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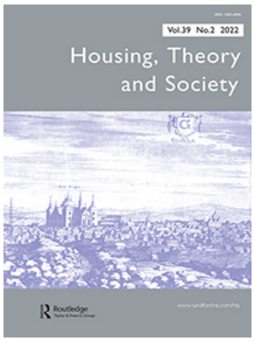

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COMMENT

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Too Pragmatic? A Commentary from Sociology on Lux and Sunega's Plea for 'Pragmatic Socio-Economics'

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ABSTRACT

In this commentary from sociology, I argue that whilst Lux and Sunega's (2022) plea for "pragmatic socio-economics" is an interesting starting point towards a more interdisciplinary study of issues related to housing market inefficiencies, it makes theoretical sense to strife towards a more ambitious integration of sociology and economics. Contrary to universally applicable emotional, cognitive or even physiological mechanisms, social norms are intricately interwoven with the institutional context in which different social groups enact them. Though "universal" social norms historically lie at the basis of variegated institutional arrangements, the latter over time develop in ways reflective of initial and evolving power relationships. Analyses of recursive relationships between institutions and social norms ideally include issues of power. I illustrate the potential of such a more integrated approach by presenting a "case" from the politics of welfare and labour market reform.

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The Idea of Pragmatic Socio-Economics

In their thought-provoking article, Lux and Sunega (2022) argue for the inclusion of *social norms* in economic theory and modelling aimed at explaining "house price trends and their volatility". In this particular case, a norm prescribing that *when affordable, homeownership is always preferable to renting*, is analysed. Their approach is *middle-range* in the sense that the worked-through application is relatively confined. They nevertheless suggest that the overall idea of "pragmatic socio-economics" may be extended to other instances of market inefficiency related to economic behaviour. The approach is deemed *pragmatic*, in the sense that, in order to bridge the disciplinary gap between mainstream economics (focused on putting forward representations of reality that are universally generalizable based on rational decision-making) and sociology (the contextualization of everything, including rational behaviour), one particular element of the latter – the impact of unconscious adherence to normative heuristics, whether rational or irrational – is infused in the former.

Their approach is reminiscent of, and complementary to, the integration of cognitive and social psychology into mainstream economics through the successful route of behavioural economics. Lux and Sunega (2022) rightly point out that deviations from

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house price trends (e.g. price volatility, booms and busts) not predicted from fundamentals might not primarily arise from "irrational rent-seeking speculative behaviour" extending to all (prospective) homeowning households (as argued by e.g. Case and Schiller 2003; Schiller 2007) – particularly given the often exclusive focus of econometric models on revealed preferences (sales, prices) as well as their neglect of variations in institutional arrangements allowing households to convert declared preferences into reality. In particular in contexts where such institutional constraints are high because of conservative or absent mortgage finance and/or where housing is much less an "investment good", house prices have also been observed to deviate from their underlying fundamentals. This could then, according to the authors, be explained from a strong adherence to the proposed social norm that homeownership is always the superior choice (resulting in a weaker substitution between housing tenures as viable alternatives) causing, for instance, income growth to translate into a commensurate increase in the demand of owner-occupied housing (known to be inelastic in the shorter term), in turn leading to excessive house price growth. The more general argument here is that sociology can be used towards explaining housing market dynamics, and that the assumption of such a "universal" social norm allows for the modelling of house price trends to rise above particular contexts.

To a sociologist, the idea that sociology comes to the rescue is appealing though also self-evident. The plea for a pragmatic strategy of rendering the "introduction of sociological insights" into economics "acceptable" or "achievable" for the latter discipline (with an eye to the ease of operationalization and the insertion of social norms in micro-economic empirical research) seems less appealing. As a sociologist with a background rooted more in "comparative stratification and inequality" and less in the intricacies of housing economics (at least in comparison to other commentators), my contribution will mainly focus on two issues related to the proposed strategy of pragmatic socioeconomics rather than with the details of the illustrative analyses regarding trends in and volatility of house prices. It consists of: 1) a discussion of the relationship between social norms and institutions; and 2) a demonstration of how a broader institutional view has been successfully used in other fields/domains to establish a more equal partnership between sociology and economics, not hampered by "theoretical fragmentation" or a "constrained ability to generalize results across cultural contexts" (p. 4). My argument is that accounting for underlying social norms is a potentially brilliant idea, that makes however more sense when social norms and institutions are not conflated, but theorized and "directly and separately" operationalized in research. This includes the idea that from the discrepancy or confrontation between various institutional arrangements as they develop over time, and some social norm, instances of market inefficiency arise.

Social Norms and Institutions

Whilst arguing for "pragmatic socio-economics", Lux and Sunega (2022) briefly refer to an "alternative" strategy of combining sociology and economics based on the contextualization of economic behaviour under various constellations of institutional arrangements referring to so-called welfare and/or housing provision regimes. They dismiss this approach as it is deemed insufficiently connected to "micro-social behavioural research on market agents" (p. 9). This comes across as somewhat inconsistent because, firstly and fundamentally, social norms are generally considered as the origins of most institutions: "*Institutionalization occurs whenever there is a reciprocal typification of habitualized actions [. . .] any such typification is an institution*" (Berger and Luckmann 1966, p. 72). Of course, social norms as informal institutions over time become objectified in formal institutions such as organizations or laws. Institutions therefore imply control, "*[. . .] by setting up predefined patterns of conduct, which channel it in one direction as against the many other directions that would theoretically be possible*". Institutions furthermore have historicity, in the sense that general social norms, e.g. *the need to reproduce the family*, take on a specific expression (e.g. systems of inheritance) depending on the needs and demands of the original context in which such institutions were originally rooted. Generalizations that are feasible in behavioural economics, because they refer to universally applicable emotional, cognitive or even physiological processes (e.g. the scarcity-hypothesis put forward by Mullainathan and Shafir (2014)), are more problematic when it comes to social norms, given that concepts such as "justice/fairness", "private property", "solidarity", . . ., even if they can be defined in abstract terms, still have different meanings, interpretations and uses that are deeply rooted in national (historical) constellations of social structure, power and ideology. Put differently, whilst every society struggles with similar problems (e.g. how to arrange housing provision), how these problems were resolved depended on the demands and opportunities of the situation.

Furthermore, we are by now far removed from the origins of mankind, and more often than not, institutional arrangements have become highly crystallized over time, whilst more informal social norms are changing at a different pace – resulting in friction and social change. Lux and Sunega (2022) abstract from these points by operationalizing the impact of social norms – in their article the universal norm that *when affordable, homeownership is always preferable to renting* – through differences and changes in the way that people adhere to the social norm. However, in their second illustrative generalization concerning the study on housing markets and house prices, the proposed social norm is proxied via the extent of substitution between owning and renting,[1] which is turn proxied by the share of (private) rental housing in the housing stock. This seems inspired by Kemeny's contribution (1981) that tenure structures are the consequence of ideology and political choices, and that resulting policies promote one tenure over another, or explicitly aim not to do so. Their approach however conflates existing institutional arrangements with a hypothesized social norm for all. I would argue that also in economic models, both institutions and social norms need to be operationalized more directly, given that constraints and opportunities determined by the former influence how different (income) groups across different countries can adhere (or not) to a social norm they deem relevant for them. If not, the impact of social norms risks to be reduced to the unexplained variance in econometric models, as the partly independent impact of institutional arrangements (or rather how more powerful interest groups in society "mobilize" these, see below) is ignored.

Sociology's Contribution to Explaining Rising Inequality through the Politics of Welfare and Labour Market Reform

There seems to be some underlying presupposition in housing studies that welfare and housing regimes are "frozen landscapes" or "immovable objects", as once (a long time ago) suggested by Esping-Andersen (1996, p. 24) when discussing path dependency, and that any change is problematic because then the regimes-concept is somehow rendered invalid.[2] During the last 25 years, however, both the world itself and social and political science have moved on. Path dependency merely implies that certain policy choices have been favoured over others, but the world nor social science are linear: external shocks and developments, policy feedback processes, the rise of new layers of government, … interact – these confrontations carry the seeds of further social change within them. Within this broader field of study, it has in fact been possible to make generalizations that go beyond "static" welfare regimes and "deterministic path dependencies", and that explain how external challenges were addressed by path-dependent dynamics feeding into variable and changeable politics of welfare reform. These may seem uninterpretable when evaluated in isolation, but overall resulted in trajectories of welfare restructuring (rather than welfare retrenchment) by (re)creating different dualisms[3] that – taken together – undermine the idea of a universal social solidarity, independent of nation-specific meanings and interpretations of these concepts (for a recent overview, see Dewilde 2020).

The reasons why I am calling upon this specific "case" (apart from it being more within my range of expertise, far more so than housing economics), is firstly that sociologists as well as political economists contributed greatly to furthering what was originally an econom(etr)ic discussion on the impacts of trade globalization and skill-biased technological change (together leading to a post-industrial service economy) on western economies and the consequences there-off for the demand for low- vs. high-skilled work (e.g. Alderson and Nielsen 2002; Atkinson 2001). Explanations for divergent responses[4] in the United States (rising wage inequality) vs. Europe (persistent equality at the cost of high unemployment) hinged on the fact that in Europe's so-called Coordinated Market Economies, labour market regulations are strict and welfare states extensive. Sociologists contributed to understanding social change through further generalization of this "unified theory" by formulating the so-called "generalized inequality"-thesis (DiPrete et al. 2006; DiPrete 2007). Confronted with the unsustainability of early retirement as an initial solution, European countries responded with increased labour market flexibility in terms of employment contracts and working conditions. Over time however, the number of people in "flexible", "insecure", "a-typical" or "non-standard" labour market positions had increased to such an extent that the financial capacity of social insurance programmes to "be social" became undermined (e.g. Palier and Thelen 2010). Governments have therefore been forced to restrict access to (generous) contributory benefits, by tightening the rules of entry/exit, increasing conditionality and decreasing generosity. "Downward dualization drift" thus not only refers to a growing divide between "insiders" and "outsiders" on the labour market, but also to increasing welfare gaps and reduced income security due to a concomitant erosion of social insurance rights for "outsiders" (i.e. those with incomplete contribution records) (Rueda 2014). As more people have been transferred from unemployment to social assistance and the real value of the latter furthermore was eroded, poverty and inequality increased – not only in liberal market economies, but also on the continent (Cantillon 2011; Nelson 2010). Particularly in so-called conservative-corporatist countries, where collective bargaining and (social) solidarity is segmented along labour market/regional divisions, recent history of negotiated social policy reform has been characterized by a growing insider-outsider divide, as a (shrinking) group of "insiders" manages to successfully mobilize in order to protect high-standard employment conditions and social insurance, mostly at the expense of "outsiders". Hence, while Weeden and Grusky (2014) state that in so-called Liberal Market Economies, increasing inequality at the top has been driven by "market failure" related to a strong increase in institutionally-driven occupational, educational, managerial and capital rents, their hypothesis begs the question whether the potential for institutional rents is not higher in (specific) Coordinated Market Economies. The latter are in fact far more institutionalized, and thus theoretically offer more opportunities for extracting so-called "institutional rents" by taking advantage of institutional barriers in terms of amplifying advantage for one's own group whilst limiting advantages for other groups (in sociology also known as "social closure"). My point here is that a universal "sociological" social norm, in this case *avoiding downward social mobility* (Breen and Goldthorpe 1997), is acted upon differently across different institutional settings, providing a direct link with the micro-social behaviour of market agents. This micro-social (in this case self-interested) behaviour furthermore contributes towards changing institutions over time (institutions do not change by the will of the Gods, but through collective action by individuals), with different distributional consequences for different social groups and through *the explicit and intended creation of market inefficiencies*. It would thus seem that, at least in other fields of study, sociology has more to offer.

Sociology Has More to Offer?

Perhaps the gap between social science-type housing studies and the subfield of housing economics is currently still too wide for a more ambitious research agenda, necessitating pragmatic socio-economics as a first step. Probably, and certainly in comparison to literature on the macro- and micro-level politics of welfare reform and welfare state restructuring in the welfare regimes-literature, the housing regimes-literature is lagging behind, in particular with regard to specific and more generalizing explanations of how housing regimes-change comes about through "meso-level" politics – though recent literature has started to address this gap (e.g. Blackwell and Bengtsson 2021; Stephens 2020). It could be that my definition of sociology is wider than that of Lux and Sunega (2022), but then, I am not alone in that. Perhaps "housing" is connected to so many other variables and fields that the complexity of dealing with every aspect of it is too overwhelming. Viewed from this angle, "pragmatic socio-economics" in the field of housing has the potential to be a first important step on the way to a more integrative form of interdisciplinarity. I would however argue to augment the argument with actual measurements of 1) social norms and 2) institutional arrangements impacting on adherence to a social norm. Though there is a positive association between 1) and 2), overlap is far from perfect and varies in theoretically-informed ways that can and should be exploited, also in "housing-economic" modelling. There are examples of a successful marriage between macro-social comparative research and micro-social behavioural research out there (admittedly much remains to be researched in depth). Although for the purpose of laying out a more sociology-inspired approach towards interdisciplinarity I focused on another "case", the analogy (or perhaps the test case) in housing studies could be the recent discussion on the increase of multi-property ownership and the revival of private landlordism as one of the outcomes of "financialized" homeownership (e.g. Aalbers et al. 2021; Hulse and Yates 2017; Kemp 2015; Ronald, Lennartz, and Kadi 2017). In terms of the proposed operationalization of the proposed substitution effect regarding the home-ownership norm, the question would then not be what is the share of the (private) rental stock, but rather who owns it and for what purpose.

Notes

1. In note 4 Lux and Sunega (2022, p. 11) assert that when their social norm is valid, "*financial, pragmatic, and utility-or investment-based considerations are suspended*", hence price volatility follows from adherence to the norm. Adherence is however not only determined by households' choices, but also by "external" constraints and opportunities allowing households to follow a social norm. These constraints and opportunities result from power and conflict and are distributed unequally, so are hard to abstract from because they differ systematically between countries and social groups.
2. My general response to e.g. students about typologies, "non-fitting" cases and changing countries is furthermore that the typology is hardly the essence, what matters are the underlying dimensions on which typologies are based, how these dimensions interact, and why and how they change over time.
3. Revolving around perceptions conflating old-school notions of "deservingness" with the perceived ability to pay social contributions, e.g. between labour market-insiders and -outsiders, between "natives" and "immigrants", between those in work and out of work (e.g. Reeskens 2020; Rueda 2014).
4. Known as the jobs (growth)-inequality trade-off, the Transatlantic Consensus or the trilemma between employment, equality and budgetary restraint (e.g. Iversen and Wren 1998).

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