arguments and critically reflects Parsons' and Luhmann's contributions to fathom the relations between finance and economy.

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