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Inter-disciplinary Transgressions

Political Economy, Moral Philosophy, and Economic Sociology

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1 Introduction

1.1 By Way of Preface

Critics of contemporary academe, which include many frontline researchers, often despair at the imperviousness of the boundaries that divide the various disciplines—economics, sociology, philosophy, politics—and the paucity of research that tries to seriously trespass these boundaries. However, this should not come as a surprise. The boundaries of the disciplines have appeared over the years, where they have, for a reason. Sub-fields within each discipline tend to naturally share common methodologies, ask questions which are related, and have agreed-upon norms for what constitutes an answer. Yet, there can be no denying that in the formation and hardening of the walls that separate the various disciplines there is path dependence. Once the boundaries began to form, it was easier for individual researchers to respect them than to violate them. Hence, just as QWERTY may be understandable but is, arguably, not the best arrangement of the keyboard for today's purposes, there may be gains to be made now by violating the boundaries of disciplines.

The collection of papers in this volume is a sampler of my effort, over the years, to trespass some of the boundaries of the disciplines that gird contemporary economics, most notably moral philosophy, sociology, law, and politics. In writing these papers I have been fully aware of my limitations. I have ventured into these neighbouring disciplines because of a deep awareness of how important it is to do so if we want to have a deeper understanding of *economics*, for instance, why some nations grow and others stagnate, why in some nations markets are so efficient and in others they are chaotic and barely deliver. At the same time I have been acutely aware of the fact that I have only the most rudimentary knowledge of these subjects. So what I have attempted in these papers is serious economic research, while picking bits and pieces of information and research results from the disciplines within which economics is embedded.

Some of these inter-disciplinary interests of mine are a natural outcome of the fact that I took a long time to decide before closing in on economics as the subject of choice. In college I dithered between law, philosophy, mathematics, and—though I do not remember quite when—economics. Settling hesitantly into the latter I went to the London School of Economics (LSE) and there, while doing my Masters, came under the lure of analytical and abstract economics. But even while doing economics as a graduate student at LSE, I was auditing courses in philosophy, in particular, logic and ethics, and buying myself books in law.

My interest in the other social sciences came a little later, after I completed my PhD and joined the Delhi School of Economics as a faculty member. Delhi School of Economics housed a large number of economists of course but also several sociologists and anthropologists. While we sat in separate buildings, all of us descended several times a day (more numerous than I care to admit) to the watering hole of India Coffee House that was located between the two main buildings of the School. The precinct of the Coffee House in the premises of the Delhi School of Economics is one of the most remarkable institutions of inter-disciplinary research anywhere in the world. Here one could find social choice theorists and econometricians spending long hours over tepid coffee, laced with mega doses of chicory, chatting with researchers who worked in distant villages on caste, culture, and social conflict, and told the economists about not only the mores of Indian village life but the Trobriand Islands, the indigenous people of the New World, Malinowski, and Gluckman. It was education that was patchy and piecemeal but, nevertheless, one that ultimately inspired me to plan my own excursions to rural India. In the late 1980s and early 1990s I took groups of students to some villages in a very poor district of Bihar, in eastern India, to do research on development economics, the institutions of rural moneylending, tenancy, and social networks, topics which are best described as anthropological economics. In terms of hard productivity these trips had little to show, but they got me interested in a kind of research which is not routine in economics and, I like to believe, enriched my view of development economics. Their indirect contribution was large, for they taught me to do research based on what I directly saw instead of what I read in other people's works.

The papers of mine that I have pulled together for this collection are ones that reflect some of these multi-disciplinary concerns. As I have already mentioned, at least for ordinary mortals it is not easy to go too far beyond their own training. While I have tried to reach out to our neighboring disciplines, the papers are nevertheless centred on economics. The aim is not to contribute to these other disciplines but to draw on them to enrich economics.

In putting together this volume I have benefited immensely from the always-helpful suggestions and comments of my editors at Oxford University Press. I am also grateful to my student, Shuang Zhang, for research assistance and to my assistant, Amy Moesch, for helping me in numerous ways. Many of these papers involved co-authors. I have been lucky to have had Alaka Basu, Ekkehart

Schlicht, Eric Jones, Tapan Mitra, Jorgen Weibull, and Homa Zarghamee as co-authors who have so enriched my life as a researcher. I am grateful to them all.

1.2 Methodological Foundations

There are few topics that underlie so much of what we do as researchers in economics and, at the same time, so systematically shy away from discussing as 'methodology'. This is because research, like cycling, is easier to do than to describe how we do what we do. As a consequence, the methodology of economics is usually put aside by economists as the preserve of philosophers. This has been true for science as well. There are many more philosophers who have been concerned with the methodology of science than scientists. May be that is how it should be. Yet, I have a strong feeling that there is a case for the occasional pause for thinking about the underlying method that we use to pursue whatever it is that we pursue in research. Even cyclists can improve their cycling by analysing what they do.

It was Milton Friedman who took up the challenge frontally, in his celebrated essay, 'Methodology of Positive Economics'. Others had commented, almost from the dawn of economics, on the philosophy of how economists create knowledge. Adam Smith, Carl Menger, and Joseph Schumpeter easily spring to mind. But no one had taken such a clear and well-articulated stand till Friedman's essay in 1953. Having read the essay as a PhD student in London, I admired it for these qualities, but was also quickly convinced that it was flawed. I did some piecemeal writing critiquing it after returning to Delhi and settling down at the Delhi School of Economics in the early 1980s. Nothing much came of those writings but it got me hooked on the problem. Philosophy had been a subject of abiding interest for me from my late school years, when I discovered the works of Bertrand Russell, and was reinforced in London when I sat in on lectures by Amartya Sen, John Watkins, Ken Binmore, and some just-out-of-graduate school logicians.

In the early 1990s, thanks to the appearance of some new papers and books, one specific sub-theme of methodology, namely, individualism came once again to the fore. Underlying much of orthodox economics, based on individual rationality, is a common philosophical method—methodological individualism. Like most economists, I practised methodological individualism, unaware that I did. The new discussion helped bring about self-awareness, and with that came the awareness that methodological individualism is not as innocuous or as obviously right as I may have once supposed. As a philosophical approach, it has much to commend. At the same time, an unbending adherence to it becomes a hindrance, as has often happened within neoclassical economics.

It is one thing to be aware of the shortcomings of a method and quite another to replace it with an alternative, logically-cogent system. The latter is certainly not within my ability. The best I can hope for is to provide a critical survey of this important subject. The invitation to write an entry on methodological individualism for the *New Palgrave Dictionary* was an ideal opportunity to indulge this hope. The first substantial chapter of this book—Chapter 2—is the entry I wrote for the *New Palgrave*. By drawing on contributions from in and around economics, it sets the tone for the collection of papers that constitute this book.

Another topic, with philosophical roots, that underlies a lot of economics but remains ill-understood is causality. The only time that economists talk about causality is when they point to how other economists have failed to demonstrate causality. This single-minded pursuit of the lack of causality in other people's work has had one beneficial effect; it has led to a discussion on causality. This is not about its philosophical roots but its connection with empirical methods and the technique of randomization, long popular among epidemiologists, and now, increasingly, the staple of empirical development economics.

While the method of randomization has greatly enriched development economics, the discussion of the connection between this method and causality remains flawed. Chapter 3 of this book, which grew out of a symposium at Cornell University, tries to address this difficult problem. Unlike the chapter on methodology, this is not just a survey chapter. It espouses a particular viewpoint, the intellectual heritage of which goes back to David Hume but has vanished from contemporary discourse. The central claim of this chapter is that when economists argue that other economists fail to demonstrate causality, they are right. The flaw is in the presumption that they themselves can rectify this failure. It is argued in this chapter that causality is impossible to demonstrate. In fact, for the most part, causality lies in the eyes of the beholder. Thanks to evolutionary processes, it is a useful construct our mind has come to acquire. It helps us be better synchronized with nature. Also, this in no way takes away from the fact that the language of causality that we use in everyday language is a useful one.

What the new empiricists have achieved is not a way to unearth causality, for it is unearthable, but a way to accurately *describe* large populations. This is a valuable contribution in itself; there is no need to go further and claim what is impossible, to wit, the unearthing of causality. This is the essence of Chapter 3; it is also a part of my ongoing research.

The book returns to the subject of philosophy in a later part, when it addresses questions of ethics, welfare, and reason. What the next cluster of papers does is to address the important question of the role of social norms and culture in economics.

1.3 Culture, Custom, and Consuetude

It is but natural to try to understand economics in terms of economic variables. When trying to make sense of why some markets are so efficient and others not, and why some economies have developed while others have remained tethered to poverty, we scour the economic conditions of the market and the decisions of the government concerning the economy. We talk about the good or pernicious effect of government interventions, of a large fiscal deficit or easy money policy; we look at the amount of human capital a citizenry has, the state of the infrastructure.

Rarely do we search among the cultural traits of a society and rummage through the norms, habits, and collective beliefs that accompany every human society to look for the factors that enable markets to function efficiently and economies to grow rapidly.

This is a huge lack and is among the fields of research that can yield the largest dividends in the future. Fortunately, this is a field of inquiry that has begun blossoming with several economists prying into it for the first time. This is one area where the interaction between economics, on the one hand, and anthropology and sociology, on the other, can bear fruit. Chapters 4 to 9, which constitute Part II of this book are all devoted to this inter-disciplinary field of inquiry.

During 1985–6, I spent a year at the Institute for Advanced Study in Princeton. As per the Institute's practice we were a bunch of economists who were thrown into an academic salad bowl along with sociologists, historians, anthropologists, and political scientists. We met almost every week during the year for a seminar that would be given by one of the visitors and discussed by all. In the initial weeks it was like being at a multi-lingual conference where the translators had failed to show up. Then gradually, over the year, groups began to coalesce, and ideas take shape. I had the remarkable experience here of collaborating with Eric Jones and Ekkehart Schlicht on a project that straddled economics, sociology, and history. It was on the formation of social norms and the emergence of new customs and the decay of old ones. The paper was published in *Explorations in Economic History* and is reproduced here as Chapter 4. Much of my subsequent research in this field sprang from this early collaborative effort. Chapter 7, which tries to get a grip on 'group selection', that is, evolutionary processes that work on the group rather than the individual, and shape our norms, is also a direct product of my collaboration with Jones and Schlicht in the mid-1980s. Chapter 5 is a general comment which sums up some of these ideas.

Two special topics of investigation under this heading occur in Chapters 6 and 8. Chapter 6 is rooted in an empirical finding that has received a lot of attention in India. This concerns the problem of teacher truancy in government-run primary schools. This is indeed a serious problem, with around one-fourth of the teachers found to be absent during a spot check conducted on a large randomly-selected set of schools from all over India. However, to reduce this problem entirely to a matter of economic incentives is to rob some of the essential features of the problem and also to handicap ourselves in understanding why teacher absenteeism varies so much from one state to another even though the economic conditions are virtually the same. In Chapter 6, I develop a model of social stigma to get a deeper understanding of why teachers behave the way they do and how policymakers could try to rectify the problem.

The special topic that forms the focus of Chapter 8, which is written jointly with Jorgen Weibull, is punctuality. Punctuality behaviour varies across individuals, true, but there is also a huge amount of systematic variation across societies and communities. In this chapter we take the view that it is possible for innately-identical individuals to exhibit very different kinds of behaviour depending on who they are interacting with; and, in particular, one's punctuality behaviour may be an equilibrium response to the kind of society one lives in. The widely-discussed attempt made by the Peruvian government to have all its citizens switch over one day, at mid-day, to punctual behaviour is not as preposterous as it may sound at first sight even though it seems to have failed.

The last chapter of this part of the book—Chapter 9—deals with a new interest of economists, which until a few years ago was the preserve of sociologists. This is the topic of group identity. I discuss in this chapter why and how certain markers of identity that remain dormant over long stretches of history suddenly come alive and become the basis of conflict between groups. The chapter brings together techniques of game theory, in particular, Bayes-Nash equilibrium analysis, to show how trivial initial-conditions can escalate into major conflicts. This yields the valuable converse result that tiny corrections, effected in the right places, can douse conflicts which appear to be deep-rooted and founded in profound differences.

1.4 Moral Philosophy and Ethics

When individual adults voluntarily enter into contracts or trade goods and services with one another, and these contracts or trades have no negative fall-out on those who are not party to the contract, there is no reason for others to stop these individuals. The government should not interfere in these free expressions of individual preferences and the efforts of individuals to enhance their well-being. It is through such contracts and trade that an economy progresses and achieves greater efficiency. This is a central tenet of mainstream economics, founded in the normative economics of Vilfredo Pareto. I believe that this principle of free contract has much to commend in it. Too many governments and too many collectivities make well-meaning but counter-productive interventions thwarting individual economic activities that ultimately hurt the prospects of an economy's development.

At the same time, this normative principle is not as uncomplicated as it may appear at first sight. To understand this, consider sexual harassment in the workplace. Most people agree that this should have no room in civilized society and ought to be legally banned. But now consider a firm, looking to employ workers, which announces in advance that while it will pay a decent salary, give medical benefits, and pay for an annual holiday, it will reserve the right to sexually harass its workers. No one is forced to work for this firm and its terms are made abundantly clear. Should a worker join this firm and get harassed, it will be contractual harassment.

The question is: does the state have the right or even the obligation to stop such a contract? The principle of free contract would seem to answer no. There are many other domains where this question arises. Suppose a firm in a special economic zone asks that any worker wishing to work for the firm must, in advance, promise to forego her right to join a trade union. Since no one forces the worker to work for this firm, we can once again appeal to the Paretian normative rule discussed earlier and assert that it is fine for firms to advertise thus. Similar questions extend to bonded labour, voluntary slavery, and waranteeism.

Most of us feel uncomfortable to allow for all these practices to be justified under the Paretian principle of free contract. Most nations have legislated against some of these practices. In the US, a firm cannot insist that a worker give up his/her right to join a trade union. Such contracts, requiring a prior commitment on the part of workers, were called 'yellow dog contracts'. Under the Norris-La Guardia Act, 1932, yellow dog contracts are illegal. The International Labor Organization is exercised about the fact that some nations ask workers to give up some of their rights in order to work in export-processing zones or special economic zones.

The question is: Can we develop a theory of where and how we may want to have exceptions to the normative rule of free contract? Few questions bring to the table practical concerns of economics and arcane principles of moral philosophy so compellingly together as this one. Chapters 10 and 11 are attempts to tackle this question. Since the normative rule is predicated on *voluntary* choice, the first question arises as to what is voluntary choice and what is coercion. Chapter 10 discusses the intricacies behind these seemingly obvious concepts and then relates them to issues of bonded labour, sexual harassment in the workplace, and voluntary slavery. Chapter 11 is a more explicit analysis of rights, classifying different kinds of rights and making a plea for greater clarity on which rights come with the meta-right on the part of the right-holder to waive or sell the right. Wading through the literature on rights one realizes that people have discoursed on it with very different presumptions about this meta-right. Some take it for granted that rights come with the right to waive the right. This is true for much of what is written by economic theorists. This is clearly a presumption behind the Coase theorem, which would not be valid otherwise. However, human-rights activists often presume that no such meta-right exists. This chapter argues that a good society needs both but has to develop rules to distinguish between the two kinds of rights, the ones that come with the meta-right to waive it and those that do not.

As soon as we take a step beyond the Pareto principle, we have to confront the eternal problem of interpersonal comparisons—how do we decide if one person's joy outweighs another's sorrow? Fortunately, contemporary welfare economics, influenced by the philosophy of Gilbert Ryle, has moved away from the early twentieth century nihilism to the pragmatic construction of rules for comparing the welfares of different persons. Chapter 12 is a discussion of this problem of interpersonal comparison and focuses in particular on how some obvious-looking routes out of the dilemma run into road-blocks of logical impossibility.

Once we are armed with the ability to make interpersonal comparisons, various consequentialist moral criteria for evaluating societies and decisions open up. Arguably the most popular is utilitarianism. The closing chapter of this part of the book grapples with the problem of bringing utilitarianism to bear on another urgent problem of our time, sustainability or justice through time. If we have to choose between alternate streams of returns earned by future generations, we encounter the problem of evaluating infinite streams of numbers. The standard utilitarian practice of summing each generation's utility runs into difficulty since most of these sums add up to infinity, thereby making it difficult to distinguish one stream from another. Chapter 13, written jointly with Tapan Mitra, extends the idea of standard utilitarianism to an incomplete binary relation that can be used to compare infinite streams. The paper draws heavily on the methods of social choice theory and prior writings in moral philosophy and provides an axiomatic characterization of the modified utilitarian principle.

1.5 Economic Theory in Society and Polity

The final part of the book consists of chapters that are all concerned with power and politics, be they in the household, the market, or the globe. The techniques are drawn from fairly standard economic theory but are used to address these larger questions of political economy. Chapters 14 and 15 pertain to the household and, in particular, to issues of gender and the empowerment of women. Chapter 14 extends a long line of research by mainstream economists on household decision-making by recognizing that what households choose and how they behave depends on the distribution of power within the household and adding to that the fact that what households choose and how they behave can in turn affect the nature of power in the household and the status of women. The recognition of this two-way interaction opens us exciting theoretical questions and sheds new light on the empowerment of women. Chapter 15, which was produced jointly from within my household—it was co-authored with Alaka Basu—addresses a practical empirical question about the labour-market status of the mother and the well-being of the child.

Chapters 16 and 17 both deal with markets even though their concerns are distinct. We are all aware of the fact that the prices of goods and services tend to end disproportionately in a nine. Cars for 21,999 dollars, burgers for 1.99 dollars, vacations for 799 dollars are commonplace in the US. As a child in India I used to wonder about the preponderance of shoes being sold for prices that ended in a nine. Clearly it cannot be that the exogenously-given demand curve for each of these goods intersects the exogenously-given supply curve exactly at prices which end in a nine. As I had observed in the first paper I wrote on the subject, surely God has better things to do.

As it happens, the preponderance of pricing in the nines has received a good deal of attention from marketing specialists and social psychologists. In this paper I consider if this can happen even when individuals are fully rational, though with the added fact that processing information is costly and so people may choose to ignore looking at the last digit of a price, when deciding whether or not to buy a good. By 'ignore' I do not however mean 'assume zero' for that would be irrational. I mean assume it to be whatever it actually is on average. The paper analyses the nature of market outcomes when producers have market power and consumers are characterized as above.

While Chapter 17 is also about markets, it, along with the last chapter of the book, investigates topics which have risen to the foreground of our consciousness because of globalization. Awareness of 'bad' labour market practices, such as child labour, bonded labour, and so on, has given rise to the global consumer movement for boycotting products that are made using these bad practices. Well-meaning though these interventions are, they can backfire and, like some migraine medicines which can cause rebound headaches, exacerbate the very problems that they are meant to solve. Chapter 17, written jointly with Homa Zarghamee, constructs a formal industrial-organization model to illustrate the dangers of the powerful instrument of boycotting goods. The aim is not to dismiss the use of consumer action for achieving social and political ends, for it has played a powerful role in important causes, such as the fall of apartheid in South Africa, but to warn its users about the dangers associated with it, which includes a disproportionate amount of collateral damage.

The closing chapter, also one that deals with globalization, is on finance and how some crises escalate, leaping from one nation to another, in today's world of free-floating global capital. It was written as a review article of Joseph Stiglitz's book *Globalization and Its Discontents*. The book, alliterating, no doubt deliberately, with the famous title of a famous book by Sigmund Freud, is a trenchant critique of the current world economic and financial order, with disproportionate power in the hands of a few nations and few corporations, and with the IMF in the middle as arbiter. In reviewing this work, I took the opportunity to comment on important global events such as the East Asian crisis of 1997 and how such 'economic' crises can have political origins and, even more importantly, can be curbed if we are prepared to use instruments of intervention which lie beyond economics, in our institutions, society, and polity.

Part I
Methodological Foundations

2 Methodological Individualism

Methodological individualism is a doctrine in the social sciences according to which a proper explanation of a social regularity or phenomenon is one that is founded in individual motivations and behaviour. In other words, according to this methodology, individual human beings are the basic building blocks from which we must build *up* in order to understand the functioning of society, economy, and polity. We may not in all our research succeed in doing so but to committed methodological individualists such research must be viewed as interim, waiting to be completed, and ideally be accompanied by a slight feeling of inadequacy on the part of the researcher.

Social scientists who have been the focus of much of the debate on methodological individualism and, ironically, also the ones least touched by the debate are the economists. Economists are typically held up as examples of being the most unbending methodological individualists and, on the rare occasions when economists have joined this debate, they have tended to agree with this. The difference is that most non-economists mean this as criticism, whereas most economists take it as praise.

At first sight this characterization of economics seems right. Textbooks of microeconomics almost invariably begin by specifying individual utility functions or preference relations and asserting that human beings are rational in the sense that they behave so as to maximize their own utilities. They then build up from this to explain market phenomena, claims about social welfare, and discussions of national economic growth. There are macroeconomic models where economists are unable to build all the way up from individual behaviour and use aggregate behaviour descriptions as the starting point. But these models are almost always

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