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*Foundations of
Economic Anthropology*

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Technische Universität
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 Westview Press
A Division of HarperCollins Publishers

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Self-Interest and Neoclassical Microeconomics

“From now on, I’m thinking only of me.”

Major Danby replied indulgently with a superior smile: “But Yossarian, suppose everyone felt that way.”

“Then,” said Yossarian, “I’d certainly be a damn fool to feel any other way, wouldn’t I?”

—Joseph Heller, *Catch-22*

If all the economists in the world were to be laid end to end, they would not reach a conclusion.

—George Bernard Shaw

The History of Self-Interest

The individual human being has a special place in Western philosophy, theology, and politics. Since the Enlightenment, Western ideas about society have been cast largely in terms of individual rights and freedoms, elevating autonomy to a virtue, in opposition to the bonds and chains of tyranny and irrational superstition.¹ It should be no surprise, then, that Western economic thought also starts with the individual and tries to understand the whole of work, trade, and money by analyzing the behavior of the single human being. I label this approach *selfish* only because it begins with the individual “self,” not because it always assumes that human beings act selfishly. On the contrary, most modern economists portray human beings as essentially ra-

tional and intelligent, and they specifically want to avoid the kind of value judgments about morality and motives that are implied when we use a term like “selfish” to describe someone’s behavior.

This chapter outlines the intellectual history of the effort to build economics starting from the rational individual. The goal is to give a fair and balanced view of the dominant perspective in modern Western economics, to explain some of its results and conclusions, and to question why it has achieved such wide acceptance and power in the world. I include in the chapter some discussion of the internal criticism of Western economics by people seeking to qualify, modify, or improve its approach. But the more fundamental challenge is posed by the possibility of building economics on some other foundation than individual rational behavior, and these alternatives are treated in later chapters.

Adam Smith

In the Middle Ages, economic philosophy was inextricably tied to the moral theology of Catholicism—the concept of moral values based on God’s law as opposed to earthly value. *Just* prices and *just* wages based on moral precepts were contrasted with unjust profits and usury.² As the amount of trade and the importance of economic activity to state revenues increased dramatically in the fifteenth and sixteenth centuries, scholars began to seek principles and laws to guide public practice. Their most urgent problems revolved around national finances, trade, and the regulation of money. Rulers and administrators needed to know how to set tariffs, raise revenues, and deal with shortages of goods, food, and cash.

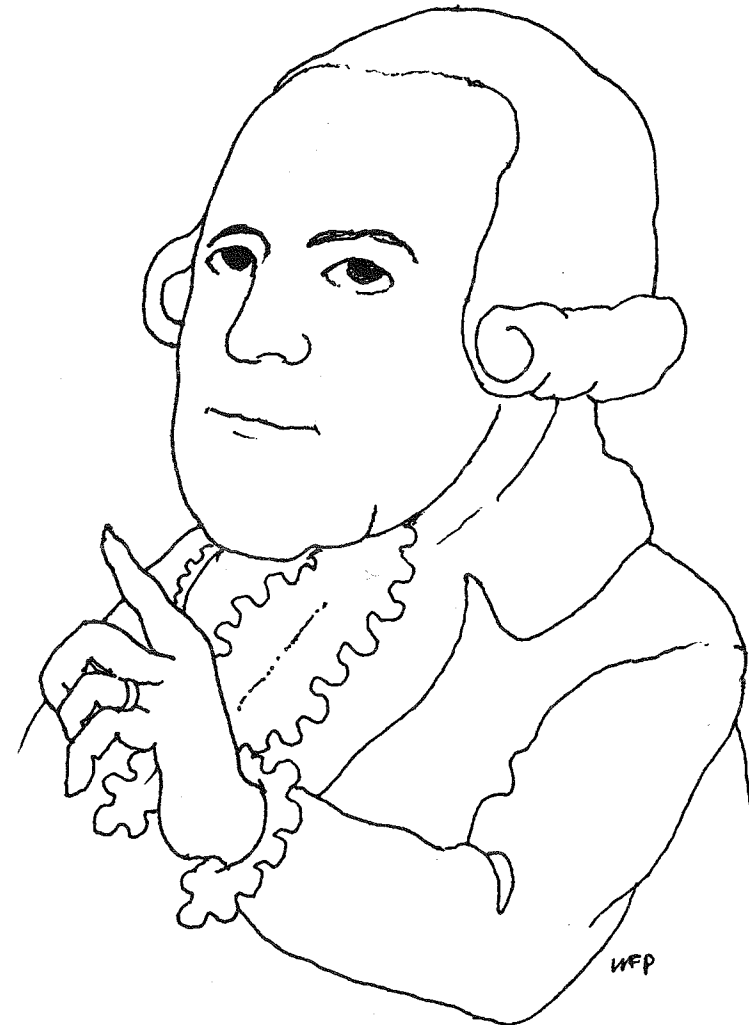
In this setting, what we now recognize as macroeconomics began as a discussion of mercantile issues, part of the rapid expansion of the West into Asia and the New World. Economic philosophers asked what was good for the nation, reflected on whether the national good was aligned with or opposed to the interests of individuals, and pondered how much the state should intervene in economic affairs.

Seeking mechanical *natural laws* of economics on a par with physical laws, Sir Dudley North (1641–1691) argued that left to itself, trade would follow mathematical laws—and government regulation would only interfere with a self-regulating system. Others, like Sir William Petty (1623–1687)—who invented national economic statistics—favored government intervention and regulation. These economists felt that the government, for example, must keep gold in the country, because gold is wealth, so the state must encourage exports and discourage imports, look for raw materials, and set up foreign trade outposts.³

The notion of natural economic laws arose not as a philosophical speculation about human nature but as part of a complex debate about government

policy, during the 1600s and 1700s, a period of mercantile expansionism and growth in the institutions of the nation-state. Issues of trade and money were pulled away from theology as a practical matter, in the name of national interests. This allowed, for the first time, an abstract and philosophical discussion of *value* as separate from *morality*, a crucial step in the development of economics.

The real start of modern Western economics as a discipline is usually traced to Adam Smith (1723–1790). Beginning as a moral philosopher con-



Adam Smith

cerned with human motives, Smith later wrote *The Wealth of Nations* in 1776 as a series of lectures on public policy. The task he set for himself was that of a natural scientist, to discover the workings of a vast machine—the economy. His book deals with the division of labor as a vehicle of progress, the role of money, taxes, wages, profits, trade, and the health of the national economy. He built a structure of logic, founded ultimately on a theory of value, leading to strong arguments against the intervention of the state in economic affairs.

The fundamental problem faced by early economists was to find some measure of value that did not make recourse to religion. To build an empirical science, they had to find some way to define “good” in a secular way, without reference to scripture or divine judgment; this was the central goal of Adam Smith’s earlier *The Theory of Moral Sentiments* (1759). Economic philosophers needed a yardstick that was not blessed by God, because they were seeking rational science rather than theology. Smith’s argument about value is therefore crucially important and is worth tracing in more detail.

In *The Wealth of Nations*, he first asserts that value cannot be measured by money, because sometimes money is artificially scarce (a shortage of coins was a common problem in his times). Value is also not the same as utility or usefulness, as is shown by the comparison of water (useful, low value) and diamonds (useless, high value). Therefore, because all labor is of equal value to the worker, labor is the best measure of value. The real or natural value of a good is the amount of labor it takes to produce it. Smith used contrasts between primitives and moderns to get at this natural scale of values. Among North American Indians, he said, beavers were traded for deer in a rate corresponding to the amount of time it took to hunt them. In this imaginary primitive “rude” society, all labor has the same value, labor is the only factor of production, and all resources are equally available.

In contrast, in “civilized” society, values are determined by exchange, not by production. Value is thus determined by the amount of supply (though not by the demand) and by disutility, or the amount of work a person can save by trading for something instead of making it. Rents and profits become part of the value of things, because they represent the cost of land, tools, and property necessary for production. Smith therefore has two theories of value, one rooted in the individual (labor) and one in society (exchange). He never quite solves the problem of linking together the two sorts of value (Gudeman 1978, 352–353), but he makes a clear statement of priority by identifying the value of an individual’s labor as “natural.”

Using his theory of value, Smith tries to reason out answers to pressing social and political problems and issues of the day through logic and empirical observation. His goal is to understand how the economy can work to make prices reflect natural values so that workers are justly compensated for their labors. And he wants to show how, at the same time, this can lead to the

generation of wealth, in the form of productive resources, property, factories, and the like, that will build a powerful nation. His answer is the mechanism of the market, which acts like an “invisible hand” to bring prices and values together and to provide at the same time the rents and profits that make the accumulation of wealth possible.

People participate in this open market because of their own self-interested desire to get the best return for their labor by selling at the highest price. But they also exchange because of an inborn human nature to “truck, barter, and exchange one thing for another” (1937, 13). They do not stop exchanging when they have simply fed and clothed themselves. People also seek to accumulate riches because of their vanity and desire to be admired (to share in the positive sympathetic feelings of others) and also because people “naturally” love order, harmony, and design. They seek wealth because it satisfies their “love of system, the . . . beauty of order, of art and contrivance” (1966, 265, Myers 1983, 112–117). Smith’s human being is selfish because of essentially positive natural impulses to make order in the world. These desires need to be cultivated through education and civilization and are hindered and restrained by politics, corruption, guilds, corporations, and organized religion, to the detriment of society as a whole (McGraw 1992).

From this philosophical foundation, Smith builds a powerful argument that the individual’s self-interest generates the society’s best interests. The more competition, the more production, exchange, and accumulation. Each person’s struggle to get the most value balances everyone else’s. Competition keeps down prices, costs of production, profits, and interest rates, and it controls the abuses of monopolies. When governments and guilds and other organizations intervene to regulate and control prices, trade, and markets, they impede the working of the marketplace and retard the greater good. The key element of Smith’s argument is that human individual self-interest, working through the market system, produces the greatest possible good for the nation as a whole. In this calculus, there is no essential or inherent natural conflict between the individual’s and society’s best interests, as long as free individuals are educated and enlightened to act in rational ways.

The effect of Smith’s calculus is to move moral issues (What is fair? How should government promote common welfare?) into the realm of logic, rationality, education, and science. Beginning with a rational individual motivated by positive natural impulses, he undertakes a series of dramatic political attacks on monopolists, corrupt governments, tariffs promoted by strong business lobbyists, guilds, colonialists, and “the capricious ambitions of kings and ministers” (1937, 460).

In Smith’s economics, the central problem is the relationship of the individual to society. His theory was suited to a time when there was a huge growth in trade, a long series of wars over trade routes and the sources of raw material, and an active debate about the role of the government in peo-

ple's lives. The degree of official intervention in the European economy during his lifetime would shock most people today. In France, for example, a huge and corrupt bureaucracy set prices for almost all goods, charged multiple tolls and tariffs on even short journeys, and required a license or concession (and usually a bribe) for every industry, from those that made pins to people hunting truffles.⁴ But Smith also lived before the worst consequences of industrial capitalism and colonialism were inflicted on millions of people in factories and fields, so he never saw mass suffering or poverty being justified in terms of the "free market."

Smith is an enduring figure because the same public issues and problems are still with us, and the debates that he opened are still going on. The clear linkage that Smith established between self-interested human nature and the conduct of public economic life is still the basis of the discipline of economics, even as Smith's successors have drawn the discipline further away from issues of morality, following his lead in their efforts to create a "calculus of fact." As we shall see below, despite the best efforts of economists, those same issues of morality and human motivations keep popping up everywhere.

The Foundations of Modern Economics

After Adam Smith, the next great ancestor figure of economics was David Ricardo, a successful British financier and member of Parliament (1772–1823). He continued to place the concept of value at the foundation of economics. Value was the "atom" in a Newtonian-style system of economic mechanics. The pillars that he built upon that foundation are a series of assumptions, the basis of an economic universe in which human actions can be predicted. These are the basic rules within which all economic behavior takes place: We assume that (1) most property is privately owned, (2) labor time is the ultimate source of value, (3) economic actors have freedom of choice, (4) the economic human is a rational maximizer of economic gain (the utilitarian principle), and (5) all things being equal equilibrium is the natural state of the economy. Equilibrium is a key concept in Ricardian economics, for it represents an ideal state of balance between supply and demand, values and prices, input and output. Equilibrium is the "natural" state of an economy that is allowed to operate without interference. The idea of equilibrium rests ultimately on the belief that there are natural laws of the economy that are just like the natural laws of physics.

Ricardo saw all these assumptions as "natural" states of being (not descriptions of the real world) and viewed his deductions as scientific statements of mechanical laws, but we can see his axioms as social philosophy. They describe a set of values about the way things should be. But by stating these principles as plausible lawlike generalities of human behavior, Ricardo

tucked the moral philosophy away under the cover of fact. The question was no longer, "what is human nature?" Now it was, "making these assumptions about human nature, can we make some accurate predictions and guide policy?" And certainly, his work on the laws of wages and on comparative advantage in international trade proved extremely useful in understanding economic history and changes in prices over time.⁵

The economic historian Karl Priban (1983, 593) said that the fact that Ricardo invented a theory of economic equilibrium during the incredible dislocations of the Industrial Revolution proves that "the development of economic reasoning is to a high degree independent of the actual course of economic events." Perhaps. But it is also possible that Ricardo's theories were a very direct reaction to the world but that he sought a theory of order and equilibrium as a form of consolation and a source of hope in turbulent times. It may be that theories of reason and order are most needed in times of upheaval.

Thomas Robert Malthus (1766–1834) was a friend of Ricardo's, and he applied the economic calculus to a different problem, that of the balance of population and resources. In his *Essay on Population* (1798), he wrote that war, famine, and disease were the product of geometric population growth overshooting arithmetic growth in food resources. War, sickness, and starvation would therefore level off the population, producing a kind of equilibrium. Here again is a model based on human rationality, on a utilitarian assumption that people will keep having more children because it is to their own benefit, though it hurts society as a whole. Reasoning mathematically from these first premises reveals a "natural" equilibrium. The goal is to find natural order beneath the chaos of human history.

Older histories of economics often make the direction set by Ricardo toward a deductive scientific economics based on the utilitarian mechanism seem inevitable. They present only a logical progression of ideas toward perfection through the scientific method. But more recent histories of science point to the ways in which economics was very much a product of its times and of dominant Western culture.⁶ Even within the European traditions, there were other kinds of economics.

One of the most vibrant alternative approaches was offered by the German economist, whom Priban called "intuitional economists." He accused the Germans of mixing all kinds of nationalism, evolutionism, spiritualism, and eventually racism into their discussion of the economy. The moral seems to be that if we stray from the strict science of Ricardo, we end up on a dark slide downward into magic and evil. In a more subtle and sympathetic reading of the German tradition, Joel Kahn (1990) has argued that these nineteenth-century historical economists were the intellectual ancestors of modern interpretive anthropology. Some of the German historicists, such as William Roscher, thought that all people had *two* basic instincts, one self-

interested and the other moral and ethical. Others, for instance, Karl Bücher and Friedrich List, thought human beings had no innate nature, that they were products of their particular historical and national contexts. They emphasized understanding economic behavior within the social fabric of each particular setting and built historical and evolutionary typologies. In general, they were much more sympathetic to government intervention in economic affairs than the British, for they had little faith in the wisdom of industrialists and capitalists who were out to pursue their own interests.

While Smith and Ricardo were “boosters” for industry and trade, the German historicists were more conservative and liked to think back to an idealized economy based on agriculture, in an era of peace and stability (that was largely imaginary). Like Malinowski, their critique of utilitarianism was grounded in a dislike of capitalism, commercialism, and consumerism; instead, they loved the peasantry, the old traditional moral values, and the little community. They idealized *national spirit* and argued that economics was only a reflection of the folk tradition of the fatherland. It is not too great a leap to find some of the intellectual roots of Nazism in their mystification of an “essence” in national identity. The other major alternative to Adam Smith’s utilitarianism also grew out of this German romantic tradition: Marxism. We will follow this trail in the next chapter. For now, we need to build up a clearer conception of classical microeconomics as it has descended to us from Ricardo.

Neoclassical Microeconomics

Modern economics is conventionally divided into two parts: *microeconomics* and *macroeconomics*. Macroeconomics looks at whole economic systems—conventionally the nation-state, but more recently the world economy. It is concerned with modeling those systems in ways that will account for historical relationships between variables (rates of taxation and rates of inflation, for example) in order to develop advice for those whose hands are actually on the levers that run the machine. Macroeconomists are in the business of telling politicians, for example, “if you raise military spending by 20 billion dollars, it will decrease unemployment by 2 percent.” The main tool of macroeconomics has been the increasingly elaborate formal mathematical modeling called *econometrics*.

Macroeconomists divide the economy into sectors—usually households, businesses, and government—make generalizations about how each one acts when variables change, and then draw flows between them, trying at each step to simplify, so the model doesn’t turn into one huge tangle of spaghetti. More recently, econometricians have built huge computer models of national economies that can keep track of all the spaghetti.

Microeconomists are concerned with the internal mechanics of the little boxes that the microeconomists create in their models (e.g., “the firm,” “the household”) and with the operations of the markets that link the boxes together. Their main paradigm, which is based on Ricardo’s utilitarian precepts and uses formal mathematical tools, is often called *neoclassical economics*. Their basic approach is to look at decisions made under rigidly specified conditions, decisions about how to allocate labor in production and money in consumption, with the goal of predicting scarcity, prices, demand, and the cost and output of labor.

Economic Language

The idea of a *model* is essential for understanding modern academic economics. The idea is to simplify the operation of the real world, taking away the random, complicating, or unique variables, in order to build a mathematical representation that still behaves like the real world. Simplifying assumptions (“assume that all consumers know the prices of all the products in the market”) helps in the initial model building, with the idea that complications can be reintroduced once the basic relationships become clear. This is something like the way engineers might build a computer model of how water flows over a riverbed. They start with simple formulas with a single velocity and a straight river, then gradually add more complicated formulas to try to account for bends and obstructions.

Economics as a discipline is defined partially by the language it uses to build these models. Here we will only cover some very basic terms, but it is important to recognize that relationships and predictions within microeconomics can be expressed in any of four sets of metaphors:

1. Verbal language: “A decrease in the price of a product will lead to an increase in the quantity purchased.”
2. Arithmetic: a table with two columns showing how much gas will be consumed at each price.
3. Geometry: a graph showing a demand curve, linking the points specified in the arithmetic table (this is the favorite means of exposition in microeconomics).
4. Algebraic expression: a function written to describe the geometric curve.

These metaphors are progressively more abstract, in the sense that they become less intelligible to a layperson moving down the list. However, the more abstract the concept, the greater the precision. Whereas an arithmetic table is usually produced from empirical observations of the world, geomet-

ric and algebraic expressions allow *extrapolation*, that is, a specified curve or line on a graph includes an infinite number of points that have *not* been observed. The combination of different geometric expressions has proven an especially powerful tool in building dynamic predictive models of behavior. A key problem in microeconomics is the reification of models; it is easy to begin treating curves and lines on graphs as if they were real, instead of being abstract representations that are full of assumptions.

Utility, Indifference, and Supply and Demand

Economics is an immensely influential and powerful discipline; when journalists or politicians want to know what will happen to the country next year or when they want to know the impact of a new law or policy, they will almost always call on an economist. This prominence is not simply because of economists' rhetoric or political influence. Rather, economics has sometimes been capable of providing practical guidelines and advice for decision-making that appears well grounded and justified. If you want to know what will happen to cattle prices during a famine in Ethiopia, how rising school fees will change Thai fertility rates, or why corn prices fluctuate in Guatemalan markets, the formal tools of microeconomics are often a good starting point, and they are often the only objective modeling methods available. If nothing else, they can provide a set of baselines, grounded in explicit assumptions. Then, if and when our predictions fail, we can better ask which of our assumptions is wrong, or we can ask what variables have been left out. Before we set about criticizing microeconomics, we should investigate how economists understand human nature and decisions.⁷

In trying to work from a set of scientific laws about individual behavior in order to establish the laws of motion for entire world economies, economists have built several distinct bodies of theory. Microeconomics begins with the theory of demand, grounded in the utilitarian assumption that each human being is a rational maximizer who seeks the optimum amount of satisfaction. Most economists make the simplifying ethnocentric assumption that the consuming sector of society is composed of households, each of which has a pooled bundle of resources to spend in the marketplace. Microeconomics also provides a model of production, grounded in the theory of the firm. Each firm seeks to allocate its resources most efficiently to create products, with the goal of maximizing profits. Production and consumption come together in the theory of markets, which is concerned with the regulation of prices and values and the circulation of goods. Beginning with a market where producing firms meet consuming households, macroeconomics then adds other institutions and traces flows of money and the effects of economic policies on the state of the system.

The theory of demand is the area where anthropology and economics intersect most closely, though in later chapters we will also look at anthropological theories of exchange and production. The theory of demand concerns the choices you make between options in a situation where the things you want and the things you have are scarce. The problem is to maximize your subjective satisfaction or well-being, what economists call your *utility*. Utility is simply satisfaction gained through consumption; its opposite is "disutility," or the dissatisfaction of unpleasant work. Utility is not an objectively measurable quantity, but it can be measured relatively in the form of rankings: You are assumed to have stable preferences for one thing over another, and these ordered preferences can be converted mathematically into a "utility function" that assigns a higher number to the options that rank higher.⁸

Maximizing in this way requires two sets of balances, between alternate ends and alternate means. The theory assumes that there is perfect competition and substitutability: Your choice between goods is free, and your means can be used to achieve any of the alternate ends. Utility can be provided by any of the possible ends or goods, in different quantities and combinations. Traditionally, this is taught with the examples of money as the means and goods as the ends, using the model of a shopping trip. But the same model can be applied to anything you want and anything you have to give up to get it—say giving up free time to study to get better grades or giving deference and "kissing up" to a superior in order to get a raise.

As soon as we accept that there are things that we want that can be ranked against each other, we have to add that when we do get what we want, we don't keep wanting it as much. In other words, satiation is possible, and this is formalized under the term "diminishing marginal utility." As you get more of something you value, each additional increment (the additions are said to be "on the margin") provides you with less *marginal* utility.

As you consume a good and its utility decreases, you begin to think of consuming something else instead, something that you originally valued less highly than the first good. Economic theory says that for any combination of goods there will be *substitutability* in maximizing total utility. Let's say we have two goods, shorts and T-shirts. Suppose you have no strong preference for one over the other, and in fact you would be just as happy with one pair of shorts and five T-shirts as you would be with five pairs of shorts and one T-shirt. Figure 3.1 shows a *straight indifference curve* that describes this situation. We have defined one person's preference in terms of the substitutability of the two goods, that is, a set of combinations, each of which produces the same total utility.

In reality, few pairs of goods have perfect substitutability because goods usually differ in their basic characteristics. Shorts don't substitute for T-shirts in most social situations! This calls for a notion of the *diminishing rate*

of marginal substitution (Figure 3.2). In the middle of the curve, one T-shirt can substitute for one pair of shorts, but when we get toward zero pairs of shorts, twenty T-shirts may not substitute for a single one. This curve is therefore concave. As you get enough shorts, your need for shorts decreases and you are willing to substitute more T-shirts for each additional pair of shorts you give up. The idea here follows simple common sense: You will be more willing to substitute something else for a good that you have more of. As you satisfy urgent needs, you will begin to want other things more.

Indifference curves are useful because they can help predict how people actually behave. In a marketplace, the *price* of goods is independent of an individual's preference, so the cost or budget line is always a straight line.

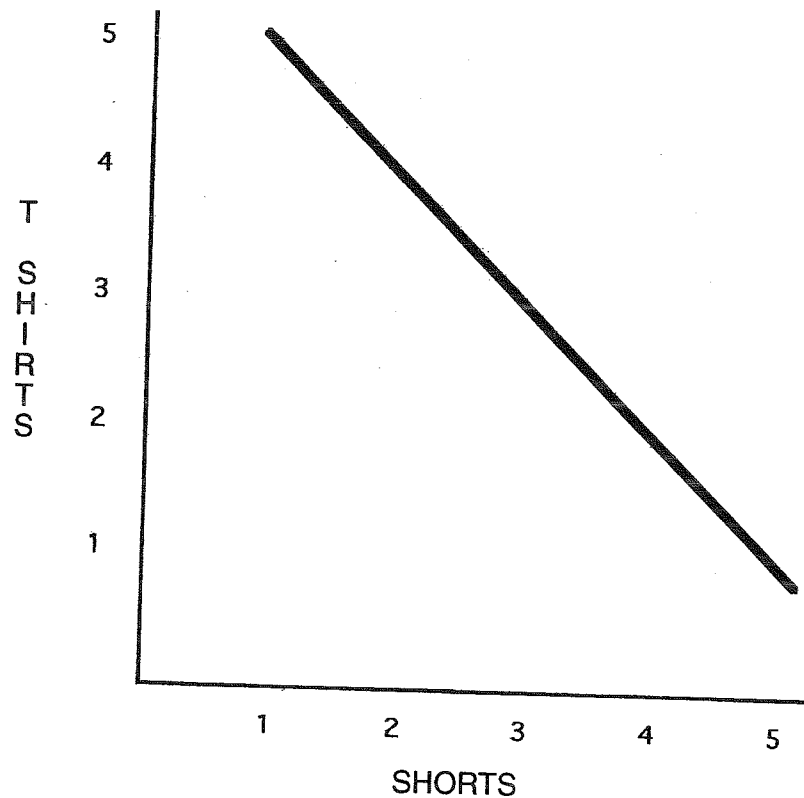


FIGURE 3.1 A straight indifference curve. The curve connects all possible combinations of two goods that give a consumer equal satisfaction. Any point above and to the right is preferred to any point on the curve.

There is a fixed combination of two goods that you can buy with a set amount of money (Figure 3.3). If T-shirts and shorts cost the same, the relationship will be plotted as a 45-degree diagonal line. The theory says that the *rational* consumer, not knowing the calculus, will still always choose the combination of the two goods that lies at A. The consumer *could* buy six pairs of shorts and no T-shirt or six T-shirts and no shorts, but given the indifference curve, the rational thing is to buy three of each.

Microeconomic analysis of demand can characterize individual consumers or groups of consumers on the basis of their different indifference curves, in order to predict how they will behave under changing parameters (e.g., the budget line). For example, what will happen if Fred's desire for shorts in-

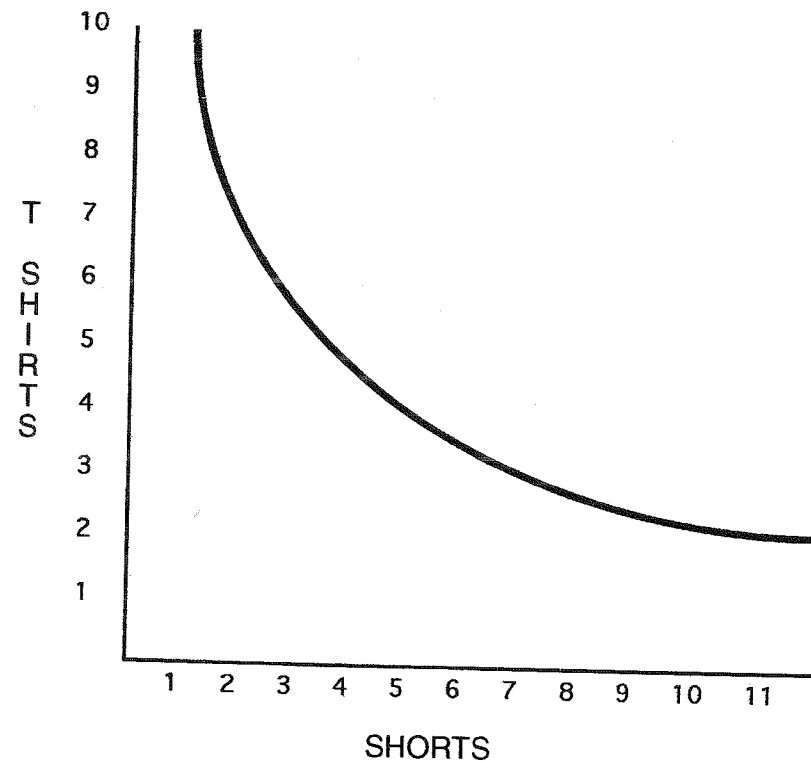


FIGURE 3.2 A concave indifference curve. The diminishing rate of marginal substitution reflects the fact that as consumers get more shirts, they are more willing to give up shirts for shorts. All the points on the curve provide the same level of satisfaction.

creases when shorts come into fashion and T-shirts go out? Before microeconomics, the commonsense answer was that he would stop buying T-shirts and spend *all* of his money on shorts, but that is not what happens, either in the model or in reality. He buys more shorts but still buys some shirts, and the change can be accurately predicted.

The Economics of Women, Men, and Work by Francine Blau and Marianne Ferber (1986) is full of examples of how demand analysis can be applied to current social and gender issues. For example, they analyze the tradeoff between home-produced goods and market goods, as part of their analysis of the role of tastes and preferences in determining the household division of

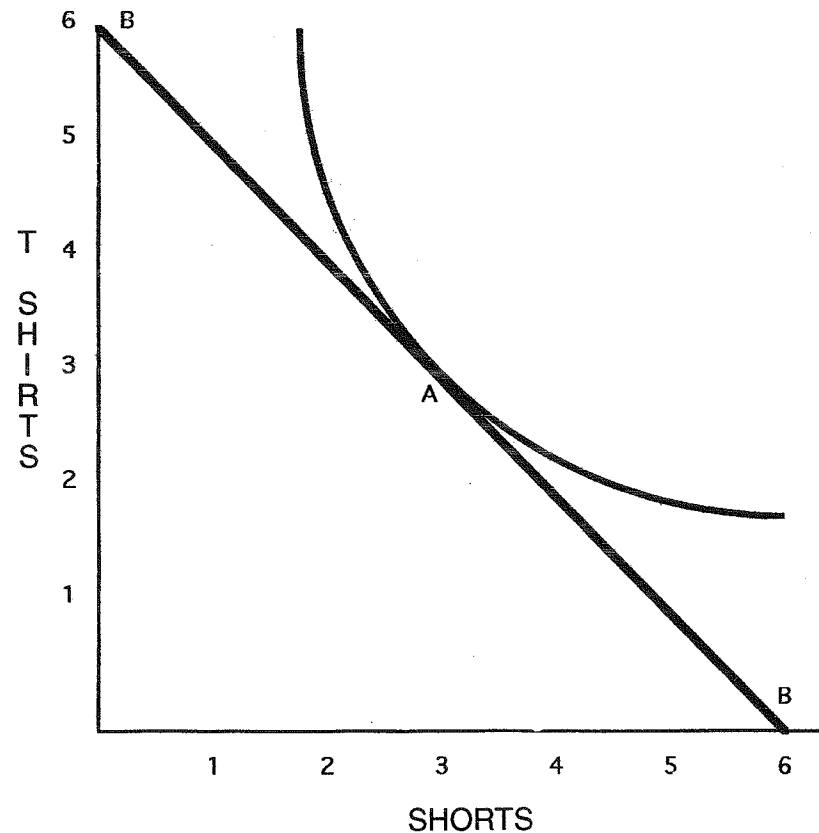


FIGURE 3.3 The addition of a budget line that shows what combinations of the two goods can be bought with the same amount of money. Point A is the highest level of satisfaction that can be obtained with the amount of money represented by the budget line BB, so it is the optimum choice (3 shirts and 3 shorts).

labor. Using a “production possibility curve” that defines all the total combinations of home-produced goods and housework that a couple could generate, they show how couples allocate their time between housework and wage work in order to reach an optimum combination of home-produced and market goods. In the process, Blau and Ferber demonstrate why unequal pay between men and women promotes task specialization in household labor, with men concentrating on wage work and women on housework. They show mathematically how households allocate their labor when wages rise and how government subsidies of child care affect wages and labor force participation.

It is important to remember that although the typical economic example deals with *dollars* and goods, what is really being maximized is *utility* and that means that the methodology can be applied to situations where very immaterial things are being traded off against each other—love and sex, security and excitement. Despite Harold Schneider’s suggestion that microeconomic methods could be used in societies where there is no money (1974, 53–73), this has rarely been pursued by anthropologists, perhaps because it is so difficult to imagine measuring nonmaterial values and utility. But economists don’t demand precise measures of utility for their model building, only rankings.

A major practical use for microeconomic consumer theory is in predicting demand at different prices. If you imagine a whole series of graphs like Figure 3.3 for two alternate goods at different prices for one of the goods, you get a demand curve—the basic tool for answering the most difficult questions in selling: What will happen to demand if I raise the price? Will my profit increase or decrease? This is the basis of market theories of the relationship between supply and demand, the foundation for macroeconomics.

Basic market *equilibrium analysis* is quite simple. Figure 3.4 presents an analysis of how the supply and demand for labor affects wages. The *demand* curve slopes down to the right because as wages decrease, the demand for workers increases (employers will be able to hire more workers and increase their efficiency). The *supply* curve slopes upward because as wages increase, more people will want to work (which has to do with their own indifference curves of labor versus leisure).

The two curves intersect at a theoretical point of equilibrium—where everyone who wants to work at a given wage can get a job—and *demand and supply are equal*. As Blau and Ferber demonstrate in their analysis of the shift from housework to wage work, a change in supply or demand will change the equilibrium—S2 in Figure 3.4 shows a situation where the supply of clerical workers is diminished (because other jobs for women open up), and this shifts the curve to the left, producing a higher equilibrium wage for the remaining clerical workers. The same analysis can also demonstrate why job discrimination against women in the workplace causes men’s wages to rise (1986, 228–279). Their analysis does not presume to explain why there is

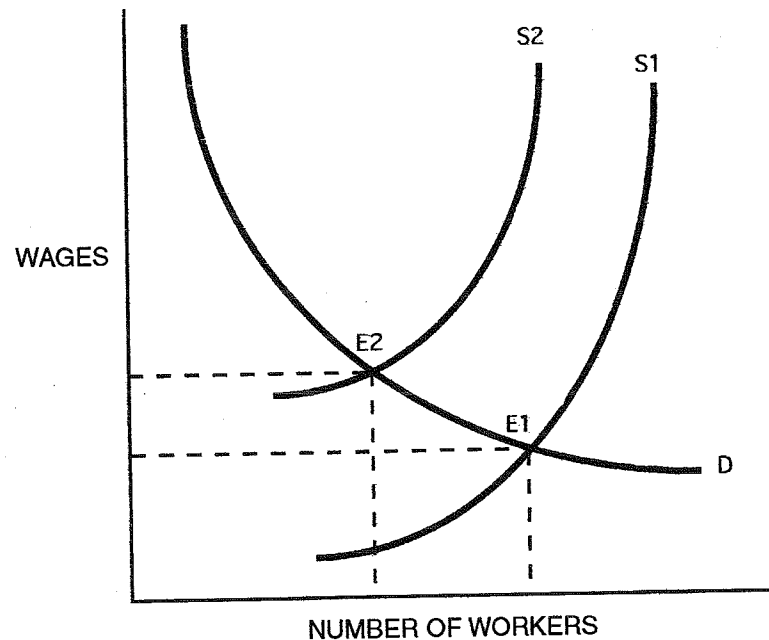


FIGURE 3.4 Supply and demand curves. D, the demand curve, shows that companies will hire more workers as wages fall. The supply curves S show that as wages go up, more workers will want to work and will enter the job market. The intersection of the curves is an equilibrium point where supply and demand are in balance. Where there are fewer total workers in the job market, as in S2, the equilibrium point is higher on the demand curve, and wages will be higher.

unequal pay for men and women in labor markets all over the world, but it does provide an explicit basis for understanding what kinds of economic policies and markets can be expected to reduce labor inequality. And these authors show how supply and demand are logically connected to each other throughout the economy.

Other elements of neoclassical economics have been used by anthropologists or have some potential for further use. I will briefly discuss some of them here and point out some of their assumptions and weaknesses.

Elasticity Analysis

The theory of elasticity proceeds from the observation that demand for some goods is quite flexible, responding readily to changes in price and supply. Demand for other goods is stable, regardless of the marketplace. Con-

sider the demand for sorghum in a West African farm family. The family needs a specific ration of sorghum as a staple food and will work extremely hard, if necessary, to obtain it. Regardless of the price of sorghum in the market or the yield from their farms, the family will consume about the same amount of sorghum per person every year. If there is an exceptionally abundant harvest, however, the family will not consume a great deal more sorghum. Instead the surplus will be stored, sold, or traded for other goods. Demand for sorghum is therefore *inelastic* (if demand does not change at all when price rises or falls, economists say demand is “perfectly inelastic”).

In contrast, in the same West African society, demand for ornamented metal serving bowls varies widely with price and production. In a good year when people have a lot of money, they will buy many. If trade is disrupted, supplies are cut off, and the price of bowls goes up, people will buy very few. Demand for bowls is therefore *elastic* (if demand goes down by the same percentage that prices go up, elasticity is said to be “unitary”).

There is a third special possibility: What if when prices increase, demand increases instead of dropping or staying the same? The idea here is that for some kinds of goods, like Porsches, high price actually makes the good more attractive to consumers. This is called the *Veblen effect* after the economist Thorstein Veblen (1857–1929), who invented the term “conspicuous consumption.”

Economists often assume that elasticities are qualities of goods themselves; demand for food is conventionally inelastic whereas demand for luxury clothing is more elastic. Anthropologists would generally find elasticity more grounded in cultural definitions of necessity and luxury, recognizing that needs have a strong cultural dimension (while remembering that the need for food also has a biological basis). By adding a cultural analysis to the study of demand elasticity, anthropologists make an important contribution to policy analysis.

For example, up until the “oil shocks” of the early 1970s, economists considered the demand for energy in developed countries to be highly inelastic. They planned for continuing major expansion of nuclear power and oil refineries and were taken by surprise by the effects of the OPEC oil embargo on Western economies. Energy demand proved to be much more elastic than it had been before, and when prices rose, demand plummeted, leading to the abandonment of many half-built power plants. Why did consumers suddenly become sensitive to energy prices, and why did energy demand become more elastic? An anthropological study found the changes rooted in environmentalism, political activism, and changing notions of domesticity associated with new gender roles and greater numbers of working women (Wilk and Wilhite 1984). Elasticity provides an important tool for linking the cultural behavior of individuals to flows of goods through the marketplace on a national and global scale.

Production Theory

People almost never work in isolation from each other; productive labor requires cooperation and the division of labor. Microeconomics provides a whole tool kit of concepts and tools for understanding how people combine their labors with goods and resources in order to produce efficiently.

My own work on agricultural production among the Kekchi Maya in Belize (1991) asked how farmers allocate their time among different productive systems and examined the way they use different sized labor groups to perform different tasks. Almost any anthropological study of hunting, gathering, or farming will use some variant of production theory to try to understand how and why people form particular groups and how they allocate resources and labor. Usually when we consider options—for instance, how much they would have to eat or how much money they would make using different systems—we find out that people are making rational choices, maximizing their yields from their labor, within the restraints imposed by their tools and environments (good examples can be found in Fricke 1986; Barlett 1982; Hill 1982; and Johnson 1971).

Two very basic and useful concepts in studies of production are *specialization* and *economies of scale*. Specialization refers to the ability to produce more efficiently by dividing labor among individuals or groups. Marshall Sahlins, for example, showed that farm families on the Pacific island of Moala were able to farm more effectively by sending work groups off to do different jobs in different parts of the island (1957). Because the taro patches were far from the coconut plantations and because some people could climb trees better than others, the whole group benefited by sending specialized teams off to do different jobs.

An economy of scale is the result of finding the optimum number of people to do a particular job. This part of production theory is concerned with the relationship between the size of an enterprise and its efficiency (usually measured in output per person). An economy of scale exists when each percentage of increase in input (labor or money or materials) produces a greater percentage of increase in output.

When the Kekchi Maya build a house, they call together a group of friends and kin to help. A single man alone simply could not build a house because it takes three people to hold beams in place while they are tied together with vines. When it is time to thatch the roof, the minimum number necessary is four—three to stand on the rafters and tie the bundles of palm leaves together and one down below to hand materials up. The efficiency of each person's labor increases with each additional person ("increasing marginal returns" in Figure 3.5); more hands means the work goes much faster. But this does not go on indefinitely. At some point, adding more workers increases the speed of the job, but not in proportion, so that a group of

twenty-five people is only a little faster than twenty (diminishing marginal returns). At a certain point, adding more workers means people get in each other's way; a group of thirty-five has so many people standing around giving orders and suggestions that it actually gets less accomplished than a group of twenty-five (negative marginal returns).

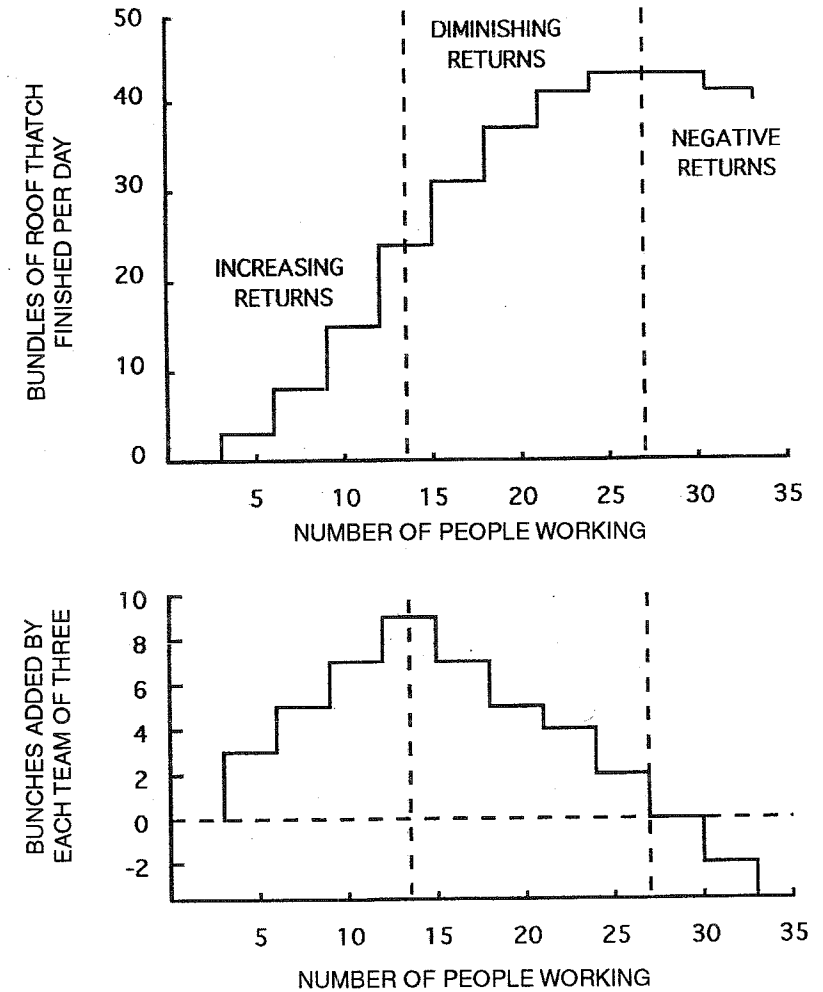


FIGURE 3.5 Economies of scale in thatching a roof. Each additional team of three increases output. The highest output per person is found in a group of 12.

Production theory has proven powerful in explaining differences between productive groups in different settings. James Loucky uses it to show why households are differently constituted in two Guatemalan villages (1979). In a farming village with limited land, households face diminishing marginal returns; they tend to marry late and have few children. In a rope-making community, additional labor increases the efficiency of the household by allowing a more elaborate division of labor. People there marry earlier and have more children.

Production theory is particularly important for anthropologists working with social groups that organize and divide up labor, including households, cooperatives, and some lineages and communities. Few people would argue that these groups are organized *exclusively* to achieve efficiency in production. But if we understand how they could best work together, we are then in a very strong position to identify the political, environmental, social, and cultural pressures and constraints that make people work harder or less efficiently than they otherwise could.

Institutional Economics

Most formal neoclassical economic theory assumes that producers, buyers, and sellers in firms, households, and markets have perfect knowledge of information. In other words, people know what their options are, and they know the outcome of their choices. More advanced models consider the cost of information and the possibility of imperfect knowledge. In particular, the field called *institutional economics* has built a sophisticated analysis of the origin and development of economic and political institutions. Beginning with neoclassical assumptions, institutional economists add the costs of information, the costs of making decisions, and the cost of institutional arrangements, including families, firms, and bureaucracies.⁹ For example, a woman may find that it is economically rational to quit being a housekeeper and go to work outside the household—but the cost of renegotiating her relationships with her children and spouse may be so high that she puts off going out to work until the benefits are more clear-cut. This kind of resistance to institutional change is what economists call “stickiness.” Many institutionalists have also pointed out that when information is hard to come by, there are many reasons for people to stick together and cooperate, even when they may otherwise do better on their own.

For institutional economists, the “transaction costs” of building relationships, changing organizations, and getting information are the key to understanding why people form groups and work together in the real world. This appears to make a space in mainstream economics for the subjects anthropologists so often study—kinship groups, clans, household organization, and political systems. Nevertheless, this often means that economists are

going ahead and reinventing anthropology on their own, without the benefit of careful fieldwork (see, for example, Douglass North’s 1993 Nobel Prize lecture).

Game Theory and Risky Choice

Although formal microeconomics often assumes that people know their options and can anticipate the results of their actions, many of the most important choices that people make are based on imperfect information. In real life, people make choices in different degrees of ignorance or uncertainty. Specialized formal methods have been developed, first in agricultural economics and then elsewhere, for choices made when people do not precisely know the consequences of their actions.

Theorists make an important distinction between *risk*, where an actor knows the rough probability of different outcomes (e.g., a farmer knows that 20 percent of seed sown will not sprout), and *uncertainty*, where the actor does not know the probabilities of possible results. Risk is predictable and quantifiable, whereas uncertainty is unpredictable. Microeconomists have developed a number of formal tools for analyzing choices under different degrees of risk, which often lead them to classify people or cultures as risk takers or risk averse, according to the ways they make their choices (see Ellis 1988, 80–101). Frank Cancian’s study of innovation among Maya farmers is a convincing demonstration of the usefulness of risk theory in anthropology (1979; see also the recent collection in Cashdan 1990). He shows why the risk-taking and innovative farmers among the Maya were usually in the upper-middle levels of wealth—the richest had little need to take risks and the poorest could not afford to. Insurance of various kinds, long-term contracts, and various methods of “hedging” bets are other ways people deal with uncertainty.

Anthropologists have also done important research on *risk perception*, showing how culture affects people’s ideas about what is risky or dangerous. It turns out that people are often much more afraid of very rare but dramatic disasters like nuclear meltdown than they are of the much more deadly and common but mundane dangers like car crashes and heart attacks (Douglas 1985).

In general, when farmers or shoppers make risky choices, their environment doesn’t respond to their actions. If it is going to rain this summer, it rains whether you chose to plant corn or not. But when your decisions involve other *people*, who are also making choices that affect the outcome, you are playing a different and much more complex game. In the 1940s, mathematician John von Neumann and economist Oskar Morgenstern began to work out mathematical models for simple two-person situations where one person’s choice affected the outcome of another’s choice. This has since de-

veloped into a field called *game theory*, now considerably augmented by the use of personal computers to model games and simulate their outcomes.

Game theory asks how people can achieve an optimum outcome when others are trying to do the same thing and the consequences of their actions are linked together. A classic example would be when you are with a group that is dining out and plans to divide the check evenly. Should you order the cheapest thing on the menu or the most expensive? In a typical game, everyone benefits if everyone cooperates, but everyone except the selfish one suffers when someone acts selfishly. The question is, under what circumstances does it pay people to be cooperative, altruistic, or selfish? What happens when you allow people to play a whole series of games, learning from their experience?

Game theory had a brief flowering among anthropologists in the 1960s (see Buchler and Nutini 1969) and a more critical currency in the late 1970s (e.g., Quinn 1978; Gladwin 1979). It proved useful in understanding some kinds of hunting and fishing strategies and some kinds of tribal politics, mostly by providing a firm mathematical grounding for the intuitive understanding that sometimes "it pays to cooperate."¹⁰ Recent computer simulations reach the same conclusion—that in the long run, cooperation and trust can emerge among competitive individuals pursuing their own interests (Lance and Huberman 1994). Some are tempted to extend game theory to explain the evolution of human societies. But like the rest of microeconomics, game theory begins with some basic assumptions about human nature and utility. As we shall now see, these assumptions have been seriously questioned.

Critiques of Formal Economics

Belizeans often say "The higher monkey climb, the more he expose his ass." Neoclassical economics has climbed about as high as is possible for a social science, and it has therefore attracted a crowd of critics. On the one hand, sometimes they seem like a legion of pygmies hurling sour grapes at a giant. On the other hand, they may be Davids who will one day bring Goliath crashing down. These critics have attacked many different aspects of economics, and we will next look at some of their most telling arguments. Economics itself is far from a unified field, for although there is certainly a dominant mainstream, there are also various "heterodox" schools of economics that disagree with most of the neoclassical assumptions (see Albelda, Gunn, and Waller 1987 for an excellent treatment of these deviant branches). I focus here on these internal critiques of the discipline by economists and economic psychologists. The anthropological criticisms of economics will be discussed again in Chapter 5.

Human Rationality

One line of criticism attacks the working details of microeconomic theory, looking particularly into assumptions about human beings as rational maximizers. Amos Tversky, a psychologist, has experimentally shown that the human brain is an imperfect decisionmaking tool, even when faced with relatively simple problems of choice. A basic example is the nonintuitive nature of the laws of probabilities. Even though we can easily demonstrate that the odds of a coin toss are fifty-fifty each time, humans insist on believing that a heads this time increases the chance of getting a tails next time (1981).

There is also now an extensive literature, based on the work of Herbert Simon, that examines the limitations of human reasoning power in complex decisionmaking environments. Simon invented the term *satisficing* to express the idea that people do not always seek the optimum solution—they usually do not work that hard. Instead, they set a minimum goal and adopt the first strategy they can find that meets that goal. People use "bounded rationality," that is, decisions that are limited by people's perceptions, imperfect knowledge, and subjective feelings, to make the best of an imperfect world. Simon argues that we should also recognize that making the best possible choices is often too costly; it would just take too much time and effort to find out all we need to know to make the "best" choices (1957; 1987).¹¹

Many have questioned the reality of the economist's model of consumer behavior, which assumes that we all have a single unified utility in our heads, that preferences can be ranked, and that preferences are transitive (meaning that if you like apples more than chocolate, and chocolate more than cabbage, you therefore like apples more than cabbage). Economists also ask why we should expect people's preferences to be stable for more than a few moments at a time (Tversky 1969). The whole notion that each person's utilities are internal and independent of everyone else's has been criticized as sexist and androcentric (built on a male point of view) because it ethnocentrically presumes that human beings can be emotionally unconnected to each other (England 1993).

Even if people do have stable and transitive preferences in their heads that they seek to maximize, how can we ever know what they are? Conventional economics says we can find out by looking at people's behavior, that when people act they reveal their preferences. But many critics point to the ultimate circularity of this argument. We know they have preferences because they made particular choices, and we know they made those choices because of their preferences. We have to *assume* people are rational in order to measure their preferences (Rosenberg 1992, 159; Downey 1987). The same circular argument appears in the notion of maximizing: We know people are maximizing because they survive, and we know they survive because they are maximizing.

The most fundamental criticism of rational choice theory is one that questions the whole notion of human behavior as decisionmaking. Jon Elster does not dispute that sometimes people do make rational, goal-driven decisions. But he also points to many actions taken without a clear goal, with no knowledge of the consequences, and because it is easier to conform than to choose. He says that for many choices, for example, choosing between careers, people simply have no objective basis for making decisions, cannot rank preferences, and make no decision at all or make the wrong choice. In other words, people can behave irrationally for very good reasons (1990).

The ultimate problem with all economic explanations of human behavior—and the concept that my students always have the hardest time accepting—is the idea of *rationality* itself. How do we tell if an action is rational or irrational? Sometimes it only looks irrational because we don't understand the setting, the meaning, or the history of a particular action. But maybe it really *is* irrational, and we are just making up a rational-sounding explanation based on our own ethnocentric principles. And what does it mean to argue that rationality is universal in all human decisions? Does this mean that rationality has been hardwired by evolution into all of our brains (as argued in the new field of evolutionary psychology), making cultural difference superfluous or trivial? These are very difficult, deep, and challenging questions that have no simple answers. On one level, the idea of universal rational principles seems quite absurd, given the wide variation in human behavior from culture to culture and across history. On another level, people from very different cultures are quite capable of understanding each other's actions and motives; they can communicate and evaluate each other's behavior. This would seem to argue for some universal properties of the human mind. As usual, the extremes of universal rationality or irrationality turn out to be untenable, and the truth lies somewhere in between, demanding to be defined along some other dimension than the one we are using (see Latour 1993 for some alternatives).

Economic Methods and Language

Another form of criticism looks more closely at the epistemology of economics, asking how economics gains knowledge of the world and how it expresses that knowledge. Economists themselves have been some of the strongest critics of the tools, arguments, and philosophical assumptions of their field. Their arguments range from friendly to hostile and are aimed at everything from the way economics journals select papers to the impossible complexity of national economic models. Economists have argued that modern economics is a poor guide to understand either the past, present, or future; hopelessly mired in Western philosophy instead of science, it is unable to predict a small thing like a price on the stock market or a large thing like

the emergence of Taiwan as a world economic power (Fallows 1993; Heilbroner 1991; see also Rosenberg 1992).

Wassily Leontief, a senior economist, has written to *Science* magazine to express his disgust at the unreality of most academic articles in his field: "Nothing reveals the aversion of the great majority of present-day academic economists for systematic empirical inquiry more than the methodological devices that they employ to avoid or cut short the use of concrete factual information." He points out that more than one-half the papers in the *American Economic Review* are simply mathematical models without any empirical data: "Page after page of professional economic journals are filled with mathematical formulas leading the reader from sets of more or less plausible but arbitrary assumptions to precisely stated but irrelevant theoretical conclusions" (1982, 104). A review of extremely expensive large-scale computer models used by government economists for forecasting finds them wildly inaccurate; in practice, economists "fiddle and fit" until the model gives them the result they expect (Kolata 1986; Kuttner 1985).

When economists *do* use real data about the world in their studies, they tend to depend almost entirely on aggregate statistics produced by official government sources. Andrew Kamark, after working at the World Bank for twenty-six years, concluded that most of these official figures and measurements are too inaccurate for use in any kind of calculation. When they are added or multiplied, their individual errors compound, leading to numbers that cannot be used for comparison, much less prediction. He demonstrates that basic concepts like "unemployment" and "income" are arbitrary abstractions that do not fit reality and that cannot be compared across cultures or through time. Common measures like GNP and the balance of payments—the keystones of macroeconomics—are not accurate (or even vague) measures of human welfare or economic health and are often deceptively concrete (1983). As Susan Greenhalgh (1990) shows in her study of economic explanations for changes in fertility and mortality, when national statistics are aggregated and averaged (as economists usually do), they obscure all the important variability and become useless mute numbers.

Donald McCloskey stands out as a critic of economics who often sounds like an anthropologist. In two very readable books, *The Rhetoric of Economics* (1985) and *If You're So Smart: The Narrative of Economic Expertise* (1990), he attacks the language of economics, particularly for the way it insulates economists from criticism and hides their politics behind science.

To McCloskey, economics has become a cultural artifact of logical positivism, based on an outmoded idea that science is simply the discovery of facts and natural laws. McCloskey finds this model of science unconvincing and, following recent trends among philosophers, argues that instead science is *rhetoric* and *conversation*, merely persuasive argument based on selected and unsystematic observation. He says, "Science is Rhetoric, all the way

down . . . Master scientists are master rhetoricians, word spinners in no dishonorable sense" (1990, 82). From here he argues that economic discourse is neither more nor less than stories built with all the common persuasive tropes used in rhetoric, including metaphor, analogy, symmetry, irony, and allegory. Economists, McCloskey says, tell magical stories, and by and large that is fine with him, as long as they do not pretend they are selling natural laws, immune from dispute. In practice, mathematical metaphors have become a language of power divorced from reality, a tool in the hands of those in power.

Economic philosophy, methods, and language, says McCloskey, are rooted in a "hard," extremely masculine model of science that excludes the whole world of experience, emotion, and personal insight (1993). Not by coincidence, it has also tended to exclude women from its ranks. Worse, economics lies about its essential nature, representing facts where there is only rhetoric. But like the other critics I have mentioned so far, McCloskey's solution is not to do away with the field. He wants economics to remain rational while getting away from the falseness, limitations, and hypocrisy of modernist methods. The problem he faces is that of many social scientists of this postmodernist era: How do we retain a sense of truth and contact with an empirical world of fact if we leave behind the notion of science as an objective search for natural law? McCloskey sees the division between science and the humanities as a historical artifact; he wants to build in the middle ground. The question remains, however, what kind of edifice should be built there? (Some answers may appear in the new journal *Feminist Economics*, which promises to take up many of these issues.)

Economic Immorality

One of the most persistent critiques of neoclassical economics is aimed at the utilitarian assumption that human beings are rational maximizers of their own utility. For some, this means that economists see human beings as innately immoral, hedonistic pleasure seekers, single-mindedly calculating their own advantage in every situation.¹² One alternative has been to keep the scientific form and tools of economics, while throwing out the utilitarian assumption (the opposite of McCloskey, who keeps some utilitarianism but throws out the science).

Instead, imagine that human beings maximize two or more different utilities that may be quite inconsistent with each other. What if human beings don't have a single rank order of preferences but instead have several different classifications. For example, a middle-class American could not compare the utility of a new Volvo with the value of a colleague's respect. Many schemes have been proposed that purport to divide "needs" from "wants" or to divine the basic impulses of human beings. The Enlightenment philoso-

pher Thomas Hobbes, in *Leviathan*, argued for three basic urges: safety, gain, and reputation (1991, pt. 1, chap. 13). Another possible course is to follow Western dualist thinking about human nature and divide human impulses into a "higher self," that is, moral, altruistic, and driven by truthseeking, and a "lower self," which is selfish, subjective, egotistical, and driven by needs (Lutz and Lux 1988, 17).

This kind of dualism is elaborated by Amitai Etzioni in *The Moral Dimension: Toward a New Economics* (1988) into a new field called "socioeconomics" or "humanistic economics." This project has been very influential. Etzioni has formed an association, a newsletter, and a journal, and he appears frequently on news programs, arguing for a type of "kinder, gentler" capitalism, ideas that are fundamental to a political movement called the Communitarians.

Etzioni argues that humans are social beings as well as rational self-serving individuals, and he wants to find ways of combining these two aspects of the human experience. People make moral judgments on their urges, judgments rooted in their social experience, and these moral commitments are often stronger than their biological urges. For this reason, people often make their choices on the basis of social and moral judgment and only secondarily on logical grounds. He has three lines of argument to support this position:

1. *Humans are primarily illogical.* Creatures of habit and conditioning, they brush their teeth but do not fasten their seat belt; they smoke cigarettes even though they know it will kill them. People do not reliably connect cause and effect, and they do not do what is best for them, even when they do have good information.
2. *Institutions, not individuals, are the main unit of society.* Humans do not have free will the way neoclassical economics says. Instead, people act as agents of institutions, and they treat each other as members of categories instead of autonomous individuals. Institutionalized inequalities and power determine prices, not the free operation of the marketplace.
3. *Humans are often altruistic rather than selfish.* People do things like giving up food for Ramadan and Lent; they jump in rivers to save drowning strangers, they give gifts without expecting any return, they save for their descendants, and they don't leave when their spouses get Alzheimer's disease. They cooperate with each other at every turn, even when it would be in their best interest to go out on their own. All societies, he argues, follow moral codes, and everywhere only deviants are self-interested.

Many of these points are unquestionably true, and Etzioni combines and synthesizes many different economic critiques. But does he offer a viable al-

ternative? The problem remains that Etzioni's idea of two basic urges is just as untestable as the utilitarian assumption of one basic urge. Neither Etzioni nor the neoclassicists can create a definition of "rationality" that avoids circularity and that most anthropologists would find acceptable when applied to other cultures. The "two urges" theory is very ethnocentric, and from a historical perspective, it can be seen as just another in a long line of moral critiques of modernity, individuality, and selfishness, extending back into Christian theology.

If, as Etzioni would have it, people are often illogical, then what is the basis of their decisionmaking? Surely it is not completely determined by their social setting, which would leave us all as automatons. I suggest that what is missing in this part of Etzioni's critique is exactly what anthropology has to offer—a concept of *culture*. The idea that culture patterns the way we think and the way we value different options allows anthropology to resolve the paradox of rationality and autonomy in a social setting. We will turn to this anthropological alternative in later chapters.

Summary

In this chapter I have only touched the fringes of a huge edifice of theory, observation, and method built on the basic assumptions of neoclassical microeconomics. If we are willing to assume that human beings are individual, rational maximizers of an abstract utility, we can move onward to some very complex and powerful inferences about the way the economy works. For some economists, the edifice has become an end in itself. Entranced by the elegance of their mathematics, they have often lost sight of the world it is supposed to describe and explain. Some argue that the study of economic management, firms, national accounts, and global institutions has moved so far that it can now stand independent of the microeconomic theory of rational maximizing. The managers of the Federal Reserve lose little sleep over the circular logic of revealed preference. Many economists argue that it doesn't really matter what is going on in people's minds anyway. They argue that they can go ahead and act as if people are logical maximizers, as long as it works.

The problem seems to be that for many kinds of situations, neoclassical economics doesn't work. Since many economists don't ever check their models against the real world, this doesn't bother them. But a vocal minority is worried, and the last decade has seen a real flowering of feminist, historical, philosophical, and critical scholarship in economics. In trying to understand what is wrong with the dominant academic neoclassical economics, many of the critics are drawn to that tiny human figure at the foundation of it all, that rational utilitarian called "economic man."

We began this chapter with Adam Smith, who defined two kinds of value. One was rooted in the individual's innate knowledge of the value of toil. The second emerged from social life, from the ownership of property and the division of labor. Although Smith deemed the first kind "natural," he accepted that beyond the earliest state of nature, all humans engaged in social life and derived their values from their relationships with others. We finished the chapter with Amitai Etzioni, still reworking the same problem of the contradiction between rational self-interest and the need for selflessness and community. But in the time between Smith and Etzioni, economics generally ignored the question of human nature. While economics rose to dominance in public life, other social sciences set about trying to find alternatives to utilitarianism.

Notes

1. The George Bernard Shaw epigram that begins this chapter is found in Winokur (1987, 14). The rise of individualism in the West is discussed in almost every history book, though Coontz's *The Way We Never Were* (1992) gives the theme a unique and timely context in the Western ideology of the family.
2. The medieval scheme was founded on a moralistic division of the economy into productive (agriculture and manufacture) and unproductive (lending and trade), established by the Greeks, as is well described by Booth (1993). Many other civilizations have targeted particular forms of wealth and work, usually trading and usury, as unclean or immoral.
3. Much of this discussion comes from Priban's *A History of Economic Reasoning* (1983) and Myers's *The Soul of Modern Economic Man* (1983). Another important work is Louis Dumont's *From Mandeville to Marx* (1977).
4. An excellent source on the economic context of Smith's times is Fernand Braudel's *The Wheels of Commerce* (1982). Thomas McGraw has written a short article (1992) that gives an extremely clear discussion of Adam Smith as a moral philosopher and details the way his ideas have been distorted and exploited by later generations to justify laissez-faire economic policies.
5. Ricardo's *iron law of wages* states that without outside intervention, wages will always tend toward the workers' subsistence level. *Comparative advantage* means that countries are better off producing the things they can make more cheaply than others and trading them to other countries than they would be if they tried to make everything they needed for themselves.
6. A fundamental and devastating critique of how economics developed in the Western tradition can be found in chapter 6 of Foucault's *The Order of Things* (1970). An even broader philosophical questioning of the history of economics is found in the work of the French surrealist Georges Bataille (see Richman 1982).
7. My goal here is not to write a condensed textbook in introductory economics; many good texts do a much better job than I could hope to. The examples here are meant to show how economic reasoning flows systematically from a simple model of human beings as utility-maximizing animals.

8. Utility and rational choice theory and its problems are simply and elegantly explained by Elster (1989). Amartya Sen (1990) provides a useful critique of the notion of utility, as does England (1993) from an explicitly feminist point of view. The classic critique of utility and indifference theory, still important and readable, is that of Georgescu-Roegen (1954). A more recent critique in a similar vein is given by Margolis (1982). The classic formulation accepts that utility is an internal and subjective value; utility can be measured only when it is revealed through behavioral choice (Houthakker 1950). For an intelligent defense of the notion of utility, see Stigler and Becker (1977). Heath (1976) provides a dense, but thorough and critical set of examples of rational-choice theories applied to anthropological topics. I also highly recommend Ellis (1988) for examples of different economic methods and theories applied to peasant farming. Machina (1990) gives a lucid but technical discussion of the theory of choice under uncertainty.

9. North (1990) has produced a readable application of institutional economics to history. Jean Ensminger is a strong proponent of institutional economics in anthropology (1992), and there are other good examples in Acheson (1994). Jennings (1993) discusses the ways that institutional economics can be sympathetically adapted to feminist scholarship.

10. The three classic applications of game theory in anthropology are by Barth (1959), Moore (1957), and Davenport (1960). An elegant critical review of these applications is provided by Goldschmidt (1969), who shows that the anthropologists misunderstood a lot of game theory. A classic and often-cited application of game theory to environmental problems is Hardin's discussion of the "tragedy of the commons" (1968). More recent game theory approaches in anthropology are converging with ecological studies of foraging and breeding strategies among other species (see Cashdan 1990).

11. This ties in to anthropological studies of decisionmaking that find that people use simplifying rules of thumb to deal with complex and risky choices. The Kekchi I worked with had a complex scheduling task involving planting corn and rice in relation to the start of the wet season. Their rule of thumb was that you should have half your corn planted before you start to plant rice. It may not have been optimal, but it was simple and reliable.

12. This is not quite what most microeconomists mean by utility maximizing, though at times the argument seems to split hairs. Microeconomists say that individual utilities often include the well-being of others. Thus, if I sacrifice my health to feed my family, it is because I rationally consider their well-being to have higher utility than my own. Utility is not the same thing as simple hedonistic or bodily pleasure. Since the argument revolves around what is going on in peoples' minds at a partially unconscious level, it falls more into the realm of cognitive psychology than economics. And who says that these are exclusive possibilities or that there aren't other options?

4

Social and Political Economy

The Social Contract is nothing more or less than a vast conspiracy of human beings to lie to and humbug themselves and one another for the general Good. Lies are the mortar that bind the savage individual man into the social masonry.

—H. G. Wells, *Love and Mr. Lewisham*

Social Humans

Most North Americans like to think of themselves as individuals first. We are each unique, not reducible to a number or a category. The novelist Douglas Coupland has identified, with only partial sarcasm, an American "cult of aloneness," consisting of "the need for autonomy at all costs, usually at the expense of long-term relationships" (1991, 69). This ideology of extreme individualism coexists with its exact opposite, the idea that we all fall into groups and "types," that most people are predictable because of their age, gender, background, family, and ethnicity. We often explain a person's behavior as "typical eldest sibling" or "middle class," and we like to label groups like yuppies, slackers, born-again, and the silent majority. Modern North Americans like to think they are unique individuals, but they also accept that other people can be lumped into categories, races, and occupations (not least of which is the label "American" itself). The tension between individual and group identity is a central theme in our society; as we shall see, it is also a basic problem in economic and anthropological theory.

Most humans grow up in family groups of some sort and therefore get basic training in working together, sharing, and identifying as a member of a collective with a group identity. This capacity to *belong* seems very basic to many, a "natural" characteristic of the species. Because of this, most social