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Social Consensus and Economic Behavior

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Abstract

Economics and sociology are immensely related. The relationship between economics and social behavior includes the impact of social consensus upon economic and distributional outcomes. We study the demand and supply mechanisms by which a social consensus is established, discuss how social consensus acts as a constraint on rational choice, and draw specific implications on economic and distributional efficiency. We also study when and under what conditions a social consensus is binding. Specifically, we derive comparative equilibrium conditions for entrepreneurship as a driver for innovation with and without a binding force of social consensus. Results ultimately contrast conventional neoclassical theory.

Keywords: social consensus, innovation, entrepreneurship, economic rationality, resistance to change.

Introduction

Economics and social behavior are immensely related. The most important dimensions of commonality in the recent literature have been related to social networks, economic psychology, the social evolution of markets, and markets as social structures, among many. These commonalities have replaced the traditional political economy technique of investigation of the classic works of Marks, Schumpeter, and Rousseau. What seems interesting to investigate is the relationship between social consensus and economic behavior with the former acting as a constraint on economic (distributional) stability. Accordingly, one dimension of importance is the influence of social consensus on individual decision making. Sahlins (1976) provides a wry explanation to the limitations of Orthodox economics as "the law of diminishing returns to functional explanation". Taking the length of a

woman's skirt as an example to cultural consensus and sphere of utility, he states:

"Further removed the cultural fact [e.g. skirt length] from the sphere of utility to which it is preferred - the organic, the economic, the social - the fewer and more mediated must be the relations between this fact and the phenomena of that sphere."
[in Frenzen et. al. 1994].

Hence, a woman's desire to achieve a higher order of commodity stems from a social consensus defined by a cultural norm of her times, sometimes for and sometimes against her inner will.

Lewin's twin papers on social change (Lewin 1947, 1952) provides a candid foundation to overcoming resistance to change of cultural norms. Even before, social consensus has been treated as a major cause and determinant of resistance to change, hence achieving a binding constraint on individual choice. For example, the cognitive theory of interpersonal congruency strives to assess resistance to change in the self concept as determined by "a lack of consensus among significant others". This may provide a philosophical approach to the problem of social change from the point of view of self attribution theory. Nevertheless, social change in the group concept, at its best, strives towards a self-group-self relationship whereby the aggregation of historical self concepts transform themselves into a form of group consensus which then historically becomes a cultural or social norm, and after a sufficient amount of generational time, such a group consensus then yields a socially binding constraint on individual behavior, hence achieving what may be termed as collective social change.

In particular, observed individual and institutional conduct within the development phase of a socio-economic system, can be characterized more fully if individual decision-making, and accordingly the institutional

structure, encompasses a binding constraint imposed by group consensus which overrides initial individual thought. That is, rational individual decision making through self-utility maximization is not only constrained by self attributed social dimensions (such as income level, social class, etc.), but rather, own rational behavior is constrained by a more generic social sphere of group consensus among a majority number of "significant other" individuals living in the same society and whose self attributed social dimensions may not necessarily be the same. This is not the envy or altruism cross-utility behavior we are trying to describe here, but is rather the social and cultural constraints imposed on individual rational actions via a collective form of group consensus among the majority of a significant other population. This may instill a lack of social desire to change in the self-concept since rationality of individual choice will, in effect, be therefore constrained by a collective social norm which may or may not be self-enhancing. Such social sphere of consensus is a culturally binding constraint, and individual actions will somehow be constrained by collective social desires which themselves may be stagnant for a momentous amount of time. In retrospect, collective social norm as a group consensus may well interfere with utility maximization of individual rational choice. More generally, the lack of a social desire to change if bounded by rational choice is an implicit consequence of a group consensus resisting social change.

The Mechanism by Which a Social Consensus is Established

Several interesting inquiries arise out of the previous introduction: (1) which group of people encompass the "significant other" population relative to a particular individual?, (2) when does a group consensus arise as a socially binding constraint on individual choice?, and (3) what are the

influential dimensions of such a group consensus on rationality and economic stability?

Thus, further thoughts can be explored.

In order to answer these questions, one must understand the social and cultural characteristics of the given society at hand. If religion is a powerful element in the social fabric of the population, then the dictations of religious authorities may especially be binding. It could happen that some sort of religious authority be evident in one part of the family versus another, such as the leader of a particular clan, or such an authority maybe encompassed within the beliefs of a powerful family leader. Such beliefs, however, may themselves be erroneous when compared to true religious teachings. In this way, cultural tradition may come to dominate religious doctrine as a binding force in the formation of behavioral patterns within a family, clan or society.

Due to the decisional power given to that particular authority or individual, as historically dictated by society through a significant consensus in the population, then such an individual may enforce his belief on other family members even though his chosen action may not be fully rational and may even provide a sub-optimal level of utility to other family members as compared to the outcome when his beliefs are not binding. It is also interesting to consider that the leader in this case may not be driven by a desire to maximize his or her own utility, but rather his beliefs arising out of a social consensus would tend towards maximizing long run utility functions of those in his charge. In fact, social pressure may be imposed upon this figure, either by those of similar position or those for whom such a leader is believed to be responsible on some level. This pressure may be to choose,

advocate, and implicitly encourage a course of action that is fitting with the traditional values of the group in general. In this sense, the powerful element of religion may dictate certain social outcomes through the beliefs of those tied to religious teachings or through the decisions of certain members in society in which religious teachings give them an edge. Then, such groups of people are the ones who may be regarded as significant others in the population and whose beliefs would generally be binding to individual decision making. It could also happen that such a social constraint, on true religious grounds, may force individuals to "think twice" before making a rather foolish action, an action which could be harmful to others. Thus, even though such a constraint may not give rise to maximum instantaneous utility, but it may certainly protect the fabric of society against the errors of a few. This protection is, however, not without opportunity costs that are apparent in what are traditionally viewed as command and tradition based societies. Social stagnation and economic inefficacy are the rather obvious prices to be paid for socioeconomic stability.

Importantly, one should note that necessity does not dictate stabilizing forces be embedded in a social consensus to be rooted in principles of religion. The leader of a family, clan or society may direct behavior absent any religious authority, toward particular outcomes. The inherent respect for age in most, if not all, human societies affords this power. A father may, for example, have a strong say in the choice of a daughter's husband. The maximization of a daughters utility function then becomes not merely based upon her particular preferences and constrained by the preferences of possible suitors, but is also constrained by the desire to minimize the disutility (or, equivalently, in principle, maximize the feasible utility space) of her father with that same choice. The father's utility function could be driven, of course, by political, social, economic, or religious

factors but could also be driven by informational asymmetries between himself and his daughter in which case, the real social and individual value of age becomes most apparent. It is important to understand that this inclusion of elder utility need not be a function of any external force such as religion but may well be an innate, ethereal psychological feature of the mind or an inexorable, tangible feature of the human brain.

Separate from religious, direct social or biological factors, there could be many other powerful elements in the broader concept of society which help to form and maintain a significant other population relative to individuals. On a different level, the consumption of media as a public good by the mass population entitles media content and public media effects to claim influence upon social consensus which can be understood as yielding the same effect as that of a significant other population. That is, although the effect of the media is somewhat implicit in the formulation of a social consensus of what is desirable and not desirable by society, yet imitation and demonstration effects induced by the media on the population may form a social group of consensus which can be regarded as an enforceable cultural constraint. For example, the nature of music, fashion, and nature of advertising in media content is understood to reflect social and cultural dimensions, such that what is not socially acceptable will not be a significant part of such media content. It should not be understood, however, that this content is merely a reflection of social consensus but that it also, in fact, represents a process by which the consensus is formed, maintained or periodically refashioned. The social consensus as reflected and created by media of all forms, some commonly accepted and some more obscure, can easily be thought of in economic terms. There exists a complex interaction of supply and demand elements for any social consensus both extant and hypothetical. Of course, as in all transactions, opportunity costs for the choices made by societies

and individuals exist in the form of foregone cultural environments. This, and the scarcity of time faced by individuals, forces rationality in choosing though not necessarily in the choice itself. It is quite likely that irrational choices are made as pertaining to social consensus simply due to the transaction costs associated with discovering which social consensus is more suitable.

The Demand for Social Consensus

It is obvious that the influence of group consensus on individual behavior must - at least partially- depend on the psychological traits of the individual in question. For most people, personality traits can be generally characterized as predominantly one of the following psychological types: (a) idealistic character, (b) pragmatic character, or (c) simple character. Idealistic people would always like to "do the right thing" and may generally question a consensus different than their own opinion even if such a consensus is regarded as dominating and socially acceptable. This behavior may be undertaken by either a generally charismatic personality or a generally introverted personality. If the individual is to be considered charismatic, then group consensus may not be always binding even though the social constraint itself always exists. On the other hand, if the individual is considered an introvert, then group consensus may become more socially binding at the expense of that individual's idealism. In either case, idealistic characters will always question the reason behind a group consensus different than their own. Whether such a consensus becomes binding or not will depend on that particular individual's own resistance to his form of idealism.

In contrast, a pragmatic character, quite simply, may very well see the benefits of alternative general social or economics constructs or even, more broadly, alternative social consensus, but is tacitly accepting of a dominant universal view due to its recognized stabilizing force. The pragmatic character can be seen as rationally accepting of a social consensus due to the recognized costs of seeking alternative views and the transaction costs involved in switching his or her own pragmatic views. The charismatic pragmatist may be outspoken or internally torn with regard to the social consensus but ultimately yields to his own pragmatism. Conversely, the introverted pragmatist psychologically or physically distances himself from the social consensus to the greatest degree possible but feels no pangs of guilt or disappointment with the direction of society due to his fundamental and innate psychological concern for stability.

On the other hand, an individual whose character is simple, whether charismatic or introverted, is accepting of dominant ideology and may either be active in its reinforcement or wholly passive in his acceptance. This is true mainly because his internal force of resistance to change against a social consensus is predominantly neutral. Consequently, acceptance of a social consensus onto individual choice will be binding and indeed rational for his utility.

In contrast to the above views, macro psychological characteristics will also have an impact upon the demand for social consensus. For example, a particular culture may be composed largely of idealistic extroverts making the society accepting of locally produced change but this characteristic may evaporate when coming into contact with other cultures and being exposed to an alternative social consensus from abroad. Similarly, simple or pragmatic characteristics in a population may compose the majority of a population but

become less significant as a force encouraging stagnation with exposure to influences external to the culture itself. Change, in this case, may be accepted readily if originating from forces external to the society but met with indifference if originating domestically. There are, in short, no guarantees that a strict aggregation of micro agents will represent the macro behavior with respect to change. Further, the geographical or cultural origination of any potential change itself may, very likely, have a bearing upon the degree to which it is accepted and by whom.

It is important to explore the degree to which dominant social consensus is not only affected by the societal distribution of these personality types, but also the degree to which it may, in fact, encourage a particular distribution and prevalence of them. It seems logical that a particularly authoritarian social consensus will encourage a distribution of personality types that will reinforce the existence of the consensus itself. It would not do, in the interests of a social consensus, to foster a great number of extroverted idealists at the levels of society that did not benefit from the consensus. Similarly a social consensus that encouraged an increase in the population of introverted simple personalities and allocated societal resources to that group would be short lived in the presence of any forceful number of the psychological opposites. This, in fact, could very well be the process by which authoritarian social consensus wither. There are limits to which simple and pragmatic personalities will remain so. Similarly there are limits to the energy levels of charismatic idealists in the higher strata of a social consensus that may be devoted to maintaining the consensus itself. There may be said to exist diminishing marginal returns to the effort put forth in maintaining a social consensus that is fundamentally manipulative. One that fosters individuality and freedom, however may be self maintaining as the efforts to buttress the consensus are spread among a varieties of

personalities each benefiting from their efforts to the degree to which they themselves desire.

On a political societal level, authoritarian regimes demand social consensus in the hope of social stability and political power. In essence, such regimes demand a risk averse population and a high degree of resistance to social change. In Rousseau's *Social Contract*, he states that "the basis for any legitimate society must be the agreement of its members". As human beings, we were born free, and our subjection to government must be freely accepted insofar as the subjection of government to the general will is freely accepted. Yet, Rousseau sets out an extreme criticism of such a social contract if it does not serve the common good in his *Discourse on Political Economy*. Hence, excessive demand of a social consensus which protects an authoritarian regime against the benefits of ordinary citizenship may itself be socially undesirable. In his own words:

"A ... factor that is never included in the calculations of public economy, and which ought to come first, is the relationship between the benefits that each person receives from his membership of organized society, which powerfully protects the rich man's immense possessions, while scarcely permitting the poor man the enjoyment of the cottage which he has built with his own hands. Are not all the advantages of society for the rich and powerful? Are not all the lucrative posts filled by them alone? Is not every favor and every exemption reserved for them? Is not public authority entirely on their side? If a man with influence robs his creditors, or commits some other swindle, is he not always sure to have impunity? The beatings he deals out, the acts of violence he does, even the murders or assassinations of which he is guilty - are they not affairs which are kept quiet, and after six months is anything more heard of them? But if the same man is robbed, the whole police force is at work immediately, and woe betide any innocent person who is the object of his suspicions."
[Rousseau, *Discourse on Political Economy*, Part III].

On the other hand, a truly democratic regime will not demand the same level of social consensus as compared to an authoritarian one, since the population masses would like to see change coming from within, at least at irregular time intervals. But, there exists a minimal level of social consensus that is demanded. Such a benchmark would be governed by a multitude of general

factors, such as factors guaranteeing social stability, factors guaranteeing critical cultural norms, factors guaranteeing common religious convictions, and factors guaranteeing the persistence of the democratic process.

The Supply of Social Consensus

The influence of social norms and generational habits on media content will itself indirectly influence cultural behavior, and on aggregate such cultural behavior may consequently become a new social norm which itself may then generate new socially binding constraints to individual decision making behavior. Such binding constraints may either be more relaxed with time or they may become more severe. This obviously depends on the level of freedom exercised by society and the direction in which it is going. In the former case, the effect of the group consensus on individual action may generally be weak, whereas in the latter case, more influential.

The impact of the media upon social consensus is also dependent upon the general psychological characteristics of the population which could, of course, also be a reflection of the historical degree to which freedom and independence is a valued social characteristic. The role of religion and government upon these characteristics is evident but it is important to note the degree to which religion and government in some societies may have more direct influence upon the media as well as the cultural values allowed to be prescribed by television, radio, or fashion within the realm of its influence. This significance of religion, government and the underlying culture advocated by them is, of course, referencing the supply side of the social consensus equation. Exactly which group or class advocates a dominant social consensus is open to debate. However, exactly why this advocacy is undertaken is less likely to be a controversial subject. It is more than

likely that a social consensus advocated via media outlets in a culture is done so as the benefits accruing as a result of that consensus have a bias in favor of that group. Further, it is also likely that the dominant group fosters psychological characteristics within the citizenry that will make it more amenable to the chosen social consensus and resistant to rivals. Ironically, it is this process of social inoculation against rival social consensus that creates susceptibility to just that. In cultures which are relatively free, the individual is, in fact, less likely to be moved by the values of a new cultural ideology. Conversely, societies which may be termed "less free" are those in which a pent up demand for new social consensus exists. The marginal impact of the media upon social consensus is therefore greater in those societies. Of course, the total initial affect of such a change may be much less but cultural change builds upon itself quickly in the presence of a firm foundation. Over time, the diminishing marginal effect of media consumption will occur.

The impact of religious factors upon the decisions of individuals to accept or reject the role of "significant others" in their decision making process cannot, of course, be separated from the historical origins of the economies in which the religions operate or the which were given rise to by them. It seems more than likely that the factors contributing to the rise of capitalism as an institution are also those factors which are either valued or dismissed by cultures in their decision making processes pertaining to the adoption or rejection of innovative processes which may yield increased productive efficiency. In *Religion and the Rise of Capitalism*, Max Weber asserts that it is not the presence of commerce or the notion that material gain is the ultimate object of exchange that differentiates capitalism from previous economic orders. This, he asserts, is found in many places and in many times which may not even remotely be characterized as capitalist. It

is, for Weber, the egoistic capitalist psychology becoming widely adopted due to the Protestant reformation, particularly that undertaken by the Calvinists, that endowed the dominant economic system of today with the necessary egoistic flair to properly deserve its title. It is this psychology that creates in the individual not only a drive to economic gain via efficiency, but also a moral imperative toward this individualistic form of gain. The quest for efficiency and ultimately material gain is undertaken in reflection of appreciation of one's own divinely ordained station in life. Combine this Calvinist notion of "the calling" with a strongly encouraged "protestant asceticism" and the seeds of capitalism are bound to take root and flourish. Without this initially western psychological trait, it seems much more likely that economic agents will be driven more by altruistic economic motives than egoistic ones. It also seems more likely that social welfare concerns and the maintenance of less tangible social relationships will often take precedence over more individually oriented material gains.

These altruistic motivations and social capital gains are discussed by Karl Polanyi in the *The Great Transformation* where he makes the simple point that systems of what appear to be profit motivated exchanges need not be. In fact, cultures often engaging in far reaching trade, may in fact be driven by a quest for the social status associated with the abandonment of objects serving as parallels to material wealth rather than financial status associated with their collection. In these cultures, according to Polanyi, the social pressure to behave altruistically is as great as the social pressure generated by many western cultures to behave in an egoistic fashion in search of efficiency. There is, of course, no guarantee of productive or distributional efficiency in such cultures. There is, however, a strong tendency toward stability. In the situations Polanyi describes, the fruits of labor are distributed according to an economic and social commander in chief

and according to need. Failure of a citizen to utilize this intermediary may result in increased efficiency and results in an increase in material wealth but will certainly result in a reduction in his/her social status.

It is a separate question to address why, in fact, these cultures are so centralized and command driven. It seems likely that a necessary but insufficient condition for the historical tendency toward altruism and maintenance of strong social connections to others is to be found in the degree to which cultures were edging near the bounds of subsistence. The periodic quest for increased efficiency is undoubtedly recognized in cultures lacking the western egoistic psychology as possessing an inherent transaction cost. Attempting to undertake a new method of production or distribution, previously untried, may yield higher levels of output in that arena and simultaneously free labor for other productive activities. It may also, however, be even a minor failure and eventually require more workers to produce or distribute the same output achieved previously. In modern societies generating huge surpluses, this would be of little consequence. The transaction cost is measured in dollars or yen or pounds. In many cultures, at least historically, however this cost would be measured in lives.

The Impact of Social Consensus upon Economic Activity

Economists have long understood that the opportunity costs of social change are themselves tied to rational economic incentives at the unit level of value-added production or national output. In essence, behavioral attribution theory is much related to the problem of economic efficiency through its relation to the concept of self utility on the individual level and economic welfare on the social level. The link may be expected to be especially severe

if the concept of collective utility maximization is introduced into the analysis.

Economic theory may well benefit from adaptations allied to social (collective) group behavior within the nature of collective utility maximization, the latter being a prime character of most societies exhibiting social resistance to change. Such a characterization can be described in duality as a hitherto combination of persistent social values along with mainly implicit economic consequences of unrealized productive output and a rationality axiom for some form of economic inefficiency caused by a historic lack of social desire to change.

A social consensus may suggest to some agents a degree of rationality for inefficiency. The "rationality of economic inefficiency" argument is itself constrained by the existing forces of social resistance to change. If the force of social consensus is binding over that of economic surplus induced by higher efficiency, then such higher efficiency will not be exercised. Consequently, rational economic agents may very well by-pass an efficient economic decision due to severe constraints from a binding social consensus. A simple example is that of a social entrepreneur driven by innovation. It is clear that successful innovation necessitates change against the status quo. A consensus against such behavior, i.e. a social consensus exhibiting resistance to change, can inhibit the feasibility and success of the entrepreneur if the force of social consensus is sufficiently high. In that case, it can be rational to be inefficient and ultimately not to exercise the innovation even though it is economically desirable to do so. Consequently, loss of productive output can result.

The degree to which the social entrepreneur can persist against the force of social consensus is dependent on multiple economic factors. The greater is the expected profits of innovation, the greater is the entrepreneur's persistence to innovate. On the other hand, the greater is the power of social resistance to change, the less is the entrepreneur's social power, and the less is the likelihood of innovation. These two forces, in degree and in sensitivity, will command the final outcome. Yet, on the aggregate, an "equilibrium" can be reached upon the forces of supply and demand, as depicted by the following diagram:

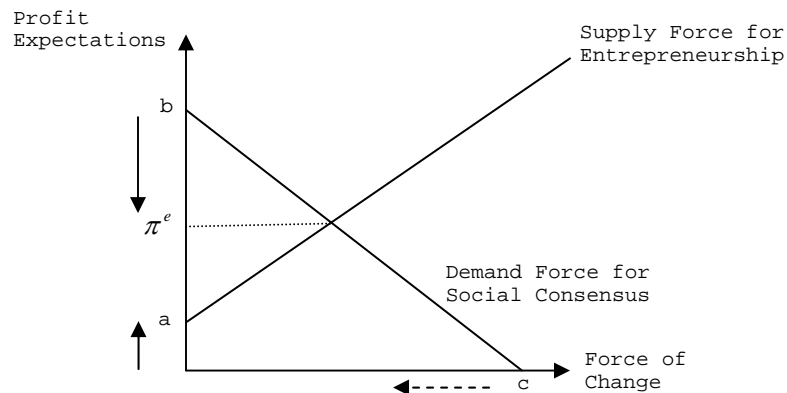


Figure 1: Supply and Demand Forces

Figure 1 is an elementary analysis showing the supply and demand forces with regards to the impact of social consensus on expected profits of an entrepreneur. The supply of entrepreneurship is seen as upward sloping: the greater the force of supply, the greater are expectations of innovation, and hence the greater is expected profits of an attempting entrepreneur. On the other hand, the demand for social consensus is downward sloping: the greater is the force of social consensus in support of the status quo, the greater is the force of social resistance to change, the less likelihood is the occurrence of successful innovation, and consequently, the less is the

expected profits of an attempting entrepreneur. An "equilibrium" can be reached where the forces of supply and demand are both binding.

In particular, a final equilibrium outcome will exist dependant upon: (1) a minimum level of expected profits (denoted by 'a' in Figure 1) inducing a minimum supply effort for social entrepreneurship, (2) the maximum potential of the force of social consensus which can pull down returns to social innovation to their absolute minimum (denoted by 'c' in Figure 1), (3) maximum returns to innovation when there is no demand for social consensus (denoted by 'b' in Figure 1).

Consequently, it is seen that social consensus and innovation are governed by certain limits of the market. The existence of a social consensus exhibits an above zero lower-bound profit level for entrepreneurship attemption (represented by the intercept 'a'), as compared to normal profit levels under free social choice (represented by 'b'), given that the force of social consensus is not fully prohibitive to innovation (represented by 'c').

In addition, the nature of demand elasticity of a social consensus will affect the outcome of social entrepreneurship, with less inelasticity of social consensus inducing higher expected returns to innovation. On the other hand, the nature of supply elasticity will also affect the final outcome, with more elasticity of supply inducing lower expected returns to innovation.

An efficient social entrepreneur will take social consensus into consideration when calculating expected profits. In essence, the expected profit of a social entrepreneur is dictated by elements of a social consensus, when binding, as follows:

- (1) Profits to innovation are to be revised downward due to a binding social consensus, from 'b' to π^e , implying an *opportunity cost of social consensus* equal to $\{b - \pi^e\}$.
- (2) A *minimum guaranteed level of economic profits* ($\pi^{\min} \equiv a$) is a required condition, for any social entrepreneur to attempt any kind of innovation, when a social consensus is binding.
- (3) Excessive social consensus, such as $c_2 > c_1$ holding 'b' constant, can act as a *social benefit to innovation* by the minimization of uncertainty leading to higher expected profits.
- (4) Under a given demand for social consensus, more inelastic supply holding 'a' constant, resembles more *monopolistic gains* and higher expected profits to innovation.

To explain more, there exists an economic opportunity cost of social consensus. This opportunity cost ultimately reduces profit expectations of a given innovation. Causes to this include higher risk of innovation failure as compared to free social choice or additional transaction costs in social bureaucracy. Thus, limits to free social choice themselves result in limited economic returns.

Moreover, in contrast to any above-zero economic profit condition (as given by mainstream economics) for entrepreneurs to supply their ideas into the market, the existence of a social consensus requires a minimum positive profit level for initial attemptation of entrepreneurship supply. Entrepreneurs will not act upon any non-negative returns as their critical condition, but rather will act upon a minimum level of positive economic returns as their investment feasibility criterion. Social consensus thus makes it harder for

entrepreneurs to attempt their innovation, unless such innovation carries a minimum guaranteed return over and above the mainstream element of opportunity cost of capital.

Furthermore, the existence of a social consensus includes both an opportunity cost and a social benefit to innovation. An opportunity cost exists because expected returns to innovation must be *revised downward* due to a binding social consensus. On the other hand, a social benefit to innovation can exist because excessive social consensus can act as a mechanism to minimize uncertainty hence leading to a *possible upward revision* of expected profits (due to a positive shift in the demand for social consensus given in Figure 1, i.e. the shift of line 'bc' to the right). Both opposing forces will essentially dictate an equilibrating final outcome.

Finally, the existence of a social consensus, however severe, does not affect monopolistic gains of market power. The supply curve of entrepreneurship given in Figure 1 actually pivots anti-clockwise with more monopolistic power of the entrepreneur, around the fixed intercept 'a' which resembles the minimum supply effort for innovation. This yields to higher expected profits with more monopolistic gains. Thus, market power is *invariant* to the existence of a social consensus in the market.

From a general standpoint, the intensity of entrepreneurship may itself be mutually bound by rationality of economic inefficiency due to the existence of a social consensus and its associated opportunity cost. Further, economic inefficiency may itself be rational and even optimal in the face of lost entrepreneurship if the degree of social consensus is sufficiently high. On the other hand, social consensus may provide an economic benefit to

innovation due to lower uncertainty in expected demand, however, the degree of monopolistic market power in supply is invariant to such social consensus.

Conclusion

It is sometimes *rational* to be inefficient. The prevailing force of social consensus in many societies can dictate economic decision making towards a rational form of inefficiency. Moreover, such inefficiency might well be in equilibrium (i.e. a stable solution). Such a possibility analyzed in this paper is termed "the rationality of economic inefficiency", and the example given is that of a social entrepreneur driven by innovation against the status quo guarded by a strong force of social consensus. It is proven that: (a) there exists an economic opportunity cost of social consensus, (b) social consensus requires a minimum level of economic returns in excess of mainstream investment feasibility criterion, (c) excessive social consensus can act as a mechanism to minimize uncertainty leading to higher economic returns, and (d) monopolistic gains and market power are invariant to the mere existence of a social consensus in the market.

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