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# Economics for (and by) humans

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## ABSTRACT

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This essay discusses the nature of, and challenges for, social economics. It begins by exploring how social economics differs from mainstream economics in its goals, definition, and models, and briefly examines the roots of Neoclassical orthodoxy. It then argues that...

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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.<sup>1</sup> 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.

## 2. The association for social economics

Key insights into the ASE can be found in some of its historical documents. Having begun as the Catholic Economic Association in 1941, the organization renamed itself in 1970. In the Constitution adopted that year, the first purpose listed in the ‘ASE Aims and Objectives’ was:

To foster research and publication centered on the reciprocal relationship between economic science and broader questions of human dignity, ethical



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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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The discipline has been based on a mechanical metaphor: The underlying, unquestioned assumption is that economies function according to (Newtonian-)physics-like 'laws' and 'mechanisms.' The sort of 'rational choice' envisioned is not only logical, but also accomplished by autonomous individuals whose goal is the promotion of their own interests, which necessarily compete with the interests of others. Economists have assumed that our mathematical methodology makes our work 'objective' and 'positive' – that is, free of subjective views and ethical judgements.

While economists seem, in general, singularly uncurious about the history of, or possible alternatives to, the dominant paradigm, it is worth noting that this characterization of the discipline did not just drop from the heavens. One key historical

development in the history of the discipline was the rise of 'rational choice' as a dominant paradigm. In this era, the discipline was characterized by a mechanical metaphor, where the economy was seen as a system of rational individuals pursuing their own interests. This approach was based on the idea of 'rational choice' and 'mechanisms,' which were seen as the underlying laws of the economy. The discipline was characterized by a focus on mathematical formalism, logic, and quantitative analysis. This approach was based on the idea of 'methodological individualism,' which was the belief that the economy could be understood by studying the actions of individual agents. This approach was based on the idea of 'deductive' reasoning, where the general principles of the discipline were derived from the actions of individual agents. This approach was based on the idea of 'positive' economics, which was the belief that the discipline should be free of subjective views and ethical judgements. This approach was based on the idea of 'objectivity,' which was the belief that the discipline should be free of subjective views and ethical judgements. This approach was based on the idea of 'truth,' which was the belief that the discipline should be free of subjective views and ethical judgements. This approach was based on the idea of 'certainty,' which was the belief that the discipline should be free of subjective views and ethical judgements. This approach was based on the idea of 'mathematical formalism,' which was the belief that the discipline should be free of subjective views and ethical judgements. This approach was based on the idea of 'logic,' which was the belief that the discipline should be free of subjective views and ethical judgements. This approach was based on the idea of 'quantitative analysis,' which was the belief that the discipline should be free of subjective views and ethical judgements. This approach was based on the idea of 'methodological individualism,' which was the belief that the discipline should be free of subjective views and ethical judgements.

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 these animals or colors that dictate these particular mental associations. Feminist economists have pointed out how the definition, models, and methods of mainstream economics have been built on a wholehearted adoption of areas of life and characteristics culturally associated with masculinity, and an equally wholehearted rejection of those associated with femininity (Ferber & Nelson, [1993](#); Nelson, [1992](#), [2010](#)). The feminine 'other' of the definition of mainstream economics is illustrated in Table 1.

Table 1. The gendering of mainstream economics.

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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.

## 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.

- I. What is economics?  
*The study of the ways societies organize themselves to provide for the survival and flourishing of life.*
- II. What do we want to get from using good methodology?  
*Reliable knowledge, in the service of survival and flourishing.*
- III. What characterizes good methodology?  
*Careful inquiry, openness to new evidence, evaluation by larger communities.*

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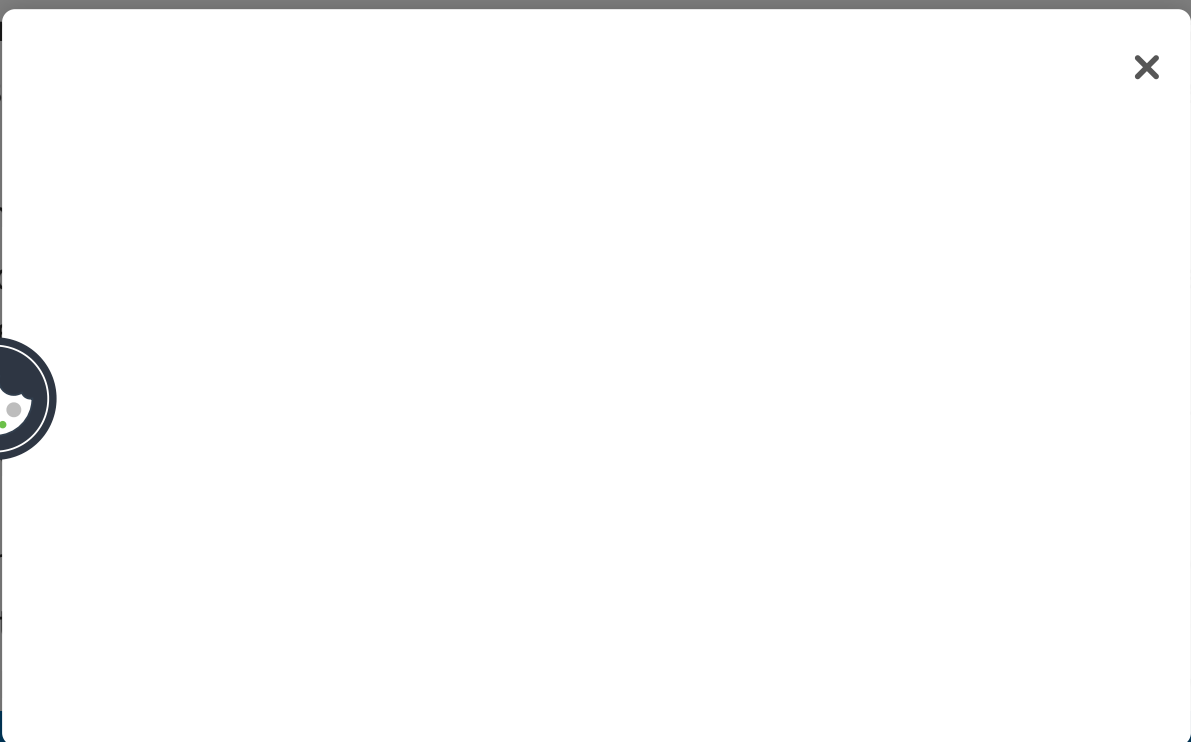
The idea of economics being 'for the survival and flourishing of life' gets back to the 'economic' part of the word, which is derived from the Greek *oikos* (house) and *nomos* (law). It is not only on choice and action, but also on the social norms that govern our behavior. Economics is not just about money and consumption, but about the choices we make and the consequences of those choices. One might argue that economics is a social science, but it is also a natural science. The study of living organisms and their behavior is a natural science, and the study of human behavior is a social science. Our study of human behavior is a social science, and the study of living organisms is a natural science. The issue of economics is not just about the economy, but about the social norms that govern our behavior. The economic group, social norms, and the economic system are all embodied, and they are all part of the same system.



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 that the latter suffers from poor data or mistakes in technique. Studies with statistically significant results are more likely to get published than those that fail to show statistically significant relationships among the variables. When research is based on a small sample, there is some justification for this practice. But when research is based on a large sample, the lack of statistical significance is informative, suggesting that any relationship is weak if it exists at all.

What all this means is that while the lone economist armed with mathematical theories and econometrics may be able to do solo work, their research often ends at the end of a proof or at the beginning of a new proof or an unbiased thought or an unbiased thought. They are to be confused, and/or overcome. Take, for example, the references. Many are more risk-averse than that

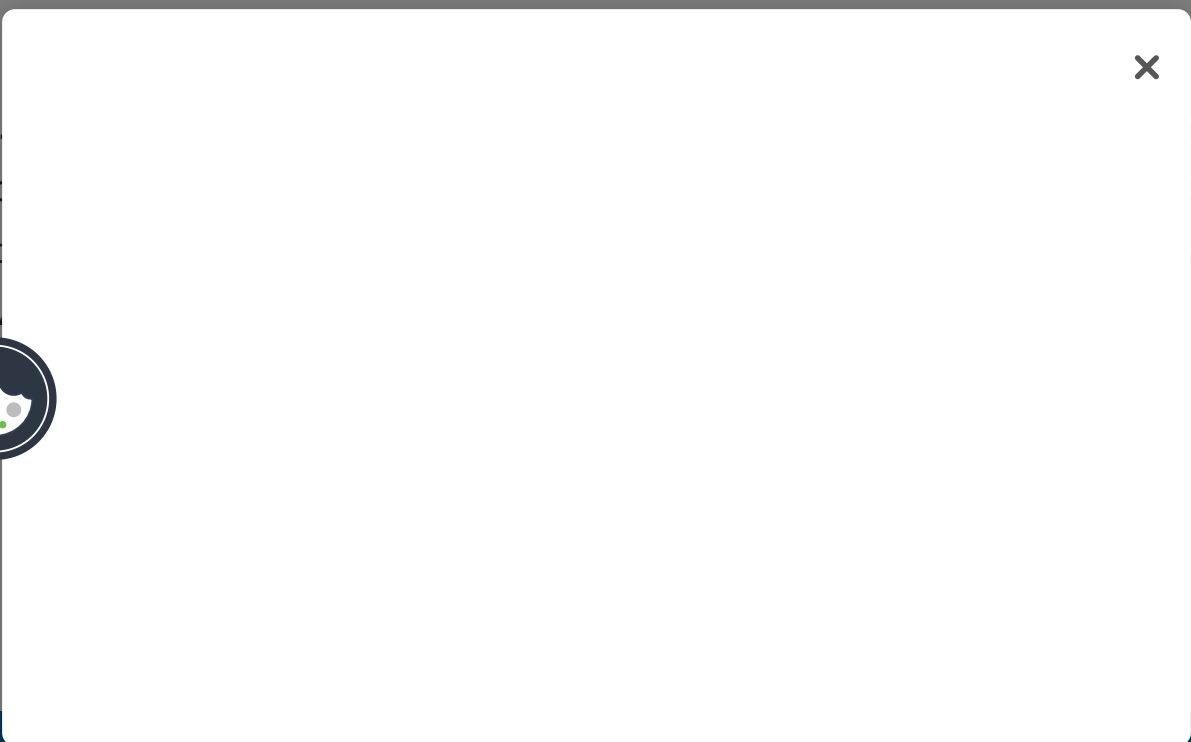


come from a meta-analysis of many years of research into preferences regarding gender and risk (Nelson, [2018b](#)).

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 of great importance, or even as indicative of categorical or ‘essential’ differences between the sexes. Figure 3 illustrates this point. Panel (a) illustrates a categorical difference, in which there is no overlap between women’s and men’s distributions. Panel (b) is a stylized representation of the distributions of men’s (solid line, mean =  $\bar{X}_m$ ) and women’s (dotted line, mean =  $\bar{X}_f$ ) heights. In the case of heights there is relatively large ‘on average’ difference between men and women. But men are not categorically taller than women: Some women (in the upper tail of the dotted line bell curve) are taller than some men (in the lower tail of the solid line bell curve).

Figure 3. Panel (a) illustrates a categorical difference, in which there is no overlap between women’s and men’s distributions. Panel (b) is a stylized representation of the distributions of men’s (solid line, mean =  $\bar{X}_m$ ) and women’s (dotted line, mean =  $\bar{X}_f$ ) heights. In the case of heights there is relatively large ‘on average’ difference between men and women. But men are not categorically taller than women: Some women (in the upper tail of the dotted line bell curve) are taller than some men (in the lower tail of the solid line bell curve).







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 results (Abadie, [2020](#); Christensen & Miguel, [2018](#)) are gaining ground. Social economists need to get on board.

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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 economists, and including many from disciplines such as sociology, geography, or philosophy, often are based on an acceptance of the theory of profit maximization. That is, we may decry the harm done by greedy businesses, but still fundamentally accept

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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 the workers to support themselves and their families, to often be ignored. Articles have been written arguing that the best way to get good care workers is to pay them very little, because - it is reasoned - that way only altruists will take the job! The

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## Disclosure statement

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

## Additional information

### Notes on contributors

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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.

## Notes



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