JEI JOURNAL OF ECONOMIC ISSUES
Vol. XXXVI No. 4 December 2002

Theorizing the "Third Sphere": A Critique of the Persistence of the "Economistic Fallacy"

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As long as social organization runs in its ruts, no individual economic motives need come into play; no shirking of personal effort need be feared; division of labor will automatically be ensured; economic obligations will be duly discharged; and, above all, the material means for an exuberant display of abundance at all public festivals will be provided. In such a community the idea of profit is barred; higgling and haggling is decried; giving freely is acclaimed as a virtue; the supposed propensity to barter, truck, and exchange does not appear. The economic system is, in effect, a mere function of social organization.

—Karl Polanyi

This is a methodological essay on the different ways of theorizing the set of activities that can be captured by neither the price mechanism of the markets nor by governmental transactions. As did Arjo Klamer and Peter-Wim Zuidhof (1998), we adopt the term *third sphere* when referring to this set of activities, one that includes, inter alia, voluntary contributions to charities, services donated to self-help organizations, gifts and counter-gifts, inheritance, domestic work, childcare, and intra-community support networks. In terms

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of the amount of the value added circulated through them, these activities and contributions collectively carry enormous weight in contemporary societies (e.g., Davis 1992). Moreover, for those of us who aim at constructing and cultivating associative, egalitarian, and solidaristic alternatives to market- and state-based economies, to render visible and theorize such activities is a pressing concern: Useful lessons can be drawn from the institutional forms and economic subjectivities that constitute the already existing associative, egalitarian, and solidaristic modes of third-sphere activities (Stanfield 1982; Gibson-Graham 1996). Yet the way or ways in which such activities are theorized is contingent upon the methodological and ontological standpoint one embraces.

It may be well known to the readers of this journal that Karl Polanyi (1968) devised the term *economistic fallacy* to refer to the practice of analyzing all economic systems through a theoretical gaze that presumes that the horizons of the economy are fully comprehended by a map that includes only market exchange and the calculative behavior couplet (see also Stanfield 1980). For instance, given the methodological and ontological standpoint that it embraces, the neoclassical theory constitutes the paradigmatic case of the economistic fallacy, analyzing as it does both market and non-market economic activities indiscriminately through a formal choice-theoretic framework built upon the postulate of rational individual calculative behavior. In effect, it proceeds from Gary Becker's (1976, 8) premise: "[the] economic approach [is] applicable to all human behavior."

Taking our own premise from Polanyi's criticisms of the economistic fallacy, our first aim is to elucidate the constitutive elements of the third sphere by deploying Polanyi's forms of integration (reciprocity, redistribution, and exchange). We will argue that forms of integration do in fact provide a flexible and sensitive theoretical framework for conceptualizing economic subjects vis-à-vis their institutional and contextual environments. Our second aim is to survey proliferating ontologically individualist and methodologically formalist (IF, henceforth) literature on the third sphere. After pointing out the coexisting sets of behavioral essences in contemporary IF models of third-sphere activities, we will argue that this proliferation of behavioral essences can only lead to a methodological impasse.

In order to make sense of the divisions and differences that crisscross the field of economic discourse, we need to refer to the old "formalist-substantivist" debate of the 1960s. In a recent essay, economic sociologist Mark Granovetter (1992, 21) proposed that formalists be differentiated from substantivists according to their approaches to the "problem of embeddedness." The substantivist position (represented chiefly by Mauss, Polanyi, Sahlins, Pearson, and Godelier), although it conceptualized the economic subject and the economy of "pre-market societies" as "heavily embedded" in a socio-cultural context, conceded that in "market societies" the economy would constitute a *dis*embedded (from its socio-cultural context) sphere. The formalist position, on the other hand, insisted on the applicability of choice theory and the relevance of individualized decision making for both "pre-market" and "market societies," indiscriminately (for critical surveys, see Mayhew 1980; Davis 1992; Granovetter 1992).

Today, not surprisingly, the set of assumptions that separates the institutionalists from members of other schools of conventional economic theory—ranging from the standard neoclassical approach to the new institutionalists (for critical reviews, see Hodgson 1998a; 1998b)—is similar to the set that separated the substantivists from the formalists in the 1960s. In fact, most contemporary institutionalists take the substantivist position a step further and consider all economic activities as socially embedded. Nevertheless, since both formalism and substantivism split into two with respect to different ontological entry points (the individual versus the structure or the part versus the whole), this taxonomy requires further refinement. Our table 1 captures some of the ontological and methodological differences that fracture the contemporary field of economic discourse.[1] Formalist approaches, as we know, do not invariably take the individual as an entry point. Moreover, much of modern Austrian economics, while taking the individual as its entry point, has been highly critical of formalism.

We identify our own approach with the southeast cell of the matrix: We do not assume that the economic subject is endowed with a pre-given, centered behavioral orientation; on the contrary, we believe that social structures and context shape, form, and constitute the economic subject. Furthermore, although we recognize the inevitability and necessity of a conceptual framework for making sense of the world, we are critical of all overly formalist tendencies and will argue that the methodology that we deploy should be in dialogue with, and sensitive toward, the peculiarities of the investigated subject matter. This paper will therefore attempt to analyze third-sphere activities from the standpoint of a substantivist methodology and an institutionalist ontology. Following this analysis, we will critically evaluate a number of individualist and formalist (IF) models (the northwest cell) of the third sphere.

Given the recent proliferation of IF models of third-sphere activities, we believe that a critical and engaged evaluation of this growing literature from a substantivist/institutionalist perspective is more urgent than ever. Our survey, however, will not be investigating whether these economic models are providing an adequate representation of the economic reality of the third sphere: As much as they are models *of* the economy, IF models should also be seen as models *for shaping* the economy. By distinguishing between *models of* and *models for,* Raymond Benton, Jr., in an earlier essay, directed our attention to the way in which theories are not mere representations of the concrete real-

Table 1. Different Contemporary Economic Discourses

		Ontological Entry Point	
		Individual	Structure
Methodological Entry Point	Formalism	Neoclassical economics, new institutionalism, new political economy, analytical Marxism	Structuralist macroeconomics, (bio)evolutionary game theory, classical Marxism
	Substantivism	Austrian economics	Institutionalism, anti-essentialist Marxism, heterodox feminism

ity but also tools that shape the reality in which we are immersed (1982, 464). Accordingly, to see the IF models of the third sphere simply as models *of* the reality of the third sphere is not a very fruitful enterprise as it is possible to fall into the vortex of an endless debate as to their empirical accuracy and validity. The alternative approach would be to see the IF models of third-sphere activities as models *for* negotiating our livelihoods beyond the reach of government provisioning and in the absence of markets. This approach will demonstrate that IF models consistently propose the calculative behavior (in its different modes) as the model for the economic subject to subscribe to when participating in third-sphere activities. Nevertheless, as will be argued in our survey, this leads to a persistent subordination of third-sphere activities to the dual logic of the market exchange and the calculative behavior. And, finally, this persistence of "economistic fallacy" serves the function of undermining the legitimacy of the third sphere.[2] Thus, our critical survey should rather be read as a catalogue of the different ways in which IF models of the third sphere disregard, delegitimize, or marginalize the latter, and as a result, delimit and truncate our conceptual (and consequently, practical) vision of alternative socio-economic forms of organizing our livelihoods. By closely analyzing the different ways in which the IF approaches theorize the third-sphere activities, our critical survey aims to clear the ground for a substantivist and institutionalist approach to reclaim the third sphere.

The structure of the paper is as follows: The following section first makes use of Polanyi's forms of integration in order to unpack what we mean by the third sphere, and, second, it sketches a substantivist and institutionalist approach to the economy and the economic subject in general and third-sphere activities in particular. The second section briefly discusses the social and theoretical conditions that made the IF perspective possible as a framework for the investigation of social phenomena and outlines the key characteristics of this perspective. A critical investigation of various models of the IF position with regard to third-sphere activities is organized, in the third section, around the three behavioral essences attributed to the economic subject, namely, *homo economicus, homo altruist,* and *homo reciprocans.* Following this tour d'horizon, the next two sections, in an overall evaluation of the survey, conclude that a methodological impasse emerges from this proliferation of behavioral essences within the IF perspective.

Unpacking the Third Sphere: A Substantivist/Institutionalist Approach

A number of substantivists have granted that it is acceptable to adopt a choice-theoretic approach in analyzing market societies. Such a concession to the formalists grew out of the particular ways in which economic subjects were deemed to be shaped in contemporary societies. One should note, however, that these substantivists are not abandoning the definitive substantivist position pertaining to the social embeddedness of the economy. On the contrary, according to these substantivists, if a choice-theoretic approach has any explanatory power, this is only due to the homogenizing, consumerist, and economistic cultural milieu of contemporary market societies that they claim have shaped the economic subject into a rational, calculating one. Notably, Sheila Dow (1998, 13), along with many other institutionalist economists, argued that "rationalization [read as calculative behavior] has become so embedded that it is altering actual behaviour. . . . Whatever its causes, the spirit of the 1980s (in the United Kingdom at least) was the spirit of rational economic man, with the emphasis on rational atomistic behaviour in the confidence of potentially complete knowledge. Behaviour has changed in the direction of the rationalisation."

Perhaps. But since, in our view, contemporary societies are constituted through articulated networks of a rich array of economic activities, we hesitate to make any such concession for fear that it would delimit the field of vision at the expense of the third sphere, leading the researcher to theorize the latter as a set of marginal, archaic, or supplementary phenomena under the shadow of a mainstream market society. Resisting such marginalizing tendencies, we are moving toward the larger project of theorizing and making visible such alternative modes of organizing the economic processes that constitute the livelihood of communities. In order to make sense of the variety of economic activities constituting contemporary societies, we need to construct a framework that will be sensitive to the multiple ways in which the economic subject is formed and shaped in distinct institutional and cultural settings. Doubtless, substantivism offers such a framework. In this section, in order to be able to attend to the myriad of differences that constitute the economy, we will develop the contours of a conceptual framework that is sensitive both to the heterogeneity of the economy and to the multiple and sometimes contradictory ways in which the economic subject is shaped and shapes its environment.

Reciprocity, Redistribution, and Exchange

Polanyi's elaboration of different forms of integration offers one such framework (1957, 43–55; 1977, 35–43). By deploying the three distinct forms of integration—reciprocity, redistribution, and exchange—we hope to construct the concept of the third sphere as integral to our contemporary societies (see also Stodder 2002).

To be specific, *reciprocity* involves the movement of funds, goods, or services among two or more economic subjects (individuals, groups, institutions) that are situated symmetrically with respect to one another in a symbolic network. Polanyi reminded us that symmetry is not restricted to duality (1977, 37). Moreover, even if there were mutual movement of goods or services between two economic subjects, such movement occurs disjointedly: "Gift and countergift occur at different occasions, ceremonialized in such a way as to ban all notion of equivalency" (Polanyi 1977, 39). Reciprocity, as such, can be maintained only through an institutional structure that supports some kind of symmetry. Among such economic activities that can be identified in contemporary societies are services donated to self-help organizations, gifts and counter-gifts, inheritance, child-care, and intra-community support networks.

Redistribution, on the other hand, is operationalized through the institutional pattern of *centricity*; it entails the collection and reallocation of the contributions of different economic subjects by a regulating/facilitating center. Without a socially acknowledged center (whether or not it takes the form of a government), redistribution cannot take place. Economic activities that may fall into this category include government transfers, governmental and non-governmental provision of public goods, some forms of householding, and formal or informal welfare programs.

Finally, *exchange* is the two-way movement of values between two willing and disparate economic subjects (individuals, groups, institutions). The institutional framework that supports exchange is the *market.* Yet one can think, at least theoretically, of forms of informal exchange that occur outside the formal market structure. With regard to the functioning of the markets, Polanyi developed the distinction between "self-regulating markets" and "regulated markets"—the former referring to an economy in which the movement of all commodities (including the "fictitious" ones—namely, land, labor, and money) is regulated solely by exchange and the latter referring to an economy in which the exchange environment is restricted to "genuine" commodities, thanks to the "double movement" (1957, 57).

Having restated Polanyi's forms, we can now define the third sphere as a complex and heterogeneous articulation of various forms of integration that remain outside the sphere of exchange that is supported by the price mechanism and the sphere of redistribution that is organized through governmental transactions. Thus, the third sphere can be characterized mainly by its varieties of reciprocity. Nevertheless, activities of redistribution via non-governmental organizations and (to a much lesser extent) informal exchange arrangements must also be seen as elements of the third sphere.

Polanyi (1977, 37) reminded us, with regard to the emergence of reciprocity, redistribution, and exchange, that "[t]he effective functioning of forms of integration depends upon the presence of definite institutional structures," namely, symmetry, centricity, and markets. Yet, as William Schaniel and Walter Neale (2000) cautioned, the relationship among forms of integration and institutional structures should not be viewed mechanistically. To put it in a different way, although each form of integration can function only if it is supported by a definite institutional structure, the specific attributes of these institutional structures will vary across time and place with the socio-cultural setting. Arguing along these lines, Schaniel and Neale further suggested a key analytical separation between the forms of integration and the relations of power: no one-to-one mapping exists between different forms and the configurations of the power networks that animate them. A few examples: democratic power relations may or may not be the modus vivendi of a redistributionary arrangement; a relation of reciprocity may be animated by the authority of an oppressive caste system or by an egalitarian communism; informal exchange arrangements may or may not presuppose parties of equal power.[3]

Forms of integration, as such, should "be viewed as ways to *map* the flow of material means through a society" (Schaniel and Neale 2000, 89). Although their relative weight and importance are subject to alterations from one social formation to another, all three forms do coexist in contemporary societies. Even if one theorizes self-regulating markets (in the Polanyiesque sense) as ideal type, or at best, their expansion as a (forceful) tendency, it is only justifiable to presume that in any given society markets can only operate with the given socio-organizational constraints and regulations and in the presence of the other two forms of integration (reciprocity and redistribution) and their institutional structures (symmetry and centricity) (Mingioni 1991; Schaniel and Neale 2000; Jessop 2002).

The Question of the Economic Subject

How can the economic subject be conceptualized vis-à-vis the forms of integration? Polanyi answered this question by elaborating these different forms of integration "without suggesting any motivational . . . association" (1977, 36). Similarly, Schaniel and Neale (2000, 100) pointed out that different forms of integration "do not describe the attitudes of the members of a society." If no general or universal statements can be made regarding particular forms of integration and the behavioral orientations that animate them, how then will one go about theorizing the economic subject in relation to different forms of integration?

To answer this question, we need to refer again to Polanyi: "[A] principle of behavior, in order to become effective, requires the presence of some institutional structure" (1977, 42). According to this perception, for instance, calculative rationality, one particular behavioral pattern among many, should be conceptualized as an outcome of the active participation of the subject in markets rather than as the product of an immutable and transhistorical human essence (Polanyi 1977; see also Amariglio and Callari 1993). The conditions of possibility for such processes of constitution to arise can be theorized by identifying the particular set of requirements that are imposed on the subjects by particular activities they participate in: "Haggling, in this case, is not the result of some human frailty, but a behavior pattern logically required by the mechanism of the market" (Polanyi 1977, 42).

Yet, as noted above, the content of the institutional structures that animate different forms of integration varies across time and place. The economic subject, in turn, will be shaped and formed by the particular institutional content of different configurations of these institutional formations. As we have argued above in agreement with Polanyi, economic subjects do not simply precede the economies in which they actively participate: rather, to a large extent they are constituted and shaped by them. To be more specific, participating in market exchanges, just like participating in any other process, will shape and constitute the way in which the economic subject behaves (Bowles 1998). However, this process of constitution is never complete; moreover—to return to the previous quotation from Polanyi—the prevalence of markets does not in itself guarantee the prevalence of "haggling." One implication of a truly heterogeneous economy (e.g., co-existence of multiple forms of integration) is that there will be more than one way in which the subject is shaped and constituted. Since the subject participates in different economic activities all the time, he or she will be shaped in different and, probably, contradictory ways. Therefore, as a working assumption, the subject might best be conceptualized as decentered, contradictory, and forever in the process of becoming (Amariglio and Ruccio 1998).[4]

Because each process of constitution is incomplete, one can never assume that the subject is centered on a particular behavioral pattern. In other words, the economic subjectivity that is required by a particular economic activity will be "contaminated" by the requirements of other activities. By recognizing this degree of indeterminacy, we can explain, for example, how some subjectivities that are nourished outside of markets may support market processes. In particular, some of the behavioral patterns that are constructed in non-market forms may affect and facilitate the way in which exchange processes are conducted under contractual relations (Lyons and Mehta 1997). On the other hand, consider the opposite case in which, due to ethical, moral, or ideological considerations, people may resist and consciously reject the use of markets for certain goods or services (e.g., sexual services; see Radin 1996).[5] Furthermore, participating in an economic process, a subject may deploy some of the habits and rituals that he or she deploys in cultural or political processes. Family, school, church, and workplace are all social *and* economic institutions and sites, where the subject is constructed in contradictory ways (Hodgson 1997). Analogously, as has been extensively discussed in feminist economics writing, the social construction of gender needs to be considered toward an understanding of the diverse ways in which the economic subject is constituted (Folbre 1994; Grapard 1995; Nelson 1996). Finally, moral obligations, guilt feelings, and emotions may undermine or shape differentially the ways in which subjects behave in different economies (Elster 1998; Kuran 1998).

In short, an economic subject cannot be conceptualized in isolation from the multiple contexts in which he or she is situated. Because the subject is always already constituted by his or her others and his or her contexts, a particular subjectivity can never be universalized. Furthermore—this is the key point—without an analysis of the institutional context, it is impossible to discern what sort of economic subjects will be constituted in a particular form of integration. Even then, while it might be possible to trace some of the institutional requirements that are imposed on the subject, the radically and truly heterogeneous fabric of the society ultimately makes it impossible to predict, or to calculate, the ways in which he or she will respond. Far from regarding the incalculability of the human subject as a source of disappointment and resentment, we need to understand it as an affirmation of the true agency of the human subject. In other words, only by opening up a theoretical space for the element of surprise will it become possible for us to talk about the true agency of the human subject (Callari and Ruccio 1996).

Having set out the contours of a substantivist/institutionalist perspective to understand and analyze the third sphere, we now embark upon the investigation of the ways in which IF approaches have been conceptualizing third-sphere activities. Rather than criticize their failure to represent the reality of the contemporary societies, our aim is to demonstrate the marginalization of the third sphere under the shadow of the "market society." In that regard, we will, in the following section, delineate some key characteristics of the IF framework; then we will survey the different ways in which various third-sphere activities are envisaged under the stern gaze of the IF framework.

Individualism, Formalism, the Contractual Fiction, and the Enforcement

Individualism can be defined as a doctrine within which all explanations of social phenomena must be "couched in terms of statements about individuals" (Hodgson 1986, 211). As a mode of theoretical practice, this doctrine can also be seen as historically constituted by the cultural (the conceptualization of the individual body as an autonomous entity), political (the formulation of political liberalism around the concept of citizenship), legal (the constitution of the individual as a legal entity), religious (the emergence of confessional self in both the Catholic and Protestant traditions), and economic (the emergence of bourgeoisie and the wage-labor classes) processes that were embedded in the Enlightenment Project and the Industrial Revolution (Abercrombie, Hill, and Turner 1986; Hodgson 1986; Amariglio and Callari 1993).

From a historical perspective, it is easy to see how, for individualism, the economic subject is exclusively the individual. Isolating the individual from his or her environment and other individuals, individualism consecrates the economic *subject* as sovereign over a world of *objects.*[6] This world of objects, acknowledged or not, is the world of alienable commodities, a world built on property relations and contracts. This imagery of an individualized and exogenous subject reigning over a world of disparate objects conveys the precise meaning of the *subject-object binary.*

This subject-object binary is the essentialist core of the individualist approaches:[7] it elevates a historically circumscribed contractual fiction—one in which contracts, in order to function properly, are based on the assumption of a sovereign, autonomous, and purposeful individual—to the level of an ontological axiom that defines the essence of economic subjects and their relationships.[8] This ontological perspective in most contemporary approaches is combined with a formalist methodology, a methodology that applies this contractual fiction indiscriminately across time and place, without attending to particular conditions, local characteristics, historical events, and so on.

Beyond its essentialism, this binary is an impediment to conceptualizing the third sphere as a heterogeneous and differentiated totality with different forms of rationality, each form peculiar to an institutional content that varies over time and place. To postulate a sovereign, purposeful, and pre-constituted individual is to imply that the ontology of contracts is the normal state of the economy. Consequently, any attempt to insert non-market economic activities back into this realm of contracts leads to theorizing the third sphere by subordinating it to the requirements of this ontology of contracts. According to our reading of Polanyi, this is precisely what he meant by the economistic fallacy! [9]

To analyze the way in which the a priori postulation of an ontology of contracts shapes the representations of the third sphere, we need to confront the question of enforcement. Consider Kenneth Arrow's observation (1972, in Phelps 1975, 24): "Property systems are in general not completely self enforcing. They depend for their definition upon a constellation of legal procedures, both civil and criminal. The course of law itself cannot be regarded as subject to the price system. The judges and the police may indeed be paid, but the price system itself would disappear if on each occasion they were to sell their services and decisions. Thus, the definition of property rights based in the price system depends precisely on the lack of universality of private property and of the price system." Therefore, at some fundamental level, an exogenous legal and political power is accepted as a necessary supplement to an economy (see also Callari 1988). Moreover, the approach that is based on the ontology of contracts also requires that an economy be supplemented in cases where there is "uncertainty about the quality of the service" and "a difference between the degrees of knowledge possessed by buyer and seller" (Arrow 1972, in Phelps 1975, 22). These failures (usually referred as "agency problems") emerge, in the final analysis, because of the associated high cost of writing fully complete contracts and are seen as the set of situations in which an element of trust might help reduce the costs of contract enforcement.[10] The question of enforcement becomes particularly acute once *homo economicus* is embraced as the essence of the subjects involved in the economic sphere (Bowles and Gintis 1993; Ben-Ner and Putterman 1998): opportunism almost always leads to the emergence of "value-reducing activities" such as "monitoring, contract writing, theft deterrence, enforcement" (Ben-Ner and Putterman 1998, 8). The question of enforcement, however, surfaces in nearly all IF models—as we shall see—particularly because the subject is theorized as inserted into, rather than shaped by, the context in which he or she is situated. And this is precisely why the subject-object binary impedes the theorizing of the third sphere. In this regard, to postulate the subject as exogenous to his or her context necessarily leads to the theorization of the effects of political, cultural, and ethical institutions over the subject as external mechanisms that exert force on him or her. In other words, these institutions do not shape, transform, modify, or contaminate the economic subject. Rather, they constrain, enforce, and obligate him or her. And precisely this is what makes the question of enforcement so central for understanding the IF framework.

For IF approaches, given the absence of a clearly defined contractual relations and enforcement mechanism, the raison d'être of the third sphere is, of course, ambiguous: on one hand, third-sphere activities are conceptualized as pathological, since they lack a government-backed enforcement mechanism; on the other hand, even if there exists an omnipotent institution capable of enforcing the obligations arising from a contract, since the transaction costs of writing a full contract might sometimes be too costly an undertaking, third-sphere activities are seen as supplementing these contractual relations. These two seemingly paradoxical points, however, do not exhaust the ways in which the third sphere can be conceptualized in a world of (omnipresent) contracts. A third way of understanding third-sphere activities, finally, would be, to use Grahame Thompson's observation, "to render [them] into the language of an *exchange* relation via the usual utility framework" (1998, 6–7; emphasis added). Here, the very postulation of behavioral orientations of the subjects involved in the provisioning activity as self-interest maximizers leads to a representation of the third sphere as a variant of market exchange with implicit contracts.

To recapitulate: By transforming a contractual fiction into an ontology of social and economic relations, IF approaches raise the question of enforcement—one that is peculiar to an articulation of calculative economic subjects and market exchange—as a universal question that haunts all analyses of all economic forms or institutions across time and space. In the following section, we will survey the different representations of the various third-sphere activities (qua-pathology, qua-supplement, qua-exchange) by IF models that are based upon an ontology of contracts.

IF Approaches on the Third Sphere: Proliferation of Behavioral Essences

This section suggests a taxonomic categorization of the ways in which IF approaches understand and envisage different kinds of third-sphere activities. The activities covered, while as wide a set as possible, should by no means be seen as all encompassing; they are indeed selected to flesh out the taxonomy. We will organize our exposition around two axes: first, different behavioral essences of the individual subjects involved, namely, *homo economicus, homo altruist,* and *homo reciprocans*; and second, different representations of third-sphere activities, namely, third sphere qua exchange, third sphere qua pathology, and third sphere qua supplement. The 3x3 matrix (see table 2, below) will therefore cover any possible third-sphere activities as seen through the gaze of the IF framework. On the vertical axis the reader can find different behavioral orientations that are treated as essences in different variants of the IF literature: The first behavioral essence, *homo economicus,* is based on the argument that selfishness is the motivational force behind agents' actions; according to the second one, *homo altruist,* agents are positively motivated by the well-being of third parties; and finally, the third essence, *homo reciprocans,* assumes that agents favor those who favor them and punish those who do not. The horizontal axis denotes the representation of third-sphere activities as a pathological case in comparison with the market exchange, as an element supplementary to the market exchange, or as a variant of market exchange itself. As IF approaches make the distinction between (private) goods the consumption of which is excludable and rival, and (public) goods the consumption of which is non-excludable and non-rival, we will keep this distinction intact and present examples of IF models for both cases.

Table 2. Categorization of Third-Sphere Activities through the Glances of IF Approaches

		Modes of Representation		
		Qua Pathology	Qua Supplement	Qua Exchange
Behavioral orientation	*Homo economicus*	Informal insurance institutions (e.g., Kimball 1988; Coate & Ravaillon 1993) Voluntary contributions to public goods that the individual does consume—leading to free riding and under-provision (e.g., Bergström et al. 1986)	Mutual-gain games (e.g., Greif 1993; Kuran 1995) Voluntary contributions to public goods, the viability of which is secured by a social norm (à la Sugden 1984)	Inter-temporal exchange models (e.g., Collard 1978; Stark 1995) Voluntary contributions to public goods—the "warm glow" effect, i.e., when the very act of contributing itself becomes a commodity (e.g., Sugden 1983; Cornes and Sandler 1986)
	Homo altruist	Household—when altruism constrains the credible punishment mechanism (e.g., Stark 1995) Voluntary contributions to public goods that the individual does not consume—leading to free riding and under-provision (e.g., Sugden 1984)	Household—when altruism brings about an efficiency increase in the family production unit (à la Becker 1987)	
	Homo reciprocans		Incomplete labor contracts (Akerlof 1984; Fehr et al. 1998) Voluntary contributions to public goods (Fehr and Gächter 2000)	

Homo economicus: *The Case of Private Goods*

Some IF approaches posit selfishness as the motivation that brings the individual to a wide variety of third-sphere activities with regard to provisioning of private goods; as such, they can be theorized as egoistic cooperation. In other words, individuals, in these models, are conceived as engaging in cooperation in order to foster their own personal well-being. Acknowledging the existence of market imperfections (as manifested in, inter alia, the high transaction costs of writing and enforcing contracts, the absence of markets, and the presence of asymmetric information among agents), these models conceptualize cooperation as a remedy for such imperfections. In fact, the absence of perfect market relations, a hierarchical state-form, or both, raises the question of enforcement, a question that emerges as the common concern of all such models. In what follows, we will unfold the logic of egoistic cooperation with respect to three cases, namely, informal insurance institutions, mutual-gain games, and intertemporal exchanges.

Informal Insurance: Third Sphere qua Pathology. The literature on egoistic cooperation approaches informal insurance institutions by way of the market/non-market dichotomy. In the absence of formal insurance markets, the mutual and informal insurance agreements that rely upon the so-called "reputation effect" emerge as substitutes. Inferring that risk-averse individuals prefer to share risks, the authors of such analyses predict that, in the absence of formal insurance institutions, alternative reciprocal and informal forms of insurance may emerge.

Stephen Coate and Martin Ravaillon (1993, 1) argued that, since formal insurance arrangements "require a government to record and enforce written contracts and a literate population to make such contracts," one will find informal risk-sharing arrangements as substitutes for formal ones not only in past societies but also in many contemporary developing countries. The authors argued that informal substitutes for modern insurance arrangements can only be sustained in communities where members interact frequently, so that the reputation effect will have an impact. Noting that the risks covered under such arrangements must be limited (accidents or illnesses of productive family members or livestock, certain forms of crop damage, etc.), Coate and Ravaillon predicted that, as the scale of the damage increases and/or as the frequency of interaction among community members decreases, such arrangements will dissolve. In short, the authors treat "reciprocity" as an informal insurance mechanism and regard it as a substitute for or, better, an anticipation of, formal modern insurance arrangements.

While some theorize reciprocal insurance arrangements as earlier, already superseded, or to-be-superseded variants of modern insurance markets, others emphasize the pathology of "reciprocity" in its lack of the necessary enforcement mechanisms. (Note that these two modes of treatment are not mutually exclusive.) For example, consider Miles Kimball's (1988) simple repeated-game model of farmers' cooperatives in medieval England: his analysis of the Open Field System, in which each farmer owns many small, scattered plots rather than a single large one, shows the uneasiness that marks the theorization of reciprocal insurance arrangements.

Writing about the same historical period, Deirdre McCloskey (1976) has already argued that, in the absence of formal insurance markets, for each individual farmer such scattered land holding may constitute a form of diversification and offers protection against idiosyncratic risk. McCloskey's model solves the problem of risk at the level of the individual rather than designing a collective, informal insurance system. In a rejoinder to McCloskey, Kimball (1988) explicitly questioned the feasibility of this second possibility. He argued that, in the absence of formal insurance markets, a "mutual assistance pact," as an informal insurance arrangement, could have provided an alternative to individualized diversification; farmer's cooperatives, in other words, might have been sources of consumption loans in dire times, providing insurance against crop failures. His model assumes that "farmers are unable to borrow, and that there is no carry-over or saving of grain from one harvest to the next (so that any grain kept must be consumed that year, if ever), and that no other method of saving is available" (Kimball 1988, 225). Given these restrictive assumptions, Kimball, not surprisingly, concluded that, lacking the credible punishment mechanisms that would gird its repeated-game structure, such a "mutual assistance pact" could not have been a viable institutional alternative to McCloskey's model of individualized scattering. In short, in Kimball's model, this collective insurance activity falls short as an institutional alternative because it is haunted by "collective action" problems.

To summarize, the two models presented above read certain forms of third-sphere activities as either primitive forms of, or informal alternatives to, modern institutions of insurance. Consequently, such reciprocal forms are analyzed from the vantage point of modern insurance institutions. Two theoretical constructs are operating here. The first is the evolutionary construct of taking the formal insurance markets as the telos; the second is the universalizing construct of taking the formal institutions of insurance as normalcy. As long as markets are assumed to be the most accommodating institutions for the egoistic nature of human subjects, such informal institutions of insurance are treated as a pathology, a contingency, a deviance—in short, as a set of activities that fail to assume the superior rationality of modern market institutions. The key point here is that, based on the subject-object binary, these IF approaches proceed logically from a particular understanding of the "nature" of the economic subject as a rational, selfish being and see institutions as evolving toward accommodating this economic subject, and not vice versa. Normalcy of markets is thus established by universalizing a particular market subjectivity as the human essence that reigns across time and space.

Mutual Gain Games: Third Sphere qua Supplement. When dealing with situations of the "prisoner's dilemma" type, where writing enforceable contracts is also very costly, IF approaches acknowledge that an egoistic individual's readiness to cooperate will be contingent on certain conditions (i.e., indefinite horizon games and a credible punishment mechanism) and treat cooperative activities as mutual gain games that supplement the market exchange.

Avner Greif (1993), for example, discussed how agency relations among the eleventh century Maghribi traders, in the absence of comprehensive, enforceable, and explicit contracts, were successfully organized by an economic institution in which "[e]xpectations, implicit contractual relations, and a specific information-transmission mechanism constituted the constraints that affected an individual trader's choice of action. In particular, these constraints supported the operation of a reputation mechanism that enabled Maghribis to overcome the commitment problem" (1993, 526). In a similar vein, Timur Kuran (1995, 196) interpreted, in part, the prevalence of "the

Islamic Subeconomy" as a consequence of mutual trust, which finds its basis on a shared commitment in Islam that "keeps many of [the] activities within social circles in which information about dishonest behavior spreads quickly."

Posed as a mutual gain game, such cooperative interactions appear to be efficiency-enhancing alternatives to the anonymity of markets of imperfect nature. Without doubt, cooperation in this modeling is of an egoistic nature: the selfish individual participates in reciprocal interactions because the cooperative strategy dominates the non-cooperative one, provided that, through the institutions of reputation and punishment, the selfish economic subjects are able to enforce their contracts. The theoretical move here is that of making the domain of the third sphere functional as a supplement to a market economy. Culturally circumscribed and sustained through the institutions of ethnicity and religion, cooperation is not represented as a form of integration in its own right but through its functional and supplemental relation to an underlying market exchange. Furthermore, since the cultural processes do not shape the economic subject (who is theorized as being inherently endowed with a particular calculative economic rationality) but are functional and accommodating to his or her selfish whims, once more the subject-object binary is left untouched.

Intertemporal Exchanges: Third Sphere qua Exchange. The third node around which the literature has gathered comprises the so-called intertemporal exchanges. David Collard (1978, 4), for example, argued earlier that unselfish behaviors could be motivated also by an anticipation of a future gain: "A crude example is the ingratiating employee who holds a door open for his superior. [This] is a standard part of the economist's analysis of inter-temporal choice. As for indirect but current benefits, these are simply a question of not drawing the boundaries too narrowly." From the vantage point of a longer time horizon, an ostensibly unselfish act might turn out to be thoroughly selfish.

Oded Stark (1995, 49), discussing reciprocal interactions as intertemporal exchanges within the domain of the family, made a similar argument, pointing out that "[p]rivate intergenerational transfers of income, wealth, and in-kind services are motivated, at least in part, by exchange considerations." Within this framework, parent-child transactions are conceived as egotistically motivated exchanges: current transfers from parents to children may be made with the expectation of a future reciprocation; the most crucial among the mechanisms of enforcement that sustain such reciprocal interactions is, of course, inheritance. The point not to be missed here is that such economic modeling of the institution of inheritance renders this form of integration among family members as a variant of market exchange—albeit, the transaction is inter-temporal and not on-spot. In this instance, the cultural institution of inheritance is represented as if it were simply another market, and the economic subjects are inscribed, once again, as selfish and calculative.

An interim conclusion: In theorizing third-sphere activities with regard to private goods, IF models of egoistic cooperation *(homo economicus)* undertake three different theoretical moves. The first is to posit the markets as the normalcy and to treat these activities either as an anticipating and archaic form that precedes market exchange, or as a marginal economic activity that does not measure up to the superior rationality of omnipresent market exchange. These two moves are observed in models theorizing different informal insurance arrangements and can be considered as two different ways of treating the third sphere as pathology. The second, as in mutual-gain games, is to treat the third sphere as a supplement to the market mechanism. The third and final theoretical move is to treat some forms of third sphere, such as inheritance, simply as a variant of exchange, thereby collapsing the former into the latter. Having discussed the case of private goods, let us now unfold how IF approaches envisage the act of making voluntary contributions within the behavioral essence of *homo economicus.*

Homo economicus: *The Case of Public Goods*

Some other IF approaches assume again selfishness as the motivation that makes the individual enter into a wide variety of third-sphere activities with regard to the provision of public goods. Since there is no centralized node of power guaranteeing the commitment of contributors, and no contractual obligation underwriting the donations, the case of voluntary contributions to public goods provides fertile ground for questions of enforcement to arise within the IF framework. Again we observe three different representations.

Voluntary Contributions: Third Sphere qua Pathology. The neoclassical school, as we know, conceptualizes voluntary contributions through the abstraction of utility-maximizing selfish agents who are assumed, generally, to face one (composite) private and one public good. Each individual's utility then depends on his or her consumption of the private good and the sum of everyone's voluntary contribution. Within this framework, the individual is viewed as consuming the public good, along with the private one, and enjoying a utility increase derived thereby. The theoretical models that deploy selfish behavioral assumptions take it for granted that each individual holds a zero conjecture (Nash) regarding the effect of his or her own contribution on the contributions of others. The basic prediction of such a public good provision game is the well-known underprovision due to the free-riding malady. Although it is possible to design economic mechanisms to increase efficiency, this predicted malady cannot be fully recovered (e.g., Bergström, Lawrence, and Varian 1986; Zenginobuz 1997). As such, the standard neoclassical model treats voluntary contributions as a pathology that should be haunted by problems of underprovision and free riding.

Voluntary Contributions: Third Sphere qua Supplement. In an attempt to explain the act of voluntary contributions of egoistic agents, Robert Sugden (1984) argued for the relevance of ethical considerations in economic theory and remarked that people are taught, and believe, that free riding is morally wrong. In this framework, stress has been put on the social importance of the evolution of moral rules that instruct individuals to contribute a fair share to the provision of public goods. Basing his argument on the writings of Collard (1978; 1983) and John Harsanyi (1980), Sugden invoked a special case of the so-called Kantian principle, "the principle of unconditional commitment": irrespective of whether or not others contribute, an individual contributes to a cause the amount he or she thinks each member of the community should contribute. Finding this principle to be unacceptably strong, Sugden proposed a variant, "the principle of reciprocity": an individual is morally obliged to make his or her contribution only if others do the same.[11] Here, Sugden specified the behavioral orientation of the economic subject as self-interest seeking. Ultimately, as the economic subject maximizes "his utility subject to the moral constraints imposed by the reciprocity principle" (1984, 777), a Pareto-efficient voluntary supply of the public good emerges as a possibility.

An interesting dimension of Sugden's theory of "reciprocity" lies in its theorization of institutions. Retaining the autonomous and selfish subject, Sugden introduced morality as an institutional framework that helps to remedy the maladies intrinsic to the process, and he saw the institutions of morality as supplementing the market mechanism. It is particularly interesting that the economic subject remains intact in its exogenous nature and that institutions are seen as exterior to the subject, figuring in only as constraints. Moreover, the adjective "voluntary" loses its meaning because the economic subject is modeled, on one hand, as deriving *dis*utility from the act of contribution, and on the other, as contributing to the public good by virtue of some "obligations" that are grounded in a particular ethical dictum (1984, 776–777).

Voluntary Contributions: Third Sphere qua Exchange. It is also possible for IF approaches to explain the act of voluntary contributions as a variant of market exchange. Here the starting reference again belongs to Sugden (1983, 28), who argued that "a philanthropist does distinguish between his own gifts and those of other people. He is concerned about how much he helps a charitable cause, and not merely about the extent of the charitable activity as a whole. The act of giving has a moral significance over and above the significance of its direct consequence." By shifting the accent from the actual public good to the very act of voluntary contribution, Sugden caused a major theoretical shift. As a way of adding a novel argument (i.e., the act of giving) to the utility function of economic subjects (who may or may not be consumers of the public good), Sugden disproved the predictions of underprovision and free-riding malady.

Further refinements followed Sugden's suggestion (e.g., Cornes and Sandler 1986; Andreoni 1988), and in all these approaches the good that the economic subject is purchasing is conceptualized as the very act of voluntary contribution. In other words, the economic subject is theorized as a consumer of "good consciousness," "warm glow," and so on, receiving utility from the very act of giving.[12] The point not to be missed here is that by treating the very process of giving as an argument in the utility function, IF discourses turn the process itself into an object external to the subject and, ipso facto, close the possibility of theorizing the process as shaping and constituting the subject and leave intact the pristine exteriority of the subject to his or her context.

To recapitulate: The neoclassical approach treats the act of voluntary contribution as a pathology. Observations that people do make voluntary contributions have led those who want to explain these institutions to take two different paths. The first path is to subsume voluntary contributions under the rubric of exchange. Here, by conceiving the very act of giving as a commodity, the behavioral essence of *homo economicus* is retained. The economic subject, by contributing to a charity, is understood to be purchasing the commodity of "the very act of contributing." The second theoretical path, while again openly retaining selfishness as the essence of the economic subject, introduces an ad hoc institutional framework as a constraint and renders the institutions of morality and ethics an exogenous supplement. Here, the ethical dictum of "the principle of reciprocity," by imposing an obligation on the otherwise selfish economic subject, plays the role of an external force. Though the enforcement mechanism does not arrive with the state-like institution, it nevertheless imposes "obligations" on inherently selfish economic subjects. In other words, the economic process of voluntary contribution does not shape the economic subject but simply constrains him or her. By theorizing the institutional framework ("the principle of reciprocity") as exterior to, and separate from, the economic subject, the subject-object binary is, again, retained. (See the first column of table 2.)

Homo altruist

While selfishness is the dominant motivation that animates the economic subject of IF discourses, there exists a recent, yet growing, body of literature that models some third-sphere activities by employing altruism, a behavioral orientation according to which individuals are understood as the ones whose well-being is a positive function of the well-being of others. Attention will again be given first to the case of private goods and then that of public goods.

We shall confine much of our discussion to the question of altruism in the context of the household, in particular, taking Becker's writings on the family/household as our focal point (1974; 1976; 1981; 1987).[13] According to Becker (1987, 281), families "have been especially important in the production, care, and development of children, in the production of food, in protecting against illness and other hazards, and in guaranteeing the reputation of members." Becker's model of the family is therefore theorized not only as an institution for the "production and rearing of children," but also as an institution of extended insurance (mental and physical health, retirement, etc.), and as such the family is treated as a private good. In a similar vein, Yoram Weiss (1997, 82–83) identified four economic reasons for marriage besides "production and rearing of children": (1) reaping the benefits of division of labor (e.g., "one partner works at home and the other works in the market"); (2) extending credit for investment activities (e.g., "one partner works when the other is in school"); (3) sharing of collective goods (e.g., children); (4) risk pooling (e.g., "one partner works when the other is sick or unemployed"). Weiss (1997, 83) further argued that none of these activities necessarily occurs within families: "If all goods and work activities are marketable, there is no need to form marriages to enjoy increasing returns or to pool risks." Nevertheless, marriages persist because, as a form of durable partnership, they economize on search, transaction costs, and monitoring.[14] The story is similar to the one narrated by Ronald Coase (1937) in his account of the firms.

For IF approaches, however, the very institution of "family" raises the following question: how does one theorize the collective economic decisions of the family, when it is, in fact, constituted of a set of individuals who, most likely, have conflicting interests? This aggregation problem has led some to theorize the household as a unitary entity where the family (or the head of the family) acts as if it is maximizing a family utility function. In Becker's model, more specifically, the transactions within the household are determined not by contractual relations but by altruism. The head controls and optimizes the resources in the household; it is sufficient for him or her to be an altruist in order to sustain the cohesion of the family. Becker, by theorizing the head as a "benevolent dictator," minimized the amount of altruism "necessary" for the existence of a family: "[T]he existence of a head economizes on the amount of true love required in the family" (Becker 1976, 281). If the selfish—the so-called "rotten kid"—member secures more goods to him- or herself, the head of the family, the "dictator," will simply reallocate the goods toward other members without any change in the total household consumption. The theoretical move here is to treat the head as an altruist agent of redistribution and other members as selfish automatons (i.e., "rotten kids"). By singling out a sovereign head as the arbiter of the concerns of distribution, Becker bypassed all of the socio-historical and cultural conditions of existence of the institution of family and reduces it to a Pareto-efficient arrangement of isolated, discrete economic subjects.[15] As such, the altruistic act of the head of the family results in increasing the overall efficiency in the household economy and should thus be seen as a supplement to the household economy that is populated by ontologically pre-given market subjectivities. Yet the head of the family, the only true altruist, is not explained but assumed. In fact, just as in Sugden's "principle of reciprocity," the altruism of the head is introduced, in an exogenous fashion, to explain a social phenomenon that does not easily fit the model of market exchange. The enforcement mechanism is also there: the benevolent one is also a dictator. (See also Bergström 1997.)

Consequently, altruistic behavior and obligations, augmented with the assumption regarding the dictatorial powers of the benevolent head of the household, might help decrease transaction costs and might be functional to an economy of exchange as its supplement: in a world of imperfect contracts, altruism can, in fact, turn out to be an evolutionary stable strategy—one that resists invasions—in comparison with selfishness (Becker 1976, 284–287).

But consider also the converse: altruism may also constrain "the set of credible punishment strategies [and render] co-operation more difficult to sustain" (Stark 1989, 89). The question reduces to, "If, because of your altruism you cannot punish someone you care for for a misdeed, how would you ever enforce an informal contract involving that person?" Stark (1995, 25), while attempting to theorize cooperation based on altruism as having an advantage over market exchange in reducing the transaction costs involved in the latter, ended up arguing that "altruism does not eliminate conflict and [it] can actually make everyone worse off." Since altruism constrains the set of credible punishment mechanisms, it might lead to further inefficiencies of the kind that altruism was introduced to remedy in the first place. So conceptualized, altruistic institutions of the household reflect a pathology.

When the issue of the voluntary financing of public goods is raised, will the shift from selfishness to altruism make any difference for IF approaches? Again, within the framework of the neoclassical understanding, an altruist is conceptualized through the abstraction of utility-maximizing rational agents who are assumed, again generally, to face one (composite) private and one public good. The altruist's utility then depends on his or her consumption of the private good and the level of satisfaction of those who consume the public good; so the agent is conceptualized with regard to the public good not as someone who consumes it but as someone who derives utility from seeing others' consuming that good. Again, the theoretical setup takes it for granted that each individual holds a zero conjecture (Nash) regarding the effect of his or her own contribution on the contributions of others. We once more end up with the maladies of free riding and underprovision. In this regard, Sugden (1984, 773–4) clarified the logic that predicts the problem of free riding among an altruistic population as follows: "The assumption of altruistic preferences merely makes each person's welfare into a public good from which everyone derives utility, and we are back to square one: why would anyone contribute towards this public good? As long as we assume that people maximize utility—however altruistic we suppose their preferences to be—this problem will remain." The key point here is that the question of enforcement prevails as a consideration even when the motivations of the economic subject are specified as altruistic. And as such, in the case of provisioning of public goods on the basis of voluntary contribution, altruism appears to be a pathological case. (See the second column of table 2.)

Homo reciprocans: *Bringing It All Back into the Individual*

In the IF literature, a novel behavioral pattern based on recent empirical evidence from the field of experimental economics is taking shape. Baptized as *homo reciprocans,* this recently formulated economic subject "desire[s] to be kind or hostile in response to kind or hostile acts." Attention should be given here to the fact that this notion of "reciprocity" is categorically different from kind or hostile responses in repeated interactions that are entirely motivated by future gains (Fehr and Gächter 1998a, 847; see also Fehr and Tyran 1996; Fehr, Kirschsteiger, and Riedl 1998; Fehr and Gächter 1998b, 2000). The experimenters claim that their results provide empirical evidence for the articulation of the microfoundations for explaining reciprocal interactions as an efficient institution.

In this framework, being kind or hostile in response to kindness or hostility is seen as an economic activity grounded in the proposed behavioral pattern. Moreover, this pattern itself constitutes "a key mechanism for the enforcement of social norms" that support reciprocal interactions (Fehr and Gächter 1998a, 854). In fact, in a world in which the exogenous enforcement of the quality of goods cannot be established without prohibitive costs, *homo reciprocans* does stand a strong chance of survival alongside *homo economicus.* The concept of "fairness" is pivotal to an understanding of *homo reciprocans.* Through it, *homo reciprocans* is defined as engaging in both "positive reciprocity" and "negative reciprocity:" *Homo reciprocans* not only reciprocates kindness with kindness but he or she can also go so far as to incur costs by seeking to punish a defecting counterpart. It is this latter act of "negative reciprocity" that most clearly differentiates a *homo reciprocans* from a utility-maximizing *homo economicus.*

The articulation of *homo reciprocans* is inspired by George Akerlof's (1982; 1984) seminal model of the labor contract as a "partial gift exchange": "[S]ome firms willingly pay workers in excess of the market-clearing wage; in return they expect workers to supply more effort then they would if equivalent jobs could be readily obtained (as in the case if wages are just at market clearing)" (1984, 79). In providing a motivation for this model of the labor contract and deploying a series of psychological and sociological arguments, Akerlof attempted to explain the behavioral orientations of the economic subject. Nevertheless, the set of explanations he provided, ranging from Weberian and sociological theories of employee loyalty to various dual labor market hypotheses, moves beyond the terrain of strict individualism. In that regard, the *homo reciprocans* project, which argues for "reciprocal fairness" as a norm-enforcement mechanism, displaces a whole set of institutional and substantivist explanations that Akerlof has provided and explains reciprocal interactions by referring to the behavioral essence of the individual. Fehr et al.'s displacement of institutional considerations is worth noting: since they insist that neither do reputational considerations play any role nor does the size of the pie that two individuals are sharing (in the "ultimatum games")[16] have a significant impact on the experimental results, their argument suggests that it is only the context-*in*dependent individual motivations for "fairness" that lead to "reciprocity."[17]

As is typical of other IF discourses, the theoretical and experimental models based on *homo reciprocans* also treat reciprocal interactions as emerging in the context of imperfect markets with incomplete contracts. In fact, the institutional context does play a role, if only in revealing the drive to "reciprocate" among the population. While the cost-inefficiency of acting like *homo reciprocans* under competitive markets is acknowledged, in an economy with market imperfections the efficiency of market transactions is said to be maintainable only if supplemented with a "dose of reciprocity." As exemplified in labor market contracts, "gift exchange" is theorized as supplementary to market exchange, and its existence is explained with reference to the essence of *homo reciprocans.*

The behavioral essence of *homo reciprocans* is applied not only to the sphere of private goods/services, the most clear-cut example of which being the agency problem between the owner/manager and workers, but also to the case of provisioning of public goods. Regarding the latter, experimental studies indicate that a group of people, some of whom are *homo reciprocans* and the rest *homo economicus,* can solve the free-riding malady, with the condition that the game provides direct punishment opportunities—the end result being that reciprocal types, who are ready to punish even at their own cost those selfish types who opt for free riding, can induce the selfish to contribute to provisioning of public goods (Fehr and Gächter 2000).

Again, at the heart of these models, we find the question of enforcement: What make contracts enforceable when markets fail? The phrase "institutional context" refers to nothing more than the absence or presence of fully enforceable contracts (Fehr and Tyran 1996). This binary mode of representing the institutional context is only possible with the postulation of an ontology of contracts and its corollary of rational, calculative economic subjects. The significance of *homo reciprocans* lies in its formulation of a general theory of human behavior that can produce efficient results in the absence of fully enforceable contracts. Within this framework, the economy is divided into two states around the axis of presence/absence of fully enforceable contracts: *homo economicus* and *homo reciprocans* are, respectively, the economic subjects that are suited for these two states of the economy. As we have argued above, the very question of enforcement makes sense only if one implicitly assumes a contractual ontology as the normal state of economy. Consequently, "reciprocity" is inserted back into this realm of contracts and theorized as an efficient and functional mechanism for ameliorating market failures. In so doing, "reciprocity" is being reduced to an intrinsic human drive. Thus, one essence, *homo economicus,* is traded for another, *homo reciprocans.* (See the third column of table 2.)

Evaluation of IF Approaches: Markets Occupying the Gravitational Center

As the previous section makes clear, IF discourses attempt to represent third-sphere activities in three distinct modes, namely, qua exchange, qua pathology, and qua supplement, and through three behavioral essences, namely, *economicus, altruist,* and *reciprocans.* We have repeatedly noted that all three modes of representation are structured around the question of enforcement: for each, every provisioning activity is nothing but a locus for a different manifestation of the question of enforcement. Enforcement becomes a problem for all economic processes only if an ontology of contracts is rendered as the horizon of the economy and the contractual fiction of a sovereign, purposeful, and exogenous individual is naturalized.[18] We have presented the various ways through which enforcement is secured in different IF approaches—this being achieved, for example, via individuals' credible punishment mechanisms, or social norms, or altruist family heads who happen to be dictators at the same time. The question of enforcement has been said to find a proper answer in Fehr et al.'s striking contribution that folds the raison d'être of reciprocal interactions into the inherent drives of the individual.

Another way to approach these three different representations of third-sphere activities is to see them as different mechanisms of articulation between market and non-market forms. In activities qua exchange, undertaken by *homo economicus,* what initially seems like a non-market activity is conceptualized as a variant of market. Such representations require the theorization of the economic subject as a selfish utility maximizer. In a sense, the theoretical construct that operates here is one that conceptualizes all human interactions as exchanges in an environment where the human subject faces a world of objects. However, as several commentators have remarked, this turns *homo economicus,* the stereotypical subjectivity of conventional economic theory, into a mere tautology (Rowthorn 1996; Mansbridge 1998). Although, theoretically speaking, such rendering of all economic (and non-economic) phenomena may be tautological, we note that the ideological effects of this worldview are widespread and deeply constitutive of a consumer culture (Jameson 1991).

In activities qua pathology, non-market forms of integration (e.g., insurance arrangements) are treated either as archaic and inefficient forms of market exchange (in a diachronic perspective) or as the marginal segments of an economic formation which is primarily constituted of the economies of exchange and redistribution (in a synchronic horizon), or both. It is at this very conjecture that Rachel Kranton (1996, 832), after defining "reciprocity" as an alternative mechanism for organizing intertemporal exchanges, claimed that "[w]hether or not reciprocity is enforceable depends on the market size and agents' preferences." She continued: "When the market is small, if agents place a sufficiently high value on future utility, they are willing to provide goods for their partner today in anticipation of receiving goods in the future. When agents require many different goods, however, a reciprocal-exchange arrangement has fewer benefits. In this case, if the market is thick enough, the market is an attractive alternative and reciprocity cannot be enforced" (1996, 832).

Reversing the Coasean argument (Coase 1937)—which suggests that non-market institutions arise in order to economize on market transaction costs—Kranton further argued that, by blocking the introduction of the modern market institutions that would reduce transaction costs, non-market institutions might self-enforce their own persistence. More specifically, "reciprocity" is theorized as an "inefficient" form of integration that persists and hinders "development": "While such personalized exchange ("reciprocity") can facilitate transactions in the absence of a legal system, many would argue that overall economic welfare would be enhanced if personal connections were not so important" (1996, 845). Kranton therefore theorized "reciprocity" and exchange as alternatives to one another. In fact, "reciprocity" is theorized as a resisting, self-sustaining economy that blocks "modern" and more "efficient" markets from flourishing. Saturated with a teleological and universalizing construction regarding the "efficiency" and "modernity" of market exchange, this model theorizes "reciprocity" as a hindrance to "development."

Therefore, the activities qua pathology find their place either in the past or in the margins of markets. Reciprocal institutions that operate in these margins are found pathological, as they do not measure up to the "rigor" of competitive markets in providing the enforcement mechanisms that guarantee the fulfillment of contractual relations. However, paradoxically, the converse of this argument is also true. In the case of market failures, when it is impossible to write fully enforceable contracts, reciprocities *re*emerge as supplements that ameliorate various maladies of the market mechanism.

Similarly, in economic models that open up a space for altruism, where we have observed an oscillation between activities qua supplement and qua pathology, the point of departure also appeared as the (economic) comparison that needs to be made between alternatives, i.e., the relative costs of making transactions in markets versus in non-market institutions (e.g., family).

Finally, in discussing the case of *homo reciprocans* it has been noticed that, when contracts cannot be written easily/fully (e.g., the case of provisioning of public goods), "reciprocity" surfaces as a useful supplementary institution. It should be recalled that "reciprocity" is said to increase efficiency only in the absence of fully enforceable contracts; otherwise, in competitive markets with complete contracts, *homo economicus* dominates *homo reciprocans*. To put it differently, as long as there are competitive markets with complete contracts as the alternative, reciprocal activities will be represented as endowed with an inferior rationality compared to markets.

All in all, one significant common denominator to different IF approaches of the third sphere is the position of markets as the gravitational center, or the implicit postulation of the ontology of contracts as the normal state of economy—or, in short, the persistence of economistic fallacy!

A Methodological Impasse

Although each economic subject in the IF framework is theorized as unified, homogeneous, and centered around a particular essence, we have documented three behavioral essences. In this section, we will try to determine whether or not this proliferation of behavioral essences is compatible with the IF framework.

If each IF approach were to treat the essence it postulates as the "true" essence, it would signal a fragmentation within the discursive formation of IF. Such fragmentation may lead us to ask, What grants any single behavioral essence its foundational status? Since neither rationalism (deductive logic) nor empiricism (inductive investigation) is a final arbiter of truth, the question could remain open forever (for critiques of rationalism and empiricism, see Feyerabend 1975; Hindess 1977; Resnick and Wolff 1987; McCloskey 1994; Hargreaves-Heap and Varoufakis 1995). Perhaps the question should be posed not as one of competing behavioral essences, but, rather, as the co-existence of multiple behavioral essences (or, more exactly, behavioral orientations). In other words, as a first step, and in order to secure the plurality of economic discourses and conceptions, we need to acknowledge the heterogeneity of the behavioral orientations with which an economic subject can identify. But is it possible to accommodate such heterogeneity *and* remain within the framework of IF?

Two possible strategies within the IF framework for theorizing the heterogeneity of economic motivations can be delineated. The first is to regard the distribution of different behavioral orientations in a given population as an effect of a structural mechanism. For instance, Samuel Bowles and Herbert Gintis (1998) deployed the bioevolutionary concept of *differential replication* as an analogy for the process of mimicking, copying, and replicating norms, cultural traits, and habits in order to theorize the economic subject as a mere bearer *(träger)* of different social attributes.[19] The distribution of different behavioral patterns (e.g., "nice" and "nasty" norms) among a population becomes, in their formal model, an outcome of a set of structural mechanisms (i.e., reputation, retaliation, segmentation, parochialism) that calibrates the "fitness" of the bearers of "prosocial" norms. Theorizing the plurality of behavioral traits in this manner entails leaving the terrain of individualism and entering that of structuralism. To put it differently, this strategy leaves no theoretical space for conceptualizing the moment of agency of the economic subject; it reduces the latter to an effect of structure.

The second strategy is to explain the choice of a behavioral pattern at the level of the individual. Assuming for a moment that these behavioral orientations are masks that can be put on by an individual at will, an individualist discourse must theorize a metaprocess of choosing a particular mask. In fact, something similar has been proposed by Amartya Sen in an earlier, but seminal, essay (1977, in Komter 1996, 161): "[T]he apparatus of *ranking of rankings* assist the reasoning which involves the merits of having different types of preferences (or of acting as if one had them)." However, in order to remain on the terrain of individualism—though according to our reading Sen does not seem to have such an objective—all social phenomena must be explained at the level of the individual. Such a metaprocess must, therefore, also be resolved at the level of the individual. The problem, then, is one of providing a ranking among multiple masks. But according to which criterion? What overarching behavioral orientation will adjudicate among all available orientations? Without elevating one of the behavioral orientations to the level of meta-essence, these questions are impossible to answer within the boundaries of individualism. This, however, will jeopardize the heterogeneity, as different behavioral orientations will be the derivatives of this meta-essence, and this meta-essence will, in turn, be the "real" ground on which the economic subject is theorized.

Therefore, the very proliferation of behavioral orientations poses some difficult questions with respect to IF approaches: What makes one person *homo economicus* and another *homo reciprocans*? If *homo reciprocans* is one behavioral pattern among many, why and how does an individual choose to act as *homo reciprocans* and not as *homo economicus* or *homo altruist*? "Why stop with individual purpose," asked Geoffrey Hodgson (1986, 218), "why not try to explain that as well?" However, as soon as one begins to explain the individual behavior, one exits the premises of IF. In other words, once the formation of the subject is explored, the boundaries between subject and object are broken, and the ways in which each shapes the other will need to be accounted for. Only then can a true heterogeneity be considered. We have already suggested above, by drawing on recent heterodox writing, the contours of a theory of economic subject that can accommodate a true heterogeneity.[20]

Conclusion

As we have noted in the opening paragraphs of this essay, a large amount of IF writing on the third sphere has appeared in the past few decades. In fact, among IF discourses, such research is regarded as a cutting-edge undertaking. Yet, as we have suggested in this essay, the very proliferation of behavioral essences—which we have interpreted as a "strategy of containment" in response to the difficulties faced by IF approaches in explaining the third sphere—leads to an unintended result, namely the disintegration of the methodological consistency of individualism.

The IF framework that we have investigated in this article fails in three different ways to theorize a heterogeneous and differentiated third sphere. If we assume that our proposed taxonomy comprises all possible configurations, then any conceivable model within the IF framework, if it does not render the third sphere as a variant of the market exchange, theorizes it either as a pathology in comparison to competitive markets with complete contracts or as a supplement to markets with imperfections. This market-centric view, structured as it is around the question of enforcement, subordinates the multiple logics and rationalities of the diverse economic activities that comprise the third sphere to the unitary logic and rationality of the market model. The representation of the economy, consequently, remains to be structured by an ontology of contracts: the question of enforcement, a question peculiar to contractual relations, indiscriminately informs each and every conceptualization of non-market economic activities. Hence, the persistence of the economistic fallacy continues to impede theorizing a rich and heterogeneous third sphere distinguished by thick institutional specificity. This, however, is not simply a matter of misrepresentation of the economic reality. It is our contention that "economistic fallacy" has insidious and corrupting effects on our capacity to envision and construct alternative socio-economic arrangements. Once all existing alternatives to the market exchange and the calculative behavior couplet (the rich array of activities and subjectivities that comprise the third sphere) are deemed either pathologies or supplements or variants of market exchange, it becomes practically impossible for those of us who desire to organize our livelihoods otherwise to envision alternatives.

Therefore, the need to theorize a heterogeneous economy persists, not only in order to make sense of the past and the present but also to be able to propose alternatives for the present and the future. We need an economic theory and methodology other than those present in IF discourses. This article, we hope, offers an answer that justifies such an undertaking. To understand the peculiarities of such socio-economic organizational forms requires us to recognize that the subject is shaped and constructed by the diverse set of economic and non-economic processes he or she participates in, even as he or she shapes and constructs them. In this essay we have sketched the contours of an institutionalist/substantivist approach that draws upon some of the writings of heterodox schools of economic theory that take the endogeneity of the human subject seriously. This, we believe, properly read, could open up a path that will further the institutionalist/substantivist perspective in analyzing and evaluating, in greater detail than previously, different forms of integration.

The present writers contend that *every* economic system is, in effect, a mere function of social organization. Yet each social organization shapes its human subjects in myriad ways—some in ways we like more, others in ways we like less. Our future research agenda includes the study of socio-economic organizational forms in their differential capacities to foster and/or delimit a vision in which people will be encouraged to perceive themselves as social beings rather than as isolated atoms. Moreover, in this research agenda attention will be paid to the ways in which each form of integration may have a positive or negative impact over this vision. For instance, although reciprocity is usually seen as a form of integration that fosters solidarity, within an "appropriate" institutional setting it could well be a conduit for corruption and bribery; we cannot forget that Mafiosi are among those who eschew written contracts (Bugra 2002; Lomnitz 2002). Moreover, whereas redistribution is usually seen as a key economic mechanism for enabling economic justice (in terms of bringing about a higher degree of equality, at least at the opportunity level), it can also become a "dictatorship over needs" if not animated by a deeply participatory democratic politics and culture. And, finally, while we might perceive the anonymity of exchange as liberating, history is replete with stories of dislocation and violence that result from the sheer individualism that has been and is being fostered by market exchanges. We hope we have made it clear that none of these associations is set in stone. Nevertheless, further research that aims at understanding the effects of particular institutional configurations of different forms of integration over the economic subject is needed.

Finally, taking our cue from the project initiated by J. K. Gibson-Graham (1996) that explores and investigates the already existing non-capitalist (communal, cooperative, self-employed, and so on) relations of production in contemporary societies, we believe that only after a heterogeneous third sphere has been rendered "visible" will feasible associative, egalitarian, and solidaristic alternatives to market- and state-based economies begin to spring up and spread—perhaps, in a way, fulfilling Polanyi's vision of freedom in a complex society. Without doubt, such a "visibility" is merely a first step toward the actualization of such alternative economic forms, albeit a necessary one. Only after we begin to understand the particular institutional attributes of such provisioning activities and learn from their peculiar problems and advantages will we be able to design and implement effective alternative organizational and institutional formations (for a selection of research on such undertakings, see Devine 1988; Sayer 2000; Community Economies Collective 2001; Mouffe 2001). Such proposals for associative, solidaristic, and communitarian organizational and institutional forms, without doubt, will benefit from the rich experience of the already existing forms of embedding the economy in community and nature. In this paper, we have tried to argue that this vast experiential wealth of the contemporary third-sphere activities cannot be captured through the lenses of an economic theory that treats the economy as an homogenous space (markets) and the subject as an exogenous entity (calculative). Only with a committed recognition of the heterogeneity of the economy and the endogeneity of the economic subject will it become possible for us to render visible the different and distinct everyday organizational forms and design alternatives that we will need if we are to shape our livelihoods.

Notes

1. This taxonomic representation abstracts from the epistemological considerations. Some economic discourses that can appear in the same cell might have different epistemological stances. For instance, while they share similar methodological and ontological perspectives, some strands of institutional economics and anti-essentialist Marxism differ from one another with respect to their epistemological stances: while institutional economics may justifiably be characterized with its adherence to epistemological realism, anti-essentialist Marxism does not share this commitment. For a Marxian critique of essentialist epistemology, see Resnick and Wolff 1987; for an institutionalist assessment of epistemological issues in economics, see Screpanti 2000; see also contributions by Stephen Cullenberg (1999), George DeMartino (1999), Robert F. Garnett Jr. (1999), and William Waller (1999) to a recent debate in the pages of this journal.
2. The Community Economies Collective recently made a similar point (2001, 95): "In *The End of Capitalism (As We Knew It)* J. K. Gibson-Graham (1996) argues that representations of capitalism constrain our political imaginations and economic possibilities. If we understand capitalism as *necessarily* expansive and *naturally* dominant, we eliminate the imaginative space for alternatives and the rationale for their enactment. It seems that we need to conceptualize the economy differently in order to enact a different economy. More specifically, we need to de-naturalize capitalist dominance and to represent *noncapitalist* forms of economy (including ones we might value and desire) as existing and emerging, and as possible to create."
3. One should mention another analytical separation as well, one that distinguishes forms of integration from the relations of production (class relations): Different class processes (capitalist, feudal, communal, independent, and slavery) may coexist and be integrated into an articulated system through different forms of integration. Again, no one-to-one mapping need be presumed.
4. In passing it should be noted that, while postulating the heterogeneity of the field of the economy, one must not assume that different forms of integration are on an equal footing with respect to one another. Institutional and historical circumstances may lead to the hegemony and dominance of one particular form of integration. Polanyi was quite aware of this dimension (1977, 42): "Several subordinate forms may be present alongside the dominant one, which may itself reoccur after a temporary eclipse."
5. The list can easily be extended. For instance, consider the case of blood donation. In his seminal research Richard Titmuss (1971) made the observation that, should monetary compensation be offered to otherwise voluntary blood donors, some would refuse to give blood, as a way of protesting to exchange blood for money.

6. Grounding much of the Western metaphysics, as David Ruccio (1991, 500) has underscored, we have "the notion of a unified 'Cartesian subject,' the single 'I' centered on an undivided and controlling consciousness that relates to the world solely through its own constructive activity." This transcendental subject erected upon an ontology of certainty and rationality can be found in the core of much of IF discourses.
7. Jack Amariglio, Stephen Resnick, and Richard Wolff (1990, 123-4) clarified the different notions of essentialism by distinguishing them from their own non-essentialist positions on ontology and epistemology: "We are opposed to causal essentialism-reductionism since we believe that among its effects is the reduction of the complexity of social analysis to a search for singular (and to our minds, partial) causes of all social reality. While causal essentialism deprives social theory of conceptual and descriptive richness, epistemological essentialism is likewise reductionist insofar as it reduces the differences between discourses to a dispute primarily over their respective claims to a superior truth. When linked together, these forms of essentialism lead to the idea that if the essence of social existence can be uncovered, then truth about social existence is transdiscursive, and the search for truth is a matter of the correct method. The political consequences of the insistence on employing a 'correct method' to discover the essence—the Rosetta stone—of social existence are equally disturbing, as such an insistence lends itself to doctrinal rigidity and dogmatism instead of constant critique." Precisely because we believe in the necessity of attending to the heterogeneity of the social and economic fabric, we prefer non-essentialist and substantivist analyses of the social.
8. Geoffrey Hodgson (1986, 214) is quite clear on this point: "[In] practice the principle (of purposeful individual) must be *assumed* by the members of market system working with individual property rights. The core of the legal system in a market-dominated society is contract law. For this system to operate it must typically be able to attribute consciousness and purposefulness to the parties in any contract."
9. To clarify, we are not denying the importance of contracts for an institutional analysis of much of contemporary economic phenomena pertaining to market relations. In fact, such sensitivity to contractual relations and their enforcement is part and parcel of institutional economics. We are, however, critical of imposing an ontology of contracts indiscriminately on all economic phenomena, including the set of activities that constitute the third sphere. This is precisely what IF approaches do. We would like to thank an anonymous referee for making this point clear for us.
10. Kenneth Arrow (1972, in Phelps 1975, 22) clarified the supplementary status of trust for IF approaches: "I should add that, like many economists, I do not want to rely too heavily on substituting ethics for self-interest. I think it best on the whole that requirement of ethical behavior be confined to those circumstances where the price system breaks down for the reasons [set out above]." For an early yet seminal articulation of the necessity of supplementing the market mechanism through non-market institutions, see Goldberg 1974.
11. The Kantian categorical imperative is simply an empty method of decision making that is devoid of particular content: treat the other the way you expect the other to treat you. In the context of voluntary contribution, Robert Sugden modified the imperative by making it conditional and pulled the Kantian stand closer to the terrain of utilitarian calculus. In passing, a separate observation can be made with regard to the interesting connection between Sugden's moral constraints and Adam Smith's (1976) vision of society as portrayed in his *Moral Sentiments.*
12. Note in passing that James Andreoni (1989) coined a curiously telling phrase for such a conceptualization: "impure altruism." For early treatments, see Becker 1976 and Margolis 1982.
13. We are indeed being highly selective in focusing only on Gary Becker's altruistic models of the human behavior. In fact, much of Becker's writing is based on selfish models of the human behavior.
14. In fact, for Becker (1976, 10), the decision to enter into a marriage, like the decision to enter into any other contract, is a matter of weighing the expected advantages and disadvantages.

15. In passing, it should be noted that this Beckerian approach has been widely criticized. Mainstream feminist literature, critical of this "unitary" model of "joint utility function," introduced the framework of "bargaining models" in order to explain intrahousehold dynamics (Hart 1992). Rejecting the assumption of altruism on the part of the head of the household, these models introduced elements of power and conflict into the dynamics of the household. In that regard, B. Douglas Bernheim and Oded Stark (1988, 1044), for example, argued that "family decisions are more properly modeled as negotiations among primarily self-interested individuals." Along with some other mainstream models, despite being very sensitive toward the power relations that constitute the household, these mainstream feminist models can be regarded as variants of "egoistic cooperation." However, on the other hand, much of heterodox feminist writing can be seen as a very strong tendency to move beyond the subject-object binary of IF models (see the various essays in Ferber and Nelson 1993; and also Folbre 1994; Nelson 1996; and more recently Folbre and Weisskopf 1998) that parallels our formulations (see, especially, "The Question of the Economic Subject" in this article).
16. Colin Camerer (1997, 169) summarized the "ultimatum games" as follows: "[A] proposer offers a division of a sum of money X to a Responder who can accept or reject it. If the Responder accepts the offer, then both players receive the amount of money given; if the Responder rejects the offer, then both players receive nothing. The ultimatum game is an instrument for asking Responders, 'Is this offer fair?' It forces them to put their money where their mouth is and reject offers they claim are unfair."
17. In passing, it should be noted that this last point is subject to debate among experimental economists: Consider, for example, a similar yet distinct model by Rabin (1993), where the "feelings" of sympathy and antipathy that add to the utility of the economic subject tend to become relatively less important as the amount at stake gets larger.
18. Hodgson (1998a, 176) formulated this in a slightly different manner by arguing that in such IF economic discourses "[a]n initial institution-free 'state of nature' is assumed." While we agree with the argument that the process of naturalization is an element of the regular functioning of these discourses, we also believe that this "state of nature" is not institution-free but involves the naturalization of a particular institution, i.e., the contractual fiction.
19. Samuel Bowles and Herbert Gintis argued that "differential replication" replaces "the role usually assigned to conscious optimization" (1998, 214). Although they seemed to abandon the assumption of calculative economic subject, they remained trapped within an ontology of contracts. In their model, "prosocial" norms are theorized as institutional solutions to economic problems that arise from prisoner-dilemma situations. As in all prisoner-dilemma constructions, a "state of nature," an ontology of contracts, is implicitly assumed, and "prosocial" norms are theorized as supplementing an underlying economy of selfish economic subjects and their competitive battles.
20. Without doubt, the alternative approach that we proposed in the preceding pages is not the only one. For a critical realist position that also resists taking a reductionist approach to the relation between the individual subject and the social structure, see Lawson 1995 and 1997 and Bhaskar 1998.

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