



**Studies in Socio-Economics**

**MORALITY, RATIONALITY, AND EFFICIENCY  
NEW PERSPECTIVES ON SOCIO-ECONOMICS**

*Richard M. Coughlin, editor*

**SOCIO-ECONOMICS  
TOWARD A NEW SYNTHESIS**

*Amitai Etzioni and Paul R. Lawrence, editors*

# **SOCIO- ECONOMICS**

***Toward  
a New  
Synthesis***

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**M. E. Sharpe, Inc.**  
Armonk, New York • London, England

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**Socio-Economics**

The Next Steps

Socio-economists should not act like shoemakers who have no time to make shoes for themselves. It is time to apply socio-economics to the condition and dynamics of socio-economics. This entails recognizing that a change in paradigms is not merely an intellectual and social-philosophical matter; paradigms have infrastructures that affect their dynamics. Presently, socio-economics lacks institutions to train socio-economists to serve both in the community at large (as managers instead of MBAs, as policy analysts instead of neoclassical economists, and so on), and as educators (in business and management schools as well as undergraduate and high school social science departments). Socio-economics has rapidly advanced many of the elements that are necessary for a grand-scale paradigm shift to occur. Now, to complete the transformation, educational practices and job structures must be modified.

We should begin by briefly reviewing the elements that are already in place or are rapidly developing. Within a year of its founding at the Harvard Business School in March 1989, the International Society for the Advancement of Socio-Economics (SASE) grew to encompass more than 600 members, and created the tools of a cross-disciplinary society: executive council, elected officials, annual meetings (1990 in Washington, DC; 1991 at the Stockholm School of Economics; 1992 in California), representative fellows in eighteen countries. Other components are falling into place as numerous publications are in the works. In addition to the present collection, M.E. Sharpe will publish several volumes of socioeconomic papers, including one edited by Richard Coughlin, planned for 1991. A reader in socio-economics is also being prepared. Special issues of scholarly journals devoted to socio-economics are on their way (e.g., *Journal of Behavioral Economics*, Summer 1990; *Journal of Economic Psychology*; and *Human Relations*), and the *Journal of Socio-Economics* is to begin publication in 1991.

There is also broad consensus on the basic substance of the new paradigm.

This is reflected in the "minimum platform" of the Society for the Advancement of Socio-Economics, cited here in part:

(a) The *independent variables* in any proposition member of socio-economic theory have to include *at least one non-economic variable and one economic one*. Thus if we study productivity rates (as a dependent variable), independent variables may include capital per worker, levels of pay and other such economic variables but must also include at least one variable from another social science (for example, level of commitment to work ethic), to qualify. Without it, the proposition would be a proposition of economic theory. Similarly, if all independent variables are non-economic, say they include commitment to work ethic, degree of self-esteem, and size of social groups at work, we are dealing with sociological, psychological, or socio-psychological propositions but not in socio-economics.

(b) *Core substantive assumptions*: (i) *Competition is a sub-system* embedded within a societal context that contains values, power relations, and social relations. The societal context both enables and restrains competition. That is, socio-economics assumes that self-interests are not necessarily or automatically complementary and harmonious; societal source of order is necessary. (ii) *Individual choices* are shaped by values, emotions, and knowledge. There is no prior assumption that people act rationally, or that they pursue only or largely self-interest or pleasure.

(c) *Methodological approach*: *Inductive studies are coequal in their methodological standing with deductive ones*. E.g., a study of how firms actually behave has the same basic merit as treating the firm as an analytic concept or mathematical model. Inductive inputs and deductive derivations are assumed to correct, and thus balance one another.

(d) Socio-economics is both a *positive* and *normative* science. I.e., it openly recognizes its policy relevance and seeks to be self-aware of its normative implications rather than maintain a mantle of an exclusively positive science.

(e) Socio-economics does not entail a commitment to any one ideological position, implied in terms such as political economy and social-economics, but is open to a range of positions that share a view of treating economic behavior as involving the whole person and all facets of society.

To reiterate, rather than discuss what is socio-economics, the preceding statement attempts to draw the confines of socio-economics.

A large variety of viewpoints and perspectives exist within these confines, just as there is variety within the neoclassical paradigm. A new approach does not require a detailed agreement on all, or even most, concepts and theorems; it requires shared conceptual, philosophical, and ethical foundations. Socio-economics already has such foundations. They allow numerous individual scholars who have long been working in complementary directions (including Kenneth Boulding, Ronald Dore, Mary Douglas, Albert Hirschman, Paul Lawrence, Harvey Leibenstein, Leon Lindberg, Gunnar Myrdal, Fritz Scharpf, David Sears, Amartya Sen, Herbert Simon, Neil Smelser, Michael Useem, and many others) to join together. Moreover, socio-economics builds on the efforts of preceding groups including institutional economists, social economists, behavioral economists, and evolutionary economists.

In short, rather than starting from scratch, socio-economics provides a community and shared framework for much of this work. Hirschman best captured the situation when he commented during a dinner in his honor at the founding meeting of the SASE: "I have been doing this work for thirty years, but it was so lonely."<sup>1</sup>

If there is any particular reason why socio-economics seems to be taking off more rapidly than previous groups, aside from the fact that it stands on their shoulders, it is that unlike its forerunners, most of which were hindered in their ability to evolve a new paradigm by the mixing of both neoclassical economists and potential socio-economists, the SASE is openly and deliberately dedicated to the new paradigm. The SASE counts very few neoclassicists among its members, and as a result, avoids much sterile debate between loyalists of the two paradigms. Thus, the new community can focus on developing alternative conceptions, findings, and methodologies.

Socio-economics has already reached the stage where its predictive and explanatory power would lead many to choose this approach, were such power the main test leading people to choose paradigms. Socio-economic studies show: tax compliance is encouraged by social sanctions and moral commitments (disapproval of friends, value of honesty) as well as sanctions; energy use is affected by attitudes toward conservation as well as price incentives (Stern 1984); job turnover is explained as much by social commitment as by economic factors such as pay opportunities (Price and Mueller 1981); both deterrence and moral commitments significantly affect people's predispositions to commit crime (Grasmick and Green 1981); voting behavior is more strongly determined by a sense of civic duty than by self-interest (Sears et al. 1980); and so on. These studies are more powerful, by both predictive and explanatory criteria, than neoclassical attempts to deal with the same phenomena.

Among recent, highly specific predictions, note that after the crash of the stock market in October 1987, nine out of ten neoclassical economists predicted a major recession in 1988, based on their argument that as people's sense of wealth declines, so too will their purchases. Drawing on studies of slow learning and low rationality, however, this socio-economist predicted, as recorded in the *New York Times* business section, January 3, 1988, that no recession would follow—and none did. More recently, Poland is urged, on the basis of neoclassical theory, to "jump" into a market economy, to move rapidly from a command and control economy to a free market system. On the other hand, socio-economics predicts that unless Poland slows down, it will face a severe crisis leading to rejection of the economic program and the endangerment of democracy. Why? Because social, cultural, and institutional adjustments necessary to transform the economy take much more time and resources than neoclassicists assume.<sup>2</sup> We will see which prediction/prescription holds.

All this does not mean that there is no further need for extensive empirical, conceptual, and other forms of scientific and scholarly work in this area. It is only intended to suggest that this work is already relatively well attended to.

*What is most sorely lacking now is the training of more hands.* There is a great demand for socio-economists, but almost no new supply.

This demand is most strongly expressed by managers of corporations, non-profit institutions, and federal, local, and state governments. As one interviews those in charge, one soon discovers a nagging frustration. Most of the trainees they face, graduates of 700 or more business and management schools, and various programs in public administration and public policy, are trained in the "number crunching," individualistic, rationalist tradition of neoclassical economics. These graduates tend to have little training, understanding, or sensitivity for human relations, culture, community, "statecraft" (the skills of coalition building and developing bases of support for policies), or managing under partial information. True, many of these schools offer some courses in these non-neoclassical subjects, but such courses are often considered secondary if not marginal, and above all, are not integrated into a curriculum or paradigm because most of these schools are dominated by neoclassical thinking and teaching. Thus, the availability of some courses in human relations, ethics, psychology, sociology, or political science has little effect on students who spend most of their time learning to watch balance sheets, to make decisions on the basis of highly mathematical models that are denuded of information, sensibility, or sensitivity, or to shuffle assets.

To advance the paradigm, what is needed are series of courses in socio-economic management in which the whole fabric of an organization's existence, including its societal, cultural, and political contexts, provides the core of the curriculum, and economic analysis finds its place *within* this context. There are very few institutions that explicitly train this way, and rather few that approximate it implicitly (the Wallace E. Carroll Graduate School of Management at Boston College is one of the few). Hence, those who retain managers have no choice but to "buy" what the market offers and then try, on the job, to correct what the existing schools have wrought. The final test of the proposition that corporations, hospitals, schools, government agencies, international bodies such as the World Bank and AID, churches, and many others, would much rather hire managers trained in socio-economics, will come as some entrepreneuring schools put together such a program and their graduates are eagerly sought.

Next, socio-economics needs graduate departments that will train socio-economic Ph.D.s for teaching and research. There is more at stake here than meets the eye. Obviously, if the scholarly, intellectual, and empirical work of socio-economics is to grow, it requires that more people be systematically trained in it. But paradigms rest on more than philosophical assumptions; they have institutional underpinnings, ranging from job markets to grant-giving committees. Indeed, control of these institutions is one major force keeping neoclassical economics as powerful as it still is. As a consequence, for example, after Tom Jester presented powerful findings that contradicted neoclassical economics and supported socio-economics (he stated that people prefer a work/leisure mix over

leisure; they care about nominal wages and not merely real wages; and so on), he added that he would still urge his students to study neoclassical economics because "that's where the jobs are." In another case, a graduate of the Harvard economics department, teaching at the School of Public Affairs at the University of Maryland, exclaimed, "I do not believe a single word I am teaching, but this is what I was hired to teach." National Science Foundation committees have only recently begun to consider applications by socio-economists, and are still dominated by the neoclassical paradigm. Some exceptions exist, such as the Russell Sage Foundation, which has a small program in behavioral economics (that supports both kinds of economists), but most foundations still support only the old kind. It follows that in order for the new paradigm to continue to grow, it will need to acquire all these institutional underpinnings (programs, divisions within professional schools, and departments) to gain both the collegiality and the jobs needed to create a critical mass and a market for socioeconomic faculty, who could in turn generate the teaching material and research to sustain the growth of socio-economics and train a steady stream of graduates to serve within the community.

There is also an important mission for socio-economics within undergraduate and high school curricula—a mission to provide not only a view of economic, and more generally choice behavior, that is more realistic, empirically grounded, and valid than neoclassical economics, but one that relies on much sounder ethical foundations. The messages of the neoclassical paradigm are reflected in textbooks that teach that you ought to give as little as possible and take as much as you can; that people are driven by self-interest; that those who do not attempt to get a free ride, or those who volunteer, are irrational; that morality is but a facade; and so on.<sup>3</sup> This perspective needs to be changed by teaching that emphasizes that people have, and ought to have, a nobler side; that they are inclined to serve others and the community; that cooperation is as important as competition; and that moral causes are, and ought to be, a major fact of life.

This corrected teaching is significant not only in shaping the education of future generations, but also for our current generation. There are powerful parallel world views in the community at large that are a corollary to the neoclassical one, namely, *laissez faire* conservatism and libertarianism. (I say parallel and corollary because these world views feed into the neoclassical paradigm and it feeds into them, but each has its own sources of support and dynamics.) These world views need correcting. For instance, when the market is celebrated as a cure-all, and ideologues call for the abolition of social security, when asset shuffling is destroying the economic bases of the economy, and when matters of safety and environment are subject to narrow and faulty cost-benefit analysis, there is an urgent need for a perspective that will encompass other factors, as well as economic ones. Thus, socio-economics stresses the role of social justice next to economic efficiency; the significance of psychological "income" and emotional security for a productive labor force; the importance of protecting

institutional integrity (and various stakeholders) versus corporate raiding; and the significance of moral foundations, not merely for the family and community, but also for the market itself, which ultimately rests on trust and integrity.

## Notes

1. On the history of socio-economics, see Swedberg (1990), Lutz (1990), and *Harvard Business School Bulletin* (1989).
2. See Etzioni (1990a) and Etzioni (1990b).
3. See Etzioni (1988), chap. 14.

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