

Toward Socio-Economics

Dangerous Currents: The State of Economics, by LESTER C. THURLOW. New York: Random House, 1983. 247 pp. \$5.95 paper.

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Thurlow's excellent overview of the state of mainstream Western economics provides much more than an incisive analysis of a sister discipline (if you think sociology is troubled . . .); it also indicates the dangers of excessive mathematization (which may befall any discipline) and points to the need for an interstitial field, part economics and part sociology.

The State of Economics

Thurlow's main thesis is that economics is based on two incompatible models. One, which is the basis of microeconomics, is referred to as the "equilibrium price auction model." It assumes that all goods and services (and labor) offered within the context of competitive bidding (governed by supply and demand) will find a price at which they will be bought and sold; i.e., the market will "clear," will maintain equilibrium. (Sociologists are familiar with this approach from Parsonian assumptions that deviance will trigger processes of socialization and social control that will overcome deviance and maintain "the system.") Thurlow points out that while the model does not fit reality, it is very widely subscribed to because it provides "intellectual consistency" and can be subject to mathematical analysis.

Macroeconomic findings are in direct contradiction. For instance, labor markets do not "clear." When there is high unemployment, labor prices do not fall proportionately, leading workers to be hired and unemployment to be overcome. Labor prices are "sticky" on the down side, in violation of the model. The fact is that group processes (and the advertising industry) can change people's preferences; they are not fixed, as economists assume. Firms, far from being merely subject to

market forces, responding to signals sent to them via changes in prices to which they must adjust, have varying measures of control over the prices and hence over the market. To solve the dilemma, Thurlow argues that economics must have "a new microeconomics consistent with macroeconomic problems, and then build a new macroeconomics upon that foundation."

Formalization

Science builds on a judicious blend of empirical and logical elements. The empirical element protects theories from being too removed from reality; the logical element allows investigators to move beyond facts locked in historical time and unique occasion. By becoming exceedingly mathematical, Thurlow shows, economics has lost touch with the reality it seeks to study. As similar tendencies are visible in all social sciences, albeit to a much lesser extent, the economics experience deserves wide attention.

Basically what is happening is that rather than deriving hypotheses and submitting them to empirical tests, economists—who rarely collect data—start with a body of data collected for other purposes, often as part of the regular working of the government (e.g., unemployment statistics). They then try to fit the data into mathematical molds which imply unrealistic and extremely simplified assumptions about the underlying human behavior. When a reasonable fit is not achieved, the difference is attributed to some unmeasurable, untested factor. The model is maintained, damn reality. A typical exercise runs as follows: $N + P$ (two model variables) + X (the *ex machina* residue) = Z (the observed phenomenon). The size of X ? What is missing for $N + P$ to total Z .

For instance, economic models assume that differences in wages will explain labor mobility: Workers will move to where higher wages are. When many do not, it is assumed that the difference is due to "psychic income" that the current workplaces offer. Its size is assumed to be whatever the equation requires so that it exceed the wage differential to which workers are not responding. No attempt is made to verify that psychic income, rather than some other variable, is indeed the factor or that the magnitudes assigned to it are even roughly empirically correct. Some of Thurow's harshest words are reserved for the sterility of this new form of scholasticism.

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In his closing chapter Thurow indicates the direction in which a new foundation for economics is to be found. He urges economists to abandon the view that people are self-serving, cold-blooded calculators, out to advance rationally their self-interest. This should be replaced by a more realistic view of human nature, to be developed by drawing on psychology, sociology, and anthropology. Thurow repeatedly refers to the fact that people are integrated into membership groups that affect their workplace behavior (for instance, in quality-of-work-life programs); are organized by labor unions (and hence do not approach labor markets as individuals); and are influenced by reference groups (say, in what they buy). He scoffs at theories of the firm that see it as a unitary decision-making unit, serving one goal, profit-making. And he points to the absence of a detailed theory for oligopoly, which deals with the relations among firms that control parts of the market.

For me, Thurow's most significant contribution is not his criticism of economics. Having spent the last year catching up on economics, I have acquired a considerable library of books by economists and others bewailing the malaise of economics. It is the direction of the cure he favors that is important. Several other writers favor a rather different approach. Rather than incorporating the lessons of social science and of economics, they try to evolve a new meta-social science of rational choice. This meta-science starts by relaxing the definition of rationality. For instance, Herbert Simon argues that behavior that is functional is rational because it serves the actor, even if the actor is unaware that a choice is being made (among means, in pursuit of a goal [Simon, 1978]). Indeed, rats have been shown to behave rationally by this definition (Kagel and co-workers, 1975). Attempts are then made to show that people act

rationally not only in economic matters but in courtship and marriage (Becker, 1976), in crime (Tullock, 1969), in political science ("public choice"), and in social relations ("exchange theory"). The sway of normative and social nonrational factors is denied. Examinations of the evidence that cannot be undertaken here (Barry, 1978; Etzioni, to be published) strongly favor the other direction on both empirical and conceptual grounds.

The other direction is to recognize the role of nonrational factors, to follow the watershed of *The Structure of Social Action* (Parsons, 1937) and the work of Durkheim and Weber, rather than returning to the nineteenth-century assumptions that precede it. This requires examining the role of commitments to collective needs, beyond individual self-interest, in economic behavior, and recognizing that individuality exists only against the backdrop of group and organizational behavior and that persons are motivated by noneconomic incentives and considerations even when acting in the economic realm.

Whether this new approach is to become a new interstitial discipline, one I call socio-economics (the way bio-chemistry bridges those two natural-science disciplines), or the way of reforming economics itself, is a secondary issue. The main point is the one Thurow makes (as Dunlop, 1977, and Shultz, 1974, among others, made before him): To understand economic behavior, noneconomic variables must be systematically incorporated into the relevant theoretical framework. ●

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