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BRINGING THE SOCIAL BACK INTO ECONOMICS:PROGRESS OR REDUCTIONISM?

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1 Introduction

It is not often that I find myself in agreement with The Economist on a matter of economic theory. But in its issue in the week before Christmas, it repeated an exercise of ten years earlier in speculating about who were to become the rising stars within academic economics. Deploying the metaphor of astronomy's big bang, it claims that the previous predictions had been borne out as "the effects of new analytical tools developed in the 1970s spread out from the profession's core like a shockwave". This is a reference to the new microfoundations of economics, those drawing upon market, especially as informational, imperfections. Further, with explicit reference to "economic imperialism", it suggests that, "unlike the stars of the 1980s, today's impressive young academics are using the tools of economics in fields on or beyond the traditional borders of their discipline", Economist (1998, p. 143). In particular, "these economists take seriously what every layman knows: that people don't always behave in selfish or even rational ways". The Economist had identified two important and closely related developments within economics. On the one hand, it has been colonising the other social sciences. On the other hand, it appears to be addressing the social in the form of customary as opposed to individualistic behaviour.

The next section of this paper suggests that economics has long sought to colonise other social sciences. It has, however, only achieved limited success because of its alien methods and its need to take the social as given. Section 3 argues that there is now a newer version of economic imperialism drawing upon the new microfoundation principles associated with information imperfections. In view of rational response to market imperfections, these purport to be able to explain the social whether the latter be non-economic or collective forms of behaviour. Such developments have considerably enhanced the capacity of economics to colonise other social sciences, not least as its insights are incorporated informally and as the most extreme forms of postmodernism are losing their influence.

Section 4 presents illustrations of the way in which economic imperialism is bringing the social back into its analysis, drawing in broad brush rather than detail upon the new economic sociology, the new institutional economics, the new economic history, the new development economics, and the all-embracing notion of social capital. The concluding remarks welcome the (re)incorporation of economics into social theory and the associated commitment to interdisciplinarity. But economic imperialism will prove progressive only to the extent that it prompts an alternative to the mainstream - rather than a retreat from its incursions - in the form of a genuine political economy rather than a retreat from its incursions.

2 The Old Imperialism

As is well-known by historians of economic thought, the marginalist revolution established mainstream, neoclassical economics in ways that went far beyond reliance upon marginalist principles in providing a systematic analysis of supply and demand. In particular, two important features are crucial for the themes to be developed in this paper. First, the economy became identified with the market, with broader social and political relations fading into the exogenously given background, and to be studied by other social sciences. In other words, the economy as market relations, not least in the form of supply and demand, was constituted as a distinct object of study with the discipline of economics to undertake the task. Second, the focus of analysis shifted to the individual and optimising behaviour in the form of utility maximisation (with profit maximisation by firms or entrepreneurs as a corollary).

Now, these two features have become so much taken for granted as conventional wisdom within the discipline that they tend to be unobserved within much teaching and research.[1] Although summarised terminologically in the shift from political economy to economics, each involves excising the social from the economy, albeit in different ways. On the one hand, the broadly social gives way to the narrowly economic; on the other hand, the notion of society gives way to that of a collection of individuals. As a result of the hardening of these features, it has become commonplace to complain that economists know very little about the world they inhabit. Blaug (1998a, p. 11) reports a survey finding a lack of interest in the real world on the part of elite graduate economics students as opposed to their highly tuned knowledge of econometrics and mathematical economics. Equally important, however, and less observed, is that economics is notable for a lack of interest in the history of itself as a discipline, so that the study of the classic works in the discipline (the history of economic thought) is established as a separate, and marginal, field. This is in contrast to sociology or politics, for example, where the classics remain central to mainstream research and teaching.[2]

Given the extent to which economics has proven indifferent to the real world and to its own evolution as a discipline, it has become heavily reliant upon unquestioned, even unnoticed, conventions. To some extent, these are more or less sacrosanct for the mainstream, as in reliance upon the particular form of methodological individualism centred on utility maximisation.[3] Mainstream economists rely heavily, if not exclusively on economic rationality, although they might differ over its range of application.[4] Consequently, other conventions, such as exclusive preoccupation with the economy as the disembodied sum of market relations, are not logically required. The economy can be understood in a broader sense as extending beyond the market place and, possibly the same thing in other terms, the conventionally non-economic can be addressed by deploying the standard economic principles.

The effect of broadening the scope of application of economic principles is to encroach upon the subject matter of the other social sciences. These generally incorporate different traditions and methods that are incompatible with neoclassical economics because of concern to address the social directly and on a much broader canvas than utility maximisation. Consequently, the attempted application of the economic to the non-economic is far from new. It has been acknowledged under the rubric of "economic imperialism". Swedberg (1990, p. 14) reports the term as having been introduced in the 1930s by Ralph William Souter who suggested that:

> The salvation of Economic Science in the twentieth century lies in an enlightened and democratic 'economic imperialism', which invades the territories of its neighbors, not to enslave them or swallow them up but to aid

> and enrich them and promote their autonomous growth in the very process of aiding and enriching itself.

More recently, if no longer in the forefront and leading pioneer, Gary Becker has played the major role in leading the invading force, applying neoclassical economics to a range of non-economic problems such as education, the family, crime, and addiction.[5] As he puts it himself, "'Economic imperialism'" is probably a good description of what I do", Becker (1990, p. 39).[6]

Becker has achieved considerable success, not only within economics as a Nobel prizewinner, but also by establishing a presence, not always acknowledged, in other disciplines. Most important has been the universal acceptance of the notion of human capital. Yet, Becker (1993, p. xix) observes, "a dozen years ago, this terminology would have been inconceivable". The obstacle to acceptability of the approach centred on aversion to the notion of education as comparable to an accumulated physical asset with productive potential.. This seems to have dissipated. Similar concerns arose with the new household economics, Becker (1990, p. 33), "when I gave my first paper on population, I said I was treating children as 'durable consumer goods'. There was laughter in the audience … as much from the economists as from sociologists and the demographers".[7]

3 The New Revolution around Economics

Antipathy to Becker arises out of the view that he does not go far enough in his understanding of the basis for human action and that he goes too far in the application of "economic rationality" to all walks of life, often in the context of an as if perfectly competitive general equilibrium. Akerlof (1990, p. 61), for example, clearly sees himself as seeking to incorporate non-economic insights into economics in contrasting his approach to that of Becker who is perceived to rely too much on market-clearing and rationality, rather than on "why the economy is not working", p. 72. Akerlof perceives Becker in terms of Samuelson's image of Friedman as having learnt to spell banana but not knowing when to stop, p. 73! Schelling (1990, p. 194) confirms Akerlof's self-image as he "is more creative … (and) does the opposite of economic imperialism. He looks into sociology for concepts that he can import into economics".[8] Significantly, Akerlof's classic paper on the market for lemons is reported to have been rejected by both the American Economic Review and the Journal of Political Economy in the mid-1960s before being accepted by the Quarterly Journal of Economics for publication in 1970, Akerlof (1990, p. 65).

For Swedberg (1990, p. 5), by the end of the 1980s, whether it is Becker taking economics to sociology or Akerlof bringing sociology to economics, a major change is taking place across the boundaries between the two disciplines:

> What is happening today is very significant: *the border between two of the major social sciences is being redrawn, thereby providing new perspectives on a whole range of very important problems both in the economy and in society at large.*

Elsewhere, I have made a stronger and broader claim.[9] Over the past decade or so a revolution has been proceeding in or, more exactly, around economics. The germane developments within the discipline are familiar enough. They concern the new microfoundations of macroeconomics or the new information-theoretic economics as it is termed by Stiglitz (1994). This is a theory of market imperfections in which informational asymmetries and imperfections are brought to the fore in order to explain why markets might clear at Pareto-inefficient levels, why they might not clear, and why they may be absent altogether. Whilst none of these results is new in the sense of having been previously possible on the basis of old market imperfections free of informational considerations, the information-theoretic approach provides for a remarkable result. Instead of necessarily taking the social as given, it is open to explanation despite continuing dependence upon optimising individuals.

Here the social comprises two different elements, as previously suggested, in terms of what the marginalist revolution set aside. On the one hand, the social is understood as the non-market, those activities lying outside the domain of supply and demand in the form of monetary exchange. On the other hand, the social is acknowledged in the form of what appears, falsely, to be irrational behaviour from the perspective of utility maximising individuals. This applies to customary behaviour whether brought to the market or not. Without going into details, both forms of the social are shown to be the rational response to informationally-imperfect market relations. The structuring of the economy (in financial or labour markets for example), the divisions between the market and the non-market (and the structuring of the latter), the formation of institutions, and collective as opposed to individualistic behaviour are subject to explanation on the basis of a continuing methodological individualism, albeit in the presence of market imperfections.

This is truly a remarkable result in analytical terms appearing to overcome one of the formidable barriers between economics and the other social sciences. For, previously, the social had to be taken as given or as irrational from the perspective of mainstream economics. Now the social has not only been endogenised, it also continues to be constructed on the basis of the optimising behaviour of individuals. A powerful weapon is made available in the thrust of economic imperialism. For, in its earlier incursions, most notably in the work of Becker, the social had been examined almost exclusively in terms of an as if market. The subject matter of the other social sciences is more or less brushed aside as failing to provide microfoundations for its social theory which is presumed to be arbitrary. With the new microfoundations, economics both takes the social seriously as something distinct from the economic, and provides a rationale for it.

Before examining the impact of these developments within economics on other social sciences, it is worth locating them within economics itself.[10] Until the end of the post-war boom, mainstream economics had been dominated by what might be termed a complacent Keynesianism. It was presumed to underpin the macroeconomic policy that would guarantee full employment, whilst microeconomics provided a rationale for government intervention in detail to correct market imperfections. The Keynesian accommodation between macro and micro, between theory and policy, and between all of these and the evidence of the boom itself, was rudely shattered both by the stagflation of the 1970s and the associated intellectual and ideological assaults launched by neo-liberalism. Friedman's monetarism ultimately gave way to the new classical economics, and rational expectations, that even argued that systematic macro policy would be rendered ineffective by the anticipation of its effects by optimal use of information by calculating economic agents. With the rise of neo-liberalism, government expenditure was perceived to be excessive and government intervention as inducing inefficiency. Far from perfect competition and general equilibrium being the ideal from which deviations in the form of market imperfections justified state intervention, the ideal of attaining the free market and minimal state gave rise to what Carrier and Miller (eds) (1998) refer to as the new economic virtualism - the imperative to remould the world to conform to an imagined ideal, that of perfectly competitive equilibrium.

Neo-liberalism had the advantage of forging a link between micro and macro, even if in the vacuous sense of emphasising the leaving of the micro "supply-side" to the market, with the macro demand-side also looking after itself apart from accommodating, not excessive, targeting of the money supply. Neo-liberalism further undermined confidence in the state by questioning its efficiency and motivation in view of rent seeking and corruption. In short, in the face of neo-liberalism, economic theory confronted two challenges: on the one hand, why are market imperfections so important; on the other hand, why would an improvement be guaranteed by intervention given that government may be worse than market failure.

The new microfoundations has provided a framework for addressing these issues. But it has done so in a particular intellectual and ideological context marked by the reaction against neo-liberalism. Consequently, quite apart from continuing and reinforcing the traditional unworldliness and technicism of economics as a discipline, neo-liberalism (and the new classical economics as its academic counterpart) had the effect of posing an analytical agenda in terms of why individuals might not behave rationally, why markets might not work, and why non-market relations exist and might even be desirable. In addition, neo-liberalism by its own efforts had done much to undermine the presence of an alternative to the mainstream in the form of radical political economy. The new microfoundations has had the effect of undermining it further through a sort of internal colonisation within economics. For the new theory is able to address the traditional concerns of radical political economy in terms of market imperfections, as opposed to class, power and conflict. An outstanding illustration is provided by segmented labour market theory which, even as late as the mid-1980s, was perceived to be incoherent by the mainstream. Within a decade, it had been reconstructed along neoclassical lines in view of the labour market structures that arise as a result of efficiency wages and the like.[11] As Hodgson (1994, p. 22) puts it, "as yet, the 'political economy' term does not itself provide a secure defence against the ravages of economic imperialism".

In short, the revolution in and around economics has challenged neo-liberalism but only by consolidating methodological individualism and by relying exclusively upon market imperfections as the explanatory framework for both economic and non-economic phenomena. Whether drawing upon Becker-type as if market analysis or information-theoretic principles, it has given birth to a flush of new applications, encroaching on and influencing other social sciences to a greater or lesser extent - as witnessed by the new institutional economics, the new political economy, the new household economics, the new economics of crime, the new growth theory, the new development economics, the new labour economics, the new financial economics, the new economic geography, and so on.[12]

4 The Revolution Portrayed

The previous section has provided a cursory account of the intellectual climate as far as economics is concerned. Those for the other social sciences have their own characters. Oversimplifying and overgeneralising, there is now something of a retreat from the excesses of postmodernism, which was itself marked by a flight from the objective to the subjective. Of course, economics was remarkably untouched by the impact of postmodernism. However, as the latter's influence wanes, social sciences other than economics are strengthening their interest in the material world, of which economic issues form a part. As a result, other social sciences are particularly vulnerable to the colonising incursions of economics, especially in view of its new-found microfoundations. Yet, it would be a mistake to see economics as simply sweeping unhindered and uniformly across the other social sciences for a variety of reasons. First, as will be seen, even if economics has become more attractive or acceptable in view of its ability to address the social, it is still riddled with problems from the perspective of other social sciences. Second, whilst economics is heavily reliant upon formal mathematical models, this is not usually characteristic of the other social sciences. Consequently, the results from economics tend to be incorporated in an informal fashion reflecting the character of the recipient discipline just as, for example, human capital has been deployed in a variety of ways across the social sciences without necessarily reflecting precisely its initiating meanings within economics. Third, by the same token, the extent and nature of influence of a colonising economics depends upon the intellectual traditions and momentum of its host. The outcome will inevitably be uneven from discipline to discipline and from topic to topic. For example, in contrast to the influence of human capital theory, the explosive growth of interest in consumption across the social sciences has been more or less unaffected by economics, not least because it is heavily concerned with the meaning of objects as well as their provision.[13]

One factor in the impact of economic imperialism is the extent to which a rational choice approach has a presence (and can be strengthened). In the case of sociology, this has given rise to a questioning of whether economics is being taken to sociology or vice-versa - as already observed in the contrast drawn between Becker and Akerlof, one which is mirrored in some respects by the differences between Becker and Coleman, a rational choice sociologist also at Chicago. As Swedberg (1990, p. 6) puts it:

> Becker … is mainly concerned with how the neoclassical analysis can be extended to areas outside the economy. Coleman, on the other hand, is trying to recast sociology on the basis of rational choice. Therefore he is more concerned with maintaining certain traditional sociological features in the analysis than Becker.

However, methodologically, these differences are not substantive since they reflect a difference in starting point rather than a major difference in content. For economists, the starting point is a perfectly working market which is then reconstructed with a social content in light of market imperfections. This content has to be shown to be consistent with economic rationality in light of informational imperfections. Sociologists, on the other hand, start from the social as defined by their disciplinary traditions and seek to reconstruct it on the basis of rational choice.

Consider, for example, the attempt by Coleman (1986) to lay out the appropriate domain of social theory. He begins by suggesting that it must focus on society as a whole and individuals (with intermediate categories). As a result, there are four possible types of theory depending on whether society and individuals are related to one another causally: society-society, society-individual, individual-society and individual-individual. He concludes that, p. 347, "the central theoretical problem in sociology is the transition from the level of the individual to a macro level - the problem that economists call … 'aggregation', although the term is a misleading one". As is already apparent, the economist's mode of theory is perceived to be attractive. Indeed:

> Despite the misnomer, 'aggregation', that economists have given to the problem of moving from individual to macro level, economists may have made the most progress in addressing it. Their principal tool is the conception of rational action carried out in a competitive market.

Economists are only seen as deficient for not having shown that aggregate outcomes in terms of the social are consistent with individual optimisation, "because it is insufficient to aggregate; it is also necessary to show how aggregation is consistent with reproduction of social structures in which individuals act", p. 360.[14] Further, "social norms … give a sense of the problem … the correspondence between social reality and the existing or potential social theory. What is necessary for reality is to have <u>social institutions</u> … which translate individual tastes and endowments into a set of prices and a distribution of goods or into a collective decision. What is necessary for social theory is to have conceptual devices to describe that translation. Finally, in general discussion, Coleman makes explicit that his divorce from economics could readily become a marriage of convenience for "the appropriate paradigm for sociology … is derivative from Walrasian general equilibrium theory, though one which deviates from that theory … in part because of social structure, which a Walrasian system ignores", p. 364. The only other part that Coleman mentions as deficient within the Walrasian system is the absence of market imperfections. In short, the new microfoundations, in using market imperfections to explain the social on the basis of methodological individualism has attained Coleman's goal for social theory.[15]

In short, for all rational choice theory, a reductionism of the social to the aggregate of individuals is involved which is complemented in the case of a colonising economics by a further step - the reductionism to market imperfections. This is most apparent in the case of the new institutional economics. Here, the perfectly competitive economy (transactions costless, fully informed) is taken as point of departure in order to explain why non-market institutions exist. This, however, leaves open the initially given conditions which determine allocation between market and non-market - why are resources, information, etc the way they are. As it were, the boundary between exogenous and endogenous has only been slightly shifted to widen analytical scope in explaining the market and non-market diode. Two options are open for proceeding further. One is to appeal to "history" in the form of initial conditions, more on which below. The other is to shift back the boundaries of endogeneity even further. Such has been made explicit by Williamson (1998) who has ultimately proposed a four tier analytical schema. At the lowest rung, "third order economizing", is resource allocation theory which is appropriately addressed by neoclassical economics, "get the marginal conditions right". It is set within the context of second order economizing which is devoted to contracting, and analytically subject to transactions costs economics, "get the governance structure right". This in turn is determined by first order economizing, concerned with the formal rules of the game, to be examined by the economics of property rights, "get the institutional environment right". Finally, social theory is the broadest, first tier, encompassing "embeddedness: informal institutions, customs, traditions, norms, religion". It appears to eschew economizing and is the subject of social theory. Williamson also provides for feedback mechanisms between adjacent tiers. This is clearly arbitrary, and there is no reason why one tier should be privileged over another and why all should not be determined simultaneously. Indeed, the whole analytical schema is a consequence of taking third order economizing as starting point and, partly by design and partly of necessity, moving to "higher" levels of analysis which might, on a more circumspect approach, be considered to be more appropriate with which to begin.

Similar considerations apply to the work of Douglass North. The differences, terminological or substantive, between him and Williamson, can only be exaggerated given what they share in common. North begins with the need to set optimising individuals and resource allocation in the context of property rights. In a painfully slow and pedestrian fashion as his work evolves over time, the issue of property rights is set within the context of institutions. Both property rights and institutions themselves evolve over time, not necessarily efficiently and with path dependence, with choices being made in the light of individual motivation. The latter is, in turn, related to ideology and vision, for it is otherwise impossible to explain why there would be any major historical change. Consequently, like Williamson, North's approach is heavily influence by its starting point in mainstream neoclassical economics. The borders of what is economic and the scope of analysis of the non-economic are extended. Nonetheless, there lies an unexplained residual beyond the boundaries, what is ideology for North and the subject matter of social theory for Williamson. For North (1981, p. 11/12):

> The dilemma of explaining change can be put succinctly. Neoclassical economic theory can explain how people acting in their own self-interest behave; it can explain why people do not bother to vote; it can explain why, as a result of the free rider problem, people will not participate in group actions where the individual gains are negligible. It cannot, however, explain effectively the reverse side of the coin … How do we account for altruistic behavior … Neoclassical theory is equally deficient in explaining stability. Why do people obey the rules of society when they could evade them to their benefit? … Something more than an individualistic calculus of cost/benefit is needed in order to account for change and stability … Individuals may also obey customs, rules, and laws because of an equally deep-seated conviction that they are legitimate. Change and stability in history require a theory of ideology to account for these deviations from the individualistic rational calculus of neoclassical theory.

Consequently, the methodological differences between both Williamson and North, on the one hand, and Becker, on the other, can be precisely located. For the latter equally subscribes to the big bang explanation derived from the core neoclassical model. But he does not admit to any universe beyond the scope of its analytical reach.

In addition, he is not so inclined to allow feedback mechanisms from the various "tiers" of analysis.[16]

Three features stand out from this account. First, it is notable how the movement through the tiers represents an incursion onto the subject matter of other disciplines. Second, that the basis arises out of the market imperfections of the third, if initiating, tier. Third, the concepts attached to other disciplines are being deployed informally without careful regard to their own analytical roots. The capacity to do this arises in part out of the way in which the social is being analytically reintroduced. Neoclassical economics is well known to rely upon universalised, asocial and ahistorical categories such as production, consumption, utility, etc, to address socially and historically specific contexts. Heilbroner and Milberg (1995, p. 6) refer to a "widespread belief that economic analysis can exist as some kind of socially disembodied study". This results in its being unable to acknowledge that its objects of study are subject to social construction in meaning. In addition, however, the generality of the concepts employed allows them to be highly plastic in their application by others. Precisely because the social and historical have been taken out of economics by the marginalist revolution, they can be restored to suit any particular application.

At what is often a less grand level, these points are illustrated by more recent attempts to incorporate economic history within the compass of the new microfoundations. Cliometrics originally launched such as assault on the basis of perfect competition, subsequently considered sufficiently unrealistic and inadequate that North, one of its leading pioneers, felt obliged to deny its worth. Now, however, the new economic history comes improved, confessing to its sins of the past, and positively promoting the idea that markets work imperfectly and that institutional and other responses to such imperfections are the way in which to understand economic history. This is illustrated by a series of edited volumes organised around business history, Temin (ed) (1991), Lamoreaux and Raff (eds) (1995), and Lamoreaux et al (eds) (1999).[17] The first of these confesses that earlier work has been bedevilled by relying too heavily on a model of perfect competition, so that, "traditional economic theory … is of only limited use to business historians", Temin (1991, p. 7). But these deficiencies are to be made good by embracing the new microfoundations. As Temin (1991, p. 2) puts it, "the first theme is analytic … information is the key element to the functioning of an enterprise". But, by the third volume, the introduction is making even grander claims, Lamoreaux et al (1999, p. 14/5):

> More than any other factor, the ability to collect and use information effectively determines whether firms, industry, groups, and even nations will succeed or fail.

Reliance upon the new microfoundations, however, creates problems for historians since the associated models are timeless. This is recognised in a way that makes the understanding of history (as time and context) precise. For, Lamoreaux and Raff (1995, p. 5):[18]

> The historian critics should take heart from the way the economists' literature developed … The first game theorists had sought unique equilibrium solutions to their problems. These would inevitably be independent of history. But, as

> research advanced, it became clear that the games frequently possessed multiple equilibria. Because only one outcome could actually happen, theorists needed to think about selection principles. Players' expectations came to be recognized as quite important, as did the history of relations between the players. Time and context mattered after all.

Essentially, this leaves historians in the role of servants of economists, uncovering the particular initial conditions, choice of equilibrium or path dependence to be attached to underlying models.[19]

In relatively mild form, the illustration of business history reveals a particular feature of economic imperialism in its relationship to other disciplines. It proceeds by plundering them, whether formally or informally, for the raw materials with which to employ the microfoundations. A typical example is provided by Crafts (1999) for whom:[20]

> Gerschenkron on development from conditions of economic backwardness still deserves to be read and might usefully be revisited from the perspective of modern microeconomics.

Interestingly, Crafts is contributing as economic historian to an assessment of the state of development economics. This has itself been subject to major assault, not least in the form of the post-Washington consensus, spearheaded by Joe Stiglitz a longstanding new microfoundationist.[21] In his hands, as leading representative of the new development economics, development analysis is reduced to market imperfections, Stiglitz (1989). For this, the old neoclassical model is taken as point of departure, Stiglitz and Hoff (1999):

> In leaving out history, institutions, and distributional considerations, neoclassical economics was leaving out the heart of development economics. Modern economic theory argues that the fundamentals {resources, technology, and preferences} are not the only … determinants of economic outcomes …even without government failures, market failures are pervasive, especially in less developed countries.

Further, with casual reference to the Black Plague, as an illustrative accident of history, and multiple equilibria, an explanation is provided for the fundamental problem of why "developed and less developed countries are on different production functions":

> We emphasize that accidents of history matter … partly because of pervasive complementarities among agents … and partly because even a set of dysfunctional institutions and behaviors in the past can constitute a Nash equilibrium from which an economy need not be inevitably dislodged.

Not surprisingly, Yusuf and Stiglitz (1999) feel able to divide development issues into those that are resolved and those that are not. These seem unwittingly to fall into the theoretical as opposed to the policy, respectively, not least because the analysis is one of market imperfections but the policy will depend upon their incidence in practice.[22]

Both the new, or should it be newer, economic history and the new development economics provide examples of an economic imperialism in which existing knowledge is potentially plundered and reproduced on the basis of information-theoretic microfoundations. However, the broadest example of such colonisation is to be found in the increasingly fashionable notion of social capital. I have read so obsessively on this topic, and written so much already, that I will confine remarks to a few assertions and polemical points.[23]

First, what is striking about social capital is not only the extent of its influence, and the speed with which this has been achieved, but also its ready acceptance as both analytical and policy panacea. These features are aptly captured, respectively, by the World Bank's notion of social capital as "missing link" and "the glue that holds society together". Social capital explains what is otherwise inexplicable and is the substance which allows society to function successfully. There are some parallels with utility as far as economists are concerned, for this is also all-embracing - putatively explaining why we behave the way we do as well providing us with our welfare. In the case of social capital, however, our sights and ambitions are raised from the level of the individual to the level of society and, for economists, from market to non-market as response to market imperfections.

Second, despite what is already a rush of survey articles, even those who are not using the term for the first time accept that it is difficult to define. The most recent contributions acknowledge this and pass on, usually adding a definition of their own to suit their own purpose. In short, the notion of social capital is chaotic as is also reflected in frequent suggestions that it is merely a metaphor or a heuristic device; it is also acknowledged to be difficult to measure (in a neat inversion of logic, World Bank projects seek to define it by the process of measuring it), to have what it is confused with what it does, and to be subject to perverse, dark, negative and down-sides. Precisely because social capital is anything other than natural, physical or human capital, it inevitably suffers from analytical incoherence through being the victim of multiple definitions and applications.

Third, social capital has a gargantuan appetite. On the one hand, it can explain everything from individuals to societies (although global social capital has not yet figured to my knowledge, it ought to do so at least to address the international networks, powers and ethos of those running the world) whether the topic be the sick, the poor, the criminal, the corrupt, the (dys)functional family, schooling, community life, work and organization, democracy and governance, collective action, transitional societies, intangible assets or, indeed, any aspect of social, cultural and economic performance, and equally across time and place. On the other hand, social capital has been deployed across theories and methodologies as diverse as postmodernist Marxism and mainstream neoclassical economics. Everything can be interpreted through or as social capital. It is truly the academics' Third Way!

Fourth, although social capital is unlimited in principle in terms of what it can incorporate and address, and how it does so, the evolution of the literature in practice is far from neutral in terms of its content and direction, reflecting general intellectual fashions, the stimulus of external events, and even the idiosyncrasies of particular participants. What is equally important is what has been left out. As much of the critical literature has observed, contributions to social capital have tended to focus on civil society and its associational forms and ethos in isolation from, and exclusive of, serious consideration of the economy, formal politics, the role of the nation-state, the exercise of power, and the divisions and conflicts that are endemic to capitalist society, at both national and international levels.

Finally, the very terminology of social capital signifies its weaknesses.[24] That the notion "social" needs to be attached to capital to mark a distinct category of the latter is indicative of the failure to understand capital as social in its more mundane economic, putatively non-social, form. Of course, this ludicrous posture is at its most extreme in the case of mainstream economics for which capital is a physical or other asset which provides a stream of utility to individuals, a universal, ahistorical and asocial thing rather than a definite economic relationship, with associated structures and processes for the generation of profit. This all reflects a profound misunderstanding both of the social and of capital(ism). In a word, economists can bring in the social to complement the individual, only because the social has been omitted in the first instance. By the same token, to a lesser extent, whether influenced by a colonising economics or not, the same is true of the use of social capital across the other social sciences. It is designed to provide a corrective to the omission of some form of the social. It tends to do so, however, as previously indicated, by a neglect of precisely those economic (and often other) features of capitalist commodity production that need to be assessed prior to consideration of the designated concerns with which they interact and by which they are usually dominated. Significantly, social capital evolved out of a literature, and was initially designed, to address the relationship between the macro and the micro in the context of the relationship between the social and the individual. Coleman, discussed earlier in this respect, is acknowledged as one of, if not, the most important founding contributors.[25] To a large extent, if not completely, these origins - and their generally strong affinities with rational choice methodology - have been glossed over in the ready reception granted to social capital as the cure-all for social theory.

Whilst social capital has had a life of its own outside the influence of economics, its use in other social sciences is not necessarily free from the designs of economic imperialism. Once social theory is reduced to social capital, social capital can itself be further reduced to the greater or lesser success in handling market and informational imperfections. Such is the theoretical procedure adopted by Collier (1998) for example. For him, social capital is “capital” if it has the economic effect of sustaining a stream of income. In addition, it is "social" because it involves, p. 8:

> some non-market interaction of agents which nevertheless has economic effects. The economic effects are consequently not "internalised" into the decision calculus of each agent by the prices faced in markets. In the language of economics, they are "externalities".

On this basis, the notion of social capital is further refined according to "the forms of social interaction, the particular type of externality which is being generated, and the mechanisms which induce it to be generated", p. 12. More specifically, with details given, p. 18:

> The building blocks of the analysis are thus the three externalities, the four types of social interaction, and the six mechanisms of internalisation.

Essentially, Collier takes the neoclassical model of market imperfections as given and sufficient as the basis on which to comprehend any non-economic factor that has an (unintended) economic effect. Such reductionism has its counterpart in empirical work. For, the appropriately named endogenous growth theory, also extends the scope of neoclassical economics to variables that have not traditionally fallen within its domain and which can be non-economic. As Fine (1999i) argues, the new growth theory has simply taken some form of market imperfection and, with some, possibly implicit, form of economies of scale, translated it into an effect on the rate of growth as opposed to a dead-weight loss. With what are in fact statistically inappropriate procedures, any number of economic and social variables can be thrown into Barro-type regressions. Indeed, there is a neat parallel between social capital and endogenous growth since each purports, respectively, to address in its own way the "missing link" in economic performance and the residual left over as total factor productivity.

Concluding Remarks

In assessing economic imperialism, some emphasis has been placed on the reductionism deployed - of the economic and social to market imperfections - and how this has induced a plundering of existing analyses so that they can be reproduced within the new framework. An inevitable consequence is to impoverish colonised knowledge by stripping it down and discarding any element that does not fit into, or is not necessary for, the new approach. In an extreme form, other social sciences are used at most to define a problem for economics, with analysis based on mere speculation or casual knowledge. Becker is notorious for this with, for example, the economics of crime based on his dilemma on whether to risk a parking fine or not, or his notion of social capital drawn from observation of a differences in popularity of otherwise identical restaurants.[26] As Hey, previously managing editor of the Economic Journal has observed, there is a 'journal game' being played by economists, drawing upon irrelevant material to address stylised facts as casually observed by the author concerned, with the obligation only to demonstrate cleverness rather than addressing crucial economic problems.[27]

If such games are adjudged to be unacceptable within economics itself, there is no case for extending them to the traditional terrain of other social sciences. When doing so, economic imperialism often displays a stunning ignorance of the research available in the chosen sphere of application. For plunder requires the most limited knowledge of the artefacts being appropriated. By the same token, there is often an equally unseemly display of arrogance, as well-established results are discovered anew and claimed as innovative in view of the reductionist methods through which they have been obtained and the failure of others to have done this previously both scientifically and rigorously. Can it really be the case that economists have the nerve to tell other social scientists that history, institutions, and collective forms of behaviour matter? Heilbroner and Milberger (1995, p. 6) refer to an "extraordinary combination of arrogance and innocence". As Ingham (1996, p. 262) observes in reviewing the new economic sociology:[28]

> It is difficult not to share this irritation when confronted, for example, with ... "agency theory" which quite simply tries to reduce the complexity of social and economic organisation to the individual propensities of the amoral

> maximiser ... The issue is not merely that this form of theorising can easily be made the subject of cogent theoretical and empirical critiques ... but that the authors were so structurally insulated by the social organisation of intellectual specialisation that they were able to disregard the huge non-economic literature on the very problems that they had posed for themselves.

Are these merely the exaggerated claims of a few disgruntled individuals? If so, the assessment by the Economist with which this article began would have to be dismissed along with the economist with whom it draws to a close. Lazear's (1999) "Economic Imperialism" is an unwitting parody of the ideas presented here; it is replete with the claim that economics is rigorous and scientific, drawing upon casual references to classics such as Aristotle, Smith and Ricardo but with particular homage paid to Becker. For economics is "the premier social science" with regard to its popularity, with the ability "to address a large variety of problems drawn from a wide range of topics", p. 1. For "the power of economics lies in its rigor. Economics is scientific; it follows the scientific method of stating a formal refutable theory, testing the theory, and revising the theory based on the evidence. Economics succeeds where other social sciences fail because economists are willing to abstract", p. 5. Further, "during the last four decades, economics has expanded its scope of inquiry as well as its sphere of influence", stripping away complexity to get at what is essential - drawing upon three themes - individual maximisation, equilibrium, and efficiency. On this basis two claims are made, "economics has been imperialistic and … that economic imperialism has been successful", p. 6. The topics concerned include intra-firm behaviour, modelling tastes, demography, discrimination, family ("Ideas that were considered bizarre and almost comical twenty years ago are now standard", p. 16), social interaction, religion, human capital, personnel economics, finance, accountancy, organization, marketing, law, political economy, health, and linguistics (understood as why majority languages are liable to prosper because of externalities between speakers).[29] Whilst it is suggested that "rigour" need not be mathematical, no other sort of rigour is cited. Indeed, "it is the obsession with theories that are consistent, rational, and unifying that gives economics its power … Economics has been successful because, above all, economics is a science", p. 53. In terms of how economic imperialism evolves, it is acknowledged that one problem is that economists make simplifying assumptions that narrow general applicability. This contrasts with "broader thinking sociologists, anthropologists and perhaps psychologists [who] may be better at identifying issues, but worse at providing answers … [hence] much can be learned from other social scientists who observe phenomena that we often overlook", p. 6. Finally, colonisation can proceed either by invasion or internalisation, for, "one possibility is that scholars outside of economics use economic analysis to understand social issues … Another possibility is that economists expand the boundaries of the economics and simply replace outsiders as analysts of 'non-economic' issues", p. 7.[30]

For Lazear, economic imperialism is undoubtedly progressive because of his faith in economics and its potential scope. Irrespective of the veracity of his claims for economics as rigorous and scientific, and his description of what economists do in fact do in terms of verifiability, he might be right even if for the wrong reasons. On the assessment offered here, is economic imperialism to be rejected? An answer cannot provided on the basis of developments within and around economics alone. For, progress depends on broader context. Neoclassical economics itself recognises this in its theory of the second best.[31] And there are positive sides to economic imperialism as it undermines the dogma of neo-liberalism, promotes interdisciplinarity, and bypasses, rather than learns from, the worst excesses of postmodernism. These features have endeared some of the colonised to the colonisers, not least in the shift from human to social capital for example. However, the basis for economic imperialism within economics in terms of the new microfoundations is so hegemonic that the prospect of its successful transposition to other social sciences, with little or no alternative economic analysis for the latter to draw upon, is most alarming. As Heilbroner and Milberg (1995, p. 87) put it, "Once the dismal science, it will become the irrelevant scholasticism". In this light, economics will have turned full circle since being dubbed the dismal science by Thomas Carlyle. For, far from reflecting an animosity to Malthus' theory of population as commonly interpreted, not least by Heilbroner (1986, p. 78), Dixon (1999) argues that Carlyle used the term to describe the forward march of supply and demand and the utilitarian doctrines of political economy. In a wondrous anticipation of the motives for economic imperialism, his grounds for rejecting "the laws of the Shop-till" were that "this Universe is not wholly a shop". His stance was motivated by the wish that the labour market should not settle the wage, and that non-market relations be used by those in authority to compel labour to work, even supporting slavery, and maintain the present orders of servitude. At least Carlyle recognised the imperatives of class and power in resisting the incursions of a colonising political economy. Informational and market imperfections are the tame equivalent by which present-day economists would complement the universe of supply and demand.

Footnotes

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[1] Thus, Hobsbawm (1997, p.99) identifies the separation of history and economics with the marginalist revolution, its being so sharp that "the arguments and even the existence of the defeated side have largely been forgotten". This is especially so of Marx who has, in the wake of rational choice and analytical Marxism, "survived … insofar as the arguments … could be conducted in the analytic mode of neo-classicism".

[2] For a different view, see Krugman (1998) who agrees that mathematical economics has a poor image but argues that it has been in touch with the real world and policy, only neglecting popular elaboration of its ideas and significance.

[3] See Arrow (1994) for the rejection of methodological individualism within economics on the grounds that it cannot be achieved in practice, practitioners' prejudices to the contrary, in view of given prices, needing to take the rules of the game (theory) as given, or externalities in access to the pool of knowledge. I have made the same point differently in arguing that, in contrast to the internal causal content derived from within formal models, as emphasised by Dobb (1973), external causal content within neoclassical economics is a consequence of the social content that is taken as given for the purposes of individual optimisation, Fine (1980). See also Lawson (1997) for the notions of intrinsic and extrinsic closure.

[4] Thus, as Hahn and Solow (1995, p. vii:) put it in criticising the new classical economics:

> We also both regarded ourselves as neoclassical economists in the sense that we required theories of the economy to be firmly based on the rationality of agents and on decentralised modes of economic communication among them.

[5] Hobsbawm (1997, p. 106/7) dates the imperialism of economics from the 1970s, its analysis of "crime, marriage, education, suicide, the environment or whatnot, merely indicates that economics is now regarded as a universal service-discipline".

[6] See the account, sanctioned by Becker in celebrating his 65th birthday, of his "essence" given by Febrero and Schwartz (1995, p. xx/xxi) which suggests:

> Many activities thought to be noneconomic in nature … are actually economic problems. Economic theory can thus help explain phenomena traditionally located outside the scope of economics, in the areas of law, sociology, biology, political science, and anthropology … The development of this economic imperialism … is another significant contribution that Becker has made to modern economics.

Further, if anticipating, is it too much to claim that the following praise for his reductionism indicates arrogance, ignorance and parasitism if not contempt, p. xvii:

> By using Occam's razor to cut away ancillary assumptions, he reduces his axioms to one: that all actors in the social game are homines economici – economic persons, rational agents who maximize their advantages … Inductivists would not believe it, but, by placing his models on this minimalist fulcrum, he shifts huge problems that other social scientists found immovable.

[7] Further, on suggesting in the late 1970s in the sociology department at Chicago that there should be a course on microeconomics for sociologists, "the audience booed me", p. 34. Such disapproval is, in part, courted. For, although this is exactly what he does analytically, Febrero and Schwartz (1995, p. xix) claim that:

> He modeled the family as a multiperson production function, as a "factory", he says, to shock sociologists.

And, although claiming to be neither conservative nor radical, Becker can hardly be described as progressive. This is revealed by Becker and Becker (1996), a collection of Business Week articles, not only in his mode of argument but in his conclusions, which include stances against affirmative action, no fault divorce, minimum wages, government expenditure and industrial policy, and in favour of vouchers for (third world) schooling and higher penalties for crime.

[8] See also Elster (1990, p. 238) who sees Becker as reflecting, "the imperialist trend of economics, which … just ignores sociological theory in its attacks on sociological problems", as opposed to Akerlof who "takes sociological theory seriously and uses it to study economic problems". Note that the critique of Becker for relying on perfect competition is misplaced since he accepts the presence of monopoly and even (individually rational) collective action, Becker (1996). But his preference is to explain as much as possible on the basis of perfect competition, full employment, unchanging preferences, etc unless forced to do so by empirical observation or the object of study.

[9] See Fine (1997, 1998b, and 1999c).

[10] For an extended discussion, see Fine (1998a).

[11] See Fine (1998a) and also Spencer (1998).

[12] Note that, over the past five years, the Journal of Economic Literature has published articles on economics and the arts, emotions, psychology (twice), religion, preference formation, political science, corruption, sociology (twice), the family, and altruism.

[13] See Fine and Leopold (1993) and Fine (1999d) for a more recent assessment for historians in light of the themes of this paper.

[14] See also p. 363:

> Satisfactory social theory must attempt to describe behavior of social units, not merely that of individuals … it must nevertheless be grounded in the behavior of individuals … the central theoretical challenge is to show how individual actions combine to produce a social outcome.

[15] In this respect, the social is simply the systemic sum of the individual parts. As Heilbroner and Milberg (1995, p. 87) suggest:[15]

> 'Micro' and 'macro' merge, in that microbehaviour cannot be understood without taking cognizance of its social origins, and social forces remain empty

> abstractions unless they enter into the motivational concreteness of one or more individuals.

[16] In his latest contribution, North (1999) displays a remarkable panache for having his cake and eating it. He deploys optimising agents within given constraints but they are bound to evolving ideological beliefs. He privileges the latter causally but also allows for circular interaction. And whilst most change is incremental, it can also be rapid.

[17] See also Lamoreaux et al (1997) and Lamoreaux (1998).

[18] Note that Gibbons (1997, p. 127) observes in his survey:

> Game theory is rampant in economics … game-theoretic models allow economists to study the implications of rationality, self-interest and equilibrium, both in market interactions … and in nonmarket interactions.

[19] That this is so is recognised in terms of denial, Lamoreaux et al (1997, p. 77):

> We do not see business historians as research assistants for economists who engage in a higher level of thinking.

But this is only in order to encourage historians themselves to engage in or apply such higher level thinking in comparative work.

[20] However, for Crafts, whilst he "can be construed in terms of modern microeconomics … (this) does not mean that his underlying view of the role of the state in the development process is acceptable", because of his neglect of sources of total factor productivity and the dangers of government as opposed to market failure.

[21] For a major platform in the launch of the post-Washington consensus, see Stiglitz (1998), contributing as Chief Economist and Senior Vice-President at the World Bank. For critical reception, see Fine (1999j) and Standing (1999) for example.

[22] This approach is beautifully complemented in-house by North (1999, p. 23/4):

> There is no such thing as *laissez-faire* … Any market that is going to work well is structured … by deliberate efforts to make the players compete by price and quality rather than compete by killing each other … What you try to get government to do … is to structure the game so you force the players to compete by price and quality rather than compete in other ways. It means you must structure factor and product markets differently; it means you must structure a labour market, a capital market. I feel very conscious of this because for the last half-dozen years I have been an adviser to the World Bank on a set of policies in which we have attempted to look at how to structure various kinds of markets to work well. And it has been an education. With telecommunications … the structure at one moment of time which might work well, is not going to be the same as at another moment of time, because technology has changed the industry from being a natural to being a competitive industry. And therefore radically different policies may be involved, with respect to the way in which you want the game structured to get the results that you want.

[23] See Fine (1999a, b and e-g). This summary draws upon Fine (1999h).

[24] Social capital signifies a sort of commodity fetishism raised to the level of capital.

[25] The other is Bourdieu whose influence has been rapidly eroded, in view of the unpalatably critical nature of his more general approach.
[26] See Becker (1996) and for an account of the sources of his inspiration, and other illustrations of their own, see the edited collection of his disciples, Tommasi and Ierulli (eds) (1995). Note that Solow (1990, p. 276) sees Becker as oscillating between positing the obvious and the false - but denies him sympathy on correctly predicting that he would become a Nobel prizewinner.
[27] As cited in Blaug (1998a, p. 12). Blaug's (1998b, p. 45) own view is that:

> I am very pessimistic about whether we can actually pull out of this. I think we have created a locomotive. This is the sociology of the economics profession. We have created a monster that is very difficult to stop.

See also Lawson (1997) for perceptions of economics' crisis and the methodological reasons for it from the perspective of critical realism.
[28] Further, for Toye (1995, p. 64) on the new institutional economics:

> The main weakness of the NIE as a grand theory of socio-economic development is that it is empty ... the theory adds nothing to what we already have. No new predictions can be derived; no new policies recommended. No historical episodes can be explained better now than they were by the historians who have already.

[29] Note that Becker (1990, p. 41) refers to a seminar (by David Laitner) on why one specific language rather than another should be chosen on the basis of rational choice. The reductionism in this instance, and associated plundering, ignorance and arrogance in addressing linguistics, is truly astonishing.
[30] See also Hirshleifer (1985, p. 53), quoted in Heilbroner and Milberg (1995, p. 110):

> <u>There is only one social science</u>. What gives economics its imperialistic invasive power is that our analytical categories - scarcity, cost, preferences, opportunities, etc - are truly universal in application. Even more important is our structured organization of these concepts into the distinct yet intertwined processes of optimization on the individual decision level. Thus economics does really constitute the universal grammar of social science.

[31] A sufficient, if not necessary, condition on which to make a judgement is whether economics and other social sciences are gross substitutes for one another or not!

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