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This paper contains three parts. The first outlines the reasons I believe the time has come to develop a shared disciplinary core for socio-economics. It then turns to the principles that ought to guide us in developing such a core, and finally, suggests several specific elements for such a discipline. While my discussion benefits from a document formulated when SASE,<sup>1</sup> a society founded to advance socio-economics, was first founded, all that follows reflected my current views as to on what is to be done and to feed into a dialogue on this subject. Clearly, the only way such a core can be developed is through an extended and extensive dialogue among those of us who are concerned about the future of socio-economics as an academic discipline, as a basis for public policy, and as a source for our fellow persons to better understand and guide the social and economic world in which we all live.

### **NEXT: A DISCIPLINARY CORE**

Socio-economics has come a long way over the last decade. Energetic and dedicated leadership and fine executive directors have put the International Society for the Advancement of Socio-Economics on sound footing. Attendance at annual meetings is solid. Colleagues attend because they find the meetings stimulating; they hardly provide a job market, a reason many feel they ought to attend the meetings of many other disciplinary associations. The executive council is much stronger than it used to be. Several new books have been published that cover socio-economic topics.

With this in mind, three next steps seem to suggest themselves: (a) Socio-economics ought to become institutionalized, in the sense that we need to find or form some graduate departments or schools that are willing to train students in socio-economics and accord degrees in this field. There is a steady demand for socio-economists, especially by CEOs and heads of NGOs, but no supply. (b) We need a journal in which to publish solid socio-economic works rather than a grab bag of papers that happen to come in over the transom, many of which should not have been published in any place, and most of which have not a socio-economic bone in them.

(c) Both developments are conditioned on the third one, that socio-economics develop a limited core of shared principles. Neoclassical economics, for instance, is built around the perfect competition model and all that it entails. Law and economics, which now commands the loyalty of maybe as many as a third of the legal scholars in the USA, in turn is based on the neoclassical model. Biology long took one form or another of Darwinism as its core. As a result, members of these disciplines can take certain core assumptions for granted. These serve to establish what is part of the discipline and what belongs elsewhere; to allow members of the discipline to build on rather than continually examine elementary terms and the basic approach; and--most important--to provide a base for the accumulation of knowledge generated by different scholars. This is what socio-economics seems to be ready for and indeed requires, if it is to grow significantly as a discipline beyond its current level.

### **A PARADIGM SHIFT**

My argument is that to develop the said shared socio-economic core, we require a paradigm shift--a basic change in perspective. There are now two fundamentally different

paradigms of social science, which in turn have deep connections to distinct bodies of social philosophies, ethics, social values, and even political ideologies.

One paradigm is centered around the individual, who is assumed to be the agent, the choice maker, the foundation of liberty. (Among those who speak in this way are classical liberals, contemporary classical liberals, laissez-faire conservatives and libertarians).

When economics is formulated in the terms of this paradigm, as neoclassical economics is, we find as a core concept that of consumer sovereignty, the examination of which will stand for many others. This is the notion that the direction of the economy in toto arises out of an aggregation of individual choices and transactions. This is the cardinal assumption that guides much of the work in the neoclassical approach. Thus, if a neoclassical economist is studying how to make people save more, she will “naturally” think about increasing the incentives for people to save (e.g. increase the amount one may contribute to an IRA) or the disincentives for not saving (e.g. introduce a tax on consumption). She is much less likely to start the analysis by considering increasing the budgetary surplus and/or paying off more of the national debt, much more effective ways to boost saving than trying to affect the choices of millions of individuals. Of course, there are macro economists who study national budgets, but they cannot find in their paradigm the principles and concepts that nourish analysis that are not based on aggregating individual choices.

One should also note that the neoclassical approach has clear normative and political roots and consequences. Granted, it would be wrong to imply that all or even most neoclassical economists--those who build on the individualist paradigm--are laissez-faire conservatives or libertarians, Thatcherites or Reaganites. It would be, though, accurate to observe that there are

certain basic assumptions shared by neoclassical economics and by these ideologies. They nourish each other.

Socio-economics, as I see it, best draws on a different paradigm, one that builds on different core assumptions and implicit normative content. So far it has been much less well articulated than the individual-centered one, but nevertheless, it has been and is very influential. One may refer to it as a societal-historical, institutional, or cultural approach.<sup>2</sup> Because it focuses on factors that affect the preferences and choices of millions of individuals--such as the epoch in which people live and the culture that surrounds them--I will refer to it for short as a macro approach. And just as the individualistic paradigm does not reject macro factors (although it has a hard time accommodating them), so socio-economics has room for the study of aggregations of individual choices, although this is not at its core. Note that an overwhelming majority of the topics listed in the Madison Declaration on the Need for Socio-economic Research and Theory, concern macro elements.<sup>3</sup> (Robin Stryker correctly points out that further sophistication requires a multi-layered approach that goes beyond that macro-micro dichotomy, a point not further discussed here.)<sup>4</sup>

If one accepts, for the sake of discussion, that socio-economics requires a different paradigm than neo-classical economics, two insights follow. First, it is counterproductive to try to convince neoclassicists that they are making wrong assumptions, or to chastize them for not incorporating societal, cultural, and historical factors in their paradigm. It is futile because once a discipline has acquired a definite core, its members' "job" is to defend it, to try to work within it, and to try to incorporate into it pesky challenges rather than abandon the paradigm. (See, for instance, the way social norms have recently been treated by neoclassical scholars.)<sup>5</sup>

Moreover, if one examines how paradigms have historically shifted, one finds that new paradigms have not emerged because followers of the old, obsolescent paradigm were won over to new ways of approaching the world. Rather, a group breaks away from the old tradition or a new group is formed, giving rise to a legitimate conflict between the old and new paradigms. Then the “market” decides which paradigm has more evidence and is more compelling, although often both the old and the new coexist for long periods of time. The main contest is over new followers rather than converting the old-timers.

Ergo, if there is going to be a socio-economic disciplinary core it will rise out of the work of socio-economists, not neoclassical ones, and most of them--at least the hard core--will not be won over. New generations and those who have not previously committed themselves to any particular paradigm, are going to be the carriers of the new one. It also follows that socio-economics, by definition, is an interstitial discipline; it is a bridging discipline. In that sense, it is similar to biochemistry and social psychology, rather than biology or chemistry, sociology or psychology. Its variables are derived from two or more social science disciplines rather than from any one. (The term “socio” in socio-economics does not stand for sociology; it includes major segments of psychology and anthropology, history, and political science--the whole complex of disciplines that are examined the relationships between society and the economy.)

Moreover, the paradigm at the foundation of socio-economics points to the “location” of causality (or independent variables). Socio-economics requires, on the face of it, that one deal with one or more social variables and one or more economic variables. If one deals only with economic variables--for instance, if one studies whether low levels of unemployment and high rates of inflation are correlated--one is not in socio-economics. It is a fully legitimate subject for

study, but an intra-economic one. And if one explores the question of the effects of fundamentalism on science, this study, too, is not part of socio-economics, because all the variables are social and none are economic. Socio-economics arises when analysis starts with the independent variables in the social realm, and then moves to economic dependent variables. For instance, do people who are more conservative in their political ideology save more than those who are not? Do people who are alienated make for less productive workers? Does lobbying affect prices and to what extent? What social and political conditions make for higher economic growth? And so on and so on.

Next, and on the same point, it is a grave error to treat the economy as self-sustaining system, to view the market as separate from society (and its polity). The starting point of socio-economic analysis is that the economy is a sub-system of the societal system. Much of what is occurring within the economy is best explained by attributes and processes that occur outside of it. To cite just one very well known and compelling example: Max Weber's study of the social (and religious) conditions under which capitalism arises and thrives.

To make the difference between neo-classical and socio-economics less abstract, here is a specific example. George Stigler wanted to provide an example of the governing assumption of neo-classical economics, that the market (an aggregation of the choices of all participants) ultimately set the context in which individual choices must be made. Thus, if a manager reads the market correctly in terms of what will sell at what price, then that manager's corporation will stay in business; if the manager misreads the market's signals and persists in not responding to its dictates, the firm will be soon bankrupt. To illustrate this point, Stigler focuses on wheat farmers. Each farmer cannot decide what he or she will charge for a bushel of wheat; they can

charge only what the market will bear. The market decides. The core assumption is that the market works like an anonymous box into which suppliers throw in their bids and buyers throw theirs, and out of this invisible hat the “correct” price prints out.

A socio-economist, not bound by the aggregate individualist paradigm, will note that in the United States, farmers are not merely “in the market” but also in the polity; they are members of one of two political lobbies. These lobbies influence Congress to enact various legislation that greatly affects the price of wheat. While this is now changing, for the last 40 years, the price of wheat was not determined by an autonomous machine: it couldn’t fall below a certain level because the government protected the price. (The details were a bit more complicated. To protect their egos, the farmers did not want to take money directly from the government; handouts were for despised welfare recipients. Farmers, therefore, gave their wheat as collateral to the government, which in turn gave them loans. If the market price moved up, they took the wheat out and sold it; if it fell, they left the wheat in the silos, the government fortified and kept it, and it rotted. When all was said and done, the government ensured that the price the farmers got did not fall below a certain level, as determined by politics and not the market.) The price reflected the fact that the farmers lived in both the polity and the economy, and they used their lobbying citizen’s hat to influence the economy. Farming is hardly the only sector in which this occurs. If you look at textiles, you will find that we have something called a multi-fiber agreement, through which the government controls how much textile is imported from what country and at what prices. For many years, we had a trigger price for steel; reflecting pressure from Congress, we had a so-called voluntary quota limiting the importation of cars from Japan to 1.25 million. The same can be found in many other areas. About the only sectors in the United States that truly

approximate the neoclassical model are Chinese restaurants and laundromats and even they are regulated by the city that tell them they cannot open one too close to another.

### **A CORE THEOREM: SELF INTEREST AND VALUES**

To reiterate, socio-economics, by definition, is an interstitial science. To apply this essential observation--just illustrated on a macro, societal level--to the micro, individual level, the following core theorem might be considered as a cardinal building block of socio-economics: Individuals' decisions and behaviors, far from following one unified principle, or seeking to maximize pleasure and minimize pain, or marching to one overarching utility, reflect empirically the conflict between two--at least two--irreducible utilities. The first is our desire for pleasure; the other, our moral obligations.

To start with an extremely simple example: When one says, "I would like to go to a movie, but I ought to visit my friend in the hospital," the statement contains what is pleasurable and what is morally called for. Indeed, most of our values are dedicated to pulling us against the pleasure principle. Whether religious or secular, they call on people to fast, to give to the church, to not engage in sex, and so on and on. In other words, there are certain things one is supposed to do which are of virtue for a variety of reasons, but the common variable they share is that they pull us in directions that are counter to where the pleasure principle pushes us.

Our nature is to be conflicted between these two "utilities." Much of what we do reflects this inevitable tension between things we would like to do and things we ought to do. Many empirical observations support this generalization. Let's start with the question of why people vote. Economists find it surprising that people vote; such behavior doesn't fit the standard economic model. Individuals are expected to do things for a return, for profit, or for some other

form of benefit. When one votes, one cannot reasonably expect that the vote will make a difference. So the question economists ask is, Why do people expend the time standing in line and lose leisure or work time, when there will be no specific outcome for the person?

For a socio-economist, this behavior is not puzzling. The number one variable that explains the difference between people who vote and those who don't is the sense of civic duty. Those people who do, feel they have an obligation to vote. To them, it is the right thing to do. Those who have this sense are much more likely to vote than those who don't have such a sense.<sup>6</sup> This is not to suggest that the length of lines, the weather, etc., don't make a difference; they do affect the "costs" of voting and do affect behavior. But the number one factor explaining the variance is the relative strength of the person's sense of civic duty.

Another illustration. If people were to act only to maximize their pleasure, those who smoke would vote against taxes on cigarettes, and those who do not would favor these taxes. The fact, though, is that there are a large number of smokers who vote *for* taxes on cigarettes, because they feel they are damaging the public and ought to do something to compensate for that. And there are a fair number of non-smokers who vote *against* these taxes because they are libertarians, or they feel the government should not interfere. A study found that individuals told that conserving energy during peak demand periods would be good for the community were likely to lower their electricity use during such periods, if they felt that households as a group could make a difference.<sup>7</sup> People's moral concepts, their social philosophies are not the only factors used to make decisions, but they are important ones for understanding their social political economic behavior.

One last example: neoclassical economists try to explain why people--most people--with spouses who have Alzheimer's stay with them. These economists treat marriage as an economic contract, in which an exchange of services takes place for income and services. But with Alzheimer's, there is no payback because there's no reasonable hope that the person who is afflicted will recover and take care of the other person. One may say that the treating spouse does so because of the kudos he or she will receive from members of their extended family and neighbors and friends. However, tending to an Alzheimer's patient day-in and day-out is so taxing that all the kudos in the world could not make up for it. And finally, economists use the notion of psychic income. But again, that explanation fails because the afflicted person does not respond with a warm appreciation for the service; indeed, they become ever more abusive as time goes on. So why do most spouses not walk out on their afflicted husband or wife? When one interviews these people, one repeatedly hears the statement that "this is the right thing to do;" the same sentiment is found in Roberta Simmons' studies of kidney donations. People have a strong moral commitment, a powerful factor which outweighs the pain they have to endure.

My thesis is not that values drive behavior but that there is a continual conflict and tension between self-interest and the pleasure principle on one hand, and powerful moral commitments on the other. It follows that socio-economists would benefit if they took as their starting hypothesis that people are conflicted, and then tried to understand their inconsistencies and tendencies to zigzag as resulting from their being subject to these two competing super-utilities.

## **THE SOCIO-ECONOMIC MIND**

No theory of human behavior can be developed without a core assumption about the intellectual capabilities of the person. I suggest that our deliberations use as their starting point the key observation that people are poor processors of information--just the opposite of what used to be the neoclassical economists' assumption that information flows instantaneously and is absorbed instantaneously, all without any costs. The economists wisely retreated from these assumptions, and they now recognize that information is not immediately absorbed and the process has costs. In this and several other contexts they refer to "imperfect" systems. This is a tricky concept that is inadvertently misleading. The term implies that there is a speck of dust on the perfect scale. Actually, people's limits on information processing are much larger. Indeed, strong evidence shows that people start with little knowledge and that they are slow and poor learners.

A simple case in point: every day millions of people all over the world call their brokers and either ask their advice on which stock to purchase or order them to buy one, on the assumption that these individual investors could beat the market averages. (Otherwise they would buy index funds and save costs.) However, there is strong, consistent, robust data to show this is an irrational act; one cannot consistently out-perform the market. Moreover, brokers have a conflict of interest with the callers; brokers benefit from high turnovers in the accounts, while investors benefit from low turnover and low transaction costs. Moreover, despite the fact that studies supporting the use of index funds rather than brokers have been repeatedly publicized in the popular press, in classrooms, and on television, millions persist in such untutored behavior.

### **NEXT STEPS: FIRST APPROXIMATION, SCIENTIFIC**

### **DISCOURSE AND CORE BUILDING**

Where might we go from here as a discipline? We should draft a small number of core assumptions and hypotheses of the kind I have illustrated in the previous pages and in *The Moral Dimension* (summarized in the table below). In doing so we ought not seek definitive statements but first approximations. One reason socio-economics has been slower to develop than it might have otherwise been is that we have been seeking a higher level of precision or closure than is possible or necessary at this stage.

One example: a socio-economist may well consider the observation that behavior (including choices) is more group than individually determined as either too obvious to be included in our set of core assumptions or too general to deserve to be noted. A solid socio-economist may well wish to first ask: Is there not more than one group that influences the same individual? How much of the variance does each group determine? Under what conditions does this determination increase versus subside? All these are valid, but second order, specifications. We should not belittle the importance of simple first approximations because they clearly differentiate socio-economics from neoclassical economics and, above all, because they provide a theoretical home for thousands of much more specific observations (e.g. the way people vote, what they consume, which media they are exposed to, and much else, is largely determined not by their individual choices but by the social groups to which they belong).

Moreover, as preliminary and elementary as these observations are, they point to numerous policy recommendations as to how to reach people when we seek to change their behavior. One example: if one seeks to curb alcoholism the principle that the group is pivotal and that people chose largely within and with their group leads one to see that policies that are group-centered work much better (as Alcoholics Anonymous does) than those that try to directly reach

the individual through ads, one-on-one rehab, and so on. I am not suggesting that we should forego specifying such core observations along the suggested and other lines, but we would do well to start now by formulating a set of first approximation core assumptions to make up our shared disciplinary core.

To make it shared, we should--once such a core is drafted--submit its assumptions to intensive and extensive scientific discourse among our members. In the process we may find these core assumptions need to be revised, that some of our colleagues need to be persuaded of their merit, and that they elicit still other ones. Assuming that a core of such assumptions could survive such scrutiny, we would have the beginning of a shared core for socio-economics, which would then be a shared discipline and not merely an association of colleagues interested basically in the same part of the universe. This core would then nurture our teaching, meetings, and future work.

The following much revised list is culled from *The Moral Dimension*. It does not provide the core of principles we need, but is presented to stimulate further discussion leading to such a core.

### **“Divided Selves”**

People have divided selves, part pleasure driven and part morally committed.

- Actors pursue two or more goals (utilities): seek pleasure (and hence self-interest), and seek to abide by their moral commitments. They are internally conflicted and hence tend to pursue a nonlinear course.
- The more individuals act under the influence of moral commitments, the more they are expected to persevere (when circumstances change). Conversely, the more individuals heed their pleasures or self-interest, the less likely they are to persevere.
- Moral commitments stretch out the learning curve.
- Moral commitments lower the transaction costs.

- When people violate their moral commitments to enhance their pleasures, such violations activate various defensive mechanisms before, during, and after the violation, and these have specific behavioral consequences.
- Violations of moral commitments cause guilt that leads, among other consequences, to compensatory pro-social behavior.
- Conflicts between pleasure motives and moral commitments are a major source of dissonance, leading to inaction and/or denial.
- Conflicts between pleasure valuations and moral valuations result in inter-psyche stress, leading to the diminished capacity of the actor to render rational decisions.
- Choices that are relatively heavily loaded with moral considerations, including many economic choices, are expected to be unusually difficult to reverse (are asymmetrical), to be very “lumpy” (or highly discontinuous), and to reveal a high “notch” effect.
- When moral commitments are prominent they generate non-markets in some areas (“blocked exchanges”), e.g. in constitutional rights, and poor markets in others, e.g. in adoption.

### **Limited Information**

People have limited intellectual capabilities. They are poor processors of information and are defective decision makers. Actors’ choices of means are largely based on values and emotions. To the extent that they draw on logic and evidence, their limited intellectual capabilities lead the actors to typically render sub-rational decisions.

- Most choices are made without the processing of information, drawing of inferences, or deliberations. That is, they are not decisions.
- Most choices (whether deliberative or not) are made to a significant extent on the bases of values/emotions. (Not just the selection of goals but also of means.)
- Values/emotions either fully form many choices, or set a context that limits the range of those options that are considered.
- Values/emotions affect deliberations of those options that are considered by “loading” options with non-empirical, non-logical weights.
- Values/emotions interrupt deliberations, preventing completion of reasoned decision-making sequences.
- Values/emotions legitimate some subareas as those in which logical/empirical choices are mandated. That is, the extent to which decision-making strives to be rational is deeply affected by values/ emotions.
- Choices made on the basis of values/emotions are not necessarily inefficient.
- Knowledge plays a limited role in most decisions.
- Even when knowledge is extensively used, such decisions are inefficient as compared to the results objective observers find could be reached.

### **The Social System**

- Individual (I) and collectivity (We) are both essential elements and have the same basic conceptual and moral standing.
- The I & We is in a perpetual, but in part creative, conflict.
- While individuals shape the social entities of which they are members, and these groups and communities shape individuals, each individual on his or her own, is more socially determined than determining.
- Many kinds of decisions are, on average, made more efficiently by organizational units of collectivities (such as executive boards of firms) than by individuals.
- The scope and level of innovation is in part collectively determined: the lower the culture ranks economic goals, productivity, efficiency, technology, science and the higher it ranks social cohesion, stability, and religion, the lower the scope and level of innovation.

### **Market as Sub-System; Society as System**

- The scope of the transactions organized by the market is largely determined by the social capsule.
- Competition is not *self*-sustaining. Its very existence, and the scope of transactions organized by it, depend to a significant extent on the attributes of the societal capsule within which it takes place; i.e., it is to a significant extent externally determined.
- The divergent interests and pursuits of actors in the market do not automatically mesh to form a harmonious whole; i.e., specific mechanisms are needed to keep competition (as contained conflict) from escalating into all-out conflict. Unregulated competition will self-destruct.
- The strength of the capsule is determined by the strength of the moral legitimacy it commands; by the intensity of the social bonds that competitors share; and by the relative power of the government compared to those in the market.
- Three mechanisms substitute for one another. Up to a point, each has its own role; at the same time, they affect one another and not just the capsule.
- The relationship between social bonds and competition is curvilinear; weak bonds are one factor that allows for all-out conflict; tight bonds will restrain, if not suppress, competition. Bonds of intermediate strength are most compatible with competition.
- Governments sustain competition to the extent they are the ultimate defender of rules and prevent violence; they undermine competition when they seek to determine the outcomes of competitions.

### **Social Structure**

- There are no transactions among equals. Power is the source of structure.
- The price of an item reflects its costs, and the relative economic and political power of producers (providers, sellers, etc.) as compared to users (buyers etc.) and other parties (government regulators, consumer unions, farm lobbies, etc.). In short, cost + power = price.
- The capsule is maintained to the extent that economic power is dispersed or prevented from concentrating, or economic power is being prevented from conversion into political power.

The more economic power is segregated from political power, whatever its level of concentration, the higher the probability that the capsule will survive and be effective.

- Structures able to limit the *political* power of economic competitors are as important to sustaining competition as is preventing a large concentration of economic power.
- Manipulation of the government by powerful economic actors generates pseudo-concentration effect (comparable to that caused by the concentration of economic power, without there being any such concentration or collusion among economic actors).

### **Methodological Positions (Interdisciplinary)**

- Two kinds of forces affect the social realm as they affect one another. Specifically, deontological conceptions set the context within which utilitarian orientations--pleasure, self-interest, and rationality--are operative.
- Changes in behavior (such as amount saved, level of effort at work, extent to which taxes due are paid) reflect in part changes in preferences and in part changes in constraints. Value changes affect *both* preferences and constraints, but especially preferences. Changes in market forces affect both preferences and constraints, but especially constraints.
- Socio-economics is to rely more on induction, less on deduction than neoclassical economics.
- Parsimony is to be sacrificed to a limited extent in order to expand the scope of the variables covered (especially social, psychic, and political) and to explain more of the variance of the behavior under study.
- Tautologies must be avoided.

## NOTES

1. See the “Madison-Declaration” by the Society for the Advancement of Socio-Economics, issued in summer of 1998.
2. For a fine recent discussion of institutionalism in this context see Robin Stryker’s article on “The Future of Socio-Economics and of the Society for the Advancement of Socio-Economics,” chapter four in the present volume.
3. See, once again, the “Madison Declaration” by the Society for the Advancement of Socio-Economics.
4. See the work of Robin Stryker (chapter 4) in the present volume.
5. On this point, see a more detailed analysis in the chapter on “Social Norms” in my book *The Monochrome Society* (2001).
6. On voting behavior, see especially Brian Barry (1978).
7. On this point, see J.S. Black (1978).