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Abstract: Academic departmentalization has limited the dimensionality and thus the richness of analysis in the social sciences. The author examines the case of a modern economics as an example. He reviews the ideas of Williamson (2000), who cites the limits of scope in the New Institutional Economics; Buchanan, who lays bare the ethical foundations of political economy in his constitutional economics; and Adam Smith, whose moral philosophy reflects a fully dimensional analysis. The author cites examples of how modern economic analysis can be enhanced by a reintegration with the other social sciences.

Key words: ethics, institutions, socialization

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Over the years, departments have evolved as the dominant organizational principle of academic institutions. My subject here is the effect of this departmental structure on that domain of scholarly endeavor formerly known as moral philosophy and now known as the social sciences.

DEPARTMENTAL ORGANIZATION

Moral philosophy became thoroughly departmental when, as the social sciences, its dimensions were professionally divided and at most colleges and universities, departmentalized into the disciplines of sociology, political science, and economics. The effect of this has been to constrain the dimension of analysis in each domain of the social sciences. The case I make here relates to economics.

I begin with a brief account of Williamson's (2000) description of the deficiencies of the new institutional economics (NIE). Those deficiencies relate to a presumed but unexcavated social foundation of the analysis. I then discuss the rich institutional analysis of James Buchanan (1991) who thoroughly developed the nexus between economic and political institutions. In the process, he excavated but did not explore the social foundation that Williamson presumes.

Buchanan's examination of the economic/political nexus is an extremely valuable expansion of social science modeling to two dimensions. My point is that modeling can be all the more powerful if the third, social dimension, is also integrated into the analysis. I offer a brief exploration of the social foundation that Buchanan has excavated to demonstrate the value of modeling in three dimensions.

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Such a three dimensional model exists in the moral philosophy of Adam Smith (Evensky 1992; 1993; 2001). We need not return, however, to being moral philosophers in order to capture the benefits of this dimensionality. Apropos of the lesson Smith taught us, dividing up the labor of moral philosophy among economists, political scientists, and sociologists can be a much more productive arrangement. However, the benefits of the division of labor are predicated on the assumption that there will be an exchange. In the social sciences, the benefits of division of labor will be realized only if those in every dimension of that labor exchange ideas. Only with the integration of understandings can models of humankind richly represent that complex, simultaneous system in all of its dimensions. Thoroughly departmental analysis leads to depth without dimensionality.

THE NEW INSTITUTIONAL ECONOMICS

Williamson began his *Journal of Economic Literature* article “The New Institutional Economics: Taking Stock, Looking Ahead,” with the following reflection:

I open my discussion of the new institutional economics with a confession, an assertion, and a recommendation. The confession is that we are still very ignorant about institutions. The assertion is that the past quarter century has witnessed enormous progress in the study of institutions. The recommendation is that, awaiting a unified theory, we should be accepting of pluralism. (Williamson 2000, 595)

The focus of Williamson’s piece is on the progress he cites. My focus is on the ignorance.

Williamson represented society’s institutional structure as having four levels. Level 1 encompasses the embedded “norms, customs, mores, [and] traditions” of society (Williamson 2000, 596). Although these are institutionalized, they are not directly observable institutions. They are a “social stock of knowledge” (Berger and Luckmann 1966, 42) that each new generation inherits and takes as representing the natural order of things, as tacit knowledge. Unlike a court system, a legislative system, a body of common law, or a constitution, one cannot examine this social construct directly. It is a substructure, an invisible foundation upon which all other institutions are constructed. Although it is invisible, this schema (Hirsch 1987) or frame (Kahneman and Tversky 1984) provides the base from which individuals then act, as the rational choice model of modern economic analysis describes.

Level 2 of Williamson’s social construction encompasses what Douglas North referred to as the “formal rules” of social organization, rules that include “constitutions, laws, [and] property rights” (North 1991, 97). Unlike level 1, in which Williamson conjectured that the “informal institutions have mainly spontaneous origins—which is to say that deliberative choice of calculative kind is minimally implicated” (Williamson 2000, 597), the formality of level 2 institutions “opens up the opportunity for first-order economizing: get[ting] the formal rules of the game right” (pp. 597, 598). Similarly, level 3—which Williamson referred to as the “play of the game” level (p. 597)—involves “second-order economizing, get[ting] the governance structures (e.g., contract) right. . . .” (p. 599). Level 4 is that at which resource allocation and employment are determined—“getting the marginal condition right” (p. 597).

The institutions at levels 2 and 3 of the social construct have a major impact on the cost of economic transactions because the conditions governing exchange are defined by the rules and structures embodied in those institutions. “Effective institutions . . . reduce transaction and production costs per exchange so that the potential gains from trade are realizable” (North 1991, 98). Thus, institutional analysis is central to “transaction cost economics [which] subscribe[s] to the idea that the transaction is the basic unit of analysis, . . . [and that] governance is an effort to craft *order*, thereby to mitigate *conflict* and realize *mutual gains*” (Williamson 2000, 599, emphasis in original). To the degree that transaction cost analysis informs institution building at levels 2 and 3, it offers a valuable tool to help a society get its institutional structure “right,” as Williamson put it (p. 598). This promise of operationally practical benefits was for Williamson one of the great virtues of the NIE, and it is this promise that explains the NIE focus on levels 2 and 3. Although the NIE analysis has been most richly developed at these levels, this focus comes with a caveat: “The institutions of embeddedness (level 1) are an important but underdeveloped part of the story” (p. 610).

Understanding the social institutions of level 1—norms, customs, mores, and traditions—is essential to a full model of social interaction including economic intercourse. As North put it, these social institutions exercise a “pervasive influence upon the long-run character of economics,” and, he wondered “What is it about informal constraints that gives them” such power (North 1991, 111). Williamson cited this quotation from North and wrote: “North does not have the answer to that perplexing question, nor do I” (Williamson 2000, 596).

North took the question a step further. Not only did he wonder at the power of these social institutions but also about their origin: “How does an economy develop the informal constraints that make individuals constrain their behavior so that they make political and judicial systems effective forces for third party enforcement?” (North 1991, 111). Williamson reflected on this question also; then he left it behind.

Buchanan’s (1991) constitutional economics enterprise laid bare the institutional foundation of Williamson’s social construction. In doing so, it prepared the ground for an analysis of that social foundation and its relationship to the political and economic superstructure built upon it.

BUCHANAN’S CONSTITUTIONAL ECONOMICS AND THE INSTITUTIONAL FOUNDATION OF A LIBERAL ORDER

Because institutions have power and because power can be used to generate rent (a return to control),¹ institutions themselves can and do become a locus of competition—a rent-seeking competition that can drive institutional evolution in a counterproductive and even destructive direction. Rent-seeking theory has led some to the pessimistic conclusion that there is no way to get the institutional structure “right” because an institutional dilemma is built into liberal society. The individual freedom that is a prerequisite for free markets invites rent seeking because in such a free system countless opportunities exist for utility maximizing individuals to personally benefit from seeking institutional advantages. It

seems, therefore, that liberal, free market societies are trapped between the devil and the deep blue sea: The oppressiveness of the tyrannical state that can suppress unbridled self-interest and the Hobbesian war of all against all if those central controls are removed.

Buchanan (1991, 245) expressed distress about the state of the majoritarian democracies, but he rejected the pessimism. He believed it is possible to constrain rent seeking without infringing on the sovereignty of the individual by establishing constraints by consensus. To represent this possibly, Buchanan expanded the dimensionality of modern analysis from the standard market question: What choices will be made given the extant set of constraints? to the more general question: What choices will be made, including what system of constraints (what contract) will be chosen?² This latter question integrates levels 2, 3, and 4 of the NIE analysis.

As with NIE, Buchanan's (1991) premises are the standard ones of methodological individualism, utility maximization, and rational choice. He rejected the notion that society has an organic existence that transcends individuals (Buchanan 1991, 14–15, 29). Given this point of departure, Buchanan turned to an obvious question: Why would autonomous individuals “choose to impose constraints or limits on their own behavior?” (p. 5). Why would they be party to a process of social construction given that any social construct (e.g., his constitutional order) implies some degree of constraint on individual choice? To explain why Buchanan cited Adam Smith: “Smith stressed [the] . . . properties [of the market] that allow for self-interested behavior of persons and yet generate socially beneficial results, require an environmental setting of appropriate ‘laws and institutions’” (Buchanan 1991, 208).

Buchanan agreed. He rejected (1991, 35) the “romantic ideal of *laissez-faire*, the fictional image of anarcho-capitalists, in which there is no role for the state at all” for the same reason he rejected the socialist “romantic image of the state as an omniscient and benevolent entity.” “[O]rdinary humans” are not capable of either. Socialism is an invitation to the exploitation of centralized power, and anarchist *laissez-faire* is a path into the “Hobbesian jungle” (p. 35).

Any plausibly realistic analysis of social order, whether positive or normative, must be bounded by the limits set by these ideological extremes. The state is neither omniscient nor benevolent, but a political-legal framework is an essential element in any functioning order of human interaction. (p. 35)

According to Buchanan, we will agree to be a party to social construction because we need such constructs, constraints by consensus, if society is to cohere.

How can we, mortal humans, create a state that constrains our humanness and its destructive predilection for rent seeking without tyrannizing us? “How can the controllers be controlled?” Hobbes responded with despair” (Buchanan 1991, 235). Buchanan turned to the contractarian tradition for an answer.

The elements of Adam Smith's intellectual enterprise become directly precursory to the research program of constitutional economics only when those elements are imbedded within the tradition of contractarian political philosophy. . . . In agreeing to be governed, explicitly or implicitly, the individual exchanges his or her own liberty with others who similarly give up liberties in exchange for the benefits offered by a regime characterized by behavioral limits. (Buchanan 1991, 12–13)

To demonstrate why the constraints must be constitutional, Buchanan used the example of a poker game. Participants in a poker game face two choices: the rules of the game and, once those rules are determined, each player's strategy.

The rules of the game define the constitution of the game. The various strategies available within that constitutional order represent the postconstitutional choice any participant in the game faces. For the game to be played in a constructive environment, it is crucial that there be an impenetrable wall of separation between the rule-setting stage, the constitutional construction, the in-rule play, and the post-constitutional strategic interactions. Any breach of that separation allows the strategic self-interested pursuits of individuals to be focused on rule manipulation.

In a poker game, such manipulation would simply lead to a breakdown of the game: The "poker game is voluntary . . . [and] each player retains a low-cost exit option" (Buchanan 1991, 155). But "[t]he political game is compulsory, and we must all play" (p. 155) for the cost of not playing is the high probability of a significantly smaller distributive share as others manipulate rules to their advantage. In the politicized market game micromotives drive rent seeking with its attendant negative sum implications (Schelling 1978).

To avoid this dilemma, we must appreciate the lesson of the poker game. We must create that wall of separation between the rule-creation stage, during which individuals function as a cooperative group interested in designing the best standards for play—optimal rules for commutative justice—and the in-rule stage, during which individuals become players competing with one another within the context of the previously agreed-upon rules.

Buchanan believed this was possible because he believed that two characteristics of the constitutional stage distinguish it from the postconstitutional stage. First, any agreement at the constitutional stage requires a greater threshold of social consensus than majoritarian democracy. "At the constitutional stage of choice among rules, our argument does, conceptually, require unanimous agreement among all parties" (Buchanan 1991, 47). Second, the perspective of the participants is fundamentally different when constitutional as opposed to postconstitutional choices are involved.

[A]greement on rules is much more likely to emerge than agreement on policy alternatives within rules because of the difficulties in precisely identifying the individual's economic interest in the first setting. The rule to be chosen is expected to remain in being over a whole sequence of time periods and possibly over a wide set of separate in-period choices during each period. How can the individual, at the stage of trying to select among rules, identify his or her own narrowly defined self-interest? . . . He or she is necessarily forced to choose from behind a dark "*veil of uncertainty*."³ In such a situation, utility maximization dictates that generalized criteria, such as fairness, equity, or justice enter the calculus rather than more specific arguments like net income or wealth. (Buchanan 1991, 47–48, emphasis added)

In effect, the veil masks what Buchanan referred to as the interest component in each individual's choice mechanism, obscuring questions like: What serves *me*? What remains is the theory component, framing questions like: What kind of world would *our* choices create? With questions like this driving the discussion,

a consensus is more possible because individuals are not engaged in conflict (what are *my* interests versus *yours*?), but they are engaged in cooperative discourse (what system seems most likely to serve *us* best?). Buchanan argued that in such a discourse the paramount “*concern for stability . . . will induce a concern for fairness*” (Buchanan 1991, 57).

Very nice in theory, but is this feasible? The process is not costless; are the incentives sufficient to encourage a rational citizen to voluntarily participate in this conversation about the constitution? Buchanan’s answer was, No. The constitution, “the set of constraints that limit the choice options of individuals, that define the feasibility spaces, is public in the classic sense. This structure is both nonpartitionable and nonexcludable” (Buchanan 1991, 24). Consequently, individuals have the incentive to free ride. So, from whence the motive for participation? Buchanan’s answer was: Ethics. “[B]ecoming informed about, and participating in the discussion of, constitutional rules may require the presence of some ethical precept that transcends rational interest for the individual” (p. 155), an “ethic of constitutional citizenship” (Buchanan 156).

This raises the obvious question: In a world of methodological individualism, utility maximization, and rational choice, where does this commitment to a social ethic come from? Buchanan’s answer was that there are “economic origins of the ethical constraints” (Buchanan 1991, 180). Self-interested individuals have an incentive to inculcate ethics in others because these ethics solve externality problems that are not amenable to any other solution. He cited, for example, the work ethic.

People who are willing to work hard at the tasks of society generate a positive work-supply externality because their effort contributes to increasing returns in production. This is a “genuine public good” (Buchanan 1991, 175) because the benefit of this exertion, the greater productivity, is nonpartitionable—it benefits all consumers. If a work ethic is instilled in individuals then all others enjoy the benefits of the externality without having to compensate the worker, for she “senses no constraining influence at all . . . [she] may not [even] be conscious of the ethical norms that guide the choices made” (Buchanan 1991, 174). This in turn moves the internalization of this externality from the realm of Pareto-irrelevant—a benefit not worth the cost—to the realm of Pareto-relevant—worth the expenditure of resources to instill the work ethic (p. 174). As a consequence, “there is justification for both individualized and collective efforts to promulgate, maintain, and transmit this ethic throughout the culture as well as intergenerationally” (p. 177).

Just as the work ethic allows us to internalize a positive externality, so too does the ethic of constitutional responsibility. It inculcates a commitment to the constitutional conversation and thus creates a potential for jointly produced and individually adhered to, well-defined and consensually agreed-upon rules of the game. Such constraints by consensus make feasible the realization of a “*social order* without conflict while at the same time achieving tolerably acceptable levels of well-being” (Buchanan 1991, 231).

Is there sufficient incentive for an individual to expend resources on the behavior modification of others when the product of such an investment is ethics? No, said Buchanan,

[I]n n -person settings, where each person confronts “all others” in some relevant sense . . . the results of such investment become genuinely public goods . . . and each individual will have familiar free-rider incentives to hold back on his or her own contribution. (Buchanan 1991, 188–89)

Therefore, some form of “[c]ollective organization of the moral persuasion enterprise may be necessary” (p. 189). Each generation must establish social norms that are inculcated into the next generation.

The analysis is consistent with the sociologists’ criticism of the economists’ hypothesis of operationally meaningful utility maximization. The preference orderings of individuals are subject to change brought about by the sociocultural environment within which choices are made and action taken. “Social norms” do, indeed, determine individual choice behavior, at least within limits. But the model supplies operational content to the sociologists’ criticism; the origin of and the direction of the effects of social norms are themselves grounded in a calculus of self-interest. (Buchanan 1991, 193)

Here Buchanan reached the roots of his argument. The foundation of the liberal institutional order is a civic ethic. Although “individuals are the ultimate sovereigns in matters of social organization” (Buchanan 1991, 227), they benefit from a mutual inculcation of a constitutional ethic: a commitment to a constitutional conversation that takes place behind a veil that obscures individual interest. In such a conversation, all value justice because no one can predict his or her position beyond the veil and because the just outcome will be the most stable. The focus of the discussion thus becomes the theory of rules because justice and the stability of the constitution depend on the quality of the rule structure it embodies.

The agreed-upon, constitutional

state provides and maintains the appropriate structural constraints (the “laws and institutions,” rules of the game), [and within that context] individuals, as economic actors, can be left alone to pursue their own privately determined purposes, and in so doing enjoy the values of liberty, prosperity, and peace in reciprocal and mutual respect, one for another. (Buchanan 1991, 244)

It is a wonderful image and a source of hope—but not, Buchanan believed, a naive hope. He saw in history the evidence that humankind had already made some progress in solving the problem of creating “moral communities” (Buchanan 1991, 189).

The emergence of the minimally cooperative norms that are necessary for the effective functioning of the extended economic nexus offers a good example of “order without design,” . . . stressed by Hayek and attributed to the insights of the eighteenth-century Scots moral philosophers. (Buchanan 1991, 190)

Buchanan viewed his work as extending Hayek’s analysis:

In channeling the discourse toward constructive choice among sets of rules, I am, as you will recognize, both modifying and going beyond emphasis on cultural evolution associated with the work of F. A. Hayek. I accept, of course, the importance of cultural evolution in the establishment of the rules of social order. . . . I want only to suggest that, at least along some relevant margins, we can deliberately modify institutions that constrain our interaction, one with another. (p. 231–32)

Buchanan treated the inherited “rules of social order,” this social foundation,

as he did the inherited distribution of the society's material endowment. With respect to the latter he wrote

In my enterprise . . . parties to a potential contract commence from some status quo definition of initial positions⁴ because, quite frankly, there is no other place from which to start. This [is an] existential acceptance of the status quo. . . . My emphasis is almost exclusively placed on the *process* through which potential changes may be made, rather than either the starting point or the end point of change. (p. 205–6)

As with economic and political endowments, so too with social values there is an “existential acceptance of the status quo” (p. 205). The focus of Buchanan's enterprise was on the margin, on process: How does change occur? More important as was Williamson's concern: How can we act to accomplish constructive institutional change? How do we get it “right?”

Buchanan took us beyond the orthodox confines of choice within constraints—the market dimension—to the broader story of choice within and among constraints—the political dimension. In doing so, his enterprise laid bare the ethical foundation of society's political and economic superstructure. He made it clear that social values, in particular civic ethics, do indeed hold up the whole edifice. However, his analysis left unanswered North's question, “How does an economy develop the informal constraints that make individuals constrain their behavior so that they make political and judicial systems effective forces for third party enforcement?” (North 1991, 111).

If, as Buchanan argued, each successive generation inherits a *status quo* of social norms and acts on it at the relevant margins, the question remains: Where does the core of this inherited social *status quo* come from and how is it sustained across multiple generations? Modern economic theory postulates a world populated by *homo economicus*, a world in which *De gustibus non est disputandum* (Stigler and Becker 1977). There is no place for socially defined and inculcated shared social norms in such a world (Evensky 1992, 2001).

To examine the social foundation that Williamson's model postulated and that Buchanan's analysis revealed, one must relax the assumptions of modern neoclassical theory. Humans must be more than *homo economicus*, they must be modeled as social beings, so that the origins of the social norms they share can be accounted for and those shared norms can be integrated into models of human behavior.

FROM TWO TO THREE DIMENSIONS: ON THE ROLE OF SOCIAL CONSTRUCTIONS IN MODELING HUMAN BEHAVIOR

Williamson (2000), North (1991), and Buchanan (1991) each made it clear that economic theory must be integrated with political theory if modeling of human behavior and human institutions is to reflect the complex dimensionality of human events. However, this two-dimensional nexus is not enough if a model of human behavior and institutions is to be truly general. A general model must also represent the effects of a given social foundation as well as the effects of changes in social foundations. Thus, a general model must integrate economic and political theory, as well as a social theory that models social foundations. Berger and Luckmann (1966) offered such a theory.

In their *Social Construction of Reality*, Berger and Luckmann represented a social foundation, Buchanan's inherited social *status quo*, as a "social stock of knowledge" (p. 42) that is taken to represent the natural order of things,⁵ as tacit knowledge⁶ that defines and dictates the parameters of choice. In the short run or at the margin, defined by a generation, this set of commonly shared norms and understandings is typically stable, because an institutional *status quo* is essential for social stability. It is within this extant schema or frame⁷ that individuals act as the rational choice model describes.⁸

Modeling human behavior within such a given frame is a valuable tool for understanding the actions of individuals within that particular social construct. However, to suggest that any such framed model is a general theory is to imply that there was, is, and will be at all times and in all places only one social construct—the one that is assumed, often tacitly, by the model maker. Clearly that is a strong assumption that severely limits the scope of such a model's applicability.

If a model of human behavior is to be truly general, rational choice analysis must be set into a more general context. It must reflect the fact that social frames are core values and understandings of a society embodied in its institutions, that these frames vary across societies, and that every such frame has an evolving, organic existence.

Individuals are born into and socialized by an extant frame that shapes their initial values and understandings.⁹ But the uniqueness of each individual's personal biography gives him or her a singular perspective from which to reflect on, redefine, act on, and affect that extant social construct.¹⁰ Thus social constructs shape and are shaped by the individuals who people those constructions.¹¹ In a general model, frames change, and they do so in large part because individuals are social beings *and* sovereign rational actors.

From Williamson and North through Buchanan, I have traced a thread that wove economic and political analysis together, and I have followed that thread into the social foundation that Williamson presumed and Buchanan excavated. Is there a model that weaves these three dimensions—economic, political, and social—into a simultaneous system? There is; it can be found in the moral philosophy of Adam Smith.

Smith's purpose was to explain the virtues and prerequisites of the "liberal plan of equality, liberty and justice" (Smith 1976a, 664) and to describe how humankind has evolved toward this ideal prospect. In his *Theory of Moral Sentiments* (Smith 1976b), Smith laid out the process of social construction that builds the ethical foundation necessary for a liberal order. In his *Lectures on Jurisprudence* (Smith 1978), he described how systems of governance, and in particular those of England, have evolved in ways that sustain a liberal order. In *The Wealth of Nations*, Smith explained how the progress of opulence unfolds as social, political, and economic dimensions of society simultaneously evolve toward a system consistent with the liberal plan.

The people in Smith's story are not *homo economicus*, they are social *and* sovereign beings. The story he told is not of economics as an independent dimension of human endeavor but rather as one dimension, along with the political and social dimensions, of a dynamic, simultaneous system in which the

progress of the whole requires harmonic progress among all of those dimensions that make it up.

Adam Smith came naturally to this multidimensional modeling because he did not suffer the constraints of departmentalization. He held the Chair of Moral Philosophy at Glasgow University. His subject was humankind, in all of its dimensions, across all of its history. As Smith's own division of labor logic made clear, however, it is not necessary, indeed it would be counterproductive, for us to go back to the days when one who studied the human condition studied it all as a piece as he did. Dividing up the labor among economists, political scientists, sociologists, anthropologists, and historians can be much more productive. However, this is so if, and only if, those in every dimension of that labor work together, exchanging and integrating the fruits of their respective efforts. Only with that integration of understandings can models of humankind richly represent the full, simultaneous system in all of its dimensions. Thoroughly departmental analysis leads to depth without dimensionality.

CONCLUSION—ECONOMICS IN CONTEXT

Modern economic analysis can benefit from being set into a larger context by making assumptions about given social and political frames explicit,¹² by appreciating the constraints imposed by those assumptions, and by encouraging some within the field to systematically explore the implication of relaxing those assumptions and allowing frames to change. Doing so would make possible a more general theory that would enhance the dimensionality of policy analysis and would offer exciting new opportunities in the economics classroom for exploration of the web of connections between the economy and its political and social context.

On Economics in Places that Are Not Like Us

Amartya Sen has written that

The trouble with reading much into the homely butcher-brewer-baker example [of Adam Smith] is . . . that it downplays the function of *institutions* that sustain and promote economic activities. The concern of different parties with their own interests certainly can *motivate* people to take part in exchange from which each benefits. But whether the exchange will operate well will depend also on organizational conditions. There is a need for institutional development which can take quite some time to emerge—a lesson that is being learned rather painfully in Eastern Europe and the former Soviet Union. The importance of institutions was rather eclipsed there in the first flush of enthusiasm about the magic of allegedly automatic market processes.

The need for institutional development has some clear connection with the role of codes of behavior, since institutions based on interpersonal arrangements and shared understandings operate on the basis of common behavior patterns, mutual trust and confidence in the behavioral ethics of each other. The reliance on rules of behavior may typically be implicit rather than explicit—indeed so implicit that its importance can be easily overlooked in situations in which such confidence is unproblematic. But whenever it is not unproblematic, the overlooking of its need can be quite disastrous. (Sen 1995, 26)

In a more general theory, institutional progress is modeled as a simultaneous system: social, political, and economic. Doing so brings to the fore the complex nature of societal change. As Buchanan made clear and Smith appreciated long before, simply opening up markets and letting prices fluctuate freely cannot create a coherent constructive liberal society. Such a society requires the institution of laws and the development and inculcation of values that are consistent with the freedoms of liberal society. Laws can be rewritten in a day; values change very slowly. As Sen (1995) made clear, effective policy requires an appreciation that a society can move toward a coherent constructive liberal order only as quickly as that fairly inert social dimension is capable of change. In a time when great nations like Russia and China are trying to figure out how to join the global free market system, this larger frame is a fascinating topic for the classroom.

On Invisible Boundaries and Economic Processes: The Power of Language

Folbre and Hartmann (1988, 198) wrote that

Serious consideration of both the rhetoric and the ideology of economics can not only enhance an awareness of hidden assumptions, but also help to make those assumptions more realistic. The Hobbesian metaphor is wrong. Neither men nor women spring out of the earth as fully mature individuals, ready to exchange or fight. Rather, girls and boys are born into the care of people whose task is to find and to teach a balance between individual self-interest and collective responsibility. That balance cannot be achieved by simply assigning one to men in the marketplace and the other to women in the home.

A truly general theory captures the effects of inculcating social definitions of being that are differentiated by an index (Spence 1974, 11) such as gender, race, and religion, both the broad societal effects and the narrower market consequences. It can also model the incentives for and the effects of efforts to eliminate such index-based differences.

For example, did it matter that in all the books I read when I was growing up, “he” was a doctor and “she” was a nurse? Can such little pronouns affect the world in a big way?¹³ A more general theory can address these questions. It makes possible a systematic exploration of the market effects of socially defined conceptions based on gender that are embodied in language.¹⁴ Tracing the threads of such conceptions through a general theory identifies a systematic connection between these social definitions and distributive outcomes in the market.

Language frames expectations. When I was young, language taught that doctoring was appropriate for him and nursing was appropriate for her. When language does this in a way that channels half the population into a small sphere of the labor market called “women’s work,” leaving all other work in “men’s sphere,” the consequence of this crowding is, *ceteris paribus*, lower pay for women than for men in occupations of comparable worth. Thus, tracing this thread reveals that these social definitions embodied in language create rent-generating market advantages.

They are particularly powerful rent-generating mechanisms precisely because they are imbedded in the social construction of reality. As tacit knowledge, part

of the natural order that is taken as a given, they are invisible as they do their work. Indeed, for many women for many years, the movement into these crowded professions was, given the frame of their social construction, a voluntary choice. Modeling this nexus, inequity in the market based on a social construction, raises all kinds of complex questions that are both important for policy and fascinating for the classroom.

Solutions based on market intervention can be quick (e.g., dictating that wages include a compensating variation), but they treat the symptom and not the disease. Such *ad hoc* solutions may cause distortions that can lead to even more perverse unintended consequences. Given the inert character of social constructions, a solution based on changing those constructs is inevitably slow, and it may be slower still without market incentives.¹⁵

Understanding the power of social definitions based on language also makes it clear why some social action is aimed at reconstructing language. For example, when I grew up down south negro was a term of what I would call “diminished respect.” For most whites, a *negro* was to be respected, but only if he was in his “place.”¹⁶ As the civil rights movement evolved, many in that movement began to see the term negro as a white community term that defined place. Their response was to act on language, introducing the terms black or African American, in order to escape that place which, for several hundred years, had been a part of the natural order of the south. To the degree that this escape has been successful, the consequences show up not only in language but also in the marketplace. There is a nexus here; it needs to be in our models; it needs to be in our classrooms.

The women’s movement did something very similar. In the past, Master and Mr. defined a man based on age, youth and adult, respectively. Miss and Mrs. sound like a parallel construction, but these terms did not have parallel purposes. Miss and Mrs. defined a woman based on her custodial relationship to a man, under her father’s or her husband’s care, respectively. The women’s movement introduced Ms. as an escape from this place.

In both cases, acting on language has been a part of a larger program by blacks and women to liberate themselves from place and to enjoy more of the opportunities, including economic opportunities, that society has to offer. This nexus between social and economic dynamics is invisible in a model that sees the world thoroughly departmentally.

In the Introduction to his *General Theory*, John Maynard Keynes (1964) wrote:

[I]f orthodox economics is at fault, the error is to be found not in the superstructure, which has been erected with great care for logical consistency, but in a lack of clearness and of generality in the premisses. . . . Those, who are strongly wedded to what I shall call “the classical theory,” will fluctuate, I expect, between a belief that I am quite wrong and a belief that I am saying nothing new. . . . The ideas which are here expressed so laboriously are extremely simple and should be obvious. The difficulty lies, not in the new ideas, but in escaping from the old ones, which ramify, for those brought up as most of us have been, in every corner of our minds. (Keynes 1964, v, viii)

Today’s orthodoxy faces a similar challenge. It must “escape from habitual modes of thought and expression” (Keynes 1964, xiii) embodied in assumptions

like *homo economicus*. Expanding the “generality in the premisses” (Keynes 1964, xiii) to include the role of culture and values makes possible a more general theory. Of course, there is a catch-22 here. Because the extant social construction is built into that orthodoxy the ability to escape from that social construction is constrained.¹⁶

NOTES

1. “[R]ent ... is naturally a monopoly price” (Smith 1976b, 161).
2. Constitutional economics directs analytical attention to the choice among constraints. Once stated in this fashion, economists will recognize that there is relatively little in their established canon that will assist in analyzing choices of this sort. To orthodox economists ... it would appear to be both methodologically and descriptively absurd to introduce the artificial creation of scarcity as an object for behavioral analysis. (Buchanan, 1991, 5)
Buchanan noted the relationship between his enterprise and the work of Elster, Schelling, and Thaler and Shefrin (Buchanan 1991). The focus of these efforts is on intrapersonally generated constraints, whereas he is interested in interpersonally generated constraints—specifically constraints generated through a system of exchange (Buchanan 1991, 5).
3. Buchanan noted that “[i]n this construction [of the veil of uncertainty], our efforts were quite close to those of John Rawls [veil of ignorance]” (Buchanan 1991, 48). In effect, Rawls’ ignorance is the limiting case. Buchanan’s uncertainty veil seems to get thicker (approaches Rawls) as his argument develops because he realizes that the demarcation of interests and theory (described in what follows) is crucial to the success of his enterprise (Buchanan 1991, 56).
4. “. . . the status quo distribution has been generated through a complex process of political-legal evolution . . . and social change” (Buchanan 1991, 205-6).
5. “Through reification, the world of institutions appears to merge with the world of nature” (Berger and Luckmann 1996, 90).
6. “The validity of my knowledge of everyday life is taken for granted by myself and by others until further notice, that is, until a problem arises that cannot be solved in terms of it” (Berger and Luckmann 1996, 44). As Buchanan put it
Empirically, . . . [we seem to] go about making ordinary choices, which involve complex interactions with other persons and groups, within a framework or a structure of rules that we simply take as part of our environment, a part of the state of nature, so to speak. . . .” (Buchanan 1991, 153)
7. See Kahneman and Tversky (1984) on frames and Hirsch (1987, chap. 11) on schema. Buchanan himself wrote of “alternative ‘windows’ on the world. . . . [T]he process through which individuals choose among such windows remains mysterious” (Buchanan 1991, 18).
8. Formally, a social action is . . . taken to be the resultant of all individual actions. In other words, any social action is thought of as being factored into a sequence of individual actions. . . . I certainly do not wish to deny that such factoring takes place, but I do wish to emphasize that the partition of a social action into individual components, and the corresponding assignment of individual responsibility, is *not* datum. Rather, the particular factoring in any given context is itself the result of a social policy and therefore already the outcome of earlier and logically *more primitive social values*. (Arrow 1983, 64, latter emphasis added)
“Arrow’s . . . formulation . . . allows social considerations to influence the choices people make.” (Sen 1995, 2)
9. Every moral duty must arise from some thing which mankind are conscious of . . . [yet] it is very seldom that one has a distinct notion of the foundation of their duties, but have merely a notion that they have such and such obligations [I]ndeed it will but seldom happen that one will be very sensible of the constitution he has been born and bred under; everything by custom appears to be right or at least one is but very little shocked at it. (Smith, 1978, 321-22)
10. Identity is, of course, a key element of subjective reality, and like all subjective reality, stands in a dialectical relationship with society. . . . If one is mindful of this dialectic one can avoid the misleading notion of “collective identities” without having recourse to the uniqueness . . . of individual existence. (Berger and Luckmann, 174-75)
11. Akerlof offered a compelling story as to how “some persons with unusual tastes” can set off “a sequence of increasing disobedience and erosion of belief that in the long run [can change] . . . the social custom[s]” and the role of “social sanction” in sustaining belief systems (Akerlof 1980, 749, 750). He concluded his piece, however, with the observation that “[a] full explanation of social customs and economic equilibrium must describe not only how the system works with existing conditions, but also how such codes themselves evolve” (Akerlof 1980, 773). Adam Smith’s story captures the social sanction dimension of Akerlof.

12. As it is incumbent upon a meteorologist developing theories about the weather to make her assumptions on climate explicit, similarly it is incumbent upon the economist developing theories about the market to make assumptions on climate (in this case social and political climate) explicit. The assumed parameters matter precisely because the actual parameters can change. The difference between natural climates and social/political climates is that the latter can change much more quickly, so taking social/political climate as given is a strong assumption.
13. In my introductory economics textbook, *Economics: The Ideas and the Issues*, every generic person (doctors, presidents, etc.) is a she, except nurses. It is not my goal in doing so to be "politically correct." Indeed, I reject the notion that I am bound by the latest fad in acceptable language, or that by adopting standard usage I am an enemy of progress. I do believe, however, that for a language to be alive usage must be allowed to evolve and that some emerging usages are helpful and will stand the test of time. My students notice the nonstandard usage in my text. This is an entrée to a conversation about the economic power of language.
14. "[L]anguage is capable of becoming the objective repository of vast accumulations of meaning and experience, which it can then preserve in time and transmit to following generations" (Berger and Luckmann 1966, 37).
15. The experience of women in World War II, the classic Rosie the Riveter, reflects that power of market incentives to move women out of the constraints of social expectations.
16. The traditional southern white linguistic taxonomy of oppression included: Negro—respected, but only if she or he was in her or his place; colored—quiescent but unrespected; and "uppity nigger"—a black person out of her or his place.
17. Leijonhufvud (1973) offers an "anthropological" analysis of the thoroughly departmental tribes of Econs, Polscis, and Sociogs beautifully, humorously, and pathetically in his article, "Life Among the Econ."

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