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978-0-521-31701-6 - The Individual in the Economy: A Textbook of Economic
Psychology

Stephen E. G. Lea, Roger M. Tarpy and Paul Webley

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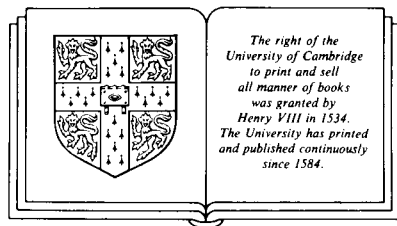
THE INDIVIDUAL IN THE ECONOMY

A Textbook of Economic Psychology

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TO OUR CHILDREN –
An account of what we do

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PREFACE

The institutions of education—universities, libraries, learned societies—divide knowledge into convenient packages. This is anatomy; here is physiology; that is chemistry. Sometimes these divisions correspond to real distinctions in the world. Sometimes, however, they do not.

Usually, these institutional divisions do not matter very much. Two academic disciplines may merge and are recognized to do so; the same individual can operate as a zoologically oriented psychologist, among other psychologists, or as a psychologically oriented zoologist, among other zoologists. If an institutional gap is too large, a new discipline may grow up within it. Thus, we have biochemistry between chemistry and biology, or social psychology between sociology and psychology.

In the worst case, however, our institutional divisions may actually create gaps in our knowledge that do not correspond to anything outside ourselves. This book is written in the belief that precisely this kind of artificial divide exists between the academic disciplines of psychology and economics. Economics and psychology both claim to study human behavior, but each rejects the idea that the other could have any insights to offer to it. The present authors, however, do not believe that people cease to be people when they go out to work or to shop, nor do we believe that economic causes have only economic effects on behavior. It should be possible to apply psychological knowledge to understand people's economic behavior, and it should be possible to apply economic knowledge to understand how the economy affects each individual. Those two kinds of understanding are the proper subject matter of economic psychology.

The idea of economic psychology as an interdisciplinary effort is not new; it goes back, at least, to the French social psychologist Gabriel Tarde (1902). Its intellectual roots, however, lie even deeper, in the time when both economics and psychology were studied chiefly by philosophers who moved without hesitation from one sphere of discourse to the other. Even though Tarde was the first to write a book called *Economic Psychology*, he is not the last; a sporadic interest in the joint study of the two disciplines has continued throughout this century. Why, then, has it

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failed to develop more fully when so many other interdisciplinary areas have flourished?

We believe that the answer lies in the ideology of both psychology and economics. In Western Europe and America, at least, theoretical economics of the twentieth century has had to rid itself of an inappropriate psychology of choice and work toward a highly refined concept of rational behavior. Psychology, on the other hand, in almost all its many schools, has stressed the a-rational determinants of behavior and the limitations of rationality. The stage has been set for headlong collision whenever psychologists and economists have come into contact. Psychologists approaching economics have done so with the idea that they could tell economists how to conduct their own business, indeed, with an attitude of “disciplinary imperialism”; psychology was to provide a new, assured foundation for economic theory. And in recent years, economists seem to have been learning how to carry a similar campaign into the psychological camp.

The time has surely come to try a different approach. This book is not intended to use psychology to reform economics or economics to reform psychology. Rather, our aim is to find what each discipline can contribute to the joint study of problems to which they are both relevant.

What, then, is economic psychology? We do not believe that a person who studies a problem that has both an economic and a psychological dimension is necessarily an economic psychologist. Such a definition would include almost everyone in both disciplines. Nor do we hold that to be an economic psychologist one must be fully expert in both disciplines (or even that you must call yourself an economic psychologist). This definition would leave hardly anyone in the field. An economic psychologist, we believe, is anyone who recognizes that the problem he or she is studying is both an economic and a psychological problem and is prepared to use both economic and psychological methods to investigate it. Economic psychology is the body of knowledge that results from such interdisciplinary investigation. It is economic psychology in this sense, which it tries to report. We hope that many of our readers will discover that they have been economic psychologists for years without realizing it.

The contents of this book reflect our idea of what economic psychology should be. We have tried to cover as many of the areas of academic and applied study to which we can see clear economic and psychological approaches. The one major omission is what might be called “business psychology,” that is, the study of human behavior within organizations, and the study of the psychology of financial markets. This omission reflects, perhaps, some bias toward an interest in the ordinary individual living within the economy. Our relative neglect of organizational psychology, however, also results from the fact that it is already a well-organized subdiscipline with an extensive literature of its own.

The structure of the book embodies our view of the way economic

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psychology should be approached. It is divided into four parts. Part I consists of essential preliminary material. Because we assume that our readers will come to economic psychology from many different directions, we have tried to provide a common foundation of ideas and research methods from both disciplines, and to use these in the rest of the book. The first part also examines, in depth, the key concept of rationality, which is what economics and psychology seem to have in common, and what has most often in the past kept them apart.

Part II contains an examination, from both an economic and a psychological standpoint, of a series of important economic behaviors of individuals. These are work, buying, saving, giving, and gambling. They are chosen partly because of their practical, economic importance, but also because they each pose distinct theoretical questions in both disciplines. The basic idea behind this part of the book is that the behavior of individuals helps determine the behavior of the economy as a whole and that we should therefore make the maximum effort to understand why individuals act as they do in important economic situations.

Part III presents the opposite premise. Here, the ruling idea is that the kind of economy an individual lives in can have an important effect on his or her behavior. This part is less homogeneous in content. Two chapters look at properties of the economy—taxation and money—from a psychological perspective. One considers an economic process, advertising, which is specifically intended to affect individuals. One looks at how children become socialized into life within our modern economy. The remainder examine the psychological effects of certain specialized economic situations, that is, the so-called “primitive” economies of cultures distinct from our own, the economy of depression or expansion in advanced nations and of rapid development in less industrialized ones, and the artificial “token economies” which have been created by psychologists with the aim of changing behavior in clinical or educational settings.

Finally, Part IV considers where this interdisciplinary study has led us. The three chapters can, in a sense, be seen as our conclusions for psychologists, for economists, and for economic psychologists, but we hope that all our readers will be interested by them. We hope that they show that economic psychology can now make progress and can produce results that will be of interest to the wider disciplines from which it springs.

We believe that economic psychology is an idea whose time has come. The last few years have seen the foundation of at least two learned societies and two learned journals devoted to it, indicating that the hallmarks of academic respectability are undoubtedly being conferred. More important is the increasing flow of new ideas into the field, as economists and psychologists from different parts of their own disciplines recognize that they may have something to learn from, and to contribute to, an interdisciplinary approach.

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We are well aware that this book will be found to be uneven. All three of us are psychologists by training, and though we have had to learn a great deal of economics to write the book (and have had a good deal of help from friendly economists), we are well aware that economic howlers will remain. Because so few researchers see themselves as economic psychologists, we have had to draw on materials that are highly specialized even within psychology or economics. In trying to make them accessible to an interdisciplinary audience, it would be miraculous if we had not introduced the occasional distortion. And just because economic psychology is reaching the point of takeoff, we have been painfully aware of new ideas being created all around us.

The book has been written partly in England and partly in America and is a truly collaborative effort (the order of authors is alphabetical). We believe that this is one of its strengths. Economic psychology is much better developed in Europe than in America, while other, related disciplines such as consumer science are essentially American institutions. We hope that both European and American readers will be happy to move freely, as we have done, between examples from two continents. At the present stage of its development, economic psychology needs to develop general ideas, and we hope that the international nature of its writing will help this book to escape from the blinders that may be imposed by a single kind of economy. That escape is only relative, of course; readers from Eastern Europe, Japan, or the less industrialized nations will recognize how little we know about the psychology of their rather different economic systems.

Economics is inevitably linked to economic policy, and the writing of this book has brought us rather closer to political issues than most psychologists allow themselves to go. We should make clear that we are not advocating any particular political line, if only because the three of us do not have an agreed political position. On the other hand, we have not drawn back from making points simply because they might bear a political interpretation. Some readers may find the result left of center, particularly in America, since the center of gravity of political thought and the range of political ideas in current use are farther to the left in Europe than in the United States. From other perspectives, particularly European ones, the book may well appear unduly cautious politically, but we hope that it will at least be free of that bias toward right-wing ideas and managerial interests which forms an offensive backdrop to much writing in economics and consumer science.

It may be odd for authors to look forward to their book's being out of date. But if this book succeeds (or, rather, if the process of which it is part succeeds), we hope that, in relatively few years, *The Individual in the Economy* will seem impossibly dated. If economic psychology develops as we believe it now can, there should be so many new ideas in the next

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decade that much of what we now report will be irrelevant. It should also seem impossible that psychologists and economists should have been so ignorant of each other's concerns as, for all our own interdisciplinary goodwill, we shall have to reveal them to be.

But a necessary part of that process is staking out the ground on which an interdisciplinary study can be built. That is the purpose of this book. Economists and psychologists will find different faults in it, but we hope that this process will help both to see that they do, in spite of history, indeed have common ground.

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