Introducing Anthropological Foundations of Economic Behavior, Organization, and Control

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The Knowledge Peddlers

Introducing Anthropological Foundations of Economic Behavior, Organization, and Control

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Abstract: One of the rude awakenings for economists from the current recession is an emerging understanding that economics has gone wild with its highbrow mathematical models that bear little resemblance to reality. The failure of economics to predict and solve the current global recession, has restored the "dismal science" title to the profession.[2] It stems from the cultish fascination with Adam Smith's Invisible Hand, centered around the belief in the efficient market hypothesis.[3] This fascination exposes analytical holes in the methodology that economics has followed lately, as economics itself has moved too far away from its key social foundations. This situation is incomprehensible and needs redressing. I compiled a book - *Selected Readings on the Anthropological Bases of Economic Behavior, Organization, and Control*[4] - to help economists and others get back in touch with their genealogy. This current paper is a watered down version of the introduction to *Selected Readings*. It concludes that real life is neither as simple nor economic as economic theory sometimes suggests. In fact, and for much of human history, non-economic factors and forces have driven economic activities. *Selected Readings* provides an opportunity for reinforced focus on economics principles. Alone and detached from its social foundations economics has a future only as fiction. As serious non-fiction, economics cannot successfully divorce itself from its elemental foundations in the social sciences. To advance its theory in the past economics needed to borrow from mathematics and physics. Such learning must continue. However, to remain policy-relevant economics cannot wish away the very social bases upon which it is founded. Without social foundations one might as well kiss economics goodbye.

In his foreword to Charles Mackay's *Extraordinary Popular Delusions and the Madness of Crowds* (1841 [1932]), Bernard M. Baruch observes that "all economic movements, by their very nature, are motivated by crowd psychology. … Without the recognition of crowd-thinking … our theories of economics leave much to be desired. It is a force wholly impalpable – perhaps little amenable to analysis and less to guidance – and yet, knowledge of it is necessary to right judgments on passing events" (p. xiii).[5] What makes economic events so susceptible to crowd-psychology are the anthropological foundations beneath economic behavior, organization, and control. For an illustration of that claim, I turn to six prominent scholars whose work and ideas clarify the issues: Bronislaw Malinowski, Melville Herskovitz, Willaim A. Lewis, JoanV. Robinson, Frank Knight, and Janos Kornai.

1. Economics in Anthropology

Bronislaw Malinowski's influence at the intersection of anthropology and economics is well-known to all social scientists – or it should be! The *Argonauts of the Western Pacific* (1922 [1961]) and "The Primitive Economics of the Trobriand Islanders" (1921) are classics in economic anthropology. Both dive deep into the behavior of so-called primitive societies and bring to the surface a clear understanding of the organized activities of those societies, and the economic and non-economic values primitive people place on their activities.[6] Professor Malinowski's work helps us answer the question: "What explains the economic behavior, organization, and control of primitive societies, and presumably our own?"

Clearly Malinowski's answer invokes culture and the "dynamics of culture change,"[7] subjects he has written on with great authority and clarity (cf. White, 1959, White and Dillingham, 1973).[8] But if culture is so important, (1) what is it, and (2) how does it influence and govern organized behavior? The first selection in the collection combines Chapters 4 and 5 of Malinowski's book *A Scientific Theory of Culture and Other Essays* (1944). There, culture is defined as "the integral whole consisting of implements and consumers' goods [and services],[9] of constitutional charters for the various social groupings, of human ideas and crafts, beliefs and customs … by which man is able to cope with the concrete, specific problems that face him" (p. 36). Culture allows for Rousseau's social contract by rewarding and punishing behavior that is inconsistent with the social agreement. The incentives to behave in accordance with culture can be *quantifiable* and therefore market determined, and/or they can be *qualifiably* norms-based.[10]

Many economists, having either forgotten or not read Adam Smith's *Theory of Moral Sentiments* (1976), are now rediscovering the importance of rules (including normative rules), mainly as described by social scientists like James Coleman (1990).[11] Paul M. Romer (2009, 2010) talks about the role of rules in long-run growth and technological change in his new projects.[12] Like Malinowski, but from a different angle, Romer's projects distinguish between activities and rules, and anticipates greater gains from trade in ideas (rules) than in conventional goods and services in which trade is based on a comparative advantage.[13] For Malinowski "activities depend on the ability, power, honesty, and goodwill of the members," whereas rules are "embodied very often in precepts, texts, and regulations." Thus, a socio-economic function depends on activities, which require "material apparatus" or "objects" in Romer's lingo (Romer, 1993). The material apparatus is determined by personnel and norms which are themselves determinants of the socio-economic "charter".[14]

The second anthropological base of economic behavior, organization, and control in this collection comes from Melville J. Herskovits's *Economic Anthropology* (1952). Professor Herskovits displays great familiarity with the economics of Alfred Marshall, J.M. Keynes, J.R. Hicks, L. Robbins, and Frank Knight. But even he, as his Chapter 3 in *Economic Anthropology* shows, was disturbed by the weak contact between "Anthropology and Economics" (his chapter title). He argues that the distance between the two sister disciplines comes from the fact that "economics … derives its data … from [the] culture as it exists, while anthropology … presents materials having to do with all phases of social activity in civilizations of all kinds" (p. 42). Today, globalization and technological progress have narrowed the distance between the disciplinary division of labor, which Herskovits was observing. The theories of economic growth and development have responded favorably and with enthusiasm and appreciation of Herskovits's ideas. For example, there are many references to Herskovits in Lewis's *Theory of Economic Growth* (1955[1965]). Herskovits knew of Frank Knight's work, and Joan Robinson cites Malinowski's. In fact, fully defined economics is no longer just the "relationship between ends and scarce means which have alternative uses" so that it is no longer accurate that "the 'laws' derived from [economic] data are the equivalent of a statistical average based on a single case" (p.45). Now, there is sufficient recognition even among the orthodoxy that maximizing material satisfaction is hardly the sole objective of human beings (cf. Herbert Simon).[15] Human satisfaction itself requires a lot more than resource optimization, no matter how restrictive the budget constraints. That point is not new; Marshall defines economics broadly as "the study of mankind in the ordinary business of life." Obviously the ordinary business of life is not only about optimization, but alas habits are additive as even Marshall himself spends the bulk of his work on equilibrium economics of a disequilibrium process (capitalism). Herskovits's chapter on anthropology and economics recommends itself to all readers; it is as relevant today as it was more than 60 years ago when it was first written. Under the current economic conditions it is even more relevant because the pursuit of narrow equilibrium (macro)economics is partly responsible for the 2007-todate mess (cf. Krugman, 2009, Foster and Magdoff, 2009).[16]

Although "Anthropology and Economics" is a very good chapter, I do not consider it to be an anthropological base of economic behavior, organization, and control. Instead I select Chapter 1 on "economizing and rational behavior." More than any other, this selection shows that Herskovits studied Frank Knight well, and his and Knight's ideas made their way into Lewis's work. So, "economizing and rational behavior" is an attempt "to understand the cross-cultural implications of the process of economizing" (p. 4). This is an important task, because "choices are dictated not only by the alternatives between items, but by the patterns of the culture of the individual who, in the final analysis, must do the choosing, [that is] economizing is carried on in a cultural matrix" (p. 5). In that respect, quite obviously, economists have always distinguished consumption possibilities from consumer choice, for example. Consumption possibilities depend on the budget, i.e., the budget constrains or enlarges consumption opportunities – the "field of choice" to use Robert Mundall's (1968)[17] phrase. But since not all that is affordable is actually purchased, choice involves the budget as well as consumer preferences and tastes – not all preferences are revealed, Professor Paul Samuelson would say. Preferences and tastes are specific to the individual, however, the maximization of preferences (satisfaction) by the individual is subject to "the traditional values of the culture." Thus, "the process of economizing … is essentially based on the broader organization of society," (p.7) – an anthropological recognition that informs Frank Knight's writings. Here is one of Herskovits's irresistible citations of Karl Polanyi: "The outstanding discovery of recent historical and anthropological research is that man's economy, as a rule, is submerged in his social relationships, [because] every single step in the [production and distribution] process is geared to a number of social interests which eventually ensure that the required step is taken" (referring to p. 7 in Herskovits, or p. 46 in Polanyi).

Again, "ultimately the choices of individuals [are] influenced by the considerations of social standing, social claims, and social assets" (p. 7). Hence, "the economic unit … is the individual operating as a member of his/her society, in terms of the culture of his/her group"(p. 8). Thus, to satisfy the individual's choice, the objective influence of resource scarcity has cultural weights attached to it, and those weights act as "ultimate sanctions to behavior that give meaning to life" – control by norms (Kornai, 1981). In other words, while economic behavior is universal, rational behavior is conditional upon cultural contexts.

2. Anthropology in Economics

Throughout *Economic Anthropology* Professor Herskovits seems convinced of a one-way interaction in which Anthropology willingly learns from Economics whereas Economics adamantly refuses any lesson from Anthropology. If that was the case at the time Herskovits was writing, it surely was not the case in regard to Sir W. Arthur Lewis, whose work makes frequent reference to Herskovits, Malinowski, and others. Lewis is one of the greatest economists of all times and among the top growth and change economists of his time. However, many economists know Lewis only through his famous 1954 paper – "Development with Unlimited Supply of Labor."[18] This is unfortunate since the Nobel Prize that he shared with T.W. Schultz in 1979, was really for the *Theory of Economic Growth* which was written well before "Development with Unlimited Supply of Labor," but published a year later (1955). The *Theory of Economic Growth* stands tall among its peers even today. Its organizational structure alone is impressive. It posits that economic growth depends on specialized factors and forces. In precise order of importance, the factors and forces of production include "the will to economize," economic institutions, knowledge, capital, population and other natural resources, and government. The will to economize places first on the list of the proximate causes of growth because “growth is the result of human effort” (p.23), and human effort is partly economic, but mainly anthropological.

Paul Romer (1993)[19] and Lewis nearly classify the sources of growth the same way. Factors for Lewis are “objects” for Romer; “ideas” for Romer are “forces” for Lewis. Consequently both recognize the importance of scarcity as a motivator of human effort. However, “the will to economize” differs across economies because “societies differ widely from each other in the extent to which their members seek out and exploit economic opportunities” (p.??). From here Lewis articulates the three distinct causes of the differences in the will to economize as (1) the desire for wealth, (2) the opportunity benefit/cost of effort, and (3) the intra-actions and interactions of resources and human effort. For example, in societies where wealth confers social status, “the amount of effort given to producing wealth is a function of the desire for wealth” (p. 27). Culture is an important part of this, because, for example, “if the culture’s musical appreciation is at a low level, there is little [demand] for musical instruments or for musical entertainments. Similarly, the theatre, the cinema, the sport stadium, the dance hall, and similar purveyors of mass entertainment depend upon the nature of the people’s culture” (p. 23, cf. Malinowski and Herskovits).

Even within one culture, opportunity benefits/costs of choice differ across individuals, and hence influence differently “the attitude to work” and entrepreurial “spirit”. Work attitudes and spirit depend on various cultural prejudices, so that, even though growth is a function of resources and how efficiently they are used, “the connection between the richness of resources and the quality of the human response” (p. 53) still determines the quality of resource-based growth.

The first two selections in the proposed book clarify the anthropological foundations of economic behavior. The third selection is an empirical testament to the importance of economic and non-economic factors and forces to growth. The next selection demonstrates how history and culture have created one of the first and largest human organizations: society. This is Chapter 1 of Professor Joan V. Robinson’s *Freedom and Necessity* (1970), which tells us about how societies began and how they have evolved over time. She argues that “the pressure of technical conditions has carved out the multiplicity of creatures who appear to us so marvelously ‘designed’ for the life they lead” (p.10). Behind that marvelous variability, scarcity has compelled language development. Thus, “the distinctive characteristic of mankind is the invention of language that conveys information about things not present and permits speculation about things not known. The apes have manners, it is language that makyth man" (p. 21). Once scarcity was acknowledged, it was not a long leap from there to having communities use force (war) to protect "things present and speculate (sic) about things not known." Soon you have "isolated societies," and distinct races and classes. Warfare became "the most frequent origin" of "property." Further still, whatever warfare was unable to deliver, trade provided. Moreover, upon the “discovery” of America, foreign trade became associated with personal liberty, and foreign trade and the desire for personal liberty motivated investment for profit. Thus, profit became the focal point of capitalist expansion.

We know that Robinson's description of society has anthropological grounds. I let her speak for herself on that. However, I would remark as a motivation that whereas Malinowski describes the behavior of individual isolates, Robinson that "language and the social and technical innovations which made it possible obviously had survival value. … But once conceptual thought had been arrived at, it proved to have enormous possibilities that were … surplus to the requirements of physical existence, i.e., the acquisition of language [had] other necessary properties, over and above its technical advantage for survival" (p. 23). Thus, from an anthropological viewpoint, "the economic activity … gives the creatures … an object in life beyond merely keeping alive, [because] with the capacity for reflection that language gave him, man built up numerous patterns of connections by birth and marriage, [so that] economic life was woven into each pattern in a system of claims and duties" (p. 24). Referring to Malinowski, Robinson points out that the per capita incomes of so-called primitive and "isolated economies" are lower than those of so-called civilized economies. "Yet for many of them [socalled uncivilized economies] the proportion of energy, skill, and mental activity devoted to non-economic aims was much greater than it is with us [socalled civilized economies]." Hence, for primitive economies high economic productivity suggests that efforts are best used in their non-economic alternatives. In such cases surplus accumulation and/or decumulation does not require economic incentives as "the economic life [is] thus organized around non-economic purposes" (p. 26).

Because economic activities really depend on non-economic activities, it means that people need another layer of social economic organization more global than the individual and more local than society. One of the first systematic studies of such an organization is Max Weber's *Theory of Social and Economic Organization* (1920). But beyond academic circles Weber's theory did not take off immediately for good reasons. One reason may be because it was written in German, which is not as common a language internationally as English. Another is that Gerth and Mills (1958),[20] and James Coleman (1990) characterize the Weberian organization as a "hierarchical bureaucracy," which generally alienates social actions from the social actors who produce them. In this way Weber's social and economic organization behaves like military institutions.[21] Coleman finds Weber's hierarchy particularly in error for ignoring that "the persons who are employed to fill the positions in the organization [the bureaucrats themselves] are purposive actors as well" (p. 423).[22] From what I understood listening to the 2009 Nobel Lectures in Economic Sciences, the winners Oliver Williamson and Olinor Ostrom have sought to clarify conceptual as well as practical issues in organizational theory, such as Weber's blindspot.[23] I say no more on that, taking comfort in the supposition that the standard characterization of social economic organization in Business, Finance, and Economics has followed Frank Knight (1933). The supposition is not unreasonable since Knight was himself a keen student of Weber having translated *The General Economic History* (1946).

According to Knight the definition of economics found in textbooks “falls into [the] error of including virtually all intelligent behavior” (p. 4). Moreover, Knight still “sees clearly that life must be more than economics, or rational conduct, or the intelligent accurate manipulation of materials and use of power in advancing results, [for] such a view is too narrow” (p. 4). Moreover, “living is an art; and art is more than a matter of a scientific technique, and the richness and value of life are largely bound up in the ‘more’.” Thus, “civilization should look forward to a day when the material production of industrial activity should become rather its by-product, and its primary significance shall be that of a sphere for creative self-expression and the development of a higher type of individual and of human fellowship” (p. 4). In this case “economics deals with the social organization of economic activity” (p. 5), and economic optimization for its own sake does not mean much to Knight!

A Knightian social economic organization is present when *different activities* are carried out in a *coordinated way* for a *common purpose* (cf. p. 5). Such an organization would exist for the five distinct reasons. The functions are carried out because of the gains from specialization they provide. Resource scarcity compels choice, but where there are gains there are also social costs of specialization, technical costs of organization, and unavoidable costs of interdependence. To illustrate this point, Knight gives different types of organization, one of which is “the authoritarian or militaristic system” (p. 16). Thus, a Weberian organization is a special case of a Knightian organization.

What regulates the organization as a whole, and/or its parts? Economic orthodoxy would say *only the price system*. This is the standard answer in which economic agents respond to incentives via the forces of demand and supply through either factor and/or product markets. Again the answer presumes that all social agents are economic agents and that they all pursue economic objectives all the time.[24] Such a control mechanism, while not entirely false, is unacceptable even to Knight. By including J. Kornai (1981) I am suggesting that prices are value judgments that index norms, such that we can think of economic behavior and organization as controlled by norms. Norms are anthropological expressions of culture.

There is no doubt that economic behavior and organization are dynamic systems. The works of Oliver Williamson and Olinor Ostrom, which the Nobel Prize Committee recognized this year (2009), describe the complexities of such systems. But long before Williamson and Ostrom, J. Kornai “developed [non-price] models for decentralized economic control by means of norms” (p.26), where a norm “is nothing else but the statistical average of the actual behavior” (p. 27). In other words, a norm is “the typical value of any of the economic system’s behavioral variables, representing an average social practice” (p. 114). Norms regulate the behavior of production organizations, for instance, and control by norms emphasizes the regularity and social-necessity of the system’s behavior rather than its individual optimality. “Norming” behavior does not require a steady state to obtain, only that movement is toward a “normal state” or is in a “normal path.” In this way “one could characterize change in a system over time in terms of change in norms” (p. 115).

3. Conclusion

The idea of this paper can be summarized as an interrelation between anthropological bases as articulated by Malinowski and Herskovits and economic behavior and organization as described by W. Arthur Lewis, Joan Robinson, and Frank Knight, and how norms control this interrelation according to Janos Kornai. From this discussion one may conclude that the failure of the economics profession, perhaps a large part of it, in predicting the Great Recession of 2007-2010 can be attributed to disciplinary self-absorption. The belief in the invincibility of markets on the basis of a further belief that society depends entirely on the behavior of atomistic economic agents all pursuing their self-interests simultaneously all the time is held firmly by some economists. The danger this time was that the "some" were either actual policy-makers or those entrusted with raising future policy-makers. Real life is neither as simple nor as economic. In fact, and for much of human history and anthropology, non-economic factors and forces have driven economic activities.

From the anthropological viewpoint, non-economic variables like culture govern most economic behavior and organization. This is not a new rationalization. What is troubling is that the mathematical arrogance of some economists, and the unquestioning positivism and scientificism of some modern economics continue to blind even the best students of the profession. In that respect *Selected Readings* provides an opportunity for reinforced focus on economics principles. Hence, another conclusion is that alone economics has a future only as fiction. As serious non-fiction, economics cannot successfully divorce itself from its elemental foundations in the social sciences. To advance its theory in the past economics needed to borrow from mathematics and physics. Such learning must continue. However, to remain policy-relevant economics cannot wish away the very social bases upon which it is founded. Without social foundations one might as well kiss economics goodbye. I am convinced very few economists would want that to happen.

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Endnotes

[1] Amavilah is also an adjunct instructor of economics at Glendale College, Glendale, AZ, USA.

[2]Paul Krugman, "How did economists get it so wrong?" New York Times, September 6, 2009.

[3] C. Wheelan in *Naked Economics* (2002), W.W. Norton and Company is an example. Burton G. Malkiel has made a good living in talking up only the virtues of market efficiency, see "The efficient market hypothesis and its critics," *Journal of Economic Perspectives*, Vol. 17. No. 1, 2003, pp. 59-82, and "Reflections on the efficient market hypothesis: 30 years later." *Financial Review*, Vol. 40, 2005, pp. 1-9. Compare Malkiel to Robert Shiller's "From efficient markets to theory of behavioral finance, same journal, volume, and number, year, pp. 83-104.

[4] *This manuscript is currently in the market looking for a publisher.*

[5] Charles Mackay, *Extraordinary Popular Delusions and the Madness of Crowds*, L.C. Page and Company, USA, 1841 [1932].

[6] Here I use the word *primitive* to simply mean *early* as in primitive people are people from early times. It should not be taken to mean bad people, even if when these books were written that may have been the intention. I am aware that some have said that Malinowski, for example, was

a racist; I am neither interested nor qualified to discuss such matters. Where necessary I deleted all kinds of insults that would take attention away from the ideas I want others to hear. If I fail to purge the texts of everything indecent, the reader must understand that both my failure to do so and the indecency that remain are legitimate parts of the economics and anthropology of being human.

[7] I am referring to Malinowski's book *The Dynamics of Culture Change: An Inquiry into Race Relations in Africa*, Yale University Press, New Haven, 1945.

[8] Here are some early basic references: Leslie A. White with Beth Dillingham, *The Concept of Culture*, Burgess Publishing Company, Minneapolis, 1973, and Leslie A. White, *The Evolution of Culture: The Development of Civilization to the Fall of Rome*, McGraw-Hill Book Company, New York, 1959.

[9] Words in […] are the editor's, inserted to clarify the context. Whenever and if ever they create any ambiguity, they should be disregarded. Also any appearance of dot-dot-dot (…) means some words or passages were left out because they neither add to nor subtract from the meaning of the ideas presented.

[10] Here the editor is avoiding the words "objective" and "subjective".

[11] *Foundations of Social Theory*, The Belkamp Press of Harvard University Press, Parts II, IV, and V.

[12] see http://fora.tv/2009/05/18/Paul_Romer_A_Theory_of_History_with_an_Application, and "Technologies, rules, and progress," at www.cgdev.org/content/publications/detail/1423516, 2010.

[13] See Paul Romer, "Which parts of globalization matter for catch-up growth?" NBER Working Paper 15755, February 2010.

[14] My interpretation of Romer in this connection is that human progress is a function of objects, ideas, and the intra-actions and interactions among objects and ideas, see, e.g., VHS Amavilah (2005a) Resource intra-actions and interactions: Implications for technological change and economic growth, Working Paper 2005(3). Available at: http://129.3.20.41/eps/ge/papers/0508/0508004.pdf. Compare that to Romer, PM (1990) Endogenous technological change, Journal of political economy, 98(5): S71-S102.

[15] My favorite works of Simon are *Reason in Human Affairs* (1983), Stanford University Press, *The Sciences of the Artificial* (1969), MIT Press , *An Empirically Based Microeconomics* (1997) Cambridge University Press, and 'Theories of Bounded Rationality,' In: C.B. McGuire and ROY Radner (eds), *Decision and Organization*, North-Holland Publishing Company (1972), pp. 1161-76

[16] At http://krugman.blogs.nytimes.com/ google search "economics failure to predict recession." Another worthwhile reading is *The Great Financial Crisis: Causes and Consequences*, by J.B. Foster and F. Magdoff. Monthly Review Press, 2009. Here the causes of the crisis are household

debt, speculation, monopolization of capital finance, and "financialization of capitalism." The consequences are now common sense.

17

Robert A. Mundell, *Man and Economics*, McGraw-Hill Company, New York, 1968.

18

W.A. Lewis "Economic development with unlimited supplies of labor, *Manchester School of Economic and Social Studies*, Vol. 22, No.2 1954, pp. 139-91.

19

"Idea gaps and object gaps in economic development," Journal of Monetary Economics, Elsevier, vol. 32(3), pp. 543-573.

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H.H. Gerth and C.W. Mills (1958) *From Max Weber: Essays in Sociology*, Oxford University Press.

21

This is consistent with German historical economics. In Karl Marx capital alienates workers from the fruits of their labor, and the consequence is an inherent contradiction between capital and labor – the seeds of a revolution.

22

James S. Coleman *Foundations of Social Theory*, Belknap Press of Harvard University Press, Cambridge (MA), 1990.

23

I was not aware of Professor Ostrom's work although I just discovered I own her book *Governing the Commons: The Evolution of Institutions for Collective Action*. What I know about her work comes from listening to her Nobel Lecture, see http://nobelprize.org/mediaplayer/index.php?id=1223. Professor Williamson's work is more common and his Nobel Lecture is a nice summary, see http://nobelprize.org/mediaplayer/index.php?id=1225.

24

Obviously this misplaces emphasis as evident from reading H. K. Schneider's *Economic Man: Anthropology of Economics*, Sheffield Publishing Company, 1989.