

The future of economics

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22 February 2005

OK, so recall my terminology: Narrow Path economics is the Chicago school stuff that everybody loves to hate, in which people perfectly maximize a narrowly-defined utility function. The Wide Path expands upon this, with people who can't do the reams of math necessary for perfect maximization and who include more squishy things in their utility function, like other-regarding preferences and personal identity.¹

To date, my mental model of the future of economics has been the wide path. That is, at the current course, we'll still be writing down utility functions twenty years from now and trying to somehow maximize them (or satisfice them, or whatever).

I hate to name drop, but I had dinner with Lord RL of London, UK, the other day, and I asked him where he thought economics was going. Is there anything beyond utility functions?, and he says yes, there's the problem of where those utility functions come from. And that, in turn, may best be explained by the groups and the environment in which a person lives.

[Lord RL's work, both on wages and on human happiness, is based heavily on the context in which a person finds him/her/itself. A wage which is misery-inducing in the U.S.A. would let you live an easy life in other parts of the world. So how do people get away with modeling preferences in absolute terms which wholly ignore the surroundings?]

For the fanatical individualist, who sprung whole from his own head, this is controversial, but I think the rest of us are not surprised. Of course preferences come partly from some internal milling and partly from some external influences.

The problem, though, is how we should model that. As noted, we have the machinery to write down and study existing preferences in a thousand different ways, but we're basically lacking in describing ways by which preferences are formed. This is basically another rephrasing of my favorite economic question: where does value come from?

The answer is a no-brainer for only the most rudimentary of goods—maybe sugar and water. Go past that, and it's a mystery world which we assume away.

¹Am waiting for you guys to pick up on the terminology. I remain the *only* hit on the planet for “wide path economics” in all the major search engines. I'm stealing the terminology from Buddhism, by the way: the Narrow Path is based strictly on the teachings of Siddhartha Gautama, and is cynical and individualistic. The Wide Path incorporates teachings from all over the place, and is generally what we think of when we think Buddhism.

Sociologists do not. There are two approaches in the sociology literature, which compete but dovetail. The first is identity theory, which posits that all of us have an identity, which is an arbitrary position invented via interaction with others. Notably, it comes from play. We assume certain roles—daughter, boss, economist, schlamazel. The magic occurs in that once we are assigned these roles, they start to matter. I could care less about knowing how to clear clogs in my sewer line, because I'm not a plumber, but I care deeply about my ability to calculate the ratio of a distribution's kurtosis to its variance squared. It's a long, hard road to explain why this has value to me in terms of getting fat and reproducing, but if we base my utility function upon my self-identification as a mathematical economist, and my desire to play that role well, then my unyielding interest in calculating the properties of probability distributions is obvious.

So there's one way that we can assume utility functions into existence: posit that people engage in social roles—they play—and that preferences come from those forms of play. This leaves us only to describe how these roles are formed.

The other option, which sociologists call social identity theory, involves simple group membership: we join or are forced into certain groups, and the preferences of those groups become our preferences. Now we have only to model why we wind up in the groups we wind up in.

In both cases, individuals derive value from some things and not others because of the social position they find themselves in. First the society defines their utility function, and then they shape society based on their utility function.

The next step in economic theory, which has already begun in some circles, will be to eschew the Ayn Rand-like individualistic streak which runs through most of economic theory, which is providing us with diminishing theoretical returns anyway, and to describe people as both shaping their environment and being shaped by their environment.