Socio-Economics Revisited

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Parsons' Marshall Lectures were an important and still are a relevant contribution to the critique of the utilitarian, rationalist, radically individualist paradigm which still dominates scholarship, especially economics, today. Parsons advised economists to stop ignoring the broader societal context of which the economy is only a *sub*-system; economic actors are not impersonal, fully independent individuals but should be viewed as people with internalized moral and social values, values which cannot be accounted for as mere external, environmental constraints. Parsons, however, paid little attention to the role of power in the market. Socio-economics incorporates issues addressed in the Marshall Lectures, treats the leverage of interventionist power (large corporations and labor unions) as significant, and seeks to grow as a coherent alternative to the neoclassical paradigm.

Parsons' Marshall Lectures raise an important issue in the sociology of knowledge, specifically, the conditions under which knowledge accumulates and paradigms shift (from one to another) or are transformed (change significantly). In these lectures, Parsons tries yet again to reason with rationalist-utilitarian economists. The core issues he addresses were raised more than three generations earlier by Emile Durkheim; Parsons himself has raised them before, as have Smelser and numerous others. And yet, in 1990, utilitarian, rationalist, radically individualistic—in short, neoclassical—scholarship continues to enjoy broad, even increasing influence, while the genus of views championed by Parsons and others, this author included, have ebbed and risen (they are on the rise again now), neither replacing nor even deeply affecting the neoclassical paradigm.

It might be said that the knowledge content of paradigms does not yield to the type of theoretical scholarship Parsons crafted. However, mountains of robust empirical evidence have been accumulated, for instance, by the Prospect school of psychology, showing that neoclassical explanations are at best inadequate, and yet, this work, too, has made little dent. Neoclassicists largely continue to ignore such material, as they did the efforts of Noble Laureate in economics Herbert Simon. A few economists have attempted to integrate the findings of Simon and others into the neoclassical paradigm, but their efforts as well are passed over by most neoclassicists. Why?

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The answer lies partly in the ideological-political roots of the neoclassical paradigm. The paradigm is supported by, and in turn supports, the dominant ideology in the United States, the nation in which, it so happens, the neoclassical social sciences are also dominant. This individualistic, laissez-faire ideology and the attendant neoclassical social sciences have less power in Western Europe, and neither component of this dual system dominates Third World or socialist societies, despite some recent changes. It follows that only when broader American social philosophy changes and becomes less oriented toward market, self-interest, and object will American social sciences be receptive to the message of the Marshall Lectures.

A lesser factor perpetuating neoclassical influence is intellectual and moral fractionalism. While the neoclassical paradigm is intellectually and morally integrated and institutionalized, alternative paradigms are numerous and disparate, each tending to champion its own cause and to deride competing approaches. Before an alternative paradigm can either successfully challenge neoclassicism or lead to a significant synthesis (which I call socio-economics), those sharing the multiple and partially conflicting alternative views must coalesce.

Meanwhile, a critical flaw in neoclassical work may open the way to reformulating the study of markets and of choice behavior. Critics often describe the neoclassical paradigm as powerful and elegant. Closer examination reveals this description to mean highly mathematical, and hence, deductive. Scholarship in the neoclassical tradition is often empty of empirical or inductive content; it is internally consistent, but without what might be called reality-testing. Many neoclassical studies contain no data whatever. Wassily Leonteif, Nobel Laureate in economics and past president of the American Economic Association, analyzed the content of articles published in the most prestigious journal in the discipline, the *American Economic Review*. He found that theoretical articles outweighed their empirical counterparts by nearly three to one. Leontief observed:

> Not having been subjected from the outset to the harsh discipline of systematic fact finding, traditionally imposed on and accepted by their colleagues in the natural and historical sciences, economists developed a nearly irresistible predilection for deductive reasoning. (Leontief 1982, p. 104)

There was, he asserted, an aversion among "the great majority of the present-day academic economists for systematic empirical inquiry . . ." (Leontief 1982, p. 104). Morgan, reassessing the situation six years later, found little improvement. The number of papers that used empirical analysis based on data generated by the author's initiative stood at five percent, as opposed to the one percent that Leontief found (Morgan 1988, p. 160).

As often happens in these matters, change may come from unexpected quarters: from beyond the discipline. Today, more inductive studies of economic behavior by non-economists (e.g., consumer research by psychologists) are beginning to proliferate, gradually taking over from traditional economic approaches without grand deduction or meta-theory—at times, even without notice. This trend may well accelerate if socio-economics continues to prove empirically more powerful than neoclassicism, as I expect it will.

The Marshall Lectures discuss two major directions in which socio-economics is and ought to be moving but pay scant attention to a third dimension. Parsons, without reference to Polanyi, describes the economy as a subsystem within the broader societal system, a profound observation-assumption. Neoclassicists often simply ignore the context within which the market (or the economy) operates. The perfect competition model assumes away the existence of social structure and presupposes that relations among actors are impersonal, that the actors proceed independently of one another in an anonymous market. "The fortunes of any one firm are independent of what happens to any other firm: one farmer is not benefited [sic] if his neighbor's crop is destroyed" (Stigler 1968, p. 181). This orientation is not problematic in the neoclassical paradigm of perfect competition, because it is simply assumed that self-interest will sustain the system. It is problematic, however, in other paradigms which acknowledge conflict, recognize the significance of positive, mutually supporting social bonds, and in which actors treat each other as persons, as ends, and care for one another, as contributing to the continuity of economic relations.

Rather than completely ignoring them, refined neoclassicists assume that the rules of the game, provided by the societal context, are somehow readily available to economic actors. While far from readily available in this way, they may be studied by social scientists. Indeed, specification of the sociological forces that both promote and potentially curb or undercut markets is an important subject for comparative socio-economics. Such specification is, of course, at the core of Max Weber's cross-cultural work and very much on Parsons' mind. By transcending the simplistic notion that the best context is no context (or a minimalist one), we can begin to address the critical issues about the proper scope and power of these encapsulating forces. We need no longer conceive of the community as the source of inefficiencies, distortions, constraints, or help or hindrance to transactions, but rather as a complex of legitimate, even desirable, forces brought to bear on a circumscribed market (making certain practices, such as selling chemicals as apple juice for infants, unthinkable) (Traub 1988, p. 18). The government, in this system, would regulate the market only as an enforcer of the last resort, or as another factor enhancing voluntary, moral self-restraint.

Closely related to the issues of market encapsulation is the role of values in the market. The Marshall Lectures stress this factor, the significance of which is often overlooked by neoclassicists. Parsons describes values as *internalized.* This notion is of pivotal importance because neoclassicists do not (necessarily) deny the existence of values but often treat them as part of the environment, as external, as a constraint. Thus, if a corporation is considering whether to divest from South Africa, a neoclassical thinker might expect it to take into account that some of its customers believe investing in South Africa to be immoral (the corporation thus sees the decision as one affecting sales), but the neoclassicist would also expect the corporation not to consider the decision itself inherently a moral one.

Internalization in contrast, suggests that values become an integral part of the self, of the self's preferences, of what an individual seeks. That is, individuals see these values as their own and not as external conditions to which they merely adapt. Internalization has been defined as part of the socialization process in which a person learns to "conform to rules in situations that arouse impulses to transgress and that lack surveillance and sanctions" (Kohlberg 1968, p. 483). Once internalization has taken place, individuals pursue what they consider to be a moral line of behavior even in the absence of external sanctions (Meissner 1981, p. 7). The process of socialization, in which a child becomes an autonomous person, is largely one of internalization of values, of building up self-control rather than control by external forces. Hence, the behavior of properly socialized adults is deeply influenced by their absolute morality, aside from whatever expedient effects it has. And values are far less negotiable than neoclassicists assume. The actor is not aware that values are—nor are they necessarily—part of the environment; values are far less negotiable than neoclassicists assume.

While the effects of both encapsulation and values on the market are significant components of the Marshall Lectures, Parsons pays little attention to the factor of power. The neoclassical paradigm leaves no room for the concept of power. Says Stigler (1968, p. 181): "The essence of perfect competition is . . . the utter dispersion of power." He adds that power is "annihilated . . . just as a gallon of water is effectively annihilated if it is spread over a thousand acres." The neoclassical industrial organization literature makes a concession, viewing power as an intra-market phenomenon, often defined as an ability to raise prices above marginal costs and hence attain a larger profit than would be possible in unfettered competition. Alternatively, certain neoclassicists portray power as something the government imposes on economic actors.

Socio-economics seeks to rectify these inadequate treatments of power. Ample evidence shows that both the market and the polity (never much of a concern to economists) are deeply affected by interventionist power, by leverage that powerful economic actors (large corporations and labor unions) have over the government. Two important observations about the application of interventionist power are: (1) its exercise generates economic consequences comparable in magnitude to those gained through the exercise of economic power (by one economic actor over others), and (2) interventionist power can be applied whether or not the actor commands economic power. The term refers to the ability of a firm to control large shares of the market without its being a large or dominant firm; to block the entry of competitors into a market even though the powerful firm is not a monopoly or an oligopolistic firm; and to generate excessive profits without raising prices above those that would be set by perfectly competitive markets.

In short, economic actors can, by the use of political means, achieve various effects often attributed to concentration of economic power. For instance, government regulation of the trucking industry from 1935 to 1980 arose first and foremost from "the railroads desire to protect themselves from motor carrier competition and from the desire of established motor carriers to eliminate the competition among themselves and to foreclose competition among new entrants" (Adams and Brock 1986, p. 233). It is a most important "line" running from the economic sub-system to the encompassing socio-political system and back into the sub-system. Anyone interested in the study of economic behavior or modern and post-modern sociology must accord this two-way influence significant attention.

All said and done, the Marshall Lectures stand well, in some sense too well. One wishes that a generation later, some of their insights and observations were already well accepted and integrated into prevailing theory. Yet the lectures are nearly as relevant as they might have been if delivered only recently. Hopefully, thirty years hence we shall have done better.

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