

Adaptation or Paradigm Shift?

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Even scholars who have no interest in economics may find the debate about behavioral economics (beh.ec.) of great interest because it points to a major meta-theoretical, empirical, and normative divide in the social sciences. While social science textbooks, professional associations, and the academic job market are still largely organized by the old-fashioned division among disciplines, social sciences are often conducted in terms of one of two paradigms that cut across these disciplines. On one side are those who hold that all behavior can be studied in neoclassical terms, as mainstream economics does—on the other, those who hold that behavior should be studied as if the actors were *homo sapiens*, not *homo economicus*. One paradigm assumes that actors are rational individuals, seeking to maximize their self interests whether they buy, sell, vote, pray or love. The other paradigm, adopted by other members of *the same disciplines*, draws on a variety of conceptions that focus on cultural, historical, and structural forces, and assumes that people often act non-rationally and heed complex motives. Behavioral economics is an excellent place to compare these two paradigms and to explore where the social sciences are headed.

Beh.ec. took off in the late 1970s. Its first major stars are widely recognized as the psychologists, Daniel Kahneman (winner of the 2002 Nobel Prize in Economics) and the late Amos Tversky. Previous work along similar lines had been carried out by Herbert Simon and long before that, by Adam Smith (*Theory of Moral Sentiments*), among others, but Kahneman and Tversky were the first to provide beh.ec. with a strong empirical backing. Scores of other scholars have since contributed to beh.ec., including some whose work has captured the public imagination, topping best-seller lists (e.g., *Freakonomics* by Steven Levitt and Stephen J. Dubner, and *Irrational Exuberance* by Robert Shiller).

Three recent contributions to this field further strengthen the case that people do not and cannot behave the way the neoclassical paradigm assumes. In reviewing these

Predictably Irrational: The Hidden Forces That Shape Our Decisions, by **Dan Ariely**. New York, NY: Harper Collins, 2008. 208pp. \$25.95 cloth. ISBN: 9780061353239.

Nudge: Improving Decisions About Health, Wealth, and Happiness, by **Richard H. Thaler**, and **Cass R. Sunstein**. New Haven, CT: Yale University Press, 2008. 293pp. \$26.00 cloth. ISBN: 9780300122237.

Falling Behind: How Rising Inequality Harms the Middle Class, by **Robert H. Frank**. Berkely, CA: The University of California Press, 2007. 160pp. \$50.00 cloth. ISBN: 9780520251885.

works, the key question is whether the neoclassical paradigm can be corrected, and whether the mixed bag of conceptions associated with the *homo sapien* model can be consolidated to provide a better paradigm. To put it starkly, if the first approach is *wrong* (or at least deeply flawed), and the second provides *none* but myriad answers—where do we go from here?

Dan Ariely's *Predictably Irrational* employs original studies and anecdotes to show that people are congenitally unable to process information and make the calculations that utility maximization and otherwise rational conduct requires. His results are very much in line with previous findings of beh.ec., and thus add to their robustness. Many of Ariely's findings, and those of beh.ec. in general, are centered around three axes:

- a) People's choices are influenced more by anecdotes or personal experiences than by statistical evidence. Thus many people (wrongly) believe that more murders occur than suicides, because murders are regularly on the evening news and suicides are not.¹

¹ Sarah Lichtenstein, Paul Slovic, Baruch Fischhoff, Mark Layman, and Barbara Combs,

Ariely focuses on a related but different systematic bias: what people expect is what they see or—taste. Ariely offered two groups beer “A” and beer “B.” One group was informed prior to the taste-test that beer “B” was plain while beer “A” had some balsamic vinegar added. The other group was led to believe that beer “A” was a special, new “MIT Brew.” Those who knew about the vinegar prior to the taste-test tended to prefer the plain beer, while those who didn’t, tended to prefer the vinegar-laced version.

- b) Individual choices are influenced by “anchoring” (or “framing”) which makes items seem different according to what they are compared. Ariely asked students to write down the last two digits of their Social Security number next to a list of items up for bid. Those with lower anchors—in this case, lower Social Security numbers—systematically made lower bids than those with higher anchors.
- c) People develop irrational attachments to objects they own—known as the endowment effect. Thus, students who had been given much-coveted tickets to a basketball game were willing to part with them for prices that were much higher than other students, who were not given any tickets, were willing to pay for them.

These are but a few of the many examples Ariely presents—highlighting the systematic and hence predictably irrational ways people deliberate and make choices—which differ sharply from those assumed by the neoclassical paradigm.

Nudge, by Richard Thaler and Cass Sunstein, each a very highly regarded academic in their respective disciplines of economics and law, adds much to beh.ec.. By drawing on scores of studies of behavior in “field” settings, they refute suggestions that beh.ec.’s

findings hold only in artificial lab conditions. Better yet, the book provides a treatment for the profound cognitive defects beh.ec. has revealed. They call for a “libertarian paternalism” that entails structuring choices in ways that make it easier for people to make sound choices. For instance, Thaler and Sunstein urge that employee contributions to 401(k) plans be arranged on an opt-out instead of an opt-in basis. One study found that participation rates, which under the opt-in model were around 65 percent, skyrocketed to 98 percent under an opt-out model. *Nudge* shows that this and other such improved “choice architectures” would serve both people and society well in a variety of areas in both the private and public sectors: from increasing the number of organ donations, to encouraging better investments, to protecting the environment.

However, not all nudges are equal. As Thaler and Sunstein note with regret, “choice architects in all walks of life have incentives to nudge people in directions that benefit the architects (or their employers) rather than the users” (p. 239). The authors emphasize that they only support nudges designed to serve the best interests of the users, not the architects.

Robert Frank’s *Falling Behind* draws on the concept of relative deprivation to highlight a profound defect of the neoclassical paradigm and, more broadly, of American capitalism. Frank points out that when all people work longer to consume more, the pursuit of material goods becomes Sisyphean: all sacrifice leisure time to work more in order to purchase more goods, but the material gains each earns *relative* to one another remain fixed, resulting in an overall loss of satisfaction. Thus Frank writes, data show people would be better off spending more time socializing and relaxing.

Moreover, Frank highlights a trend in the United States of growing disparity between the incomes of the top earners and those of the rest, moving people towards more work and more relative deprivation. Between 1949 and 1979, most people’s incomes rose more or less equally. Since then, the top income group’s after-tax incomes have risen much more than those of the rest, leaving those in the middle class feeling more deprived, even though their incomes have grown. In addi-

“Judged Frequency of Lethal Events,” *Journal of Experimental Psychology: Learning, Memory, & Cognition*. 4(6): (November 1978), 551–578.

tion, the increased spending at the top “has raised the cost of achieving goals that most middle-class families regard as basic,” adding stress (p. 43). Frank hence calls for a progressive consumption tax, which would make the rich spend less, increase incentives for savings, improve public services—and combat relative deprivation.

Tim Harford reports in the *Financial Times* that most economists continue to work within the neoclassical paradigm, and that beh.ec. “merely illuminates some fascinating but relatively minor foibles.” He adds that he has “long been persuaded that the evidence shows that we are fundamentally rational creatures when it comes to most decisions that really matter.” This position is much harder to maintain after the publication of these books.

Actually, as I see it, beh.ec. *underestimates* the difficulties the neoclassical paradigm faces because most of its studies deal with poor choices due to cognitive flaws, a few with those caused by emotions, and practically none with those based on values. (To their credit, Ariely does explore the effects of norms and Frank deals with non-self-interested motives.) This ignores the fact that people vote largely because they consider it their civic duty; or the fact that most married partners of Alzheimer’s patients opt to stay with them, even though they cannot expect any reasonable return for their services.

By studying atomized individuals, beh.ec. neglects emergent group attributes such as power structures, communal bonds, informal social controls, and cultures—attributes that often account for a good part of behavioral variance. These attributes shape individual preferences *and* guide their choices in ways the actors are unaware of and, hence, cannot take into account in their calculations. (It is particularly regrettable that many behavioral economists seem to be unfamiliar with the works of Weber, Parsons, Smelser, and other sociologists.)

Where do we go from here?

None of these books explicitly addresses the implications of all these robust findings for neoclassical social sciences. Rather than hoping to establish a new paradigm, Ariely states that his goal is to use beh.ec. to help his reader to become less like a *homo sapien*, and more like a *homo economicus*: “Once you see

how systematic certain mistakes are—how we repeat them again and again—I think you will begin to learn how to avoid some of them” (p.xii). Evidence actually shows that this is hardly the case; that irrational biases are congenital and not easily curable. For instance, studies show that even physicians—in their area of specialized training—are “still largely dominated by logical inconsistency and failure to apply basic concepts of probability.”² Indeed, if Ariely’s impression was a valid one, the core thesis of beh.ec. would be invalidated, namely that cognitive defects are profoundly ingrained, even wired in.

Still, most social scientists who draw on the neoclassical paradigm continue to work as if beh.ec.’s findings never existed. Nor can they readily correct or adapt their paradigm, as it seems next to impossible to integrate most of these findings into a single model. How is an economist to study what drives prices up and down, if levels depend on what consumers compare them to: lower than last year? Or—higher than five years ago? Or—to those overseas, or . . .? Will consumers find the same costs painful if they learn that others paid less, but a source of satisfaction if it turns out that others pay even more? And how are economists to study trade if goods are more valuable to those who buy them than to those who sell them?

True, some valiant attempts have been made in this direction by diluting the definitions of key concepts. The concept of “bounded rationality,” for instance, allows for the construction of models that anticipate some amount of irrationality by individual decision-makers. However, the main challenge of beh.ec., especially once emergent group attributes are added, stands and—as I see it—points to the need for a paradigm shift.

This point is best illustrated by the concept of choice architecture outlined in *Nudge*. Choices are not structured primarily by well intentioned *or* self serving managers, but by macroscopic historical and cultural forces. This is a main reason corporations are bailed

² Jonathan Borak and Suzanne Veilleux. “Errors of Intuitive Logic Among Physicians.” *Social Science and Medicine*. Vol. 16. (1982). Pp 1939–47: 1939.

out, but not most home owners; gun control fails in the U.S. but works in the U.K.; the work week is shorter in France than in the U.S., and so on. It follows that the study of behavior requires a paradigm that treats non-aggregated macro-variables (those not reducible to groupings of individual choices) as *independent* variables, for instance, the kind of study that compared Protestantism to other religions to determine which preceded and helped the rise of capitalism.

Such a paradigm can be constructed around the assumption that most variance of behavior is determined by the historical, societal and cultural forces that change the attributes of the multiple groups of which people are members—not by intra-individual deliberations and choices; that people have multiple, conflicting and irreducible utilities, especially moral and self-interested ones, are part *homo economicus* and part *homo sapien*; and

that they tend to make non-rational choices. I spelled out such a paradigm in *The Moral Dimension* (1988), and founded the Society for Advancement of Socio Economics (SASE), dedicated to developing such a paradigm. This is far from a boast because twenty years later SASE, though it continues to thrive, has not made significant progress in this direction. Indeed, the neoclassical paradigm continues to dominate. You cannot beat a theory, however flawed, with nothing (or a hundred fragments that do not make one whole).

I find this particularly regrettable because the neoclassical paradigm's predictions—to the extent they are derived from the relevant theories!—are often off the mark; the paradigm's assumptions about human nature are profoundly erroneous; and, studies show, people who study neoclassical economics end up being more selfish than those spared.³

Beyond the Everyday

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Scott Fitzgerald is said to have defined the novel as “how it was with a group of people.” A long tradition suggests just such a definition suits ethnographic research as a rich description of individual lives as they unfold in a particular setting and historical period. In this collection of articles on the practice of institutional ethnography, edited by Dorothy Smith, a different definition prevails. To compliment the earlier companion volume, *Institutional Ethnography: A Sociology for People* (2005), Smith assembles a number of young scholars who have emerged from her tutelage to discover “how things are actually put together” (p. 1), and “looking out beyond the everyday to discover how it came to happen as it does” (p. 3). The result is an accessible, pedagogically grounded set of explorations into what it means to undertake institutional ethnography, and why its intentions and methods differ from more conventional ethnographic practice.

One would not imagine that the marriage of Karl Marx, French phenomenologist Maurice Merleau-Ponty, Harold Garfinkel, and 20th Century feminism would produce anything more useful than a dense fog. Yet, for

Institutional Ethnography as Practice, edited by **Dorothy Smith**. Toronto, CN: Rowman & Littlefield, 2006. 263pp. \$27.95 paper. ISBN: 0742546772.

nearly 40 years Dorothy Smith has been plumbing each to invigorate a sociology that maps how concrete experiences are connected to and shaped by the larger, extra-local relations that exercise power. Smith calls these “relations of ruling.” Such relations are present and ultimately discernible, she explains, even in those ethnographic observations and accounts of what real people are doing and saying—together. For of course it is in everyday concert that such work gets done, reflected in a variety of texts that act upon and organize a world meaningful to its inhabitants. In this volume Smith illustrates how it is that the mapping of the social world via institutional ethnography

³ Gerald Marwell and Ruth E. Ames. “Economists Free Ride, Does Anyone Else?” *Journal of Public Economics* 15 (1981), pp 295–310.