Review of Social Economy ›
Volume 80, 2022 - Issue 3

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Economics for (and by) humans

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Pages 269-282 | Received 07 Apr 2020, Accepted 01 Jul 2020, Published online: 23 Jul 2020

Cite this article https://doi.org/10.1080/00346764.2020.1792966 Check for updates

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ABSTRACT

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1. Introduction

The Review of Social Economy is an official journal of the Association for Social Economics (ASE). Yet not every reader of this journal – nor every member of the ASE – is likely to know what that means. This essay discusses the nature of, and challenges for, social economics from the particular vantage point of one whose advanced training was in mainstream economics. The essay begins by briefly discussing some key features of social economics, and how it differs from mainstream economics.[1] Yet, since ‘preaching to the choir’ is not very interesting, it goes on to investigate what more we who identify with social economics, from whatever discipline, should be doing. We could be doing more in relation to both current intellectual developments and – more importantly – urgent real-world problems. Two illustrative cases, about the social nature of knowledge and about the dangers of ignoring ethics, complete the essay.

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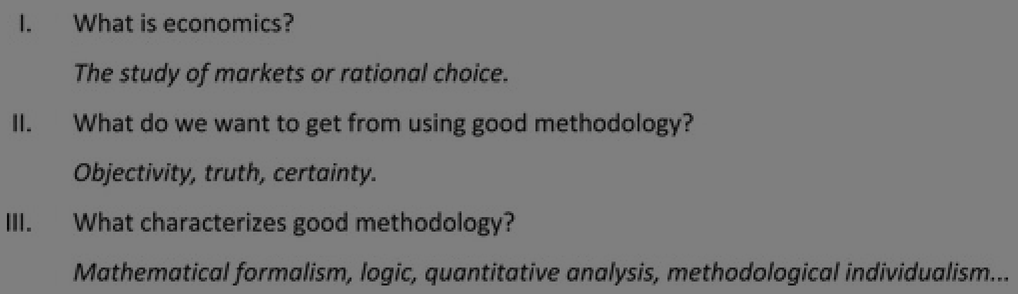
These statements remain in the ASE Constitution and on the home page of the website to this day (Association for Social Economics, 2019).

3. Mainstream economics

Such principles, however, are not a part of a conventional economics education. Based on my many years of, essentially, participant-observation ethnography of the economics profession, the foundations of the dominant Neoclassical orthodoxy can be characterized in terms of the three questions and answers outlined in Figure 1.

Figure 1. Foundations of mainstream economics.



I. What is economics?
The study of markets or rational choice.

II. What do we want to get from using good methodology?
Objectivity, truth, certainty.

III. What characterizes good methodology?
Mathematical formalism, logic, quantitative analysis, methodological individualism…

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obtaining that end' (Mill, 1836). To be a pure science, he further argued, this discipline would need to model itself on geometry, and reach its conclusions through deductive reasoning from simple assumptions. Mill modestly argued that no political economist would ever be 'so absurd as to suppose that mankind' is really described by only these parts of human nature, and that in any application Political Economy would need to be complemented by the insights of other sciences and by practical experience. Yet, unfortunately, the narrow image of the optimizing, rational, autonomous, materialistic, and self-interested 'economic man' came to dominate economics. Economics has also been characterized more by an attitude of superiority than by a willingness to learn from other fields (Fourcade et al., 2015). Later, in the late nineteenth century, the Neoclassicals formulated homo economicus's decision-making in terms of calculus problems of utility- and profit-maximization, and the Neoclassical orthodoxy was born.

Another important aspect of the formation of mainstream economics has been its profoundly gendered nature. This issue of gender is not just about the sex of its practitioners, although historically these were (and still, to a lesser extent, are) predominantly male. More profoundly, human minds are deeply influenced by what might be called 'cognitive gender' – a tendency to categorize most things around us in gendered terms. Take for example, cats versus dogs, or pink versus blue. In dominant European-American culture, cats and pink are thought of as 'feminine' and dogs and blue have a 'masculine' connotation, even though there is certainly nothing intrinsic in
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This intellectual barrier of sexism can be broken, but one must be careful about how one does so. It is not particularly helpful to just pick and choose, breaking away from the mainstream in subject matter, for example, but not expanding past conventional methods. Nor does one gain freedom from these strictures if one just flips completely from one side to the other, rejecting the ‘masculine’ side, and adopting only the ‘feminine’ one. Yet another trap would be to confuse these cultural gender associations with actual people, and conclude that male economists should do one kind of economics, while female (or trans or queer) economists should do another kind. Such approaches are all like trying to play a game of cards with half the deck missing.

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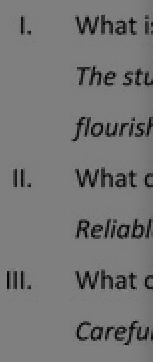
4. A better approach

What would be a better approach? How about ‘To foster research and publication centered on the reciprocal relationship between economic science and broader questions of human dignity, ethical values, and social philosophy’ and to ‘regard human behavior to be the result of complex social interactions with ethical consequences’? How about adopting the values and insights of the ASE? Then better answers can be proposed to the three questions stated earlier, as shown in Figure 2.

Figure 2. Better answers.



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The issues of methodology, however, I believe set out important challenges to social economics, and point to ways we should grow and develop. I do not think that, as a group, social economists have yet completely come to terms with the fact that economics is done by humans – by fallible, socially influenced, physically embodied, flawed human beings. The lure of the idea that the mathematical exploration of 'mechanisms' gives us 'objectivity' remains strong among economists. Yet as human beings, we have no neutral 'view from nowhere.' Perfect objectivity, when dealing with complex real-world issues, is an unobtainable goal, since we unavoidably live within what we study. But we can aspire to what we actually need, which is reliable knowledge – knowledge that, while never definitive, will yet stand up to critique and form a reasonable basis for action (Nelson, 1996). But reliable knowledge can only be gained if we 'play with a full deck.'

The precision and elegance of abstract, mathematical models can sometimes be impressive and even useful. Imprecision and messiness are not things to aim for. But if precision is our only goal, the richness and realism that come from more engaged, broad, and detailed investigation will be neglected. The resulting analysis will be thin and unrealistic. Humans are social beings. Knowledge-making is a profoundly social activity, and critique from an expanded community is required for reliability (Nelson, 1996).

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while we tend to avoid information that would challenge them. This is 'confirmation bias,' from which even scientists and researchers are not immune (Nickerson, 1998).

We also tend to like things to be simple, easy, and clear (Bennett, 2010). One example of this is the 'p-value fallacy,' which is the misinterpretation of and/or overreliance on this common measure of statistical significance (Nuzzo, 2014; Sellke et al., 2001). Even researchers who should know better often interpret the p-value as representing the probability that the null hypothesis is true, given the data. (In fact, it represents the probability of getting the data were the null hypothesis true – which is a very different thing!) Over time, the exact value of .05 has come to take on a totally misleading, nearly magical, level of prominence in many research circles, as though a value of .04999 were terribly different from .05001. If that were not bad enough, statistical significance is also often confused with substantive significance. The former only tells you something about the probable relation of a sample to a population, while the latter concerns the actual importance of the effect on something we care about.

This confirmation bias and confusion about p-values both feed into the problem of publication bias. Some research gets published; other research ends up in the proverbial file drawer. The reasons for this division are not neutral. A study that confirms what people already believe is more likely to get published than one with unexpected results, since researchers and reviewers alike will be more likely to suspect
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Take, for example, the recent boom in research on 'gender differences in preferences.' Many articles now claim that 'women are less competitive than men,' or 'more risk-averse than men,' and so on. Investigation of this literature, however, shows that confirmation bias, simplistic thinking, and publication bias are rife. The following results come from a meta-analysis of many years of research into preferences regarding gender and risk (Nelson, 2018b).

Confirmation bias showed up in that studies tended to over-hype results that showed men on average taking more risks than women, and – consistent with common gender stereotypes – to neglect cases where women took more risks on average, or in which no statistically significant difference was found. For example, one study proclaimed 'a victory for gender difference' and 'robust gender differences' even though statistically significant differences were found in only one of the four countries studied (Beckmann & Menkhoff, 2008, p. 367, discussed in, Nelson, 2014). Reflecting a common 'Men are from Mars, Women are from Venus' preconception concerning gender, divergences in average scores on behavioral measures are often said to confirm the existence of 'fundamental' differences between the sexes (e.g. Croson & Gneezy, 2009, p. 467, more about this below).

Simplistic thinking showed up in an overall neglect of the substantive size of gender differences. Even very tiny statistically significant differences were often discussed as if
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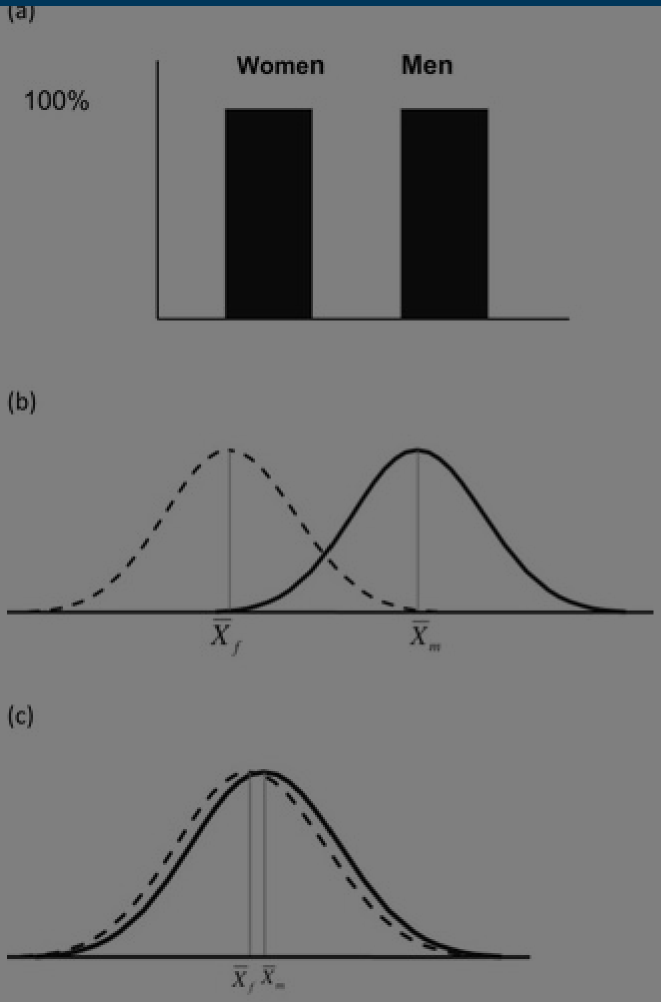

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between means may show up as statistically significant. Yet it is substantively very small, and is quite definitively not categorical. In contrast to the claims being made in the literature, all the evidence points away from there being any ‘fundamental,’ distinguishing difference between men and women in risk preferences.

A technique called a ‘funnel diagram’ allows one to further investigate publication bias, by allowing one to compare the sorts of results that would be expected from statistical theory to the pattern of results actually appearing in journals. This investigation, in regard to studies about gender and risk, revealed a marked tendency of authors and journals to publish only results that were both statistically significant and in the (stereotypically) expected direction (Nelson, 2014).

Thus, the idea that men and women are very different in their attitudes to risk turns out to be a mirage based on confirmation bias, simplistic thinking, and publication bias. In this case, it took expansion of the scholarly community to someone not so convinced by the stereotype, and willing to look critically at p-value testing and publication patterns, to reveal the unreliability of the body of research.

Some researchers are waking up to ways in which our being human (in the above-described ways) have made research less than reliable (Open Science Collaboration, 2015; Ziliak & McCloskey, 2008), and proposals for solutions such as pre-registered studies, meta-analysis, replication, and the publication of non-statistically-significant
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decades. To go back a bit in history, recall that John Stuart Mill had created the image of an economic agent 'solely as a being who desires to possess wealth.' The Neoclassicals formalized this, in terms of business, in the doctrine that the essence of capitalist firm behavior is the maximization of profit. This doctrine of 'shareholder primacy' has since permeated scholarship, business education, and the media. Yet for many decades it was still assumed that corporate executives would, in return for a healthy salary, exert themselves in trying to maximize returns to shareholders. In a crucial turn, Jensen and Meckling (1976) pointed out this was inconsistent: If CEOs are self-interested agents, they must be only interested in their own compensation, not the well-being of the firm. Therefore, these authors argued, CEOs must be 'incentivized' with stock options if they are to pay attention to stock prices. Such compensation packages are largely responsible for lifting the ratio of average compensation of a CEO of a large US corporation from 42 times the pay of an average hourly worker in 1980 to 344 times that pay in 2007 (Anderson et al., 2008), a ratio that has only dropped back to the high 200s in the years since. While it may be fictional movie character Gordon Gecko who is known for proclaiming 'Greed is good,' economists theorizing about radically self-interested, radically individual agents bear great responsibility for originating and popularizing this myth, and by means of it increasing inequality.

So far, this may be more 'preaching to the choir.' But it seems to me that often the responses of people with a more social and humane view, including a number of social
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institutions. Notable scholars including Michael Sandel (Sandel, 2012), Virginia Held (Held, 2002), and Jurgen Habermas (Habermas, 1981) have taken this approach.

This is unnecessary, and even unhelpful. It lets those who would engage in corporate malfeasance off the hook with the excuse that 'the system made me do it.' What if, instead of seeing business through the orthodox economic lens of 'profit maximization,' we were to study the actual history and behavior of firms, and how individuals in fact combine forces to produce goods and services. Then we would realize that the opportunistic ethos in fact destroys companies and economies (Smith, 2010; Stout, 2012). We would realize that cooperation (as well as competition) and other-interested (as well as self-interested) behavior are integral to the social endeavors we call 'firm' and 'economy.' We could recognize that commerce is no less an ethical sphere than any other aspect of human life and society (Nelson, 2018a).

Dualistic thinking also reinforces poverty. Situated on the opposite end of the inequality scale from overly-compensated CEOS are under-compensated workers, many of them in the 'care sector' such as childcare workers, nursing aides, and the like. Because authentic caring is thought to require an emotional dimension of sincere concern, caring labor is often thought of as being in a completely different class from other sorts of market employment, and even as something that needs to be 'protected' from financial concerns. This romanticization causes the actual skills required, and the actual needs of … gnored. Articles … ers is to pay them ve… he job! The contrast… 'protection' of the su… not be more stark. O…

Anothe… om efforts to com… ons 2015 climate … nizing that it was in th… s don't have a strong… , but it's also true… t, while there ce… e climate change … ess, we about weaker groups and future generations. This does not seem quite so impossible when we recognize that Figuereres' claim about human and national 'guiding forces' is far more reflective of the influence of Neoclassical economic orthodoxy than of actual human nature and human history. Psychologists know that we are social beings, often motivated by concerns beyond ourselves and holding complicated but often strong views regarding morality. History shows many instances of nations seeking respect – whether through gaining honor and appreciation, or through a vengeful show of force – at the expense of their national economic self-interest. So listening only to the Neoclassical orthodoxy is harmful, and limits our vision of what is possible. We must go beyond (Nelson, 2019).

If we, in the social economics community, can help people think past the Neoclassical orthodoxy and the unhelpful dualisms and reactivity it has spawned, we will be providing a great service. Instead of corporations versus coops, or CEOs versus careworkers, or economy versus the environment, we could help people see that we are all part of a complex social economy, and can take an 'all hands on deck' attitude towards addressing the world's pressing problems.

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7. Conclusion

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Disclosure statement

No potential conflict of interest was reported by the author(s).

Additional information

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Julie A. Nelson is Professor Emeritus of Economics at the University of Massachusetts Boston and Senior Research Fellow at the Global Development and Environment Institute at Tufts University. Her research interests include social economics, feminist economics, and ecological economics. She is the author of many publications including Economics for Humans (Univ. of Chicago Press, 2nd ed. 2018) and articles in journals ranging from Econometrica and The Journal of Political Economy to Economics and Philosophy and Hypatia: Journal of Feminist Philosophy. She was the 2019 President of the Association for Social Economics.

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