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**Symposium on the Reorientation of Economics  
Introduction: What is Economics?**

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The Society for the Advancement of Behavioral Economics held its biannual meetings in San Diego in June 1999. The major theme of the conference was the reorientation of economics. Recent decades have witnessed an expansion of economics beyond its core theories based on the assumptions of rational self-interest and exogenous preferences. Economists now study a broader scope of topics, including motivation, organization, cultural assimilation, religion, marriage, and many other topics previously considered outside their discipline. Participants were invited to present papers exploring the relationship between economics and other social science disciplines, including psychology, anthropology, sociology, political science, and statistics.

The proliferation of research at the intersection of economics with these other disciplines prompts us to ask, what is economics? What differentiates it from other social sciences? Traditional definitions are no longer satisfactory. One such definition centers on monetized activities in what is conventionally called “the economy.” This definition has long been outgrown, as economic analysis has been applied to many non-monetized activities, goods, and services, as in the economics of the family, the peasant household, and the environment. Lionel Robbins’ (1962) famous definition is that economics is the science of the allocation of scarce resources among unlimited and competing uses. But this definition is not very helpful, as such analysis characterizes a great deal of research in other disciplines.

To understand the place of economics in social science, it may be helpful to look at the evolution of the discipline. Economics emerged as the discipline that studies markets. To study these markets it developed theories based on the concepts of preference maximization, rational choice, market equilibrium, and economic efficiency. By the 1950s, neoclassical economic theory had developed an impressive formal and rigorous edifice that stood in marked contrast with the other social sciences at that time. In subsequent decades, economics expanded its domain into non-market allocations: marriage and divorce, fertility, crime, politics, law, bureaucracy, and the evolution of social norms and institutions (see reviews by Jack Hirschleifer 1985 and Edward Lazear 2000). The old tool kit permitted some striking advances in each of these areas, but following these initial gains, further progress depended on recognition that decision makers are not always rational, preferences are not always stable, and sometimes preferences are altered by the very phenomena being studied (i.e. they should be endogenous to the model). This recognition of the limitations of neoclassical assumptions about human decision making has prompted rethinking of people’s behavior even in markets (e.g. Oliver Williamson 1985), the core area of the discipline.

A towering figure in the expansion of economics has been Gary Becker, who considered the “combined assumptions of maximizing behavior, market equilibrium, and stable preferences, used relentlessly and unflinchingly, [as forming] the heart of the economic approach.” (Becker 1976, p. 4). It is interesting that even Becker himself now

includes the study of preferences in the domain of economics (Becker and Kevin Murphy 2000). Endogenous preferences are especially important in social norms and rule obedience. If people find it in their interest to obey the rules, they tend to develop images of themselves as honest, law-abiding citizens, who will follow the rules even when they could get away with cheating. On the other hand, if rule-breaking is widespread, people become cynical about society's formal rules, and they think that those who forgo selfish gain by cheating strangers are naïve and foolish. Thus the evolution of social norms cannot be fully understood if attention is limited to models with stable preferences.

Lazear (2000) has identified three fundamental themes in economics: rational choice, equilibrium analysis, and a heavy emphasis on a clearly defined concept of efficiency. The economist's concept of efficiency, however, depends on the assumption of stable and exogenous preferences. The concept of efficiency is problematic when preferences can be manipulated, or when people lack the will power to carry out their plans (Thomas Schelling, 1980). Such issues need to be addressed in the analysis of many problems, such as divorce, child-rearing, crime, and retirement planning.

Lazear and Charles Manski (2000) locate the distinctiveness of economics in the formalization and rigor of its theory. It is certainly true that economists generally prefer to tackle all subjects using formal tools; that is considered by many as the highest form of achievement in the discipline. But this distinctiveness is clearly a matter of degree, for there are highly mathematical branches of other disciplines, and not all topics that interest economists lend themselves to formal analysis, which by its nature narrows the range of influences that can be considered.<sup>1</sup> There is ample room in the discipline for clear, insightful thinking that is neither formal nor mathematical.

Fortunately, it is not essential to come up with a precise definition of economics. It is an evolving set of ideas, originally designed to analyze how market equilibria relate to individual maximizing decisions. As it has expanded into non-market phenomena, economics has retained its interest in how individual decisions affect social equilibria. This basic framework can be and has been employed even as assumptions about individual decision makers and the nature of their interactions are changed. Thus "economic analysis" can include other-regarding preferences, endogenous preferences, learning by doing, and endogenous rules of the game. It can be applied to market transactions, political exchange, and other social interactions.

In sum, economists can be thought of as a tribe of farmers whose tools and practices evolved in a homeland with a distinctive climate and topography. In recent decades, these tribal farmers have invaded territories traditionally cultivated by other tribes. They carried their tools and their practices with them, tools and practices that were developed to cultivate the soils in their homeland, and they found they could grow certain crops better than the natives could. But they also learned new tools from talking with the natives, and when they returned to their homeland, they discovered that some of these imported tools contributed to their productivity in homegrown crops. Not only that, but some migrants from other territories came into the economist tribal homelands and began cultivation there (e.g. sociologist Swedberg 1990).

At the present time there are no clear rules for membership in the economist tribe. Two criteria for membership are most prevalent: reliance on formal and rigorous models

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<sup>1</sup> For a criticism of some misplaced formalism in the treatment of economic policy reform, see Clague (forthcoming).

and emphasis on the study of market-related behavior. The first trait is not characteristic of this tribe alone, nor is it characteristic of all economists. In particular, the assumption of rational choice underlying many economic models is frequently found in other tribes as well. Emphasis on markets is more typical of economics. Even where economists study topics such as marriage, a topic traditionally researched by sociologists and other social scientists, an emphasis on marriage market analysis characterizes contributions by economists (see Grossbard-Shechtman forthcoming (a)).

Thus economists and other social scientists frequently find themselves working in the same fields, each typically bringing an orientation toward the subject that is derived from his or her disciplinary background. Sometimes they offer competing explanations for a given phenomenon; in this case the process of sifting evidence through normal science should clarify the merits and weaknesses of each approach. At other times, they can complement each other, as one discipline (say) provides a theory of how preferences evolve, and the other discipline explains the consequences of such evolution for the social equilibrium. In either case, many interesting topics lie at the intersections of economics and other disciplines.

The SABE 99 conference explored many of these topics. Due to limited space available to us, we can report only a small fraction of the ideas presented at the conference. The present issue contains five papers from the conference; two others were included in a previous issue of this journal (Grossbard-Shechtman and Bertrand Lemennicier 2000 and Herbert Kiesling 2000). A volume including a variety of disciplinary comparisons is currently being prepared for publication (Grossbard-Shechtman forthcoming (b)). Several papers on cultural aspects of economic development were published in a special issue of the *Annals of the American Academy of Political and Social Science* (January 2001).

One of the ways to gain a better understanding of economics as a discipline is to compare it to other disciplines. The first two papers in this issue were part of a series of sessions where specialists in various areas of economics made such comparisons with research outside of economics. The first paper is by Clive Granger, an eminent econometrician. All theoretical econometricians operate at the border between economics and statistics, and Granger is no exception. He drew on his immense experience with the two disciplines to derive a number of points that distinguish economists from their colleagues in statistics. At times, reading Granger's paper makes one proud to be an economist. It is nice to know that we approach data with a better sense of what to look for. But Granger also warns us against some undesirable traits often fostered by economics departments: a tendency to believe that there is an absolute truth out there, a conviction that one theory is clearly superior to any other, and then a proclivity to milk the data until they corroborate this truth. Statisticians may not have a good enough idea of what they are looking for in the data, but at least they respect the data and have less of a tendency to overlook features that do not suit them.

Next, we present a paper by Vernon Ruttan, a well-known specialist in development economics and agricultural economics. Ruttan draws on his extensive experience with technical change in agriculture, especially with the 'green revolution,' which produced tremendous gains in rice yields in Asia in the 1970s. Over his long career, he has interacted with many specialists trained in other disciplines and has read related work by non-economists. His paper presents interesting comparisons between

economics, anthropology, sociology, and political science. It is an important testimony to the importance of cooperation between the disciplines. While participating in the research that led to the green revolution, he learned that the goal of making a practical difference--in this case raising rice yields--overrides any partisan interests. Questions such as 'who is a better scientist' or 'which discipline is the better one' matter little when the goal is to eradicate hunger and reduce mortality. That experience transformed Ruttan, who has maintained a remarkably cooperative perspective towards other disciplines. There are some outstanding lessons that we can learn from what Ruttan distilled from extensive readings in some of our sister disciplines. These lessons should not be only of interest to economists, but also to anthropologists, sociologists, and political scientists. For instance, Ruttan encourages us to pay more attention to the sociology of science and technology, and to wonder why underdevelopment theories developed by economists attract so many more followers among sociologists than among economists.

The paper by Richard Easterlin lies at the border between economics and psychology and also involves interdisciplinary comparisons. However, comparing disciplines is not Easterlin's major focus. His paper deals with the relationship of subjective well being to income over the life cycle. Although in the nineteenth century economists were willing to rely on their introspection and everyday observation to incorporate subjective well being (utility) into their theories, under the influence of logical positivism in the early twentieth century, the economics profession largely banished the concept from its discourse. In the last half-century other social scientists, especially psychologists, have developed reliable measures of subjective well being and have carried out surveys in a great many countries over long periods of time. There emerges in these data what Easterlin calls the "paradox of happiness:" in a cross-section of respondents at a given point in time, average happiness rises with the level of income, yet over time in developed countries, happiness has remained largely constant while average incomes have increased substantially. In the present paper, Easterlin adds a new paradox: at each point in time people think that they are better off now than in the past, and will be better off in the future than they are now, yet in fact happiness and life satisfaction remain generally constant over the life cycle. Using a data set that measures aspirations as well as current satisfactions, Easterlin develops a hypothesis for explaining these patterns in terms of the effects of income on aspirations as well as on life satisfaction. His paper reflects insights from both economics and psychology, and it opens avenues for further research at the boundary between the two disciplines.

John Tomer's paper deals with High Performance Work Systems (HPWS), which he defines as management systems based on employee involvement, commitment, and empowerment. These are contrasted with control systems, in which employee tasks are standardized, simplified, and designed so that performance can be measured. He cites a number of studies showing that companies where HPWS is fully implemented experience higher levels of productivity and product quality than companies using other systems. The paper then addresses the question, which discipline or disciplines help us to understand the superior performance of HPWS? He finds mainstream organizational economics to be of little use in answering this question. The main tool in this discipline, the principal-agent model, assumes that the employer-principal must counteract the employee-agent's preference to expend little effort by a combination of monitoring employee performance, offering monetary incentives for good measured performance,

and threatening dismissal if performance is poor or the rules are broken. This approach has a very narrow view of human motivation. The success of HWPS, he argues, lies in its cultivation of deep owner motivation, a concept that is developed in the paper. His paper is an example of the blending of psychology with organizational economics.

The last paper in this issue was part of a mini-conference on economics of the family that was held during the SABE 99 meetings. Its place in this symposium is also a testimony to the international stature of SABE: our meetings drew a large proportion of foreign participants, France being the best represented foreign country. Ekert-Jaffe and Solaz offer an example of economic analysis of topics usually studied by sociologists: marriage and cohabitation. What distinguishes their analysis from that of sociologists is its mathematical rigor and an emphasis on the impact of unemployment and job instability on union formation, a union being either a formal marriage or a cohabitation relationship. They show that for both men and women the first job typically comes before the first union. They also find that if a union occurs, unemployment and job insecurity tend to have harmful effects on couple stability and assortative mating, especially in the case of men.

Taken together, these papers contribute to the ongoing debate on the place of economics in social science. Economists are entering areas of research that were traditionally tended to by colleagues from other disciplines. In the case of Easterlin and Tomer, the expansion is in depth: psychology and economics are both being harnessed to research consumption and production, topics that are in the traditional domain of economics. In the case of Ekert-Jaffe and Solaz, the expansion is lateral: economics is dealing with topics traditionally studied by sociologists. It is hoped that the contributions by Granger and Ruttan—and this brief introduction—will help readers appreciate some of the strengths of our own discipline while recognizing that economists are not necessarily the only ones who have intelligent things to say about the topics that we study.

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