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## The Economic Approach to Human Behavior

Economy is the art of making the most of life.  
*George Bernard Shaw*

The following essays use an “economic” approach in seeking to understand human behavior in a variety of contexts and situations. Although few persons would dispute the distinctiveness of an economic approach, it is not easy to state exactly what distinguishes the economic approach from sociological, psychological, anthropological, political, or even genetical approaches. In this introductory essay I attempt to spell out the principal attributes of the economic approach.

Let us turn for guidance first to the definitions of different fields. At least three conflicting definitions of economics are still common. Economics is said to be the study of (1) the allocation of material goods to satisfy material wants,<sup>1</sup> (2) the market sector,<sup>2</sup> and (3) the allocation of scarce means to satisfy competing ends.<sup>3</sup>

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<sup>1</sup> “[Economics] is the social science that deals with the ways in which men and societies seek to satisfy their material needs and desires,” Albert Rees (1968); “[Economics is the] study of the supplying of man’s physical needs and wants,” art. “Economics,” *The Columbia Encyclopedia*, 3d ed. p. 624; and see the many earlier references to Marshall, Cannan, and others in L. Robbins (1962).

<sup>2</sup> A. C. Pigou said “[Economic welfare is] that part of social welfare that can be brought directly or indirectly into relation with the measuring rod of money” (1962, p. 11).

<sup>3</sup> “Economics is the science which studies human behavior as a relationship between ends and scarce means which have alternative uses,” Robbins (1962, p. 16); “Economics . . . is the study of the allocation of scarce resources among unlimited and competing uses,” Rees (1968) and many other references.

The definition of economics in terms of material goods is the narrowest and the least satisfactory. It does not describe adequately either the market sector or what economists "do." For the production of tangible goods now provides less than half of all the market employment in the United States, and the intangible outputs of the service sector are now larger in value than the outputs of the goods sector (see Fuchs 1968). Moreover, economists are as successful in understanding the production and demand for retail trade, films, or education as they are for autos or meat. The persistence of definitions which tie economics to material goods is perhaps due to a reluctance to submit certain kinds of human behavior to the "frigid" calculus of economics.

The definition of economics in terms of scarce means and competing ends is the most general of all. It defines economics by the nature of the problem to be solved, and encompasses far more than the market sector or "what economists do."<sup>4</sup> Scarcity and choice characterize all resources allocated by the political process (including which industries to tax, how fast to increase the money supply, and whether to go to war); by the family (including decisions about a marriage mate, family size, the frequency of church attendance, and the allocation of time between sleeping and waking hours); by scientists (including decisions about allocating their thinking time, and mental energy to different research problems); and so on in endless variety. This definition of economics is so broad that it often is a source of embarrassment rather than of pride to many economists, and usually is immediately qualified to exclude most nonmarket behavior.<sup>5</sup>

All of these definitions of economics simply define the scope, and none tells us one iota about what the "economic" approach is. It could stress tradition and duty, impulsive behavior, maximizing behavior, or any other behavior in analyzing the market sector or the allocation of scarce means to competing ends.

Similarly, definitions of sociology and other social sciences are of equally little help in distinguishing their approaches from others. For example, the statement that sociology "is the study of social aggregates and groups in their institutional organization, of institutions and their organization, and of causes and consequences of changes in institutions and social organization" (Reiss 1968) does not distinguish the subject matter, let alone the approach, of sociology from, say, economics. Or the statement that "comparative psychology is concerned with the behavior of different species of living organisms" (Waters and Brunnell 1968) is as general as the definitions of economics and sociology, and as uninformative.

<sup>4</sup> Boulding (1966) attributes this definition of economics to Jacob Viner.

<sup>5</sup> Almost immediately after giving the broad definition of economics, Rees (1968) gives one in terms of material needs, without explaining why he so greatly reduced the scope of economics. Even Robbins, after an excellent discussion of what an economic problem is in the first chapter of his classic work on the nature and scope of economics (1962), basically restricts his analysis in later chapters to the market sector.

Let us turn away from definitions, therefore, because I believe that what most distinguishes economics as a discipline from other disciplines in the social sciences is not its subject matter but its approach. Indeed, many kinds of behavior fall within the subject matter of several disciplines: for example, fertility behavior is considered part of sociology, anthropology, economics, history, and perhaps even politics. I contend that the economic approach is uniquely powerful because it can integrate a wide range of human behavior.

Everyone recognizes that the economic approach assumes maximizing behavior more explicitly and extensively than other approaches do, be it the utility or wealth function of the household, firm, union, or government bureau that is maximized. Moreover, the economic approach assumes the existence of markets that with varying degrees of efficiency coordinate the actions of different participants—individuals, firms, even nations—so that their behavior becomes mutually consistent. Since economists generally have had little to contribute, especially in recent times, to the understanding of how preferences are formed, preferences are assumed not to change substantially over time, nor to be very different between wealthy and poor persons, or even between persons in different societies and cultures.

Prices and other market instruments allocate the scarce resources within a society and thereby constrain the desires of participants and coordinate their actions. In the economic approach, these market instruments perform most, if not all, of the functions assigned to "structure" in sociological theories.<sup>6</sup>

The preferences that are assumed to be stable do not refer to market goods and services, like oranges, automobiles, or medical care, but to underlying objects of choice that are produced by each household using market goods and services, their own time, and other inputs. These underlying preferences are defined over fundamental aspects of life, such as health, prestige, sensual pleasure, benevolence, or envy, that do not always bear a stable relation to market goods and services (see chapter 7 below). The assumption of stable preferences provides a stable foundation for generating predictions about responses to various changes, and prevents the analyst from succumbing to the temptation of simply postulating the required shift in preferences to "explain" all apparent contradictions to his predictions.

The combined assumptions of maximizing behavior, market equilibrium, and stable preferences, used relentlessly and unflinchingly, form the heart of the economic approach as I see it. They are responsible for the many theorems associated with this approach. For example, that (1) a rise in price reduces quantity demanded,<sup>7</sup> be it a rise in the market price of eggs reducing the demand for eggs, a rise in the "shadow" price of children

<sup>6</sup> An excellent statement of structural analysis can be found in Merton (1975).

<sup>7</sup> That maximizing behavior is not necessary to reach this conclusion is shown below in chapter 8.

reducing the demand for children, or a rise in the office waiting time for physicians, which is one component of the full price of physician services, reducing the demand for their services; (2) a rise in price increases the quantity supplied, be it a rise in the market price of beef increasing the number of cattle raised and slaughtered, a rise in the wage rate offered to married women increasing their labor force participation, or a reduction in "cruising" time raising the effective price received by taxicab drivers and thereby increasing the supply of taxicabs; (3) competitive markets satisfy consumer preferences more effectively than monopolistic markets, be it the market for aluminum or the market for ideas (see Director 1964, Coase 1974); or (4) a tax on the output of a market reduces that output, be it an excise tax on gasoline that reduces the use of gasoline, punishment of criminals (which is a "tax" on crime) that reduces the amount of crime, or a tax on wages that reduces the labor supplied to the market sector.

The economic approach is clearly not restricted to material goods and wants, nor even to the market sector. Prices, be they the money prices of the market sector or the "shadow" imputed prices of the nonmarket sector, measure the opportunity cost of using scarce resources, and the economic approach predicts the same kind of response to shadow prices as to market prices. Consider, for example, a person whose only scarce resource is his limited amount of time. This time is used to produce various commodities that enter his preference function, the aim being to maximize utility. Even without a market sector, either directly or indirectly, each commodity has a relevant marginal "shadow" price, namely, the time required to produce a unit change in that commodity; in equilibrium, the ratio of these prices must equal the ratio of the marginal utilities.<sup>8</sup> Most importantly, an increase in the relative price of any commodity—i.e., an increase in the time required to produce a unit of that commodity—would tend to reduce the consumption of that commodity.

The economic approach does not assume that all participants in any market necessarily have complete information or engage in costless transactions. Incomplete information or costly transactions should not, however, be confused with irrational or volatile behavior.<sup>9</sup> The economic approach has developed a theory of the optimal or rational accumulation

<sup>8</sup> He maximizes  $U = U(Z_1 \dots Z_m)$  subject to

$$Z_i = f_i(t_i),$$

and

$$\sum t_i = t,$$

where  $Z_i$  is the  $i$ th commodity,  $f_i$  the production function for  $Z_i$ , and  $t_i$  is the time input into  $Z_i$ . The well-known first-order equilibrium conditions for the allocation of his scarce resource, time, are:

$$\frac{\partial U}{\partial Z_i} = \lambda \frac{\partial t_i}{\partial Z_i} = \frac{\lambda}{\partial Z_i / \partial t_i} = \frac{\lambda}{MP_{t_i}},$$

where  $\lambda$  is his marginal utility of time.

<sup>9</sup> Schumpeter appears to confuse them, although with considerable modification (1950, chap. 21, section "Human Nature in Politics").

of costly information<sup>10</sup> that implies, for example, greater investment in information when undertaking major than minor decisions—the purchase of a house or entrance into marriage versus the purchase of a sofa or bread. The assumption that information is often seriously incomplete, because it is costly to acquire is used in the economic approach to explain the same kind of behavior that is explained by irrational and volatile behavior, or traditional behavior, or "nonrational" behavior in other discussions.

When an apparently profitable opportunity to a firm, worker, or household is not exploited, the economic approach does not take refuge in assertions about irrationality, contentment with wealth already acquired, or convenient ad hoc shifts in values (i.e., preferences). Rather it postulates the existence of costs, monetary or psychic, of taking advantage of these opportunities that eliminate their profitability—costs that may not be easily "seen" by outside observers. Of course, postulating the existence of costs closes or "completes" the economic approach in the same, almost tautological, way that postulating the existence of (sometimes unobserved) uses of energy completes the energy system, and preserves the law of the conservation of energy. Systems of analysis in chemistry, genetics, and other fields are completed in a related manner. The critical question is whether a system is completed in a useful way; the important theorems derived from the economic approach indicate that it has been completed in a way that yields much more than a bundle of empty tautologies in good part because, as I indicated earlier, the assumption of stable preferences provides a foundation for predicting the responses to various changes.

Moreover, the economic approach does not assume that decisions units are necessarily conscious of their efforts to maximize or can verbalize or otherwise describe in an informative way reasons for the systematic patterns in their behavior.<sup>11</sup> Thus it is consistent with the emphasis on the subconscious in modern psychology and with the distinction between manifest and latent functions in sociology (Merton 1968). In addition, the economic approach does not draw conceptual distinctions between major and minor decisions, such as those involving life and death<sup>12</sup> in contrast to the choice of a brand of coffee; or between decisions said to involve strong emotions and those with little emotional involvement.<sup>13</sup>

<sup>10</sup> The pioneering paper is Stigler's "The Economics of Information" (1961).

<sup>11</sup> This point is stressed in Milton Friedman's seminal article, "The Methodology of Positive Economics" (1953).

<sup>12</sup> The length of life itself is a decision variable in the important study by Grossman (1972).

<sup>13</sup> Jeremy Bentham said "As to the proposition that passion does not calculate, this, like most of these very general and oracular propositions is not true . . . I would not say that even a madman does not calculate. Passion calculates, more or less, in every man" (1963). He does add, however, that "of all passions, the most given to calculation . . . [is] the motive of pecuniary interest."

such as in choosing a mate or the number of children in contrast to buying paint; or between decisions by persons with different incomes, education, or family backgrounds.

Indeed, I have come to the position that the economic approach is a comprehensive one that is applicable to all human behavior, be it behavior involving money prices or imputed shadow prices, repeated or infrequent decisions, large or minor decisions, emotional or mechanical ends, rich or poor persons, men or women, adults or children, brilliant or stupid persons, patients or therapists, businessmen or politicians, teachers or students. The applications of the economic approach so conceived are as extensive as the scope of economics in the definition given earlier that emphasizes scarce means and competing ends. It is an appropriate approach to go with such a broad and unqualified definition, and with the statement by Shaw that begins this essay.

For whatever its worth in evaluating this conclusion, let me indicate that I did not arrive at it quickly. In college I was attracted by the problems studied by sociologists and the analytical techniques used by economists. These interests began to merge in my doctoral study,<sup>14</sup> which used economic analysis to understand racial discrimination (see chapter 2 and Becker 1971). Subsequently, I applied the economic approach to fertility, education, the uses of time, crime, marriage, social interactions, and other "sociological," "legal," and "political" problems. Only after long reflection on this work and the rapidly growing body of related work by others did I conclude that the economic approach was applicable to all human behavior.

The economic approach to human behavior is not new, even outside the market sector. Adam Smith often (but not always!) used this approach to understand political behavior. Jeremy Bentham was explicit about his belief that the pleasure-pain calculus is applicable to all human behavior: "Nature has placed mankind under the governance of two sovereign masters, *pain and pleasure*. It is for them alone to point out what we ought to do, as well as to determine what we shall do . . . They govern us in all we do, in all we say, in all we think" (1963). The pleasure-pain calculus is said to be applicable to *all* we do, say, and think, without restriction to monetary decisions, repetitive choices, unimportant decisions, etc. Bentham did apply his calculus to an extremely wide range of human behavior, including criminal sanctions, prison reform, legislation, usury laws, and jurisprudence as well as the markets for goods and services. Although Bentham explicitly states that the pleasure-pain calculus is applicable to what we "shall" do as well as to what we "ought" to do, he was primarily interested in "ought"—he was first and foremost a reformer—and did not develop a theory of actual human behavior with many

<sup>14</sup> Actually, a little earlier in an essay that applied economic analysis to political behavior.

testable implications. He often became bogged down in tautologies because he did not maintain the assumption of stable preferences, and because he was more concerned about making his calculus consistent with all behavior than about deriving the restrictions it imposed on behavior.

Marx and his followers have applied what is usually called an "economic" approach to politics, marriage, and other nonmarket behavior as well as to market behavior. But to the Marxist, the economic approach means that the organization of production is decisive in determining social and political structure, and he places much emphasis upon material goods, processes, and ends, conflict between capitalists and workers, and general subjugation of one class by another. What I have called the "economic approach" has little in common with this view. Moreover, the Marxist, like the Benthamite, has concentrated on what ought to be, and has often emptied his approach of much predictive content in the effort to make it consistent with all events.

Needless to say, the economic approach has not provided equal insight into and understanding of all kinds of behavior: for example, the determinants of war and of many other political decisions have not yet been much illuminated by this approach (or by any other approach). I believe, however, that the limited success is mainly the result of limited effort and not lack of relevance. For, on the one hand, the economic approach has not been systematically applied to war, and its application to other kinds of political behavior is quite recent; on the other hand, much apparently equally intractable behavior—such as fertility, child-rearing, labor force participation, and other decisions of families—has been greatly illuminated in recent years by the systematic application of the economic approach.

The following essays, through the variety of subjects covered, and (I hope) the insights yielded, provide some support for the wide applicability of the economic approach. Greater support is provided by the extensive literature developed in the last twenty years that uses the economic approach to analyze an almost endlessly varied set of problems, including the evolution of language (Marschak 1965), church attendance (Azzi and Ehrenberg 1975), capital punishment (Ehrlich 1975), the legal system (Posner 1973, Becker and Landes 1974), the extinction of animals (Smith 1975), and the incidence of suicide (Hammermesh and Soss 1974). To convey dramatically the flavor of the economic approach, I discuss briefly three of the more unusual and controversial applications.

Good health and a long life are important aims of most persons, but surely no more than a moment's reflection is necessary to convince anyone that they are not the only aims: somewhat better health or a longer life may be sacrificed because they conflict with other aims. The economic approach implies that there is an "optimal" expected length of life, where the value in utility of an additional year is less than the utility foregone by using time and other resources to obtain that year. Therefore, a person may be a heavy smoker or so committed to work as to omit all

exercise, not necessarily because he is ignorant of the consequences or "incapable" of using the information he possesses, but because the life-span forfeited is not worth the cost to him of quitting smoking or working less intensively. These would be unwise decisions if a long life were the only aim, but as long as other aims exist, they could be informed and in this sense "wise."

According to the economic approach, therefore, *most* (if not all!) deaths are to some extent "suicides" in the sense that they could have been postponed if more resources had been invested in prolonging life. This not only has implications for the analysis of what are ordinarily called suicides,<sup>15</sup> but also calls into question the common distinction between suicides and "natural" deaths. Once again the economic approach and modern psychology come to similar conclusions since the latter emphasizes that a "death wish" lies behind many "accidental" deaths and others allegedly due to "natural" causes.

The economic approach does not merely restate in language familiar to economists different behavior with regard to health, removing all possibility of error by a series of tautologies. The approach implies, for example, that both health and medical care would rise as a person's wage rate rose, that aging would bring declining health although expenditures on medical care would rise, and that more education would induce an increase in health even though expenditures on medical care would fall. None of these or other implications are necessarily true, but all appear to be consistent with the available evidence.<sup>16</sup>

According to the economic approach, a person decides to marry when the utility expected from marriage exceeds that expected from remaining single or from additional search for a more suitable mate (see chapter 11). Similarly, a married person terminates his (or her) marriage when the utility anticipated from becoming single or marrying someone else exceeds the loss in utility from separation, including losses due to physical separation from one's children, division of joint assets, legal fees, and so forth. Since many persons are looking for mates, a *market* in marriages can be said to exist: each person tries to do the best he can, given that everyone else in the market is trying to do the best they can. A sorting of persons into different marriages is said to be an equilibrium sorting if persons not married to each other in this sorting could not marry and make each better off.

Again, the economic approach has numerous implications about behavior that could be falsified. For example, it implies that "likes" tend to marry each other, when measured by intelligence, education, race, family background, height, and many other variables, and that "unlikes" marry when measured by wage rates and some other variables. The

<sup>15</sup> Some of these implications are developed in Hammermesh and Soss (1974).

<sup>16</sup> These implications are derived, and the evidence is examined, in Grossman (1971).

implication that men with relatively high wage rates marry women with relatively low wage rates (other variables being held constant) surprises many, but appears consistent with the available data when they are adjusted for the large fraction of married women who do not work (see chapter 11). The economic approach also implies that higher-income persons marry younger and divorce less frequently than others, implications consistent with the available evidence (see Keeley 1974) but not with common beliefs. Still another implication is that an increase in the relative earnings of wives increases the likelihood of marital dissolution, which partly explains the greater dissolution rate among black than white families.

According to the Heisenberg indeterminacy principle, the phenomena analyzed by physical scientists cannot be observed in a "natural" state because their observations change these phenomena. An even stronger principle has been suggested for social scientists since they are participants as well as analysts and, therefore, are supposed to be incapable of objective observation. The economic approach makes a very different but distantly related point: namely that persons only choose to follow scholarly or other intellectual or artistic pursuits if they expect the benefits, both monetary and psychic, to exceed those available in alternative occupations. Since the criterion is the same as in the choice of more commonplace occupations, there is no obvious reason why intellectuals would be less concerned with personal rewards, more concerned with social well-being, or more intrinsically honest than others.<sup>17</sup>

It then follows from the economic approach that an increased demand by different interest groups or constituencies for particular intellectual arguments and conclusions would stimulate an increased supply of these arguments, by the theorem cited earlier on the effect of a rise in "price" on quantity supplied. Similarly, a flow of foundation or government funds into particular research topics, even "ill-advised" topics, would have no difficulty generating proposals for research on those topics. What the economic approach calls normal responses of supply to changes in demand, others may call intellectual or artistic "prostitution" when applied to intellectual or artistic pursuits. Perhaps, but attempts to distinguish sharply the market for intellectual and artistic services from the market for "ordinary" goods have been the source of confusion and inconsistency (see Director 1964, Coase 1974).

I am not suggesting that the economic approach is used by all economists for all human behavior or even by most economists for most. Indeed, many economists are openly hostile to all but the traditional applications. Moreover, economists cannot resist the temptation to hide their own lack of understanding behind allegations of irrational behavior, unnecessary

<sup>17</sup> This example is taken from Stigler (1976). Also see the discussion of the reward system in science and of related issues in Merton (1973, esp. part 4).

ignorance, folly, ad hoc shifts in values, and the like, which is simply acknowledging defeat in the guise of considered judgment. For example, if some Broadway theater owners charge prices that result in long delays before seats are available, the owners are alleged to be ignorant of the profit-maximizing price structure rather than the analyst ignorant of why actual prices do maximize profits. When only a portion of the variation in earnings among individuals is explained, the unexplained portion is attributed to luck or chance,<sup>18</sup> not to ignorance of or inability to measure additional systematic components. The coal industry is called inefficient because certain cost and output calculations point in that direction (see Henderson 1958), although an attractive alternative hypothesis is that the calculations are seriously in error.

War is said to be caused by madmen, and political behavior, more generally, dominated by folly and ignorance. Recall Keynes's remark about "madmen in authority, who hear voices in the air" (1962, p. 383), and although Adam Smith, the principal founder of the economic approach, interpreted some laws and legislation in the same way that he interpreted market behavior, even he, without much discussion, lamely dismissed others as a result of folly and ignorance.<sup>19</sup>

Examples abound in the economic literature of changes in preferences conveniently introduced ad hoc to explain puzzling behavior. Education is said to change preferences—about different goods and services, political candidates, or family size—rather than real income or the relative cost of different choices.<sup>20</sup> Businessmen talk about the social responsibilities of business because their attitudes are said to be influenced by public discussions of this question rather than because such talk is necessary to maximize their profits, given the climate of public intervention. Or advertisers are alleged to take advantage of the fragility of consumer preferences, with little explanation of why, for example, advertising is heavier in some industries than others, changes in importance in a given industry over time, and occurs in quite competitive industries as well as in monopolistic ones.<sup>21</sup>

Naturally, what is tempting to economists nominally committed to the economic approach becomes irresistible to others without this commitment,

<sup>18</sup> An extreme example is Jencks (1972). Jencks even grossly understates the portion that can be explained because he neglects the important work by Mincer and others (see especially Mincer [1974]).

<sup>19</sup> See Stigler (1971). Smith does not indicate why ignorance is dominant in the passage of certain laws and not others.

<sup>20</sup> For an interpretation of the effects of education on consumption entirely in terms of income and price effects, Michael (1972).

<sup>21</sup> For an analysis of advertising that is consistent with stable preferences, and implies that advertising might even be more important in competitive than monopolistic industries, see Stigler and Becker (1974). For a good discussion of advertising that also does not rely on shifts in preferences, see Nelson (1975).

and without a commitment to the scientific study of sociology, psychology, or anthropology. With an ingenuity worthy of admiration if put to better use, almost any conceivable behavior is alleged to be dominated by ignorance and irrationality, values and their frequent unexplained shifts, custom and tradition, the compliance somehow induced by social norms, or the ego and the id.

I do not mean to suggest that concepts like the ego and the id, or social norms, are without any scientific content. Only that they are tempting materials, as are concepts in the economic literature, for ad hoc and useless explanations of behavior. There is no apparent embarrassment in arguing, for example, both that the sharp rise in fertility during the late 1940s and early 1950s resulted from a renewed desire for large families, and that the prolonged decline starting just a few years later resulted from a reluctance to be tied down with many children. Or developing countries are supposed simply to copy the American's "compulsiveness" about time, whereas the growing value of their own time is a more fruitful explanation of their increased effort to economize in their use of time (see chapter 5). More generally, custom and tradition are said to be abandoned in developing countries because their young people are seduced by Western ways; it is not recognized that while custom and tradition are quite useful in a relatively stationary environment, they are often a hindrance in a dynamic world, especially for young people (see Stigler and Becker 1974).

Even those believing that the economic approach is applicable to all human behavior recognize that many noneconomic variables also significantly affect human behavior. Obviously, the laws of mathematics, chemistry, physics, and biology have a tremendous influence on behavior through their influence on preferences and productions possibilities. That the human body ages, that the rate of population growth equals the birth rate plus the migration rate minus the death rate, that children of more intelligent parents tend to be more intelligent than children of less intelligent parents, that people need to breathe to live, that a hybrid plant has a particular yield under one set of environmental conditions and a very different yield under another set, that gold and oil are located only in certain parts of the world and cannot be made from wood, or that an assembly line operates according to certain physical laws—all these and more influence choices, the production of people and goods, and the evolution of societies.

To say this, however, is not the same as saying that, for example, the rate of population growth is itself "noneconomic" in the sense that birth, migration, and death rates cannot be illuminated by the economic approach, or that the rate of adoption of new hybrids is "noneconomic" because it cannot be explained by the economic approach. Indeed, useful implications about the number of children in different families have been obtained by assuming that families maximize their utility from stable preferences subject to a constraint on their resources and prices, with

resources and prices partly determined by the gestation period for pregnancies, the abilities of children, and other noneconomic variables (see chapters 9 and 10; see also Schultz 1975). Similarly, the rate of adoption of hybrid corn in different parts of the United States has been neatly explained by assuming that farmers maximize profits: new hybrids were more profitable, and thus adopted earlier, in some parts because weather, soil, and other physical conditions were more favorable (Griliches 1957).

Just as many noneconomic variables are necessary for understanding human behavior, so too are the contributions of sociologists, psychologists, sociobiologists, historians, anthropologists, political scientists, lawyers, and others. Although I am arguing that the economic approach provides a useful framework for understanding all human behavior, I am not trying to downgrade the contributions of other social scientists, nor even to suggest that the economist's are more important. For example, the preferences that are given and stable in the economic approach, and that determine the predictions from this approach, are analyzed by the sociologist, psychologist, and probably most successfully by the sociobiologist (see Wilson 1975). How preferences have become what they are, and their perhaps slow evolution over time, are obviously relevant in predicting and understanding behavior. The value of other social sciences is not diminished even by an enthusiastic and complete acceptance of the economic approach.

At the same time, however, I do not want to soften the impact of what I am saying in the interest of increasing its acceptability in the short run. I am saying that the economic approach provides a valuable unified framework for understanding *all* human behavior, although I recognize, of course, that much behavior is not yet understood, and that noneconomic variables and the techniques and findings from other fields contribute significantly to the understanding of human behavior. That is, although a comprehensive *framework* is provided by the economic approach, many of the important concepts and techniques are provided and will continue to be provided by other disciplines.

The heart of my argument is that human behavior is not compartmentalized, sometimes based on maximizing, sometimes not, sometimes motivated by stable preferences, sometimes by volatile ones, sometimes resulting in an optimal accumulation of information, sometimes not. Rather, all human behavior can be viewed as involving participants who maximize their utility from a stable set of preferences and accumulate an optimal amount of information and other inputs in a variety of markets.

If this argument is correct, the economic approach provides a unified framework for understanding behavior that has long been sought by and eluded Bentham, Comte, Marx, and others. The reader of the following essays will judge for himself the power of the economic approach.

## Part 2 Price and Prejudice

The essay in this section is taken from my book *The Economics of Discrimination*, first published in 1957, which was a greatly revised version of a 1955 Ph.D. dissertation with the more attractive title "Discrimination in the Market Place." It was my first published effort to apply the economic approach to a problem outside of conventional fields of economics, and was greeted with indifference or hostility by the overwhelming majority of the economics profession. (In 1956 a prominent young economist expressed surprise at learning that I was working on racial discrimination, saying that I was supposed to be a neo-classical type economist. My attempt to explain why my study was an application of neo-classical economics was greeted very skeptically.) The reception among some sociologists and other social scientists was, on the other hand, surprisingly (to me!) favorable, at least to judge by their book reviews.

In the mid-sixties, stimulated by the civil rights movement, economists began seriously to study racial discrimination and, a few years later, discrimination against women. Numerous studies since then have applied the economic approach to different minorities, and "minority economics" is a thriving field today.