



ECONOMICS AND THE SOCIAL SCIENCES

Boundaries, Interaction and Integration

EDITED BY
STAVROS IOANNIDES
KLAUS NIELSEN

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Economics and the Social Sciences

Boundaries, Interaction and Integration

Edited by

Stavros Ioannides

*Associate Professor of Economics, Department of Political
Science and History, Panteion University, Athens, Greece*

Klaus Nielsen

*Professor of Social Sciences, Roskilde University, Denmark
and Senior Lecturer of Management, Birkbeck College,
University of London, UK*



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Economics and the Social Sciences

Contributors

Markus C. Becker, Department of Marketing, University of Southern Denmark, Odense, Denmark

Guido Buenstorf, Evolutionary Economics Group, Max Planck Institute for Research into Economic Systems, Jena, Germany

Geoffrey M. Hodgson, The Business School, University of Hertfordshire, Hatfield, UK

William A. Jackson, Department of Economics and Related Studies, University of York, York, UK

George Liagouras, Laboratory of Industrial and Energy Economics (LIEE), National Technical University of Athens, Athens, and Department of Finance and Management Engineering, University of the Aegean, Greece

Desmond McNeill, SUM (Centre for Development and the Environment), University of Oslo, Oslo, Norway

Eyüp Özveren, Department of Economics, Middle East Technical University, Ankara, Turkey

Irene van Staveren, Feminist Development Economics Institute of Social Studies (The Hague), and Economics and Christian Ethics, Nijmegen University, Nijmegen, the Netherlands

Jack Vromen, Erasmus Institute for Philosophy and Economics, Erasmus University, Rotterdam, the Netherlands

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1. Economics and the social sciences: synergies and trade-offs

Stavros Ioannides and Klaus Nielsen

ECONOMICS: QUEEN OF THE SOCIAL SCIENCES OR A DISCIPLINE IN DIRE STRAITS?

On the one hand the history of economics as a scientific discipline is one of undoubted success. Its extended reproduction has been impressive. It is now widely seen as the most advanced of the social sciences with its mathematical formalization, public prestige and Nobel Prize awards.

On the other hand mainstream economics can also be seen as having developed an autistic condition; that is, 'withdrawal, fantasies and delusions stemming from an inability to relate to and perceive the environment realistically' (Levey and Greenhall, 1984: 56). It is characterized by a withdrawn state in relation to both real-life economic problems and the social science disciplines. Journal articles, education and training have degenerated into exercises in applied mathematics with little or no practical relevance. Since the 1970s it has increasingly written itself out of policy relevance, most emphatically the new classical macroeconomics with its policy ineffectiveness implications based on the idea of rational expectations. Furthermore, 'fantasies and delusions' follow from widespread imperialistic efforts to extend the application of the core model of constrained maximization to phenomena and problems that were previously considered the prerogative of other social science disciplines. Mainstream economics has failed to develop language and social behaviour that makes possible the kind of interaction or even integration of disciplines that is necessary in order to solve real-life problems. The language of modern economics makes dialogue with other disciplines impossible, and the self-image of the discipline makes it unnecessary. Furthermore, the dominance of one paradigm implies that heterodox approaches within the discipline have in effect been excluded from its core institutions through the neoclassical purification of economics departments and the main journals, and the refuge of dissidents to business schools, interdisciplinary departments and policy institutes.

There is a need for a post-autistic, more pluralist economics, and luckily evidence of promising efforts to develop such a new creature abounds. New international organizations such as the EAEPE (European Association for Evolutionary Political Economy), SASE (Society for the Advancement of Socio-Economics) and AHE (Association for Heterodox Economics) promote a pluralist agenda and are openly interdisciplinary, with considerable success. Heterodox economists are increasingly becoming involved in policy advice and policy implementation in think tanks, interest associations, regulatory institutions, government offices and international organizations. Furthermore, students have responded to the excessive application of mathematics and the autistic withdrawal of mainstream economics from real-life economic problems through exit as well as voice. Recruitment to the study of economics has fallen, and important incidents of student revolt and efforts to promote alternatives have occurred in Sorbonne, Cambridge, Harvard and many other places. Crucially, these efforts are no longer isolated incidents after the establishment and growth of the post-autistic economics network, initiated by French economics students at Sorbonne in Paris (see www.paecon.net/).

One of the central ingredients in the efforts to develop a pluralist, post-autistic, practically relevant economics is the reinsertion of economics in the context of the social sciences. Mainstream economics has become increasingly uninterested in and isolated from the other social science disciplines. This is a deplorable state, for reasons that will be explored in detail in this volume. The established boundaries of economics as an academic discipline have become increasingly irrelevant. Future progress in the study of the economy requires not only openness and dialogue with other disciplines but also cooperation and integration across the boundaries of disciplines. The development of such a reformed, pluralist and interdisciplinary economics requires multi-dimensional efforts at many levels. Advancement of knowledge of other disciplines and the history of the social sciences in the education and training of economists would be an important step in order to create mutual understanding and joint problem-solving tools. An attention to the limitations of deductive application of general theories and the necessity of theory-building and problem-solving attuned to the historically specific context in question would be another important step (see Hodgson in this volume).

Such integrative efforts no doubt promise intellectual as well as practical synergies but they come at an expense. The teaching of other disciplines takes time away from activities such as mathematical sophistication and field specialization. Disciplinary specialization and narrow-mindedness involve benefits as well as costs. A degree of formalization is necessary in order to advance understanding and problem-solving. The power of

mathematics is unchallenged in dealing with situations where many influences make themselves felt simultaneously. If the relevant social causes and consequences can be operationalized properly, no doubt the use of simultaneous equations greatly enhances the problem-solving capacities of social science. In general, analytical depth may suffer when efforts to stress broad knowledge gain prominence. Such arguments are widely used by mainstream economics to legitimize the current trend of specialization and formalization. However, the costs of counteracting this trend should not be exaggerated. The benefits of deepening specialization and formalization are illusionary when it is built on dubious assumptions and the neglect of influences and effects that cannot be handily operationalized. Anyway, in addition to the obvious beneficial synergetic effects of a proper re-insertion of economics in the context of the social sciences there are evidently also costs, and there are trade-offs between benefits and costs.

This volume is based on the premise that mainstream economics has developed too much in the direction of an excessively specialized and formalized state of de facto withdrawal from the study of the economy in favour of exercises in applied mathematics. The editors believe that there is much scope for synergies by engaging in an encounter with the other social sciences and the articles of this volume offer important new contributions to such a development.

What is needed in order to develop a new pluralist economics is not only a re-insertion of economics in a proper social science context. It is also crucial to counteract the exclusion of heterodox approaches to the study of the economy. In this volume economics is seen as encompassing both the heterodox and the mainstream versions. The split between mainstream and heterodox approaches is constituted by alternative assumptions concerning actor behaviour, coordination mechanisms, information, and the role of technology, power and institutions, and so on. These differences are closely linked to different conceptions of economics as well as its relation to the other social sciences. The boundaries of economics are wider and more porous in heterodox versions compared to mainstream economics. Heterodox economics are more open to dialogue and input from the other social sciences. Consequently, the need for re-insertion into the context of social sciences is primarily related to mainstream economics. However, heterodox approaches may also benefit from a more deliberate and explicit positioning concerning the boundaries of economics and the contributions from the other social sciences to the study of the economy

This introduction is an attempt to place the contributions of this volume into a wider context. The remaining part of the chapter is structured in the following way. First, the history of economics as a discipline is briefly outlined in the overall context of the history of the social

sciences. Second, the issue of the boundaries of economics as a discipline is discussed, which makes it necessary to clarify what economics is and to confront different answers to this question. Third, the focus is directed towards the conceptualization of the relations between economics and the other social sciences. How is it possible to distinguish exogenous versus endogenous factors in studies of the economy? Fourth, recent developments in the relationship between economics and the other social sciences, and the consequent future challenges for mainstream as well as heterodox economics, are briefly outlined. The fifth and final part of the introduction presents the structure of the book and brief summaries of the chapters.

ECONOMICS AND THE OTHER SOCIAL SCIENCES – A BRIEF HISTORY

The constitution of the social science disciplines is a relatively recent phenomenon. The contemporary division into distinct and separate disciplines may seem natural and ‘cut in stone’ but it has not existed for much more than a century (see Wallerstein et al., 1996). The current disciplines and the divisions between them were established in the period 1850–1914. Before 1850, none of the current disciplines existed in their present form. Rather, there was a modest level of specialization around a number of topical areas. In addition, there were a few broad pre-disciplinary approaches (Sum and Jessop, 2001), such as political economy and ‘staatswissenschaft’. The constitution of the social science disciplines in the form we know today was closely linked to the late nineteenth century growth of universities and the increasing demand for state employees with specific skills. The new disciplines quickly established and reproduced themselves and their mutual boundaries through academic journals, professional associations, promotion systems, library classifications, and so on.

The modern discipline of economics originated from classical political economy that broadly focused on the dynamics of growth and distribution in capitalist economies and included within its analytical focus a lot of phenomena that are today considered the topics of other disciplines. From the 1870s political economy was transformed into ‘pure’ economics. Landmark contributions by Walras, Jevons, Menger, Marshall and others were particularly instrumental in this process. Value theory was substituted by marginalism and the topic was narrowed down to the analysis of the functioning of abstract markets as an effect of the optimizing behaviour of market agents under scarcity, the interaction of supply and demand, and the role of prices and competition. Modern economics soon developed

clear boundaries towards the other social sciences although there have always been a number of contacts and interaction with other disciplines (Erreyghers, 2001).

Most of the other social science disciplines were established later than economics. The constitution of sociology as a new discipline was closely linked to the increasing interest in the social consequences of modernity and the rise of social reform movements. From the beginning it had the whole of society as its field of study and the ambition of becoming the queen of the social sciences. In practice its topical area became rather focused on social relations and institutions that were not covered by the other social sciences, that is, civil society. This ambiguity is reflected in the persistent split within sociology between the macro-theories covering society in its totality (Habermas, Bourdieu, Foucault and others) and micro-theories covering specific topical areas such as the sociology of stratification, crime and sports. The establishment of political science as a modern discipline happened even later. Previously the study of the structure and the functioning of the state was part of either political economy or the study of law. However, the emergence of modern 'pure' economics excluded the 'political' from political economy and created a space for a new discipline organized around the study of the state and the struggle for influencing the structure and the activities of the state.

Economics, sociology and political science all became nomothetical, that is, oriented towards the development of universally valid, law-like knowledge, independent of time and space. Part of the reason why they became nomothetical disciplines was the outcome of the so-called 'methodenstreit' that concluded with a victory for a positivistic approach to social science knowledge that sought to copy the natural sciences as far as possible in terms of epistemology and methods of inquiry. Previously, predominant approaches such as the historical school had to a large extent been ideographic, that is, oriented towards the development of contextually specific knowledge rather than general knowledge. However, such approaches lost out in the 'methodenstreit' and were relegated to the fringes of the social sciences.

The discipline of history itself, on the other hand, became clearly ideographic. Historians are studying unique historical events and are accordingly anti-theoretical, if theory is understood as general theory independent of context. Economics, sociology, political science and history all implicitly assumed the superiority of the European culture and studied only the developed countries. The study of countries 'lagging behind' became the domain of anthropology. Psychology, law and geography are other disciplines that were also established in the same period. However, it may be argued that they never became institutionalized as social science

disciplines to the same extent as economics, sociology, political science, history and anthropology (Wallerstein et al., 1996).

In the mid-twentieth century there was a clear division of labour between disciplines, with clear boundaries. Each discipline studied separate fields of society with specific and separate methodologies (Wallerstein et al., 1996). This was the Golden Age of the disciplinary division of labour in the social sciences. Since then the blurring of boundaries, overlap and attempts to adopt new interdisciplinary ways of study have made the relationship between the institutionalized disciplines far more complex. The nomothetical disciplines have entered the traditional domain of anthropology through area studies, development studies and other activities developed in order to satisfy the increasing need for specific and practically relevant knowledge about the new nation states in the so-called Third World. The traditional distinction between the study of history and the nomothetical disciplines oriented towards the study of the present also became blurred. Increasingly, economics, sociology and political science began to study their subject matters from a historical perspective, and, simultaneously, history has become more like the social sciences in the sense that underlying general trends and general explanatory factors, rather than discrete events, increasingly have come into focus.

Furthermore, the disciplines of economics, sociology and political science increasingly overlap in terms of field of study and also, to some extent, in relation to methodology. The mainstream economics approach of rational choice has been applied in fields that were previously the exclusive domain of either sociology or political science. This 'economic imperialism' includes theories of public choice and social choice and has reached its most general expression in the form of Gary Becker's economic approach to human behaviour (Becker, 1976). Countervailing tendencies characterize recent developments within sociology. The socioeconomic approach of Etzioni seeks to include neoclassical economics as a special case of a broader social theory that integrates the 'I' of economics (individual utility maximization) with the 'We' of sociology (the rule-following behaviour of the socialized individual) (Etzioni, 1988). New subdisciplines in sociology (political sociology and economic sociology) are examples of new forms of overlap that extend the field of the disciplines beyond traditional boundaries. Within political science the field of study has also been extended to cover not only the traditional domain of the state and government policies but rather collective action in general, including organization, mobilization and discourse. The methodological differences between the social sciences have also become less clear, especially as far as sociology, political science and heterodox economics are concerned, whereas mainstream economics still applies methodologies (formal

modelling, deductivist reasoning and econometric testing) that are only modestly used outside the field of economics.

Thus, on the one hand, increasing overlap, blurred boundaries and the emergence of new multi- or interdisciplinary fields have made the established division of social science into clearly distinguished disciplines still more problematic. On the other hand, strong institutional dynamics within academia still reproduce and reinforce the existing disciplinary boundaries. The institutionalization of the social sciences is to some extent a process of increasing autonomy from external social connection. One of the consequences of the development that sociologists have conceptualized as the differentiation into societal subsystems (Luhmann) and the rise of expert systems (Giddens) has been a strong self-reinforcing dynamics within largely autonomous institutions of research and education, primarily universities. However, the institutionalization of the social sciences has never been fully autonomous (Wagner, 2001). Government policies and new social needs and practices have modified the autonomy and the self-reinforcing dynamics of the strengthening of disciplinary boundaries. In the last decades the counteracting initiatives include the establishment of policy-oriented research institutes, interdisciplinary education and training, and targeted funding for interdisciplinary research projects. The central role of universities in academia as undisputed centres of research is even increasingly being contested by new separate elite institutions for research and education.

Although university departments of economics have become increasingly dominated by neoclassical economics, there has been room for other approaches in business economics and other more practical applications of economics. In addition, economists outside of academia seldom apply the deductive reasoning of neoclassical economics in their daily practice. The current strength of the forces counteracting the self-reinforcing dynamics of mainstream economics necessitates that the institutions of the discipline adapt or alternatively accept the increasing irrelevance of the ivory tower.

WHAT IS ECONOMICS: A METHOD, AN OBJECT, A SYSTEM, OR A FIELD?

The borderlines between the social science disciplines are permeable and the definition of economics is not clear. In order to clarify the issue of the boundaries of economics as a discipline it is necessary to clarify what we mean by economics and to confront different answers to this question.

Four general types of answers to the question can be identified. Economics can be understood as (1) a method or an approach; (2) an object

or a subject matter; (3) a system; or (4) a field (Hausner and Jessop (2000) use a similar categorization although they define some of the categories differently and do not include all of these). The explicit definitions of economics typically adopt one of the four possible types of answers. Here we shall briefly outline and discuss the different answers. The main purpose of the exercise is to broadly outline the general understanding of economics as perceived by mainstream economists and to confront this with the general heterodox positions. The differences between mainstream and heterodox economics can be seen as different positions along four dimensions corresponding to the four types of answers.

The first type of answer defines economics as a specific method, or a specific approach. Economics can be defined, as in the famous definition by Lionel Robbins, as 'the science which studies human behaviour as a relationship between ends and scarce means which have competing ends' (Robbins, 1935: 16). This is a very general definition relating to the nature of the problem to be solved without any reference to substance. Economics is the science of (rational) choice, a specific approach to understanding social interaction in general. Gary Becker explicitly prefers this definition to substantial definitions (Becker, 1976, Chapter 1). Most mainstream textbooks subscribe to this definition, although sometimes in combination with a reference to a specific subject matter. The method of constrained maximization based on rational choice is what has made possible a much higher level of formalization and application of mathematics than in other social sciences. This is the foundation of the recent trend of economic imperialism, which has of course provoked criticism and resistance from the other social sciences (Archer and Tritter, 2000). The methodological issue also divides the mainstream from heterodoxy within economics. Heterodox economics advocates methodological pluralism and rejects an identification of economics with a specific methodology, or one specific approach.

The main alternative is to see economics as the study of the economy. This is how heterodox economics typically understands economics but some mainstream economists do so as well, sometimes in combination with reference to the method of constrained optimization. This alternative has two variants. One alternative defines the economy as an object, or a subject matter. The other alternative sees the economy as a system.

Before Robbins, all economists typically understood economics as the study of a specific object or subject matter. Nowadays some mainstream economists still do and all heterodox economists seem to do so as well, although often implicitly rather than explicitly. In these definitions the specific subject matter can be defined in many different ways. Gary Becker discusses two types of substantial definitions. The first refers to the

allocation of goods to satisfy material needs whereas the second refers to the market sector as the area of study. According to the first definition, economics is the 'social science that deals with the ways in which men and societies seek to satisfy their material means and ends' (Becker, 1976: 3). The second definition focuses on social interaction that takes the form of market relations. This is connected with money in the sense that market relations include activities that can be directly or indirectly measured in money.

Becker criticizes both types of definition. The first is considered as the narrower and least satisfactory. Becker certainly has a point. It is and has increasingly become difficult to distinguish between material and non-material wants, as well as between tangible and intangible goods. The second definition is more to Becker's taste, although he rejects this as well. If the market sector includes all activities that can indirectly be measured in money terms this definition is clearly broader than the first definition; it relates to material as well as immaterial wants, and it opens a door for an expansive application of economics by reinterpreting social relationships as exchange relationships guided by shadow prices. Anyway, the definition is still narrower than the definition of economics as a method (a science of choice) that is not restricted to the market sector, however widely this is understood. However, the location of the boundaries of economics is not at all clear if it is said to include all that can indirectly be measured in money. If you can reinterpret or imagine social interactions as market relations then they are part of the subject matter of economics independent of any objective distinctions. The boundaries of economics then become a question of imagination rather than substance, or a social construction if you wish.

Other substantial definitions similarly escape any reference to ontology. This is the case if economics is understood as 'what economists do', which is often implicitly the case. Economics may also be defined institutionally, such as '(the study of) the social interaction within economic institutions' (Caporaso and Levine, 1992: 28–31). However, this merely shifts the problem into distinguishing between economic and other institutions instead.

All the ambiguities related to definitions of economics as an object are reflections of a general problem with substantial definitions. The problem concerns the location of the exact boundaries of the object/subject matter. What is endogenous and what is exogenous? The next section will explore this problem in more depth. Maybe the character of the problem makes it unsolvable in principle. A clear demarcation of the subject matter necessarily comes at the price of ignoring several important aspects, linkages and relationships. However, this is not in itself a sufficient reason for escaping a definition of the economy as a subject matter and preferring a definition of economics as a method instead.

The third type of answer understands the economy as a system. The economy is seen as an interlinked set of interactions. It is a system in the sense that it has elements, relationships, boundaries and emergent properties. The system can be seen as either closed, open, or open/closed (autopoietic). A closed system focuses on a limited set of variables and conceptualizes the role of the environment as constant parameters or exogenous variables. The environment provides input to the economic system but external changes do not influence the structure and the dynamics of it. On the other hand, in an open system the environment can have structural impacts on the economic system. Rather than a fully holistic view of the economy/society, an open system uses tentative closure but is aware of structural impacts and consequently of the unpredictability of the system. An autopoietic system is both open and closed at the same time. It is open in the sense that it receives external input from the environment and it is closed in the sense that it can only understand the external input by means of its own logic/code. The system can be economic or socioeconomic. An economic system includes only economic variables and forms of interaction, whereas a socioeconomic system integrates political, social and other variables and forms of interaction.

Mainstream economics sees the economy as a closed system of market relations with political, social and other external input in a form that can be taken as 'given'. However, the methodological approach has been extended to explain the internal relations of firms and other 'black boxes' as well as some of the 'given' variables. Heterodox economics typically perceives the economy as an open system. The autopoietic view of the economic system is related to the idea of increasing functional differentiation of societal subsystems. It has been pioneered by Luhmann (Luhmann, 1984; 1995) and has also been applied in a Gramscian–Marxist reinterpretation of the role of the economy in society (Jessop, 1990).

There are obvious dilemmas and trade-offs in relation to systemic openness. On the one hand, openness increases relevance but reduces possibilities for modelling. On the other hand, a closed system is more susceptible to modelling but is less relevant. If the economy is seen as a closed system, it is assumed that all the exogenous variables (including political and social variables) can be considered 'given' and stable. Mainstream economics sees preferences, technology, resources and institutions as exogenous. These exogenous factors provide input to the system and influence the outcome of the systemic interactions, but they are not formed by these interactions, and the internal dynamics of the system is independent of the exogenous variables. The problem with this approach is related to the assumption that all these variables are 'given' and stable. If preferences and technology are actually formed by the economic system they are