ideas. In the wording of the **institutional economics**, institutional environment influences and changes the initial models. Socialism as an institutional system includes both formal (laws, written regulations) and informal (values, habitus) institutions. For example, the implementation of the principle of the dictatorship of the proletariat gives de facto unlimited power to bureaucrats, the representatives of the party-state. L. Trotsky was one of the first to mention the dangers related to the transformation of the communist party bureaucrats into a new ruling class (in the 1937 book *Revolution Betrayed*). The party's instructions become de facto laws. As far as informal norms are concerned, membership in a communist party ensured a series of exclusive privileges ranging from rapid advancement to travel abroad.

Let us consider the second element of the institutional structure of socialism, state ownership. Formally speaking, the nation's citizens are the sole owners of public firms. In practice, the property relations of the state-owned firm can be described as bureaucratic. High-ranked bureaucrats of ministries and public agencies have appropriated the key **property** rights: *usus* (control over the use of assets) and *usus fructus* (control of the cash flow or residual income). As a result, the initial abstract models of socialism have often transformed the everyday practices that contradict them or at least significantly differ from them.

The explanation of this transformation is still a subject of discussion. One possible way consists in inquiring into the parameters of a set of informal institutions that existed before socialist revolutions, i.e. before the implementation of abstract models. The more selective affinity and congruence a model of socialism and the set of informal institutions show, the fewer distortions appear during the transition period. A plurality of the national models of socialism is principally due to the variability of initial institutional conditions. In particular, there are Soviet, Chinese, North Korean (autarkic socialism), Yugoslavian (self-managed socialism), Hungarian (the 'goulash' socialism) and many other country-specific models.

The Soviet model of socialism has emerged as a result of the interaction between the Marxist model of socialism and the strong collectivist traditions embedded, for example in institutions such as the traditional peasant community (obshchina). There has been a surprising continuity between the obshchina-type institutions and the socialist institutions that existed during the Soviet era. The Chinese model of socialism in its current form (the Communist Party maintains political control whereas the economy is divided into two sectors – state-controlled and market) is based as well on affinities between cultural traditions and full-fledged market structures at local and regional levels. These affinities give rise to a network form of market socialism. Another form of market socialism, self-managed, existed in Yugoslavia during the 1960s to 1980s (see Vanek 1970). The regional and ethnic disparity harmful for full centralization, as well as a mild political opposition to the Soviet Union and its model of socialism, should be taken into account when explaining the emergence of the Yugoslavian model.

The informal institutions that have resulted from the interaction between the abstract models of socialism and the institutions inherited from the past ensure a relative stability of the socio-economic system. J. Kornai has pointed out that socialist economy tends to experience shortages. Shortages arise in different sectors of the socialist economy on a permanent basis. Despite this fact, the system is relatively stable, attaining a non-Walrasian equilibrium. In other words, there is a 'normal' intensity of shortages, a 'normal' level of stocks, a 'normal' length of line and so on. If economic parameters do not exceed the corresponding 'normal' values, the system as a whole returns to an

equilibrium even after temporary shocks. The 'normal' values are a function of the informal institutions that determine the limits of the social acceptability of shortage and its consequences.

At first glance, the fall of socialism in Eastern Europe and the former Soviet Union at the start of the 1990s refutes the thesis concerning the existence of a non-Walrasian equilibrium. Two additional factors should be taken into consideration at this point. First, there is the intensity of external shocks. The drop in the price of oil in the 1980s heavily influenced the Soviet economy and, consequently, the other socialist economies closely linked to it. Second, J. Kornai's model ignores the existence of a parallel market. The parallel, or 'black', market has played an important role in attenuating shortages; this is equally true for both consumer and producer goods. W. Andreff, in the book *La Crise des économies socialistes* (The Crisis of Socialist Economies, 1993), showed that the parallel market has its own dynamics and can transform into a destabilizing force for the centrally planned economy as a whole. The more intensive shortage is, the more destabilizing the parallel market is in the long run.

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ANTON OLEINIK

SOCIO-ECONOMICS

Socio-economics is an interstitial discipline that combines the theorems, findings and insights of economics with those of other social sciences. Hence, by definition, one or more of the independent variables in a socio-economic proposition must be psychological, sociological, historical or part of some other social science discipline other than economics. The dependent variable(s), the phenomena that are being analysed or explained, are typically going to be economic. Thus, if one seeks to explain the differences among the savings rates of people of different societies, which long have been very high in Japan and Germany compared to the United States, a socio-economic proposition would seek to establish whether the cultures of the countries under study differ in the positive moral values they associate with saving and the negative view they have of being in debt, and not just – the difference in return rates on funds deposited in various forms of saving accounts.

There are cultural differences even in the extent to which socio-economics itself is studied and followed. In the United States, neoclassical economics, which by and large excludes social variables on the theoretical level, is dominant. In other societies, various forms of socio-economics are more prominent, going under such titles as humanistic economics (Lutz and Lux 1979), social economics (Catholic) (O'Boyle 1990), ecological economics (Daly 1973; Costanza 1991), institutional economics (North 1981; for a review of 'old' and 'new' institutional economics, see Hodgson 1998), **behavioural economics** (Kahneman and Tversky 2000), economic sociology (Smelser and Swedberg 1995), and socio-economics (Etzioni 1988), although their representatives are also found in the United States.

The best way to understand the essence of various forms of socio-economics is to contrast them with neoclassical economics. The latter's paradigm is centred around the individual, who is assumed to be the agent, the choice-maker, while socio-economics recognizes the individual as a member of one or more social bodies that affect the person's preferences.

To illustrate: when economics is formulated in terms of the neoclassical paradigm, it uses as a core concept the term 'consumer sovereignty', a brief examination of which will stand for many other examples that could be given. According to the thesis folded into this term, the direction of the economy *in toto* arises out of an aggregation of individual choices and transactions. This is a cardinal assumption that guides much of the work in the neoclassical approach. As a result, if neoclassical economists are asked, for instance, to recommend policies that would increase the savings rate (a goal of US public policy for several decades) they typically suggest increasing the incentives for people to save (a prescription that has led to setting up tax-deferred and tax-exempt savings accounts in the United States known as IRAs and Keoghs). For these to work, millions of people have to change their behaviour, which was assumed to be easy because a rational person would be quick to take advantage of the considerable tax benefits involved, and the aggregation of these changed choices would increase the savings rate.

In effect, it took decades and large outlays before most tax-payers even found out about these accounts. Millions still do not use them, despite the fact that there is no rational reason for them to refrain. Moreover, these accounts cost the United States Treasury many billions of dollars but have resulted in very little net new savings. (Many people who saved anyhow move their money into these accounts. Note also that the penalties on abusing them are small, and enforcement of even these, weak.) In fact, it is quite possible that the loss to the Treasury exceeded the increase in savings.

Socio-economics would lead one to consider actions by the community and state as the first step. Saving rates are best increased, accordingly, by increasing the budgetary surplus and/or paying off more of the national debt, which are much less costly and much more effective ways to boost savings than trying to affect the choices of millions of individuals. (It is true that there are macro-neoclassical economists who study national budgets, but they cannot find in their paradigm the principles and concepts that nourish analysis that is not based on aggregating individual choices.) In contrast, socio-economics studies the conditions under which communities and their moral cultures are stronger or weaker, which in turn affects their ability to affect both collective and individual economic behaviour (Putnam 2000; Etzioni 1988). There follow three core propositions of socio-economics to introduce the concept.

Self-interest and values

A core theorem of socio-economics is that individuals' decisions and behaviours, far from following one unified principle (i.e. seeking to maximize pleasure and minimize pain) reflect a conflict between two irreducible utilities. The first is our desire for pleasure: the other, our moral obligations.

Both utilities and the tension between them are reflected in a simple sentence such as 'I would *like* to go to a movie, but I *ought* to visit my friend in the hospital.' Indeed, most values serve to pull behaviour away from heeding the pleasure principle. Whether religious or secular, values urge people to fast, to give to the Church, to not engage in sex, and on and on. In other words, there are certain things one is supposed to do which are of virtue for a variety of reasons, but the common variable they share is that they are not pleasurable.

Much behaviour reflects this inevitable tension between things people would like to do and that which they believe they ought to do (Phelps 1975). Many empirical observations support this generalization. For instance, economists find it surprising that people vote; such behaviour doesn't fit the standard economic model. Individuals are expected to do things for a return, for profit, or for some other form of benefit. When one votes, one cannot reasonably expect that the vote will make a difference and hence that one will get anything in return.

For a socio-economist, this behaviour is not puzzling. The most powerful variable that explains the difference between people who vote and those who don't is the sense of civic duty. People who feel that they have an obligation to vote are much more likely to vote than those who don't have such a sense (Barry 1978). This is not to suggest that the length of lines, the weather, etc., don't make a difference; they do affect the 'costs' of voting and do affect behaviour. But the number one factor explaining the variance is the relative strength of the person's sense of civic duty.

Another case in point: if people were to act only to maximize their pleasure, those who smoke would vote against taxes on cigarettes, and those who do not would favour these taxes. The fact, though, is that there are a large number of smokers who vote *for* taxes on cigarettes because they feel they are damaging the public and ought to do something to compensate for that. And there are a fair number of non-smokers who vote *against* these taxes because they are libertarians or they feel that the government should not interfere. Similarly, Paul Stern reports that individuals who were told that conserving energy during peak demand periods would be good for the community were likely to lower their electricity use during such periods if they felt that households as a group could make a difference (Black 1978). Alan Lewis (1982) found that whether people consider the burden of taxation to be fairly distributed and whether they believe that the funds recovered from taxes are used for legitimate purposes is an important factor in determining the level of compliance.

One last example: neoclassical economists try to explain why people – most people – with spouses who have Alzheimer's stay with them. These economists treat marriage as an economic contract, in which an exchange of services takes place for income and services. But with Alzheimer's, there is no payback because there is no reasonable hope that the person who is afflicted will recover and take care of the other person. One may say that the treating spouse does so because of the kudos he or she will receive from members of their extended family and from neighbours and friends. However, tending to an Alzheimer's patient day in and day out is so taxing that all the kudos in the world could not make up for it. And finally, economists often attribute this behaviour to the notion of psychic income. But again, socio-economists would argue that this explanation fails because the afflicted person does not respond with a warm appreciation for the service; indeed, they become ever more abusive as time goes on. So why do most spouses not walk out on their afflicted husband or wife? When one interviews these people, one repeatedly hears the statement that 'this is the right thing to do'; the same sentiment is found in Roberta Simmons' (1987) studies of kidney donations. People have a strong moral commitment, a powerful factor which outweighs the pain and losses they have to endure.

This core socio-economic theorem does not hold that values determine behaviour, but that there is a continual conflict and tension between self-interest and the pleasure principle on one hand and powerful moral commitments on the other. Socio-economists hence take it as a starting hypothesis that people are conflicted, which helps explain why people act inconsistently and tend to zig-zag as a result of their being subject to these two competing utilities.

To suggest that evidence shows that social and moral values play an important role in affecting human behaviour in general, economic behaviour included, is not to suggest that these values are given. They themselves are subject to social processes, for instance moral dialogues, that lead them to be constantly reconsidered and reformulated, and sometimes to break down and replaced by others. Indeed, among the factors that promote reconsideration of values are economic factors. However, even **Marx** did not claim that values simply reflect technological and economic factors or that they have no independent variance and effect of their own.

The socio-economic mind

Theories of human behaviour require a core assumption about the intellectual capabilities of the person. Socio-economics uses as a starting point the key observation that people are poor processors of information – just the opposite of what used to be the neoclassical economists' assumption that information flows instantaneously and is absorbed instantaneously, all without any costs. These economists wisely retreated from these assumptions, and they now recognize that information is not immediately absorbed and the process has costs. In this and several other contexts they refer to 'imperfect' systems. This is a tricky concept that is inadvertently misleading. The term implies that there is a speck of dust on the perfect scale. Actually, people's limits on information processing are much larger. Indeed, strong evidence shows that people start with little knowledge and that they are slow and poor learners.

A simple case in point: every day millions of people call their brokers and either ask their advice on which stock to purchase or order them to buy one, on the assumption that these individual investors could beat the market averages. (Otherwise they would buy index funds and save costs.) However, there is strong, consistent, robust data to show this is an irrational act; one cannot consistently out-perform the market averages (Malkiel 1985). Moreover, brokers have a conflict of interest with the callers; brokers benefit from high turnovers in the accounts, while investors benefit from low turnover and low transaction costs. Still, despite the fact that studies supporting the use of index funds rather than brokers have been repeatedly publicized in the popular press, in classrooms, and on television, millions persist in such untutored behaviour. Among those who provided ample evidence along these lines are Amos Tversky, Daniel Kahneman, Richard Thaler, Martin Seligman, Robert Frank and Robert Schiller.

The market is a subsystem

Socio-economists consider it a grave error to treat the economy as a self-sustaining system, to view the market as separate from society (and its polity). The starting assumption of socio-economic analysis is that the economy is a subsystem of the societal system. Much of what is occurring within the economy is best explained by attributes and processes that occur outside of it. To cite just one very well-known and

compelling example: Max Weber's study of the social (and religious) conditions under which capitalism arises and thrives. (To suggest that economies are nestled within societal system is not to suggest that they have no autonomy or independent power. They may well cause changes in the encompassing system. The only point made is that it is unproductive to think about the market or the economy as a self-sustaining, free-standing system. It is enough to consider the notion of private property and limited liability, both essential for a modern economy, to recognize that these are concepts rooted in the legal and cultural system of the societies in which economists are imbedded, rather than part of the economists' realm.)

To make the difference between neoclassical and socio-economics less abstract, here is a specific example: George Stigler (1968) wanted to provide an example of the governing assumption of neoclassical economics, that the market (an aggregation of the choices of all participants) ultimately set the context in which individual choices must be made. Thus, if a manager reads the market correctly in terms of what will sell at what price, then that manager's corporation will stay in business; if the manager misreads the market's signals and persists in not responding to its dictates, the firm will be soon bankrupt.

To illustrate this point, Stigler focuses on wheat farmers. Each farmer cannot decide what he or she will charge for a bushel of wheat; they can charge only what the market will bear. The market decides. The core assumption is that the market works like an anonymous box into which suppliers throw in their bids and buyers throw theirs, and out of this invisible hat the 'correct' price prints out.

Socio-economics notes that in the United States farmers are not merely 'in the market' but also in the polity; they are members of two major political lobbies. These lobbies influence Congress to enact various legislation that greatly affects the price of wheat. Indeed, for more than forty years the price of wheat (and numerous other farm products) was not determined by an autonomous machine: these prices could not fall below a certain level because the government protected the price. The price reflected the fact that the farmers lived in both the polity and the economy, and they used their lobbying citizens' hats to influence the economy.

Farming is hardly the only sector in which this occurs. Socio-economics finds many other sectors in which politics significantly affects prices (Galbraith 1971). These include textiles (through a multi-fibre agreement, the United States government controls how much textiles are imported from each country; the scope of these imports have an important effect on the prices because these imports come from countries in which labour is cheap); steel (whose importation was limited through various mechanisms); and cars (a 'voluntary' quota limiting the importation of cars from Japan to 1.25 million for numerous years). The same can be found in many other areas. Even small businesses, such as small restaurants and laundromats, are subject to numerous regulations that determine in which zones they can open businesses, how close they can be to one another, the hours during which they can operate, and much else, all reflecting the community's values and politics.

Socio-economics provides the concepts and measurements that allow one to study the independent variables behind the normative and political factors that affect economic behaviour rather than taking them as given.

Institutionalization

Socio-economics has been much less effectively institutionalized than neoclassical economics. Its various associational bodies, such as the Society for the Advancement of

Socio-Economics (www.sase.org), have not nearly as many members as the largely neoclassical associations, including the American Economic Association. Most of the teaching in practically all the departments of economics in the United States, as well as the teaching of economics in business schools, is provided by neoclassical economists. And the few socio-economic journals (such as *The Socio-Economic Review* and *The Journal of Socio-Economics*) have fewer subscribers and are much less often cited by academics and policy-makers than neoclassical ones.

The reasons for this low level of institutionalization of socio-economics are unclear. It is evident, though, that – as socioeconomics itself points out – academic disciplines, like markets, do not function in a vacuum. Without much greater institutionalization, the future development of socioeconomics will continue to be overshadowed.

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AMITAI ETZIONI

SOCIOLOGY AND ANTI-ECONOMICS

The 'anti-economist' believes that economics is so wrong it is best eliminated. The mind-set is well captured by the sociologically minded Thorstein **Veblen** when he

> criticised accepted economic theories, not as incomplete or even wrong in specific detail, but as utterly false and deluded from beginning to end ... we should be much better off if we were to dispense with the whole question–begging rubrics with no other verdict than 'good riddance'.
>
> (Ayers quoted in Coleman 2002: 7)

Sociologists have numbered significantly among 'anti-economists'. Expressions of anti-economics may already be found in the very germination sociology; including De Bonald, Saint Simon and Comte. The earliest book published in the United States to use the word 'sociology' in its title – *The Sociology of the South* of 1854 – was from its first page a tirade against economics. In 1896 Emile **Durkheim** recalled, 'I spent several years [studying economics] and got nothing out of it, except what can learn from a negative experience' (quoted in Steiner 1994: 137). In the 1990s sociologists in Sweden and Australia led campaigns against the status of economics in national policy-making. (See Jakee 1998, and Coleman and Hagger 2001).

Sociologists have figured large amongst anti-economists on account of the offence economics gives two precepts of sociology: 'social holism' and 'methodological collectivism'.

'Social holism' contends that it is neither possible nor desirable to decompose human affairs into an 'economy' distinct from a society.

Such a decomposition is not *possible*, according to the Comtean vision of a single universal social theory, because the economy was only a component part of single integrated social mechanism. Comte:

> The avowal of the economists that their science is isolated from social philosophy in general, is itself a sufficient confirmation of my [negative] judgement; for it is a universal fact in social ... science, that all the various general aspects of the science are scientifically one, and rationally inseparable.
>
> (quoted in Coleman 2002: 240)

And, to the extent that this decomposition may be possible, it is not *desirable* because economic equilibrium does not coincide with social equilibrium. Consequently, the achievement of economic equilibrium will have social costs. In this vein, and with respect to the social tensions of industrialization, Comte complained that

> instead of recognising in the urgent remonstrances called forth by this chasm in our social order [as] one of the most eminent and pressing occasions for the application of social science, our economists can do nothing better than repeat, with pitiless pedantry, the barren aphorism of industrial liberty.
>
> (Comte quoted in Coleman 2002: 5)

In the twentieth century the impolicy of seeking to resolve human affairs into an 'economy' distinct a society was pressed with great acclaim by Karl **Polanyi**. In Polanyi's telling of history, markets were 'embedded' in society until the advent of the Great Transformation of the early nineteenth century, in which markets were removed from social control by political economists, with deleterious social consequences. 'The creation of a labour market was an act of vivisection performed on the body of society by such as were steeled to their task by an assurance which only science can provide', including Ricardo and Malthus, whose theory was 'essentially confused', ridden with 'perplexing pseudo-problems', and merely a 'hopeless attempt to arrive at categorical conclusions about loosely defined terms' (Polanyi quoted in Coleman 2002: 47). Polanyi has retained interest since the mid-century, and has been the intellectual figurehead of the well-publicized denunciations of the economic way of thinking by French sociologist/anthropologist Pierre **Bourdieu**.