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## Socio-Economics: The Third Way

Gary D. Lynne\*

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\*Professor, Department of Agricultural Economics and School of Natural Resource Sciences, University of Nebraska-Lincoln. (<http://www.ianr.unl.edu/agecon/lynne>)

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... because no alternative theory of human agency was proposed to replace the idea of individual utility maximization, the centre of the neoclassical system remained unchallenged (Hodgson, G. *Evolution and Economics: On Evolutionary Economics and the Evolution of Economics*. Northampton, MA: Edward Elgar, 1999).

The Society for the Advancement of Socio-Economics (SASE) recently held the 12<sup>th</sup> Annual Meeting, an even dozen years since SASE was organized on the basis of the intellectual foundation laid in Etzioni (1988), a foundation that recognizes the fundamental tension within individuals. This tension extends to society and is represented in a conflicting tension between the “I” and the “We”. It sees that a new “theory of human agency (in the Hodgson quote<sup>1</sup>)” is needed.

Socio-Economics recognizes that intellectual islands (see Figure 1) have been built over the past 100-years or so, as represented by the inhabitants on the NeoClassEcon Isle focused on the “I” and the inhabitants on the Sociologic Isle focused on the “We,” with neither adequately addressing the balancing of the tensions. Neither has been able to build a theory of human behavior that recognizes both tensions. Rather, the Isles have been kept apart. On the former Isle, the rational calculators do arithmetic to make sense of the nonsense and on the latter Isle the normative moralists see doing arithmetic is the nonsense. On the yet to be built land mass reconnecting the Isles, I see the potential

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<sup>1</sup>Hodgson was commenting on why the Sraffian critique of the neoclassical theory of aggregate production functions (and capital theory) never took hold. He lists several other reasons, but this one seems the most salient. It is perhaps a lesson for the institutional and behavioral economists, generally, that we seemingly must propose a viable new theory of human behavior if any progress is to be made to augment or replace the neoclassical model.

for an emergence of a new sense, the possibility of *The Third Way*,<sup>2</sup> which was the title of the opening session for the 12<sup>th</sup> Annual Meeting of SASE. On this new land mass we will see the emergence of a new theory of human agency, a new theory of human behavior, one that rests in our fundamental evolution as biological products of nature as well as of nurture and culture.

The need for a Socio-Economics built in the spirit of The Third Way recognizes the current lack of bridges, other than some creaky, swinging (and sometimes floating, and not even moored!) bridges, between the Isles, over and through quite turbulent waters. It sees that the Isles split at a much earlier time, as though in some cataclysmic geological event, along the lines of the *Methodenstreit* (Swedberg, 1990, p. 10), with a particularly sharp confrontation between what were to become the two Isles at the meeting of the American Economic Association in 1894. The sociologists were told that “sociologists have no right to stake off for themselves a portion of social science without the consent of the economists (Swedberg, 1990, p. 10).” This event represented the environment that set in motion the development of separate departments of economics and sociology in American universities. This separation was further reinforced in the 1930s with the split in the territory between the rational and the irrational, as agreed by Robbins of the NeoClassEcon and Parsons of the Sociologicus (Ingham, 1996,

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<sup>2</sup>A casual search of the Web for “The Third Way” reveals it has many meanings, everything from a WebSite devoted to Henry George’s single tax idea to describing the new center-left politics in both Europe and the U.S. Perhaps most importantly, the terminology comes with its own set of values, leading to the “common sense” of still another way of defining political philosophy. The terminology is used here somewhat differently, to mean a kind of social theory that encourages its practitioners to at least reveal the underlying value system, and perhaps to engage in moral inquiry. The Third Way encourages dialogue about the underlying value presumptions of all theories, including that of neoclassical economics and the tool we know as microeconomics. These are not value free analytical engines: The Third Way herein asks each of us to explicitly include the value system, reveal the moral dimension in the economic modeling, and open the values for inquiry and consideration.

p. 244). Since that time, the cores of the two subjects have continually moved ever further apart with the result being “that our understanding of the modern world has been seriously impaired by this division of intellectual labour (Ingham, 1996, p. 244).” The challenge is to move the two cores onto the new path, The Third Way, taking what we can from each Isle as we build the new land mass in between.

### **Understanding what is on Each Isle such that we might see The Third Way**

As economists, we can perhaps better understand what is on each Isle through seeing that another set of inhabitants co-exist with the Sociologic. This rather eclectic subgroup of individuals represented are the InstitutEcon, some of them even taking the risk of meeting the NeoClassEcon on the bridges on foggy days when others cannot see, or even meeting in the turbulent waters inbetween. Intriguingly, the InstitutEcon share the rather unique experience of not being really accepted by either the Sociologic or the NeoClassEcon. Yet, the Sociologic do yield a small amount of their territory, and, while many on both Isles (especially that of the NeoClassEcon) have predicted the demise of the InstitutEcon due to shrinking numbers, they seem to have a certain resiliency, and ability, to stay out of the critical zone, and somehow manage to keep a certain mass. Perhaps this resiliency, alone, suggests the possibility of a third way, on which some within the InstitutEcon already tread.

One of the more prominent members, in fact, recently went so far as to claim that the InstitutEcon are on the “threshold of a great transformation (Samuels, 1995, p. 570),” seeing some new Isle that it is not apparent to either the Sociologic or the NeoClassEcon. And, while he did not clarify where this Isle will be built, or whether it can be maintained on the Sociologic Isle, or perhaps will

involve an imperialistic invasion of the Isle of the NeoClassEcon, and what its nature might be, it is useful to consider how he sees this part of the Sociologic Isle as contrasted to the Isle of the NeoClassEcon. In Figure 1 we see the InstitutEcon (following Samuels, 1995, pp. 573-575) 1) emphasizing social and economic evolution with the need for an activist orientation in order to affect that evolution in contrast to the static, mechanical world operated by the invisible hand; 2) affirming the importance of social control in contrast to the market as the system of control; 3) proposing technology as a major source of transformation in contrast to a trend variable to handle the noise in equilibrium behavior; 4) seeing power structures as the ultimate determinant of resource allocation in contrast to a presumption of dispersed power in the markets; 5) focusing on the processes by which human values are ensconced in institutions, structures and individual behavior rather than on the relative prices of commodities; seeing that culture molds individuals (and individuals mold culture) rather than presuming the immaculate formation of the consumers (and producers) tastes and preferences; operating in pluralistic and democratic ways while paying attention to the values of the masses whether in the markets or not; seeing problems in holistic terms, including much more than the market mechanism for which the economist is the expert, and thus involving all the disciplines. Overall, the problem on the Isle of the NeoClassEcon is that the “pursuit of the mechanics of price determination trivializes what the economy is all about, and excludes considerations of social control and social change and all that they entail (Samuels, 1995, p. 575).” Yet, problems exist on the Isle of the Sociologic and within the realm of the InstitutEcon in that too much focus is put on that very social control and social element. As Dusenberry (1960, p. 233, cited in Granovetter, 1985, p. 484) quipped, “economics is all about how people make choices; sociology is all about how they don’t have any choices to make,” while the truth

of the matter rests somewhere inbetween, as represented in *The Third Way*. In fact, Granovetter (1985) asks for considering the economy as embedded in the social structure, and thus to consider looking at the individuals economic actions as influenced by it, but not necessarily controlled by same. The fundamental problem on the Isle of the Sociologic is the lack of a common ground on which a common theory of individual human behavior rests. In fact, arguably, the Sociologic (and the InstitutEcon in their midst) all lack a coherent theory of individual human behavior. And, until one is formed, it is unlikely that the Isle of the NeoClassEcon will lose its influence, or shrink in size.

### **The Residents of the Isles are At Loggerheads in the Moral | Amoral Domain**

While the Samuels (1995) list is helpful, it does not really get to the crux of the matter regarding why the Isles are separated. In fact, the defining line is on the moral | amoral division between the two Isles, and thus what it is that motivates individuals. We see this fundamental defining line between the Isles through Khalil (1998, p. 614) in his response to critiques of a paper he has written (see Khalil, 1997) in an attempt to suggest directions toward a truly unified social theory:

In my essay I tried to locate exactly the origin of the disagreement between the moralist and the amoralist position and, consequently, the scope of economics. I argued that the bone of contention is not that the neo-classical paradigm does not recognize moral sentiments, which it clearly does. It is rather about how to model such sentiments. For the amoralist agenda, commitments are no different from ordinary tastes and, hence, both are smoothly substitutable at the margin. For the moralist position, commitments are some kind of pre-given precepts according to which human behavior must be judged. I suggested how to supersede, while retaining the positive elements of both positions. It is possible to avoid the implication of the moralist position – viz, moral norms are metaphysically given – without falling into the flat world of the amoralist view which cannot account for some empirical anomalies.

The crux of the matter lies in the chasm between the amoral tradition exemplified in Robbins/Becker on the NeoClassEcon Isle in contrast to the moral tradition represented in Durkheim/Etzioni (and Parsons) on the Sociologic (and InstitutEcon) Isle. While not using the terminology amoral, Nelson (1991) is saying the same thing when claiming that neoclassical, mainstream economics is an economic theology, with the NeoClassEcon being the new priests, who are not telling the parishioners that a value system of a certain kind, a certain kind of moral dimension as it were, is the underlayment of the economic preachments. This is to say, the NeoClassEcon do not acknowledge that the human is also a moral animal, as well as a pleasure seeking/materialistic animal.

In the Nelson (1991, see esp. pp. 20-21) rubric, we have the Roman Tradition of reason and rationality on the Isle of the NeoClassEcon, which is the amoral Isle in that the moral dimension is not revealed and debated. We also have the Protestant (read Protest – Tant) Tradition of doing-the-right-thing in the moral sense, which is on the Sociologic Isle (and within the InstitutEcon) where the one thing worth debating are the values, or, as in the SASE Declaration, debating the role of the “institutions, emotions, social bonds, values, and a sense of morality” ( <http://www.sase.org/conf99/declaration.html> ) in economic decisions. The problem is, we do not seem to be able to see that an element of truth rests on both Isles, that humans are both material and concerned with doing the right thing, pleasure seeking and moral, or, as Bromley (2000) describes it in a related notion, there are two realms of reason: calculation and sentiment.

**The Evolution of the Society for the Advancement of Socio-Economics (SASE)**

SASE proposes to slow the drift and perhaps even reconnect the Isles, and, if not possible, at least build some solid bridges with ends extending at the pace with the drift, that help the courageous residing on the Isles to visit the other and see what ideas might be imported. It encourages the new species, the Integratoricus, the individual who applies sociology to economics and economics to sociology. The hope is that perhaps a new Isle will develop and be populated by the Integratoricus. Importantly, the Integratoricus may also have several subspecies, including also the EconPsychologicus and PsychoEconomicus, as well as others within the Social Scientificus. SASE also proposes trade among the Isles, and occasionally imports some of the most prominent on each Isle for joint visits in such things as Roundtables, and Invited Papers, where upon all the Integratoricus gather around the Disiplinicus presenter and try their best to make sense of it all.

In related Isle building, a book has even been published where one brave EconSociologicus (see Swedberg, 1990) personally visited many of the most prominent citizens on each Isle with the quest to find out the possibility of a Unified Theory, one that might go beyond, possibly even transcend, the Homo Economicus Theory of Greed and Hatred and the Homo Sociologicus Theory of Sacrifice and Love. Intriguingly, many of the Most Prominent pointed toward the Fertile Inbetween Waters and could see the upswelling and future growth of perhaps a new SocioEcon Isle, an Isle that eventually perhaps would grow so wide and so high one day as to sweep all into its boundaries, with bridges no longer necessary. The Prominant Ones could also see the much low hanging fruit that could be picked right now, even on the small land area of the new Isle that has already poked out of the turbulent waters inbetween the Dominant Isles. All on this new Isle would be working together in a kind of SocialScientificus *Consilience*, using the title from a book that sees a reconnection of all the Isles and

Continents of all scientific inquiry (Wilson, 1998) into one. Indeed, Wilson sees a Unified World, eventually populated by only the Integratoricus, this new creature of evolution contributing to one theory across all the sciences, including the SocialScientificus, Naturalificus and Physicalificus. We might especially anticipate this Integratoricus would interact with the EvolutPsychologicus, and make the connection to evolutionary biology. Some of the elders among the Prominent Ones pointed out, in fact, that this is the mass that was originally split into the Isles and Continents anyway, so it should be possible, in principle, to reconnect all the Isles.

In fact, even as recently as 200 years ago, as the wisest Elders on both isles know, Adam Smith wrote two books (1789, 1790), that, when integrated, hold the potential to show the basis for the fused Continent of the Isles. Smith had already recognized the natural tension between the “I” (see Smith, 1789) and the “We” (see Smith, 1790). The Impartial Spectator, the “We” part of the individual, was to condition every individual economic action considered in the “I” no matter what forum, but certainly in the markets. Smith seemingly would approve of the concept from Khalil(1990, p. 266), who proposes that individuals emerge as a distinct entity on an alternative plane, an unique I-We, on the Isle inbetween, a kind of Integratoricus, wherein the Impartial Spectator has operated from a point of sympathy and empathy. The others-interest, in other words, has conditioned the self-interest. Yet, the self-interest has also conditioned the others-interest. The interests, reflecting two fields of incommensurable utility (see Etzioni, 1986) rather than one, are interdependent, nonseparable, and joint.

Relating to the specific details in the history of SASE, I cannot claim any substantive acumen. I do know that it started amidst a great deal of optimism and excitement about the possibility of building

upon an interstitial middle ground between the economists and the sociologists. Other social scientists were also welcomed in, with a few from the other Isles (e.g., the Politic Isle) also now in the membership ranks, including a substantial presence from Business Schools. In fact, in the early days, the then quite active Society for the Advancement of Behavioral Economics (SABE), composed mainly of psychological economists (economists who apply economics to psychological problems) and economic psychologists (psychologists who apply psychology to economic problems), happily joined with the sociologists to form the new SASE organization. The Journal of Behavioral Economics was even offered as the contribution of this group: This became the Journal of Socio-Economics located at Western Illinois University. The editor has been Professor Richard Hattwick, an economist quite active in encouraging the development of new theory at the interstice of the fields. Intriguingly, perhaps due to the economic tone of the Journal, the sociologists within SASE recently tried to move the Journal away from its economic focus and make it an exclusive journal for SASE and the sociologists who now run that organization.

Perhaps fortunately, and only time will tell, the Journal was recently sold by Western Illinois University to Elsevier Press, and its emphasis kept on economics, while maintaining an interdisciplinary focus. The new editor is Morris Altman, Professor and Chair, Department of Economics at the University of Saskatchewan, with the co-editor, John Tomer, a professor of economics at Manhattan College in New York. Both of these individuals lean toward the behavioral (psychology) side of economics, so we can perhaps reasonably expect the new Journal to move in this direction. Both editors are also active members (Tomer is President) of the Society for the Advancement of Behavioral Economics, with SABE currently seeking more liaison with the International Association for Research in

Economic Psychology (IAFREP), a European based organization composed mainly of psychologists and social psychologists who apply their trade to economic matters. This group publishes the Journal of Economic Psychology. The annual meeting of both SABE and IAFREP was jointly held in Baden-Vienna in 2000, with joint meetings scheduled every other year hereafter. SABE will also maintain a connection with SASE, even though it has become clear that the old rift between economists and sociologists has yet to be resolved within the SASE organization.

### **Activists/Interventionists Within SASE: Objectivity v. Subjectivity**

Around the turn of the century, many economists distanced themselves from the sociologists and the institutional economists due to the activist culture built into many programs of sociology. At the same time, economists became more closely associated with the physicists, who were building a physical model consistent with Newtonian mechanics. This association ensured an ever deeper chasm as between the economists and the sociologists, due to the latter being more closely associated with Darwinian evolutionary theory rather than Newtonian theory. As indicated in Figure 1, it is this connection with evolution more generally and social/economic evolution specifically, that leads to the explicit activist orientation on the sociological side. We see this historical tendency toward activism and intervention in the 1999 Madison Declaration by the SASE on the Need for Socio-Economic Research and Theory ( <http://www.sase.org/conf99/declaration.html> ):

The coordination and control of economic institutions and activities is occurring simultaneously at different geographical levels (e.g., sub-national region, nation-state, transnational region, global). Good economic performance increasingly requires that

economic actors are coordinated across spatial levels at the same time because actors are more and more nested in national and international institutional arrangements. Systems have become more interdependent than was the case only a few decades ago, and the distribution of power and resources across geographical levels is more complex.

For instance, the coordination of money and finance is often regulated at levels beyond the nation-state, whereas taxation, welfare functions, and training take place within national boundaries. While business firms express preferences for market freedom, other groups target the nation-state for protection against the effects of markets. This makes coherent economic policy and institutional planning more difficult than ever. In particular, as firms and markets become organised within a multilevel global system, governments are finding it both necessary and difficult to adjust their education and training systems, bargaining structures, and systems of innovation to international competition. Even so, coordination of economic actors at the level of the nation-state remains critical.

The interventionist overtones are clear. Economic actors need coordination. I question it, and, as an economist with a utilitarian stripe, do not see this as the most productive route for a unified theory. We seemingly do not need a theory on how to control individuals, something that the Grand Experiment in Socialism in various regions of this Planet over the last 50+ years or so has demonstrated is not an appropriate direction. This part of the SASE Declaration addresses the macro, and is lacking in many respects.

Yet, at a more fundamental level, that of the micro, more fundamental in that it is at the micro individual level that all action springs, the SASE Declaration seems to offer something awfully important. It continues:

At the micro-level, these developments emphasise the urgent need to examine the social psychological and cultural sources of economic behaviour. The diversity and interdependence of economic practices and institutions throughout the world force us to reconsider the standard concepts of self-interest and altruism, and the usefulness of means-ends rationality in pursuit of them. This involves comparative analyses of the systematic differences between the goals pursued by individuals and collectivities and their use of different calculative rationalities.

And, after listing a variety of research topics, including perhaps the most important one, a call for development of theory on “the limits of rational self-interest”, the Declaration heads toward the crux of the matter:

Socio-economics . . . focuses on economic action in its social and historical context and is particularly appropriate for dealing with these issues. It assumes that economies are embedded in societies, politics and cultures, as well as being dependent on the natural world. Drawing upon economics, sociology, anthropology, biology and other natural sciences, philosophy, history, law, management and other disciplines, socio-economics regards competitive behaviour as a subset of human behaviour within a societal and natural context that both enables and constrains competition and cooperation. Rather than assume that people act only rationally, or that they pursue only short term self-interests, socio-economics advances a more encompassing interdisciplinary understanding of economic behaviour that views individual choices as being shaped not only by notions of rationality but also by institutions, emotions, social bonds, values, and a sense of morality.

It is on the “institutions, emotions, social bonds, values, and a sense of morality” and how said dimensions relate to people acting “only rationally” while they pursue “only short term self-interests” on which we must focus. I see an Isle of EvolPsychologic, i.e., the activity of the evolutionary psychologists with their connection to neuroscience, as the connecting piece of land between the two Isles (see Figure 1).

As an aside, and in order to move this direction, reveals the need for a kind of *Consilience*, a hope implicit in the Declaration ( <http://www.sase.org/conf99/declaration.html> )

SASE is an avowedly inter-disciplinary association concerned with the integration of economic theory with the theory of other disciplines that deal with the human condition. A basic assumption is that social reality is complex and dynamic, and its analysis therefore requires the integration of theories from several disciplines. Organizations not only respond to market forces but also can create new markets and rules of the game. There are an increasing number of economists who realize the need to include perspectives from other disciplines, such as evolutionary and institutional economics. A

new socio- economic synthesis that makes economics and the other social sciences more practically and theoretically relevant could liberate them from their academic ivory towers. Additionally, universities need to consider restructuring curricula and the boundaries of the human sciences to encourage the integration of social, psychological and economic approaches to economic action and development.

Notice the room in universities opened for the Integratoricus, i.e., opening a room for the Integrator in Universities to work at the interstices of the established disciplines, with due recognition in the Old Isles that the integrators are also doing science, sometimes ever more basic than that in the disciplines. This ongoing integrative science is about far more than multidisciplinary activity on the bridges: This is about moving the land masses together, and causing up-swellings inbetween, and fusing the old dichotomies. And, as noted, these new style Integrators must resolve the “sense of morality” v. “only rational self-interest” debate, in building a new economics, a new Isle, or, as Etzioni (1988) suggested in the title of his book, we need to address *The Moral Dimension* in the move *Toward a New Economics*.

### **A Metaeconomics Solution: The Simple Case of Recycled Paper**

The fundamental problem is that individuals are more complex than that perhaps envisioned on either the Isle of the Sociologicus or that of the NeoClassEcon. In fact, individuals seem to be pursuing both a moral utility and a pleasure utility (Etzioni, 1986), or perhaps a material and a symbolic utility (Khalil, 1997). The others-interest is represented in the former, and the self-interest in the latter, with both utilities, though incommensurable, pursued in a joint, interdependent fashion. The two kinds of utility play-off against one another, in a dynamic fashion with feedback. In fact, we would see the evolution of the preferences, and, over a long enough time, such evolution being related to the evolution of the

brain itself. We propose a new theory of human behavior, one that recognizes at least three forces at work at any given point in time, and the reality that evolution is an ongoing process.

Perhaps one simple example can help us isolate the main issues that arise when we realize that individuals pursue two joint utilities, as well as show a reasoned possibility for balancing the tension and conflict between same over time. I am representing many threads in the scientific literature as drawn together in several of my own published papers, going back to the mid-1980s when students, colleagues at the University of Florida and I started down this path (see, e.g., Lynne and Rola, 1988; Lynne, 1995; Lynne et al., 1995; Lynne and Casey, 1998) The path, in the direction of The Third Way, has continued during my tenure at the University of Nebraska (e.g., see Lynne, 1999), with further elaboration in several working papers.<sup>3</sup>

We offer here a metaeconomics theory that goes beyond and transcends microeconomics, and is offered in the spirit of the answer to the question “What is Socio-Economics?” (See the Website: <http://www.sase.org/aboutsase/aboutsase.html#ASASE>):

As an emerging meta-discipline . . . begins with the assumption that economics is not a self-contained system, but is embedded in society, polity, and culture. . . . regards competition as a subsystem encapsulated within a societal context that contains values, power relations, and social networks. The societal context both enables and constrains competition . . . assumes that interests are not necessarily or automatically complementary and harmonious, and that societal sources of order are necessary for markets to function efficiently . . . further assumes that individual choices are shaped by values, emotions, social bonds, and moral judgments rather than by narrow self-interest. There is no a priori assumption that people act rationally or that they only pursue self-interest or pleasure. . . . regards inductive studies as co-equal in standing with deductive ones . . . is both a positive and a normative science . . . openly recognizes its policy relevance and seeks to be self-aware of its normative implications rather than maintain the mantle of an exclusively positive science . . . little interest in criticizing neoclassical economics per se, and seeks to develop alternative approaches

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<sup>3</sup>The Working Papers are available at the Metaeconomics WebSite:  
<http://www.ianr.unl.edu/agecon/lynne/metaeconomics.htm> .

that are predictive, exemplary, and morally sound . . . does not entail a commitment to any one ideological position, but is open to a range of positions that share a view of treating economic behavior as involving the whole person and all facets of society.

To meet the challenge of this charge, we start with the basic biology of the triune brain as posited by Cory (1999), who draws on neuroscience research. We see the work of the evolutionary psychologists and neuro-scientists as fundamental to filling in the gaps and fusing the Isles (see Figure 1). This new theory is based in biology and the very evolution of our beings, and as such is an evolutionary theory.

The triune brain concept from Cory (1999) suggests the core of the brain holds the egoistic tendency that leads to the pursuit of an evolving self-interest (Figure 2). The intertwined empathic tendency leads to the pursuit of an evolving others-interest, constantly being weighed back and forth with the self-interest. The even more complex intertwined overlayer, holding *The Will*, balances the conflicting elements represented in the ego (I) and the empathy (We), the self-interest ( $U^S$ ) and the others-interest ( $U^O$ ), and resolves the tension over time. As the InstitutEcon also see, the essence of human experience is that of conflict, and, now we see this as the conflict between the egoistic and empathic tendencies. We do not see the blissful representation of a person, over time continually being in a static pursuit of an unchanging self-interest like that conceived by the NeoClassEcon.

*Metaeconomics recognizes the constant evolution of preferences; formally introduces the empathic side; and adds **The Will** as the vehicle for finding a satisfactory balance between the egoistic and empathic forces.* Metaeconomics fuses the Two Isles into One Isle, where upon the Integratoricus reside, and evolve along with the rest of the humans in this co-evolving economy, society and natural setting.

We seek a parsimonious model to represent this evolving triune brain. We start with the sovereign consumer, and retain the utilitarian view that it is the individual that is to count. It is the individual that is the well-spring of action. We seek a theory consistent with a methodological individualism. Yet, we realize the problem in making the micro-to-macro transition, and see this individual taking action over time with good conscience, emerging over time as the distinct entity, while

stopping on the way at the station of the Impartial Spectator. A good starting point, then, is the standard diagram of indifference, showing an egoistic set of indifference curves arising from a background field of self-interested utility,  $U^S$ . In order to represent the “institutions, emotions, social bonds, values, and a sense of morality”, all of which pertain to the empathic dimension of the human brain, we introduce another set of empathic indifference curves arising from its own field of others-interest utility,  $U^O$ . The two fields of utility are proposed as incommensurable, following Etzioni (1986), while at the same time being generally nonseparable, interdependent and joint. We depict the two sets in Figure 3 as overlapping, with each set tangent to a budget line, such as  $RR^N$ . We see the possibility over time of one set influencing the other set with an active Will deciding the balance and thus affecting the evolution.

We need another analytical device to better understand this mix of satisfactory and optimal conditions along the alternative paths and demand curves. Moving along a budget line  $RR^N$  we can trace the relationship between the two incommensurable utilities in Figure 4. Notice how it is in the self-interest to also increase the others-interest in the region  $RA^N$  (both Figures 3 and 4); and, it is in the others-interest to pay some heed to the self-interest in region  $RNC^N$ . Yet, it is irrational to stay within either region. Metaeconomics suggests a rational ellipse  $OAZCO$ .<sup>4</sup> Also, now we see that optimization over time is the outcome of an operant *will*, giving an emerging *I-We* represented in the ratio  $(J/4)$  (see Mathematical Appendix for the definition of these parameters). If *the will* is oriented toward the ego and the self-interest (the “I” as empirically represented by 4), then point  $B^N$  will emerge closer to  $A^N$ , with self-interest utility maximized at  $A^N$ ; if the will is oriented to the empathy and the others-interest (the “We” as empirically represented by J), then point  $B^N$  will emerge closer to  $C^N$ , the others-interest utility maximized at  $C^N$ . If *the will* has, instead finds a satisfactory mix of the two utilities, we find the intermediate point  $B^N$  where neither kind of utility is maximized.

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<sup>4</sup>Note that it does not have to be an ellipse, which occurs only because  $OAZ$  and  $OCZ$  are shown to converge at  $Z$ . The shape of this area is really an empirical question: We may find for example that the two paths are largely parallel, never crossing.

We see further that at  $B\mathbb{N}$  the moral dimension adds a subjective element to prices in that  $(J/4)$  drives  $(p_1/p_2)$  and that prices add an element of rational calculation to the moral dimension in that  $(p_1/p_2)$  drives  $(J/4)$ .<sup>5</sup> We also see that  $B\mathbb{N}$  represents a satisfactory balancing of the two kinds of utility, with neither utility being maximized, a kind of satisficing.

So, when you go to the office supply store and purchase some regular paper and some recycled paper, you enjoy a joint outcome of self-interest utility and others-interest utility at point  $B\mathbb{N}$ . This is to say, buying some of the ugly, recycled, usually lower quality paper helps resolve the natural tension between doing what one wants to do along the egoistic (self-interested) path  $OAZ$  and what one ought to do along the empathic (others-interested) path  $OCZ$ . On another trip to the store, one may buy mainly recycled paper, close to path  $OCZ$ . Eventually, over time, the tension is eventually settled along The Third Way path  $OBZ$ , a path along which neither utility has been maximized, but a path along which you as the consumer have emerged as the distinct entity, and eventually feel satisfied, at least until the next time you go to the store. In fact, the context represented in the We or others-interest may also change over time, or even from store to store: Perhaps a store selling paper and catering to neighbors who belong to the Sierra club may affect your purchase in that context, wanting perhaps to be committed to that particular others-interest on that day. On some other day, or at some other time or place, the others-interest may favor a different but yet equally as satisfactory point  $B\mathbb{N}$ . This is all quite rational, even though not appearing so when one models only one interest.

Intriguingly, over time we might also see both indifference sets converge onto the path  $OBZ$ , recognizing the time related evolution to the state of a distinct entity. We also see that buying regular and recycled paper suggests a kind of interdependence implicit in the action itself. We as consumers also buy into a shared value system represented in the others-interest set. It is in this sense we are always interdependent and not independent as standard microeconomics suggests.

In addition to the dynamic interdependence in preferences, then, we also conclude that there is

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<sup>5</sup>See the mathematical appendix.

a subjective element to the relative prices paid for the two kinds of paper, a moral dimension as it were that arises from the interdependence. Notice how an others-interest indifference,  $U^o$  curve is present at every point even on the self-interest path OAZ: We are truly interdependent one with the other, and prices carry a moral element. At the same time, the relative prices of the paper have, over time, influenced the character of the moral dimension represented in the empathy toward trees and the environment, and, thus, also the empathy toward others with whom you share the environment. So, it is not nonsense to do rational calculations in the moral dimension. Yet, it is also now clear that an overemphasis on the arithmetic and the calculation along the self-interest path OAZ leaves out much that is important, as in doing the right things for trees and environment by buying at least some recycled paper. The emotions, the feelings, the affective . . . condition and influence the amounts of regular paper we purchase, and economic efficiency that emerges in the markets. So, we decide that efficiency has an affective, empathic and moral dimension while the moral has an efficiency dimension: The dichotomy has been fused. The Isles of Figure 1 need to be so fused.

You as consumer have over time arrived as a distinct entity on the path of The Third Way, path OBZ in Figure 3 and at points like B $\mathbb{N}$  in Figure 4, going beyond both your own self-interest and any moralistic, altruistic tendencies at work within yourself. Steering toward the path of The Third Way took will-power, an act of the disciplined will. We feel satisfied, calm from finding balance and not having to experience the tension that arises when we maximize anything, like buying mainly regular paper or mainly recycled paper at points like A $\mathbb{N}$  and C $\mathbb{N}$ . For most, this calm arises when a satisfactory mix of purchases of both kinds of paper is achieved at B $\mathbb{N}$ , eventually arriving on a distinct plane that cannot be reached while paying attention only to the ego or only to the empathy, paying attention only to the self-interest or only the others-interest. We as humans, configured with an evolving triune brain, seek balance over time in The Third Way. We live the dynamics consistent with our very own evolution as one path influences the other, in constant feedback, through time.

## Conclusions

We now see one feature of the *The Third Way* within Socio-Economics, i.e., to explicitly and openly include the moral dimension in economic modeling and dialogue. Metaeconomics proposes a new theory of individual human behavior. Additionally, Metaeconomics, proposed as an analytical engine to be used by the Socio-Economists, suggests that the task of *The Third Way* is to fuse the dichotomies inherent in our very biological and cultural beings. We seek both the material and the not-so-material, jointly. As a theory, it is to be both subjectively activist and objectively analytical in that subjectivity and objectivity, value and fact, are now both recognized as legitimate realms for inquiry, just like humans are structured with both dimensions. We need to know the nature of both kinds of utility, the character of the tastes and preferences along both paths 0AZ and 0CZ, with the focus over time on finding the satisficing, satisfactory third way 0BZ. We need to recognize *The Third Way* between complete freedom in the market and significant government (social) sanction and control of the individual, while embracing neither and both, simultaneously, as the system evolves. Going back to Figure 1, we need both evolution and mechanical stability; social control and individual freedom; technology driving change and change driving technology; power structures made visible and interacting with the invisible hand of the markets to allocate resources; value processes at work in a variety of decision forums, with moral values influencing prices and relative prices influencing the moral dimension; individuals are both born into culture and start with a purity of perspective that influences the new culture that is constantly changing; pluralism and democracy building upon both the egoistic and the empathic, with all included; economists joining on par with all other disciplines to build a new unified social theory that recognizes the reality of a constantly evolving triune brain as understood and described by the evolutionary psychologists and neuroscientists. Ultimately it is the discipline of *the will* that must do the balancing as between the empathic forces so well understood on the Isle of the

Sociologus and the egoistic forces understood and represented on the Isle of the NeoClassEcon.

The behavioral economists may be the best positioned to take the lead to bring about this fusion. I would ask you to seriously consider joining in this quest, perhaps even joining the Society for the Advancement of Behavioral Economics to find colleagues with similar goals on this front (See: <http://www.usask.ca/economics/SABE/> ). In the economic realm, the result will eventually be the fusion of common ideas among the InstitutEcon and the NeoClassEcon, both groups having historically lacked the fundamental neuroscience understanding that is just now emerging in the triune brain concept. The theories of human behavior are not on congruence across these Isles. Perhaps the new Metaeconomics can play some small role in helping reconnect the Isles through suggesting an alternative theory of said behavior. I encourage you to join in helping to put more flesh on this new framework. It appears to be an analytical engine, that in the hands of the new generation of Socio-Economists, could eventually exceed the power of the rival engine we know as Microeconomics, and could serve to provide a powerful engine for analysis in the institutional and behavioral economics realm.

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## Mathematical Appendix

The consumer pursues a maximum of the following expression, recognizing the incommensurable nature of the two kinds of utilities

$$(1) \quad V = \alpha U^S(q_1, q_2) + \tau U^O(q_1, q_2) + \gamma U^S U^O + \lambda (y - p_1 q_1 - p_2 q_2)$$

where  $q_i$  is a consumer good,  $p_i$  the price,  $\alpha$  the extent to which *the will* is oriented toward the self-interest and  $\tau$  the extent to which *the will* is focused on the others-interest. The  $\gamma$  influences the kind of curvature and what regions of the curve in Figure 4 will exist. The  $U^O$  part reflects the interest the individual consumer has in others, perhaps best thought of as the commitment to others and the norms or values jointly held. Notice how the  $q_i$  are nonallocable as between the self-interest utility  $U^S$  and the others-interest utility  $U^O$ .

Assume first that  $\lambda = 0$ , i.e., that

$$(2) \quad \frac{\partial^2 \mathcal{V}}{\partial U^X \partial U^O} = D_{XX} = 0$$

so we have interests independence, giving first order conditions of the character:

$$(3) \quad \frac{\partial \mathcal{V}}{\partial q_1} = \iota \frac{\partial U^X}{\partial q_1} + \tau \frac{\partial U^O}{\partial q_1} - \lambda p_1 \stackrel{\text{set}}{=} 0 \rightarrow \frac{\iota \frac{\partial U^X}{\partial q_1} + \tau \frac{\partial U^O}{\partial q_1}}{p_1} = \lambda$$

$$(4) \quad \frac{\partial \mathcal{V}}{\partial q_2} = \iota \frac{\partial U^I}{\partial q_2} + \tau \frac{\partial U^W}{\partial q_2} - \lambda p_2 \stackrel{\text{set}}{=} 0 \rightarrow \frac{\iota \frac{\partial U^I}{\partial q_2} + \tau \frac{\partial U^W}{\partial q_2}}{p_2} = \lambda$$

$$(5) \quad \frac{\partial \mathcal{V}}{\partial \lambda} = y^a - p_1 q_1 - p_2 q_2 \stackrel{\text{set}}{=} 0$$

so,

$$(6) \quad \frac{\iota \frac{\partial U^X}{\partial q_1} + \tau \frac{\partial U^O}{\partial q_1}}{\iota \frac{\partial U^X}{\partial q_2} + \tau \frac{\partial U^O}{\partial q_2}} = \frac{p_1}{p_2}$$

Solving (6) for  $q_2$  and substituting into constraint (5),

$$(7) \quad y^a - p_1 q_1 - p_2 q_2(p_1, p_2, \iota, \tau, q_1) = 0$$

and, solving for the demand function for  $q_1$ ,

$$(8) \quad q_1^* = q_1^*(p_1, p_2, I, \tau, Y)$$

This could be the demand for recycled paper which we now see is a function of own price, the price of regular paper, income . . . and, the two parameters associated with expression of the will.

Conditions for normal and substitutable goods in the case where  $q_1$  better serves the others-interest, as for the case of recycled paper, are:

$$(9) \quad \frac{\partial q_1^*}{\partial p_1} < 0$$

$$(10) \quad \frac{\partial q_1^*}{\partial p_2} > 0$$

$$(11) \quad \frac{\partial q_1^*}{\partial Y} > 0$$

$$(12) \quad \frac{\partial q_1^*}{\partial \tau} < 0$$

$$(13) \quad \frac{\partial q_1^*}{\partial \tau} > 0$$

Notice that if  $J = 0$ , then

$$(14) \quad q_1^{*d} = q_1^{*d}(p_1, p_2, Y)$$

along path OAZ. This is the standard microeconomics demand curve with an individual in pursuit of the

self-interest, maximizing self-interest utility at points like  $A^\circ$ , illustrating that microeconomics is a special case of metaeconomics arising when the individual has little to no empathy, albeit there is a  $U^p$  indifference curve going through every point on  $OAZ$ . That if, the demand for recycled paper would be driven only by the self interest along some path  $OAZ$ .

Further notice that if  $\lambda = 0$

$$(15) \quad q_1^{*O} = q_1^{*O}(p_1, p_2, y)$$

along  $OCZ$ . Here we have a case not typically modeled in microeconomics wherein the individual has mainly an others-interest and pursues little to no self-interest, i.e., buys mainly recycled paper, albeit the self-interest is being served to some extent, i.e.,  $U^s$  indifference curves go through points along  $OCZ$ .

The consumer is again maximizing utility, but now in the field of empathic (perhaps moral) utility.

The most intriguing case is when the *I and We* effect arises in balancing sense, where  $\lambda > 0$ ,  $J > 0$ , which we might better represent from (8) as

$$(16) \quad q_1^W = q_1^W(p_1, p_2, W, y)$$

where  $W = \text{the will}$  to keep balance in *I and We*. Intriguingly, in the amoralist view of microeconomics, i.e., the perspective that claims microeconomics does recognize the moral sentiments (Khalil, 1998, p. 614), we would choose some  $0 < \frac{1}{1} = k < 4$ ; that is, the *I-Thou* effect is fixed and invariant within the rational range, in which case (16) becomes

$$(17) \quad q_1^{W_t} = q_1^{W_t}(p_1, p_2, y)$$

This appears to be the standard demand curve (14) from microeconomics, and would appear so in empirical estimation. As a result, we could easily misinterpret what is really on-going, in that point B on this demand curve does not have either the  $U^S$  or the  $U^O$  indifference curves tangent to the budget line, i.e., we are not maximizing utility in either field of utility. Rather, we have a satisfactory mix of  $q_1$  and  $q_2$  (Figure 3) and of the  $U^S$  and  $U^O$  (Figure 4) at B.

Now assume  $(\dots 0, \text{i.e., } D_{ij} \dots 0$  meaning we have interests interdependence, which yields

$$(18) \quad \frac{(\tau + \gamma U^O) \frac{\partial U^S}{\partial q_1} + (\tau + \gamma U^S) \frac{\partial U^O}{\partial q_1}}{(\tau + \gamma U^O) \frac{\partial U^S}{\partial q_2} + (\tau + \gamma U^S) \frac{\partial U^O}{\partial q_2}} = \frac{p_1}{p_2}$$

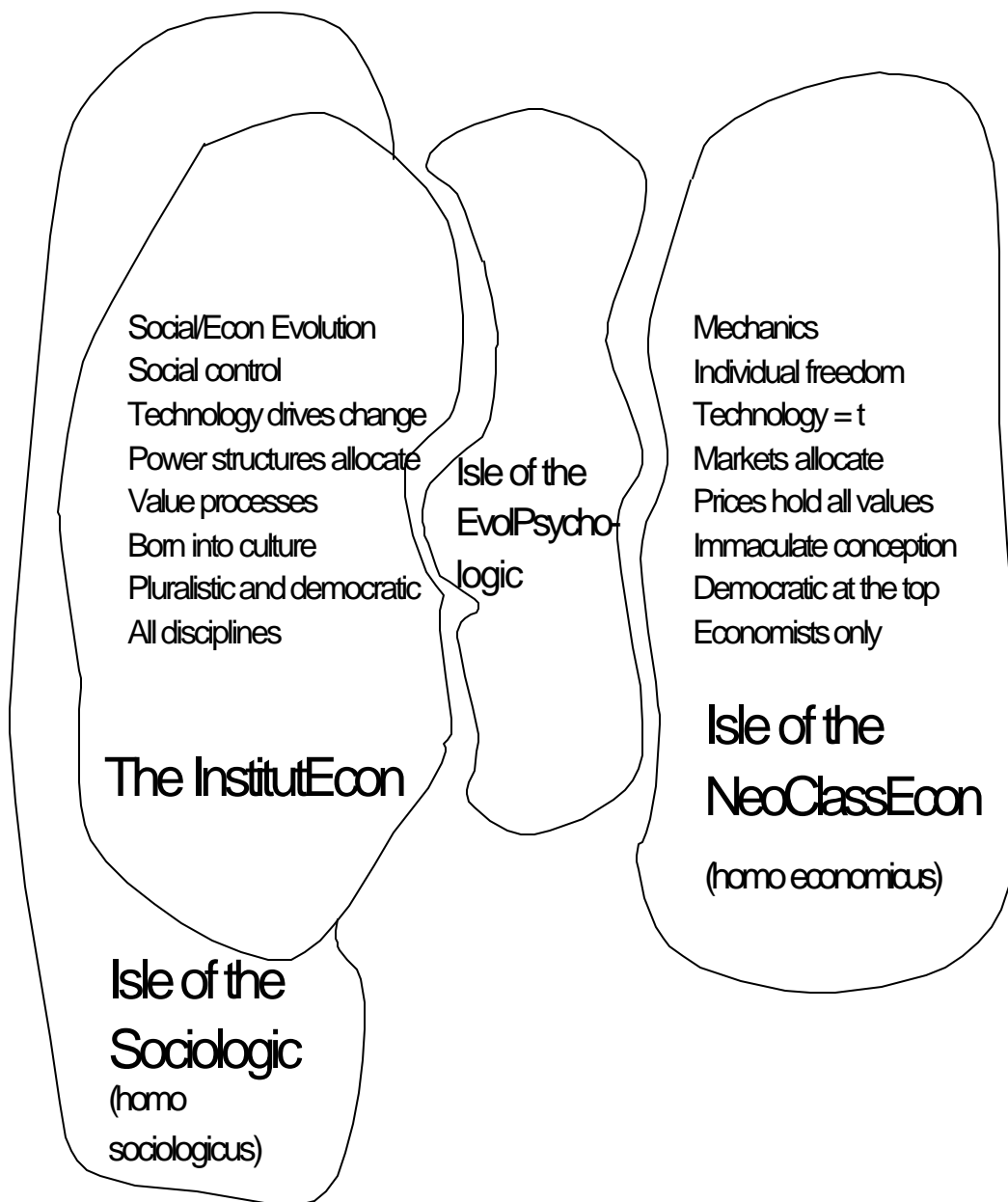
Solving this expression for  $q_2 = q_2(p_1, p_2, A, J, (\tau, U^S, U^O))$  and inserting into the budget constraint, gives the demand curve

$$(19) \quad q_1^W = q_1^W(p_1, p_2, v, \tau, \gamma, U^S, U^O, y)$$

which again reduces to

$$(20) \quad q_1^W = q_1^W(p_1, p_2, W, y)$$

as in Equation (16).



**Figure 1.** The Isles of the Sociologic and the NeoClassEcon potentially reconnected through the Isle of the EvolPsychologic to form the Unified SocioEcon Isle

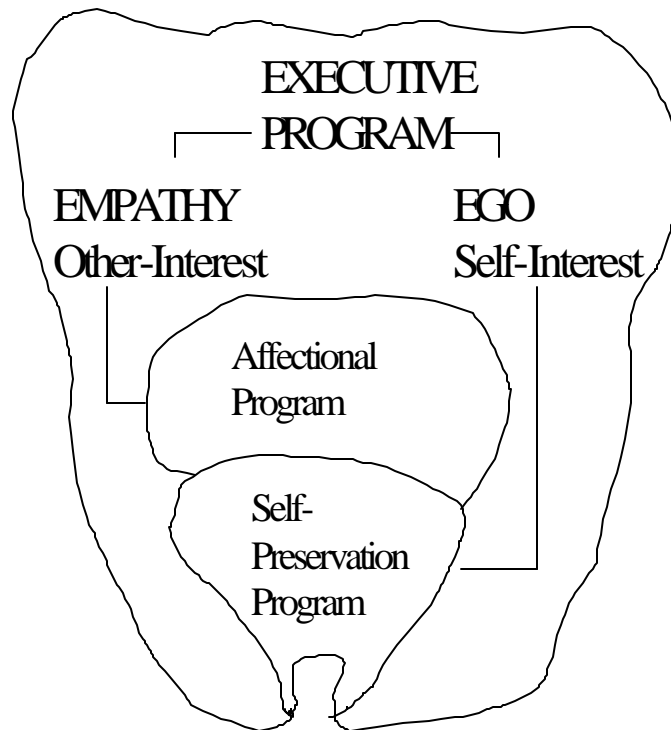


Figure 2. Conflict systems model of the triune brain suggesting the balancing of the others-interest (empathy) and the self-interest (ego)  
(Source: Cory, 1999, p. 33)

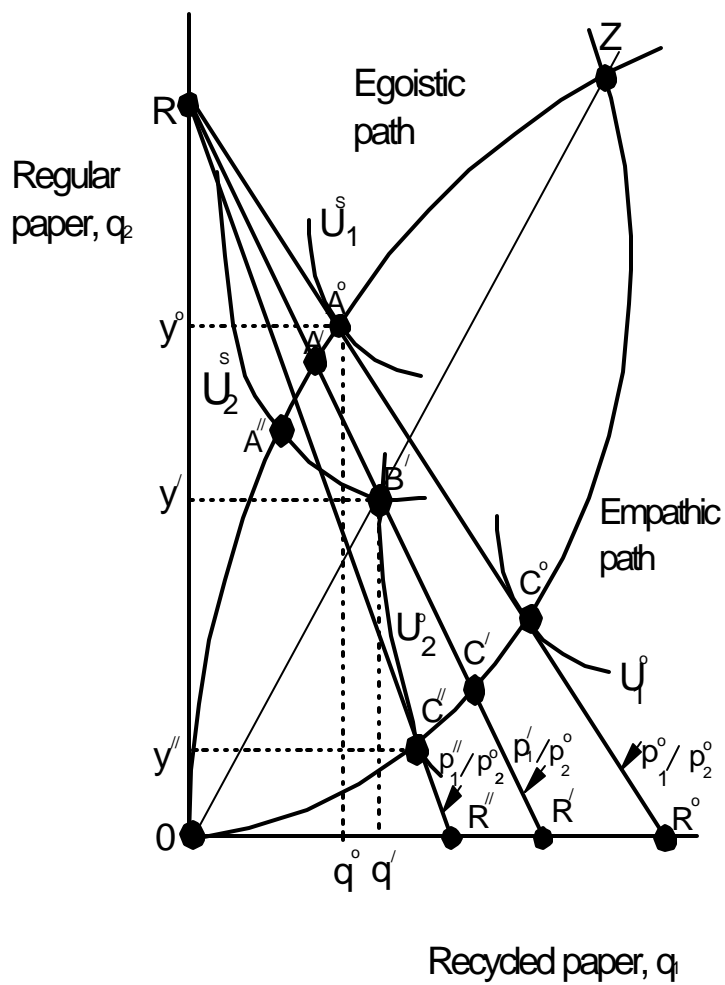


Figure 3. Joint self-interest (Egoistic) and others-interest (Empathic) curves for regular and recycled paper.

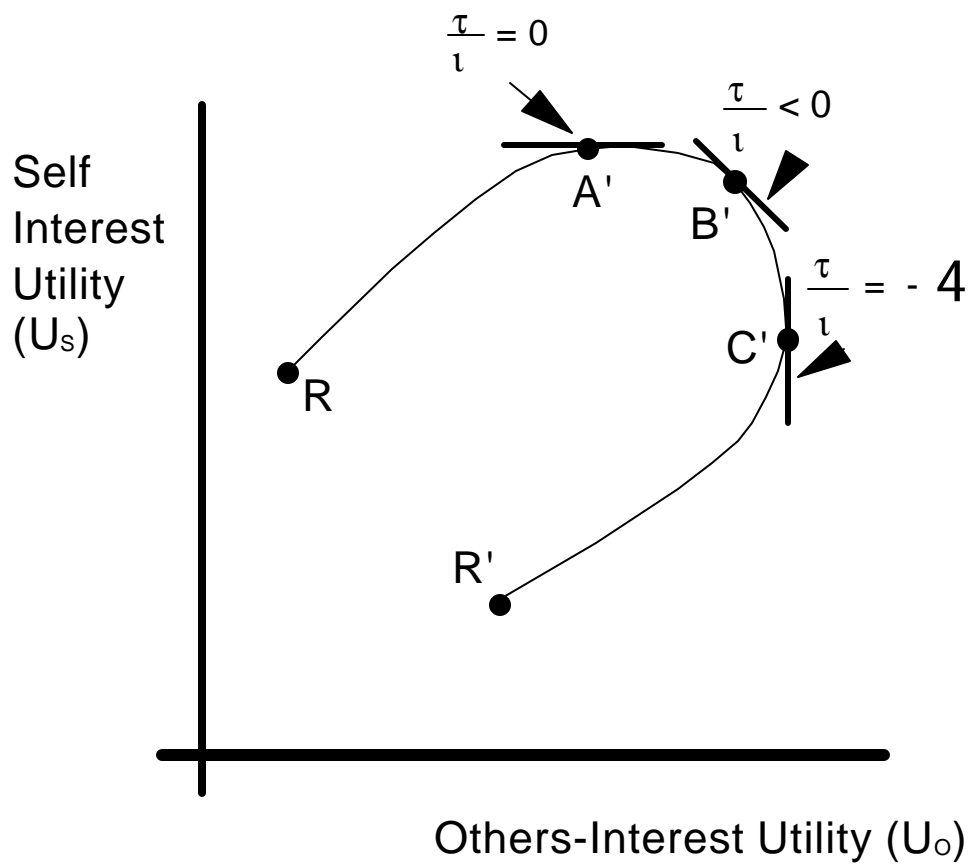


Figure 4. Ego-empathy frontier for the self-interest ( $U_s$ ) and others-interest ( $U_o$ ) utility from regular and recycled paper