Assumption without representation: the unacknowledged abstraction from communities and social goods

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ASSUMPTION WITHOUT REPRESENTATION: THE UNACKNOWLEDGED ABSTRACTION FROM COMMUNITIES AND SOCIAL GOODS

by Rick Wicks

Abstract

We have not clearly acknowledged the abstraction from unpriceable "social goods" (derived from communities) which, different from private and public goods, simply disappear if it is attempted to market them. Separability from markets and economics has not been argued, much less established. Acknowledging communities would reinforce rather than undermine them, and thus facilitate the production of social goods. But it would also help economics by facilitating our understanding of – and response to – financial crises as well as environmental destruction and many social problems, and by reducing the alienation from economics often felt by students and the public.

Keywords: assumptions, communities, general equilibrium, separability, social goods.

JEL: A12, A13, B52, D20, Z13.

All theorems of economics are necessarily valid in every instance in which all the assumptions presupposed are given. Of course, they have no practical significance in situations where these conditions are not present. von Mises (1963:66)

I. The importance of acknowledging the assumptions

Those of us who believe that economics is reality-based – i.e., a science intending to have some objective grounding in and bearing on the real world – may feel insulted when economics is referred to

- as a game that economists play (Fisher 1989; Bloor and Bloor 1993:158,164; McCloskey 2002:37-48);
- as pure mathematics (Rosenberg 1994a) or as mathematical politics (Rosenberg 1992, 1994b);
- as ideology (Ward 1979; Solow 1994; Klamer 2001:70); as mythology (Perelman 2006); as theology (Benton 1990; Nelson 1991; Boli 1995; Simons 1995); or as religion (Dunbar 1995:161);
- as autism (Devine 2002; and the Post-Autistic Economics Network more generally);
- or as a form of brain damage (Hazel Henderson, quoted by Streeten 2004:2).

We maintain that the assumptions underlying economic analysis can be used for determining the boundary conditions of a model (Dunbar 1995:99), as diagnostic tools for counteracting discrepancies of reality from theory, i.e., for correcting market imperfections (Sutton 2000). Samuelson and Nordhaus (1995:30-37), among many others, use this diagnostic approach to explore the appropriateness of particular government interventions in markets. But how can we be sure that we have identified and analyzed all the important market imperfections, if we haven't clearly specified all the fundamental assumptions? And the problem extends beyond that. As Weintraub (1991:1) notes,

> If the [general equilibrium] theory has defects, then the centerpiece of neoclassical economics may be flawed, and the larger enterprise may be suspect.

II. We get utility from social goods derived from communities

Landsburg (1997:160) notes that "other people – our friends and our children and sometimes even strangers who do us unexpected kindnesses – are among the luxuries that make life worth living,"

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and McCloskey (1998:302) says "I get utility because I love (not the other way around)." My specific concern here is with this utility that Landsburg implies, and McCloskey refers to.

Feminist economists have recently directed attention to this issue again, though the fact that economics overlooks the social fabric of human relations has been pointed out for well over a century. There is an entire category of producer organizations in "civil society" that economic theory largely overlooks, and an entire category of goods that they produce: *Communities* (social groups based on kinship, location, or belief, such as families, neighborhoods, and religious groups) provide utility directly (unmediated by markets or governments) to their members (those who identify with and participate in them) via unpriced, unpriceable (untradeable) *social goods* (Wicks 2009).

Social goods include

- a sense of identity (Buchanan 1978:366; Akerlof and Kranton 2000; Bendle 2002; Cowen 2002:131,136);
- meaning and purpose (Iannaccone 1998:1480-81);
- love and companionship (Lewis, Amini, and Lannon, 2000; Lane 2000:9 and Part III);
- the sense of affirmation, recognition, and power that accompany entrepreneurship (Trigilia 2002:43);
- social cohesion and stability (Seabright 2004);
- social sustainability more broadly, for example through the birthing and nurturing of children (King 2003); and even
- feelings of belonging, esteem, self-expression, and intellectual and esthetic satisfaction (Maslow 1954:chs. 5 and 8; Wallach and Wallach 1983:130-2; Wilson 1991:242).

Social goods are thus clearly valuable – by revealed preference – to those who expend time, energy, and money in developing and maintaining membership in communities in order to obtain them (Ackerman *et al.* 1997; Bakshi 2004). So it's obvious that social goods affect behavior, though not primarily *market* behavior (cf. Prasch 2003).

And if the preferences of entrepreneurs – who are also consumers – include social goods (as they must), then we must even re-explore the whole notion of profit and what motivates entrepreneurs in the first place (Bakan 2003). It seems unlikely that Bill Gates, for example, is motivated to earn more financial profits solely in order to purchase more in the market; he has said as much himself, and has demonstrated it with his philanthropy.

Of course, besides social goods, communities also produce social capital, which facilitates markets (and governments). For Putnam (1995, 2000) social capital refers to civic engagement and trust, whereas in labor economics it seems to refer more to information resources available through personal networks. *Ethos* (an aspect of social capital) is – somewhat similarly to social goods – an "unpriced, untraded input into *production*" (Cowen 2002:49, italics added). Becker and Murphy (2000:9) take a different approach, in which – somewhat anomalously, given the analogy to physical capital – social capital affects the *utility* function directly. But Becker's and Murphy's focus is on "*market* behavior where *social* interactions are important" (p. 6, italics added), rather than – as here – on *social* behavior where *market* interactions (and market theory) are important.

The value of social goods far exceeds just the indirect, instrumental contribution of communities (via social capital) to the functioning of markets and governments. How much would you have to be paid to live in a world without communities (no families, no neighbors, no fellow believers, etc.), even if – magically – markets (and government) still worked? Would you want to argue that what Iannaccone (1998:1475) calls "economically important social behavior" – such as criminal activity; drug and alcohol consumption; physical and mental health; and marriage, fertility, and divorce – are *only* economically important? That is, that these behaviors are *only* important because of their impact on markets and on utility derived from market (or even public) goods? (Definitions of "economics" will be discussed more below.)

All this is not to say that communities – which produce social goods (and social capital) – are themselves always good, or can't produce "social bads." Bauman (2001:4,5,20), for example, stresses that the security provided by communities comes at a cost of freedom. In-group cooperation also often comes at a cost of destructive out-group competition (Shermer 2003). Nevertheless, without commoditizing love and kindness (Anderson 1990), we might grant that, even if we were totally self-interested, we could (paradoxically) still derive utility from social goods produced in communities.

The term "social goods" has also been used – quite inappropriately, in my opinion – for what are now more generally referred to as "public goods" (e.g., Bowen 1943:27-8; Musgrave 1969, 1986; Lindbeck 1972:680). And there have been other usages of the term "social" – for *collective* welfare (as in "social welfare" and the ubiquitous "social welfare function"), or for *comparison* goods (Durkin 1999) – usages which also haven't reflected its full meaning. The usage here does so, I suggest, and thus seems more appropriate.

Otherwise, as Mirowski (1994:54) says: "What is so 'social' about social science?" Myrdal (1969:42) noted a trend towards "scientism," of social scientists increasingly using "strange terminology." And Varian (2001:133) admits, "I hate to say it, but economist terminology is terrible." It seems better, when possible, to let words mean what they normally mean. As Hahn (1984:8) says,

> There are... those who believe that definitions and language do not much matter as long as they are consistently employed, [but] definitions... have an immediate and potent influence on the analysis which follows, and language has enormous potential for good or ill.

III. Communities are the "third sphere" of society

Communities producing social goods are the fundamental social sphere out of which governments and markets sprang and which they both serve (Boulding 1969:10, 1978, 1985, 1990; Boulding, Boulding, and Burgess 1980; Inglehart 1997; Lane 2000:332; see also Pepperday 2009). Whether communities could be formed or maintained solely as a result of the rational maximization of self-interest – as imagined by Becker (1976, 1991), Elster (1989), Stark (1999), Bergstrom (1997), Iannaccone (1998), and Platteau (2000) – has not been demonstrated (Ferber and Nelson 2003:45-8), and doesn't actually seem possible.

Many (such as Boulding, 1969) have thus argued that economics is wrong to focus only on rational maximization, but should instead embrace a "multiple-utility conception" (Etzioni 1986), including a "moral utility" or what Sen (1977) calls "commitment," that underlies the "heroic, altruistic, or even irrational" deeds which Baumol (1970:23) believes can shape history. Fiske (1991, 2004) explains how "market pricing" (economic) motivation fits into this larger and more humane set of motivations. Wicks (2009) relates Fiske's four motivations – which Fiske calls relational models or modes (RMs) – to the three spheres of society: markets, governments, and communities; and to their production of, respectively, private, public, and social goods.

As is well known, prior to publishing *The Wealth of Nations* in 1776, Adam Smith had devoted an entire earlier work – *The Theory of Moral Sentiments* (published in 1759) – to the social sphere of communities and social goods. Smith's intended (but unfinished) third major work, on the political system – mentioned in Smith (1984:342 and the *Advertisement* therein) – would have completed his trilogy on this tripartite social-economic-political world in which we live. Minowitz (1993) explores Smith's understanding of this tripartite system. Commons (1990:55-69) analyzed economic transactions (the transfer of ownership rights) in terms of three similar types and principles. Dasgupta (1995:105) is one of many modern economists who find the same fundamental tripartite classification of social reality useful, as does

- Temin (2006:137,149) in analyzing the economy of the early Roman empire;
- Duby (1980) in understanding feudal society;
- Esping-Andersen (1999) in analyzing the social foundations of postindustrial economics;
- Steiner (1922) in predicting the future of society; and even
- Mithen (1996:54) in understanding the prehistory of the mind.

Adaman and Madra (2002) also used the term "third sphere" for communities, although their focus is more on tradeables given as gifts, rather than, as here, on untradeable social goods.

IV. Social goods are different from private and public goods, but are un-analyzed

Tetlock, McGraw, and Kristel (2004) explain why the things that Arrow (1997) calls "invaluable goods" *shouldn't* be sold, but there seems to have been no theoretical discussion of goods – such as love and companionship and the other social goods listed above – which, though they provide private benefits, *disappear* (or change unrecognizably) if marketed or even evaluated monetarily, and are thus inherently unpriceable and *can't* be sold and are thus radically different from true private goods.

Frey and Eichenberger (1996:192) and Frey (1997) got close to social goods without categorizing them theoretically, nor did Johansson-Stenman (1998). England and Folbre (2003:65-74) discuss a variety of contracting problems – including missing and incomplete markets due to missing agents or externalities; monitoring and enforcement problems; and endogenous preferences – but even they never discuss social goods *per se* as discussed here. All these careful analysts are certainly aware of social goods, as is any normal human being (McCloskey 2000a also explores them descriptively) – but social goods seem to be too obvious to have elicited theoretical attention.

Though social goods have some private-good characteristics, they cannot be produced for markets like true private goods (Fiske 1997:256: "to compare is to destroy"), but social goods are also different from public goods or even club goods (Cornes and Sandler 1996): Though they may well have public-goods aspects (such as externalities), they have primarily private benefits, and thus have not been analyzed in public economics (e.g., Myles 1995). Communities – and thus social goods – also cannot be adequately provided by governments, which most discussions assume at least implicitly of public goods (e.g., Jha 1998:Parts II-IV).

V. *The Wealth of Nations* began the treatment of social goods as separable from economics

What is economics (Mäki 2001a:4-9)? This question is "a lot less banal than it seems, for the ways in which we answer it will profoundly affect the method[s] thought to be appropriate for economists to use" (Kristol 1981:203). "The specification of what it is that precisely constitutes the economy is not so abstract or removed from practical consequences" (Mirowski 1994:70).

Can economic analysis be empirically relevant if it doesn't include things as fundamental as communities and social goods? It would seem that – to be thorough and honest – it would at least need to abstract from them by clear, explicit assumption. There is no theoretical justification for treating communities and social goods as totally separable – outside the disciplinary boundaries of economics – without discussion.

Adam Smith addressed "sympathy" (what we would now more likely call empathy) in *The Theory of Moral Sentiments*, as noted above. When he later focused on economics in *The Wealth of Nations*, he took the social sphere of communities as given, for the most part, because the "blowback" effects of markets – and economics – on communities were not yet clear (though he famously pointed out the destructive effects of specialization on workers). Thus social goods have been implicitly treated as separable from market goods – and ignorable in economics – ever since *The Wealth of Nations*.

But Walras, who originated the general-equilibrium approach, actually intended to deal with "social wealth": The subtitle of his *Elements of Pure Economics* (1954) is in fact *The Theory of Social Wealth*, by which Walras (p. 65, original italics) meant "all things, material or immaterial… that are *scarce*, that is to say, on the one hand, *useful* to us and, on the other hand, only available to us *in limited quantity*." Nevertheless Walras left out social goods, which – though immaterial – are both useful to us, as we've discussed, and scarce. His economics was thus "devoid of any serious empirical content" (Mirowski 1990:193). Walras' analysis might have lacked serious empirical content even if he had included communities and social goods, but at least he would then have provided a more complete (i.e., a more *general*) framework on which to hang empirical details.

But since Walras, only private and public goods have been included in economic welfare-analysis (e.g., Boadway and Bruce 1984). Stiglitz (1997: Parts I and II; 2010:241) gives an introduction to the general-equilibrium assumptions underlying welfare analysis, while Arrow (1983) – *summarized in the attached Appendix* – gives a careful technical presentation, but neither Stiglitz nor Arrow includes communities and social goods. As noted earlier, Samuelson and Nordhaus (1995:30-37) discuss many types of market imperfections, also with no mention of communities and social goods. (An introductory text that is much more aware of communities and social goods is Stretton, 1999.) Moss (1973) recognizes social goods empirically, especially the chapter by Juster and the one by Ruggles and Ruggles, though none address the theoretical issues raised here.

VI. Separability has not been established, nor even argued

Social goods are omitted (without acknowledgment) in the fundamental assumptions of partial equilibrium analysis – and thus their implications have not been analyzed in basic microeconomic theory at all – but the omission of social goods shows up most clearly in general equilibrium analysis, when we claim to be discussing *all* sources of utility. Of course the omission of social goods would be justifiable if they are entirely separable (Leontief 1947) from markets and from the broader concerns of economic analysis – that is, if social goods didn't affect markets, and markets didn't affect them – but that case hasn't been established, in fact it hasn't even been argued.

Pigou (1962:12) recognized this potential problem when he pointed out generally that

> there is no guarantee that the effects produced on the part of welfare that can be brought into relation with the measuring rod of money may not be cancelled by effects of a contrary kind brought about in other parts or aspects of welfare; and if this happens, the practical usefulness of our conclusions is wholly destroyed.

But this caveat has not been followed up. What are those "other parts or aspects of welfare"? (Should we compare them to the monetarily-measurable ones, and how would we measure them, if so?) Thus those parts or aspects have been largely ignored. Pigou's insight has not been expressed in the fundamental assumptions of microeconomics, nor has it been incorporated into welfare economics, nor discussed in the conclusions of general or partial analyses based upon them.

Hirschman (1982) analyzed possible interactions between markets and society – positive or negative, either way – though he didn't specifically highlight communities and social goods as the "third sphere" of society. Of course communities – through social capital, often via ritual (Chwe 2001) – can help to solve collective-action (coordination) problems of markets (and of governance), as already discussed. But there are also contrary effects, of markets, economics, and market ideology on the social sphere of communities and social goods.

Markets can certainly have positive effects on communities and social goods, for example by increasing the possibilities for travel and communication over distances previously unimagined. I'm from Alaska, and I met my wife, who is Swedish, in Bangladesh – thanks, among other things, to commercial communications systems and airlines. Commercial social networking sites are now ubiquitous on the Internet.

But despite thus facilitating communities and social goods, the development of markets and the production of private goods for them might also damage communities – at least relative to what those communities could otherwise be – and might thus reduce the production of social goods. Or so, at any rate, all these recent observers would have us believe:

> Weisskopf 1955:140-42; Polanyi 1968; Burenstam Linder 1970; Hirsch 1976, especially Part II on commodity bias and commercialization bias; Bell 1976; Fusfeld 1985:50; Etzioni 1988; Plumb 1988; Bowles 1991:12-13, 1998:105; Mishan 1993, especially Book Two, *The Social Consequences*; Simons 1995: xvii,ch. 3; Putnam 1995, 2000:187; Goodwin, Ackerman, and Kiron 1997; Giddens 1998:15; Frank 1999:88; Fukuyama 1999:5-6,250-52; Johnson and Earle 2000:251,376; Lane 2000:9; Myers 2000; Ciscel and Heath 2001; Kamarck 2001:26,84,99; Stiglitz 2002:56,74,247; 2003:293,303,319; Harris and Johnson 2003: 322; Roccas and McCauley 2004:269-70; and of course Marx 1986:457-8.

That advertising can contribute to the commodification (commercialization) of many aspects of life formerly reserved to communities is well known (McKendrick, Brewer, and Plumb 1982; Heilbroner 1985:118; Fine and Leopold 1997) – with both positive and negative effects. Even the *study* of economics can damage communities and thus the production of social goods (Marwell and Ames 1981; Wallach and Wallach 1983; Schwartz 1987: 52; Cohen 1991:269-70; Frank, Gilovich, and Regan 1993; Stiglitz 2002:220-21; Marglin 2007).

Whether such negative welfare-effects of markets and of economics itself on communities and the production of social goods (however those effects might be measured) outweigh the positive effects, or vice-versa, is not the question here.

Markets (or economics) are certainly not inherently or even predominately bad. But amelioration of their negative effects will only be possible once those negative effects are recognized. McCloskey (2000b) is justifiably concerned with "oomph," but it thus suffices here that negative effects are possible; that many careful observers believe they are substantial; and that we might be able to ameliorate them without substantially injuring markets. The question is not markets or no markets (nor is it economics or not), but markets and economics while recognizing only economic thinking, or markets and economics while also recognizing other relational modes – in particular, those fostering communities and the production of social goods (Wicks 2009).

VII. The unacknowledged abstraction from communities and social goods causes many methodological problems

The spirit of economics "consists in looking not merely at the immediate but at... longer effects..., and consists in tracing... consequences... not merely for one group but for all groups" (*Economics in One Lesson*, Henry Hazlitt 1946, cited by Simon and Simon, 1993:24). This spirit is violated by the unacknowledged abstraction from communities and social goods.

> [There is] a kind of hypocrisy of the discourse that leads important issues... to appear in only covert ways. The official style of contemporary economics seems to exclude a wide range of ... traditional moral, social, and policy questions about economic choices. ... [T]hese excluded forms of discourse have not vanished; they have just become hidden, making their discussion fragmentary and insufficient. Bazerman (1988:279)

Many are concerned with *equilibrium* (as in general equilibrium), but my concern is whether – when it leaves out communities and social goods – analysis is sufficiently *general*. If economics were only about prices, productivity, and profits, etc., why do textbooks typically start by discussing maximization over preference sets very generally – choice under conditions of scarcity – "human behavior as a relationship between ends and scarce means which have alternative uses" (Robbins 1932:15)? Does economics intend to be general (as in general equilibrium)? Even when people are in "economic mode," deciding on marginal investments of money, time, and energy, one of the choices (paradoxically) is to devote more to communities and the production of social goods.

"Good theories avoid harmful falsehoods" (Mäki 2001b:384), and "the claims of community have to be taken seriously" (McCloskey 1990:159). Abstracting from social goods without clear explanation is "unjustifiably narrow" (Mäki 2001b:373), it's not "the way the world works" (371), it is "unrealistic in a wrong way" (372). It cuts reality in the middle of a "bone" (utility) while pretending to cut at a joint (markets, or market thinking more generally). "Walrasian analysis is [thus] partial" (Mäki 1994:243), not *general*.

Of course all modeling is unrealistic in some way, and it might not even be possible to make explicit every single thing which is abstracted from. But what's being expressed here is an "engineering attitude": To be useful in practice, models must acknowledge important elements which are being ignored. Communities and social goods are important elements, yet economic theory ignores them without acknowledging that fact clearly and thoroughly.

When we abstract from social goods and the communities from which we derive them, we have thus not thoroughly represented our fundamental assumptions. We've been practicing "assumption without representation." And consequently we haven't analyzed – haven't even identified – communities and social goods as possible sources of "market imperfections." (It's odd to refer to "the presence of communities and social goods" as a market imperfection – as though we would be better off without them – but that's how our theory works.) If effects on communities and social goods haven't been considered as market imperfections, how can we devise policies to optimize welfare?

The problem has become more acute as mainstream ("neoclassical") economic theory – "the general equilibrium approach" or "neo-Walrasian research program" (Weintraub 1985) also known as "Samuelsonian economics" (McCloskey 2006: ch.6) – has become more mathematicized, abstract, and "rigorous." Revisiting the problem is important for honest teaching as well as for accurate public understanding of both economic theory and economic results, especially benefit/cost analyses. There are methodological problems with

- advocacy versus objectivity (Furner 1975; Ferber and Nelson 2003:vii);
- theoretical rigor and completeness (an "internal critique," Hodgson 2004:9);
- truth versus precision (Mayer 1993);
- and even intellectual honesty.

Compared to machines which physically block interfering forces and thus do "honest toil," theoretical models – which simply (but explicitly) abstract from unwanted influences – have "the advantages of theft" (Dupré 2001:317). How honest then would be an unacknowledged abstraction – an assumption without representation? We have been dishonest with our students – unintentionally, no doubt – as well as with our public-policy clients, and with the public itself.

VIII. Acknowledging the abstraction from communities and social goods

Specifying that we're only dealing with *private* goods wouldn't make the abstraction from social goods clear, because many of them (as noted) have private-good characteristics, though often with externalities (and they're not marketable in any case). It would be better to specify that we're only dealing with marketable goods, but the importance of *public* goods has long been recognized, way before techniques were constructed for analyzing problems with them.

Markets – and, more generally, rational (self-interested) choice under conditions of scarcity, and even "provisioning" (a third possible definition of the subject of economics) – have effects on communities and social goods, as discussed above. Thus to study the full effects of choice under scarcity – or even just of markets (or provisioning) – we must acknowledge the utility that we obtain from social goods produced by communities.

"A more humane balance among the three cultural processes that shape our lives" (Bodley 2001:22) is required, a broader view of economics, recognizing not just markets and government, but also the sphere of communities producing social goods. Anyone who understands optimization knows that there can be too much or too little (Mishan 1986:283) – in this case, too much emphasis on markets (and government), too little on communities and social goods.

Communities and social goods are probably "factors that are of substantial importance, but are intrinsically unmeasurable" (Sutton 2000:33). We could apply conventional rational-maximization modeling to them nevertheless, but it would be inaccurate (Sen 1977). It would also be destructive of communities and social goods (Marglin 2007), so should be avoided (unless heavily qualified).

But correcting this "blind spot" (Scott 1998:294) should be fairly simple. Briefly but clearly discussing the fact that there is also utility derived directly from social goods produced through identification with, and participation in, communities would be sufficient – while explaining that, besides facilitating communities and their production of social goods, market developments may also damage them, reducing that utility – and that we are explicitly abstracting from these possibilities.

Thus specifying the nature of at least some of Pigou's (1962) "parts or aspects of welfare" (the parts having to do with communities and social goods) should thus be incorporated into the fundamental assumptions of partial and general equilibrium – and in related models and empirical welfare analysis – and in the conclusions of such analyses. The abstraction from communities and social goods should also be stressed in introductions to these topics, and in introductory economics texts. Acknowledging social goods is important, even if we can't calculate "how they affect the model."

Introducing communities and social goods in a (non-standard) theoretical model might also be possible, or using an empirical approach (case studies or experiments) to show their importance for economic analysis. But specialization and exchange (Smith 1776; Seabright 2004) apply to economics as well, so I defer to those with comparative advantage in those areas. My focus here is only on logical completeness and on the other methodological problems discussed above. Better models with better explanations of observed behavior – and with significant policy implications – have in any case been previously demonstrated (Titmuss 1970; Akerlof and Kranton 2000; Folbre 2001:especially Part I).

Qualitatively, the first steps to remedy the problem are thus

- acknowledging the fundamental importance of communities and social goods;

- acknowledging their relevance for markets and for economics; and
- acknowledging the assumption excluding them from typical economic analysis.

IX. The benefits of explicitly acknowledging communities and social goods

Economics likes to see itself as exact and separate from other social sciences (Hausman 1992), and there are certainly ideological pressures and incentives (Ward 1979; Solow 1994; Klamer 2001:70). This may explain why economists haven't *already* acknowledged the importance of communities and social goods, given the large potential gains from doing so.

We haven't incorporated communities and social goods into our models and analyzed the implications. Nor have we clearly abstracted from communities and social goods by explicitly assuming them away. Modeling them with due respect for their unique characteristics would be difficult, while it would be undesirable to do so without that respect, i.e., only considering "market motives", i.e., under rational maximization of self-interest.

But the importance and relevance of communities and social goods can only be ignored at risk to the honesty and public acceptance of economics.

Modern western political philosophy – with Machiavelli – turned away from the classical awareness of morality (concern for others) towards self-interest simultaneously with the rise of markets. Hobbes and Locke then led to Adam Smith (Strauss 1959) and then of course onwards to hyper-rational neoclassical economics. With the "unraveling of the Newtonian synthesis" in relativity and quantum mechanics in the 20th century, the similar "modern project" in physics (and philosophy) broke down (Toulmin 1992:139, 2001; Carey 1999:9). The growing literature on "what's wrong with economics" –

> Ward 1972; Sen 1977, 1979; Bell and Kristol 1981; Etzioni 1988; Benton 1990; Boulding 1992; Rosenberg 1992, 1994a, 1994b; Ormerod 1994; Keen 2001; Ackerman 2002; Devine 2002; Ferber and Nelson 2003; Fullbrook 2004; Streeten 2004; Ackerman et al. 2004; Lee and Keen 2004

– reflects the perception of many economists of a similar breakdown in our field. Zohar (1990) explores freedom and creativity in a new quantum psychology. A similar willingness to deal with genuine uncertainty – as, for example, would be introduced by allowing for incommensurable social goods produced by communities – would benefit economics. Akerlof and Shiller's (2009) "animal spirits" could then be understood as (largely) manifestations of Fiske's (1991, 2004) other relational modes (besides market pricing), rather than *ad hoc*, as *dei ex machina*.

Acknowledging the importance of social goods that we derive from communities would also increase understanding of the role and genesis of social capital. A question desperately in need of attention – because of its importance in American political debate – is how does social capital get paid for? If – in a typical production function – revenues are totally distributed among wages of labor, rental of land, and profits of (physical or financial) capital, there is no obligation of business to support communities (including governments, which can then be seen as a "cancer" on the "productive" market agents). But when the role of communities is fully acknowledged, it becomes clear that it's not all "our money", but rather that there is a foundation – besides extortion – for paying taxes that support government and communities.

As noted above, it has been classically demonstrated that incorporating communities and social goods can lead to better models and better explanations of observed behavior, as well as to better policy recommendations. But until we acknowledge this possibility in a general way, we are hindering the production of such models and the generation of such policy-recommendations.

Attempting to measure or model the effects of markets upon communities and the social goods derived from them might also help to encourage more modesty in economics (Johansson-Stenman 1998:302; McCloskey 2000c). Economics mightthus become more open to "freedom of expression" and "pluralist options" (Ackerman 2002:136; Fullbrook 2001; Sent 2003, 2006), perhaps including more exchange with neighboring disciplines (sociology, social anthropology, political science), rather than economics autarky.

Economists might then be inspired to explore any possible negative social effects of market developments, and to help discover ways to counter them, or at least to ameliorate them

- theoretically (Etzioni 1988; Etzioni and Lawrence 1991);
- practically (Lifton 1993; Etzioni 1993/95, 1996; Nathanson 1992: chs. 30-31; Bobbitt 2002);
- or both (Etzioni 1999; Frank 1999; Folbre 2001; Nelson 2006),

not necessarily via the *state* alone, but possibly utilizing *market* incentives.

Acknowledgement of the importance of communities in themselves as well as for economics could facilitate their reinforcement or reconstruction, which could have direct positive welfare effects (via increased production of social goods) as well as indirect positive effects (on markets and government, via social capital). It might even help with environmental problems, via improved community enforcement mechanisms (Ostrom 1990).

Acknowledging communities and social goods in economics could also help the many proponents of communities (who are often ideologically "anti-market") reciprocally acknowledge the important role of markets in society.

Acknowledging the importance of communities and social goods in economics would also help economists to understand

- the transition from materialist to post-materialist values (Wuthnow 1995); and
- from modernization to post-modernization (Inglehart 1997); including
- the "paradox of affluence" revealed in the comparative-happiness literature (Hirsch 1976:7; Easterlin 1996; Cornish 1997; Haidt 2006: 143), i.e., why the "economistic fallacy" – "the common belief that happiness is in some sense proportionate to income" (Lane 2000:64) – fails.

It might then be easier for economists to understand the issues of community, identity, and morality, which are involved, for example

- in protests against globalization (Rodrik 1997; Stiglitz 2002, 2003:281-336);
- in Islamic fundamentalism (Qutb 1964; Friedman 1989:494, 2000; Barber 1995; Armstrong 2001; Lindsey 2001); and even
- in the "moral politics" of recent domestic (U.S.) culture wars (Lakoff 2002; Westen 2007).

Acknowledging communities and social goods in economics could have other large benefits as well. Boulding pithily described economic theory as "the celestial mechanics of a non-existent world" (Colander 1996:4), while Streeten (2004: 12) calls economics "the science that argues from unwarranted assumptions to foregone conclusions." Acknowledging all relevant assumptions more clearly and thoroughly, and describing their implications more clearly (even if they make our systems less deterministic), could reassure economics students – as well as practitioners and students in related fields, and the public – that we are concerned with reality, not just with our imaginary models. This might help dispel the alienation often associated with economics (Weisskopf 1971) and improve the communication of economic method and results (Mayer 2001). Other methodological criticisms – as we saw above – can also be understood as being rooted in the unacknowledged abstraction from communities and social goods, and might thus be ameliorated by such an acknowledgment.

X. Appendix: While asserting generality, welfare analysis with a perfectly competitive market-equilibrium (Arrow 1983) does not explicitly abstract from social goods, yet ignores them

1. The basic set-up and results

Kenneth Arrow (1983:69) offers this classic summary of the conditions for a perfectly competitive market-equilibrium:

- Households, possessing initial resources, possibly including claims to the profits of firms, choose consumption-bundles to maximize utility at a given set of prices;
- firms choose production-bundles so as to maximize profits at the same set of prices; [and]
- the chosen production- and consumption-bundles must be consistent with each other in the sense that aggregate production plus initial resources must equal aggregate consumption.

As Arrow makes clear, it is assumed in this definition:

- that households and firms have full knowledge of all prices;

- that households and firms take the prices "as given," not alterable by their own actions;
- that prices are the same for all households and firms; and
- that no resources are used in the act of charging prices.

Certain further assumptions are often used in equilibrium analysis, including:

- convex indifference curves for the households;
- convex production possibility sets for the firms; and
- the universality of markets.

Arrow (p. 70) defines universality of markets to mean that "the consumption-bundle which determines the utility of an individual is the same as that which he [sic] purchases at given prices subject to his budget constraint. . ." In other words, all sources of utility are purchasable in the market, "everything that matters is a marketable commodity with a meaningful price" (Ackerman 2008:280).

Pointing out that convexity is not necessary for this step, Arrow (1983:70) then states the First Fundamental Theorem of Welfare Economics as: "If [universality of markets] holds, [then] a competitive equilibrium is Pareto-efficient." Pareto efficiency, of course, means that no one can be made better off without making someone else worse off.

If we add convexity – and some assumption of equality or justice in original resource-endowments (which Arrow recognizes) – then we seem to have arrived at the best of all possible worlds: If everything of value is purchasable in perfectly competitive markets, then we're all as well off as we can possibly get.

2. Relaxing the universality-of-markets assumption

Of course we do not have equality in original resource-endowments (and, many would argue, not justice either). It may also be that, rather than taking prices "as given," some economic agents can influence prices by their own actions. And certainly we don't each have full knowledge about all prices. (Another assumption – which Arrow didn't find necessary to mention, but which often isn't fulfilled – is clearly-defined property rights, which would seem to be a special case of the failure of universality of markets, though quite different from the one discussed here.) And there are public goods which, for one reason or another, can't be sold in markets. But all these aspects have been explored elsewhere at some length, and need not detain us here. (Besides the theoretical literature addressing these issues, practical political action has been taken – to greater or lesser extent – to correct the problems. Thus we may have income transfers of various sorts to the poor, or the not-so-poor; regulation or creation of monopolies; agencies devoted to information collection and dissemination; and government provision of other public goods.)

Relaxing the assumption of universality of markets has also been explored somewhat. As Arrow says (p. 72), "the bulk of meaningful future transactions cannot be carried out on any existing present market, so [the] assumption [of] the universality of markets is not valid." Nevertheless, this problem is commonly taken to have been overcome – at least in a theoretical way – by the assumption of Arrow-Debreu asset-markets, for which actual asset-markets can give a reasonable approximation. The impossibility of markets for social goods – and thus the non-existence of such markets – has not been explored, or even explicitly recognized.

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