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FUNCTIONAL EXPLANATION IN ECONOMICS:

A QUALIFIED DEFENCE

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Abstract

Economists seldom make explicit use of functional explanation, although they sometimes use it implicitly. Functional theorising has lost favour among social scientists in recent years, and few are now willing to adopt functional language. This paper argues that, despite some drawbacks, explicit functional methods have several attractive features, including a pluralistic attitude to causality, an awareness of stratification and emergence, and a compatibility with a realist perspective. Functional methods on their own cannot provide full causal explanations, but they can raise important theoretical issues often neglected in mainstream economics.

Keywords: functional explanation, economic theory, causality, agency, structure

1. Introduction

When trying to understand economic and social institutions, one is always tempted to seek their functions. They should, it seems, fulfil an identifiable function, otherwise they would have withered away or never appeared in the first place. Functional explanation is the formal variant of this type of reasoning. Social scientists who adopt functional methods hope to discover the functions of social behaviour and thereby explain why the behaviour emerged and why it persists.

Explicit use of functional methods has been far rarer among economists than among other social scientists. Economists have generally mistrusted such methods, though the grounds for their mistrust often remain unstated. Much of the antipathy has derived from the tensions between economics and sociology, where functional arguments have usually started from a top-down, holistic perspective that jars with the bottom-up individualism of neoclassical economics. Even among sociologists, however, functionalism has become unfashionable: since the late 1960s the balance has swung towards smaller scale, more individualistic and interpretative approaches. Throughout the social sciences, recent trends have veered away from functional methods, which are in danger of being eclipsed altogether. The word 'functionalist' now has pejorative overtones, so that few academics are willing to risk being labelled in this way.

Despite the antifunctionalist climate, many economists still resort to tacit functional arguments. Consider, for example, the fundamental theorems of welfare economics at the heart of the neoclassical case for a market economy. Perfectly competitive markets are portrayed as having desirable consequences; they fulfil the function of generating Pareto-efficient outcomes. Viewed cautiously, this might be interpreted as a hypothetical benchmark, of limited practical relevance. But many economists have gone further and invoked the desirable efficiency properties of markets to explain their superiority over

alternative economic systems. Much economic commentary skirts close to functional logic, although it hardly ever refers to functions or functionalism.

Functional methods are more overt in heterodox economic theory, notably institutional economics. The 'new institutionalism' has explained economic arrangements by indicating their desirable efficiency properties, a classic example of functional logic. Older forms of institutionalism have put forward theories with an affinity to structural-functionalist sociology. Marxian authors, ostensibly critics of functionalism, have explained economic institutions through their beneficial consequences for the ruling classes. Wherever one looks in both orthodox and heterodox economics, one can find tacit functional arguments.

This sits uneasily with the current distaste for functional explanation. If it is truly worthless and discredited, then why does it keep reappearing? Why do its critics have trouble expunging it from their own theories? Its persistence prompts one to wonder (in an appropriate vein) whether it may indeed be fulfilling useful functions.

The present paper makes a qualified defence of functional explanation, arguing that, despite some drawbacks, it still has value. On its own it cannot provide complete accounts of economic and social behaviour because it lacks the necessary depth, and to this extent the term 'functional explanation' may be a misnomer. But identifying functions can be a key element of explanatory theory without offering a full explanation. Functional reasoning has virtues as well as vices, and to reject it outright would be an overreaction. The next two sections of the paper consider the nature of functional explanation and the case against it. The paper then examines functional arguments in economics and the case for greater tolerance of functional methods.

2. The nature of functional explanation

There is no consensus on what constitutes functional explanation or how it relates to other types of explanation in the social sciences. Ambiguities surround both the meaning of functional and the character of the explanation being sought. In the absence of a universal definition, it is not uncommon for an explanation to be classified as functional by some authors but non-functional by others. The risk of inconsistency is clear and, before proceeding, one should consider the nature of functional explanation and the interpretation to be adopted in the present paper.

The nearest thing to a standard definition of functional explanation emerged from the debates over functionalism in the 1950s and early 1960s (Hempel 1959; Nagel 1961, Chapter 16; Demerath and Peterson 1967). According to this definition, a functional method will explain an economic or social institution by identifying the functions it performs within a broader systemic context. Two features of this definition stand out. First, a function is a process that can only occur over time and through a system containing the institution in question. Functional explanation thus involves a systemic and intertemporal outlook. Second, the item being explained is the institution rather than the system within which it is located. Although the consequences of the institution must be worked out within the system, they do not have to be distributed evenly among all parts of the system and could be concentrated on a subset of parts revolving around the institution being explained. A functional explanation, while being systemic, need not depict institutions as promoting a greater good spread widely throughout the whole containing system.

Some authors have distinguished between functional explanation, as defined above, and functional analysis or functionalism (Cummins 1975). Difficulties may arise with functional explanation because identifying the functions of an institution within a containing system does not guarantee the institution's necessity: the same function might be performed equally well by another, unobserved institution. This weakens the bond between the institution and

the containing system, throwing doubt on whether the systemic approach can explain the institution. A possible remedy, suggested by Cummins (1975), is to turn away from explaining institutions towards explaining the containing system. Theorists would then start at the systemic level and ascribe functions to various parts of the system without claiming that function-ascription can explain why the parts exist. The resulting functional analysis would fulfil an analytical rather than explanatory role by examining the parts of a given system and how they interact to make up the system. Such a method would integrate institutions with their systemic context and, in doing so, present a more coherent picture of a total system.

Further problems in defining functional explanation derive from its relationship with causal explanation. The functional/causal distinction dates back to the work of Durkheim in the late nineteenth century (Durkheim 1895, Chapter 5). Functional explanations in social science concentrate on the surface phenomenon of how observable institutions function, without attempting to expose the deeper causality propelling social behaviour. Theorising can be conducted at the higher, systemic and institutional levels. Causal explanation, by contrast, searches explicitly for causal mechanisms and tries to penetrate beneath the institutional level to the level of the individual or, beyond that, to human biology. Such a functional/causal distinction need not create a conflict and leaves open the possibility of functional explanations coexisting with causal ones. In fact, defenders of functional methods are seldom outright opponents of causal explanation and usually eager to emphasise the compatibility of the two approaches.

Ambiguities may arise over whether or not functional explanation is linked with any particular causal processes. For some authors, functional explanation need not specify the precise causality behind how and why an institution came into being (Davis 1959; Merton 1968). Causal relations must presumably exist, but functional explanation can shed light on social behaviour without delving into a detailed analysis of causality. Functional differs from causal explanation in that it allows slackness or indeterminacy in its causal relations and can accommodate more than one type of causality. If the causality could be

pinned down, then functional would be transformed into causal explanation. Until this happens (and it may never be feasible), functional explanation will be the best we can do. Adopting a functional approach can thus be construed as a way of seeking causal explanations rather than a self-contained method (Gellner 1973; Abrahamson 1978, Chapter 2). Full causal explanation would be the ideal, but it is unlikely to be attainable in the near future and functional explanation presents a more realistic goal.

Other authors have regarded functional explanation as a subset of causal explanation. Three main types of causality have been associated with functional explanation: purposeful behaviour, natural selection and complex causality. The first of these is rooted in the standard meaning of the word 'function', which implies a goal or purpose. To be consistent with everyday usage, a functional explanation would have to be teleological, embodying a purpose, yet this raises some awkward issues. If the teleology is subjective and traceable to human agents, then functional methods are yielding explanations that might be better classified as intentional. Subjective teleology would threaten the distinctiveness of functional explanation and reduce it to being an offshoot of intentional causality. If, on the other hand, the teleology is objective and cannot be traced to human agents, then functional arguments may be illegitimately ascribing purposefulness to inanimate objects. Objective teleology seems to give institutions the power to think for themselves and pursue their own goals independently of human design. Modern theorists, reluctant to appeal to objective teleologies, use the word 'function' in a broader sense to denote merely good or useful consequences, without any explicit intention or purposefulness (Ryan 1970, Chapter 8). But many writers in the past have been happy to invoke objective teleologies operating through natural orders, invisible hands and driving forces of history (key examples are Hegelian theories of history and natural law interpretations of the invisible hand in economics). Whatever its difficulties, teleology can provide a causal underpinning for functional arguments.

If teleology is ruled out, an alternative is to base functional explanation on non-purposeful causal processes, in other words, natural selection. Where an institution did not originate

from a master plan or guiding hand, it must seemingly have evolved as the spontaneous outcome of natural selection or the equivalent in the social sphere. Some authors have limited functional explanation to one particular causal process – natural selection – and defined all other causal relations as being non-functional: Elster (1983, Chapter 2), for instance, sets functional explanation (based on natural selection) alongside causal explanation (based on causal laws) and intentional explanation (based on purposeful human behaviour). This narrows the space available for functional explanations, since clear-cut cases of natural selection in human societies may be hard to discern. The insistence that functional arguments must be founded on natural selection is commoner among their critics such as Elster than among their proponents. Defining functional methods as evolutionary has the drawback of jarring with everyday usage of the word 'function', which implies a purpose. Paradoxically, an explanation centred on intended and openly declared functions would be classified as non-functional according to this scheme.

A third causal interpretation of functional explanation associates it with its own, unique causality. Stinchcombe (1968), for example, draws from biology by linking functional explanation with equifinality or homeostasis, that is, the tendency for a system to converge on a common end point, regardless of the starting point or intervening obstacles. Such a tendency, which is empirically accessible, can be seen as providing evidence for a circular causal chain. It may be impossible to go further than this, since the workings of the causal chain may be too complex for analysts to deal with satisfactorily. In the circumstances, the theorist could describe functional explanation as positing a causal relation of a special, complex (if somewhat nebulous) kind. A similar approach is suggested by Sober (1983), whose concept of equilibrium explanation focuses on observed tendencies to reach equilibrium, without trying to disentangle all the underlying causal processes. The openness and indeterminacy of functional methods can thus be viewed as a special, irreducible form of causality instead of a promissory note for later, fuller causal explanations.

Ambiguity over causal links broaches the related issue of whether functional explanations can include planning or whether functions must be unintended. An ascribed function is compatible with at least three levels of knowledge. The highest level assumes that some or all people know the function and create or maintain the institution so as to fulfil it. Under these conditions the function is intended and follows from human design. The broader versions of functional theory have been happy to embrace intended (manifest) functions alongside unintended (latent) ones (Merton 1968). A lower level of knowledge is where people do not at first intend the function but recognise it at a later stage. Valuable institutions may be retained by design, even when they were never planned, so that they arise from an evolutionary process supplemented with adaptive learning. Functional methods can then include the gradual perception of desirable consequences – a hybrid case falling between manifest and latent functions – but exclude intended functions known from the outset (Van Parijs 1981). The lowest level of knowledge is where people neither intend nor recognise the function of an institution, which evolves by natural selection without *ex ante* planning or *ex post* realisation of its value (Elster 1982, 1983). The institution may have a perceived function but, if so, this cannot be its actual function, to which people remain blind.

The size of the social units in functional explanations has been variable. Where the investigator aims to carry out a functional analysis of a total social system, the appropriate social unit will be the whole society, and institutions will be meeting societal needs. The prime exponent of this was Talcott Parsons, whose structural-functionalism portrayed institutions as being parts of a larger, smoothly functioning system (Parsons 1937, 1951). In his earlier work, Parsons wanted to keep away from holistic or individualistic outcomes, but his later work expanded into a grand systemic vision, holistic in practice if not in its declared goals. Other functionalist writers have been careful to avoid applying functional explanation exclusively to whole societies. Merton (1968) differs from Parsons in basing functional explanation on smaller, interacting social groups. Arrangements beneficial to one social group may be detrimental to others, and so the fulfilment of social functions may not bring social order or harmony. This can give richer social theory that escapes the monolithic,

overextended character of Parsonian structural-functionalism. Generally speaking, there is little reason to impose prior limits on the social units to which functional explanation can be applied. The units and balance among them can vary with the topics being investigated.

Although functional methods often have a holistic flavour, functionalism is logically distinct from holism. It is quite possible to have individualistic brands of functionalism, in which there are no social groups and institutions are a functional response to individual needs. An early example of this occurred in social anthropology, where the individualistic functionalism of Malinowski was among the first functional theories in social science (Abrahamson 1978). Later examples are the (often implicit) functional arguments in neoclassical economics and the new institutionalism, which identify the functions of institutions by tracing the consequences for individual preferences. As these examples show, the systemic context of functional explanation can be expressed in bottom-up, individualistic terms. The variable scale of functional methods, along with their hazy causal relations, ensures that they need not entail social holism. What they normally do entail is some relation between a whole and its parts (a stratified theory), but the whole does not inevitably dominate the parts.

When dealing with functionalism, one should allow for the alternative definitions of functional explanation. The following discussion will take a broad view and regard any theory that ascribes functions as being a functional method. Such theories might not fit certain formal definitions of functional explanation, but they belong to a common family of functionally based approaches. Consequently, both functional explanation and functional analysis will be counted as functional methods, and the precise causality behind functional reasoning will be left open. The significant issue is whether or not the ascription of functions has any value in economic theory.

3. Arguments against functional methods

The heyday of functionalist social theory was the 1950s and early 1960s, when structural-functionalism held sway as the sociological mainstream, a status threatened only from the late 1960s onwards. Challenges to functional methods in social science came from various sources and reflected diverse theoretical perspectives: classical and structuralist Marxism, New Left culturalism, phenomenological approaches, ethnomethodology, and so forth. Among the numerous antifunctional arguments, several themes can be identified.

A common concern of critics has been the frequent resort to biological analogies in functionalist social theory. The analogy drawn by Parsons was with living organisms whose internal organs function as parts of a system and permit the organisms to survive. Any systemic failure would for an organism result in death and for a society result in the collapse of existing institutions. It is unclear, however, that a society can experience sudden 'institutional death'. The analogy between an organism and a society does not seem especially close, since the most fundamental social changes are rarely if ever as sudden and terminal as the death of an organism. One can thus ask whether a society's need to reproduce itself provides a satisfactory basis for functional explanation. Can we explain institutions by saying that they have the function of reproducing themselves? Functional arguments of this sort seem circular and vacuous. Criticism of the organic analogy refers chiefly to Parsonian structural-functionalism, and other kinds of functionalism are less vulnerable. The systemic aspect of functional methods is strongest when they take the form of functional analysis, treating all institutions as components of a total social system, as against the standard definition of functional explanation. If the social units are groups, then the theory no longer requires a single set of needs for the whole society. Institutions may have the function of preserving group interests, and institutional change may redistribute wealth or power without causing 'institutional death'. When there are many social units, there can be many functions fulfilled by different, localised social arrangements. Reproduction is always important, but it

does not have to be the only function invoked, and anything that might be regarded as a function could be the basis for functional explanation.

A related argument is that functionalist sociology has neglected human agency and replaced it with structured, normalised behaviour (Wrong 1961; Homans 1964). Functional methods, the critics argue, concentrate on disembodied social systems and institutions, at the expense of human beings. The result is that people tend to be portrayed as automatons following social norms that fulfil desirable social ends. Individual and social interests are fused into a perfect social will, so that the account of human behaviour leaves no role for individual action other than conforming to socially determined norms. The main critical attack has again been on Parsonian structural-functionalism. There is an irony here, because downgrading human agency had no place in Parsons's initial desire to overcome the separation of agency and structure. He saw his own social theory as blending the structural approach of Durkheim with the more individualistic approach of Weber (Parsons 1937); his non-reductive aims were similar to those of his later critics, such as Giddens (1977). Functionalist theory was often careful to incorporate several layers, including individuals and social structures, with each layer having emergent properties irreducible to the other layers. Individuals may be rooted in material nature and located within a social structure and yet have emergent powers not wholly explicable by natural or social factors. A functional approach should, in principle, be able to avoid structural reductionism and properly appreciate individual agency. Unfortunately, much of this early subtlety was lost in later structural-functionalist work, which leaned towards the structural side and constructed systemic models of ever-increasing size and complexity. Criticisms of a structural bias do have some justification, but the bias is not an inevitable feature of functional methods.

Critics have berated functional theories for their failure to uncover the origins of institutions that fulfil social functions. The problem arises chiefly with the narrower definitions of functionalism, where functions must be unintended and unrecognised. Institutions with desirable consequences must then evolve spontaneously from an

invisible-hand process, not from planning. Functional arguments become vulnerable to criticism if they cannot connect desirable social outcomes to the behaviour of people oblivious of such outcomes. Legitimate functional explanation, according to this argument, must have a feedback loop ensuring that unintended functions are fulfilled through individual behaviour. Elster (1982) asserts that no feedback loop exists and that functional explanation must be rejected. He debars intended functions and learning processes from functional methods, insisting that people must be unaware of the desirable social consequences of their actions: functional explanation can have as its feedback mechanism only natural selection free from human design or recognition. Good examples of natural selection within human societies are, in Elster's view, scarce and for him this counts decisively against functional explanation.

Other authors have been more willing to accept natural selection within human societies, at least as one causal mechanism among others. Evolutionary thought has been a feature of institutional economics in both its old and new guises (Nelson and Winter 1982; Hodgson 1993; Andersen 1994; Vromen 1995). Similar evolutionary ideas can be found outside economics, for example, in the sociologically based literature on organisational ecology (Hannan and Freeman 1977, 1989). Economic and social theorists may disagree about the details of economic evolution, but they are prepared to contemplate natural selection as a feedback loop. This improves the prospects for functionalism defined on Elster's highly restrictive criteria. The prospects are further improved if one relaxes his requirement to ban human consciousness from functional explanation. Consciousness may be pivotal to feedback loops and should not be dismissed out of hand. One possible feedback loop, falling between full-blown intentionality and complete ignorance, is that people are initially unaware of the desirable consequences of their actions but later recognise them. Learning from experience allows people to reproduce a valuable social institution even though it was never planned and may not be fully understood. Actual feedback mechanisms may intermingle design, learning and natural selection: Stinchcombe (1968) sets out six varieties of feedback loop, any of which could underpin functional theories. Forcing functional explanation to rely

solely on natural selection imposes a harsh restriction on functionalism and on social theory at large.

Critics have also rebuked functionalist sociology for its conservatism and complacency (Gouldner 1970). Structural-functionalism had depicted society as a static, self-perpetuating system, built up from tightly interwoven institutions, to which most if not all members of society were well adjusted. Existing inequalities of income, wealth and power could readily be interpreted as functional and therefore vital for the continued smooth running of society. The systemic vision highlighted neither the need for social change nor the means of achieving change and seemed incapable of modelling social conflict. The purpose of functionalism appeared ideological, to provide an academically respectable case for the status quo. Such criticisms pertain chiefly to the functional analysis of whole societies, on Parsonian lines. They are less applicable to those functionalist writers, following Merton, who have taken smaller groups as their social units and acknowledged social conflict and change. Instead of furthering the general interest, institutions may be furthering the interests of a particular group or class at other groups' expense. The clash of interests creates tensions and pressures for change, but the dominant groups may be able to impede major reforms and preserve their advantages. Although much functionalist sociology of the 1950s and 1960s may have been tinged with complacency, this was a feature only of specific functional theories, not of functional methods as a whole.

Most of the arguments over functional methods in social science have been conducted within the sociological literature. Economists have largely shunned functional ideas and, conforming to strict disciplinary boundaries, kept out of the sociological debates. Their silence might suggest aloofness towards functional arguments, yet economists have been surprisingly willing to adopt them, albeit implicitly.

4. Functional arguments in economic theory

Neoclassical economists have customarily been hostile to the functional methods in sociology, above all to structural-functionalism, which clashes with neoclassical individualism. The hostility has not stopped economists from using functional arguments, however, and implicit functionalism is commonplace in neoclassical theory. Welfare economics provides the clearest examples, as the normative judgements it attaches to economic arrangements come close to ascribing functions. Economic exchange among rational individuals has the function of realising potential gains from trade and, in doing so, promoting the welfare of the parties involved. Exchange through markets is represented as having desirable consequences that must come about wherever voluntary trading occurs between rational people. There are no collective or social benefits as such, but the mutual individual gains produce a generalised personal benefit spread among all traders. When translated into aggregate, general-equilibrium terms, the desirability of exchange appears as the Pareto-efficiency properties of perfect competition, set out formally as the fundamental theorems of welfare economics. This is akin to an individualistic functional analysis, whereby the general equilibrium system performs a useful function – the attainment of Pareto efficiency – described in individualistic language. The analysis does not necessarily amount to a functional explanation of the prevalence of markets, but it is only a short step further to explaining actual markets through their desirable efficiency properties. The notion of the invisible hand, at the core of so much economic theory, is essentially a case of functional reasoning.

Invisible-hand models exist in two main versions, one taking a bottom-up perspective starting with individual behaviour, the other taking a top-down perspective starting with desirable social consequences: Ullmann-Margalit (1978) terms these the standard and functional/evolutionary versions. The standard version works upwards from rational individual behaviour to an unintended aggregate outcome and dwells on how social institutions are linked to prior individual motives. There may be no reference to functions

here, but if the aggregate outcome is desirable and fulfils useful social functions (as in the neoclassical image of markets), then the argument takes on a functional hue. The functional/evolutionary version of the invisible hand works in the opposite direction, beginning at the top with the desirable consequences of social behaviour. When the identification of desirable consequences (functions) is viewed as explanatory, this fits the traditional mould of a functional method. Unlike the standard version, the feedback mechanism linking social institutions and individual behaviour initially goes unspecified and could take alternative forms, including natural selection, learning and design. Both versions of the invisible hand, especially the functional/evolutionary version, are near to functional analysis. The functional aspect often remains implicit, and many economists would disown it, yet it lurks in the background of economic theorising.

Functional arguments become more obvious when neoclassical theory moves beyond perfect competition and addresses the emergence of institutions. The new institutional economics, in some of its guises, tries to put institutional economics on the same theoretical footing as the neoclassical mainstream; it explains institutions through the interactions of rational individuals in market-like situations to produce socially desirable outcomes. The analysis has a distinctly functional character. In the property rights school, for instance, the function of property rights is to encourage the internalising of externalities (Demsetz 1967; Alchian and Demsetz 1972). Well-defined property rights will supposedly emerge when the gains from internalising externalities outweigh the costs, yielding a net social benefit. Social arrangements can then be explained by their desirable consequences, although the feedback loop relating the social consequences to individual behaviour is unspecified.

Much the same applies to attempts within the new institutional economics to explain the growth of particular organisations. In the transaction-cost approach, the institutions that emerge depend on the transaction costs associated with markets: if these costs are high enough, non-market organisations will prove superior (Williamson 1975, 1985). Social institutions are assumed to be well matched with their environment and hence socially

optimal. Again the feedback loop is none too clearly specified; for Williamson it may include purposeful behaviour and learning, as well as natural selection. This is common throughout the new institutional economics, which often draws on learning processes as feedback loops (Vromen 1995, Part II). The theory does not insist on all functions being unintended, but the drift of the argument is unmistakably functional. When Williamson (1988) discusses functionalism, he recognises the functionalist character of his work and leaves open the possibility of functions becoming manifest by adaptive learning. Likewise, the evolutionary modelling of Nelson and Winter (1982) embodies adaptive learning alongside natural selection as the main evolutionary mechanism. Functionalist logic permeates the new institutional economics (sometimes explicitly so), coupled with a neoclassical strand that adheres to reductive, individualistic objectives.

The old institutional economics, by contrast with the new, has been less keen on individualism and more willing to pursue methods resembling structural-functionalist sociology. Old institutionalism appeals to habitual or normalised behaviour in place of instrumental rationality, and in this respect comes closer to the structural quality of sociology than to the individualism of neoclassical economics. The functional aspect is usually implicit but still readily apparent: institutions are portrayed as having a function that accounts for their persistence. Feedback loops differ among institutionalist authors and are not always fully specified.

One can distinguish between the approaches of Veblen and Commons in relating individual behaviour to social outcomes (Rutherford 1994, Chapter 5). Veblen's approach is more evolutionary, based on the emergence of social rules and conventions fulfilling unintended functions. The feedback loop, not wholly clear, seems to combine natural selection and learning. This could fall short of functional explanation in the narrow sense, which permits only natural selection as a feedback loop, but the argument has strong functional traits. Veblen does, however, leave scope for conscious decision making and refers repeatedly to purposeful human action; he should not be interpreted as advocating crude functional

determinism (Hodgson 1992). Later institutionalists, such as Ayres, shifted further towards socially conditioned behaviour and produced theory that mimicked functionalist sociology, but Veblen himself avoided structural reductionism. Nor did he believe that all institutions promote the general social good: a major theme of his work is that normalised, habitual behaviour may promote sectional interests.

Commons opted for conscious decision making as the crucial feedback loop. His work hinges on the legislative means by which property rights and other economic institutions are established. He stands further away than Veblen from functional explanation in the narrow sense, since he sees the formal legal system as the intended product of human agents. But he too leaves leeway for more than one feedback loop and does not exclude the idea that social customs and practices may spread through spontaneous, invisible-hand processes. Like Veblen, he follows a functional argument by relating institutions to the functions they perform. The theories of Veblen and Commons are by no means inconsistent, and the old institutionalism can embrace a variety of feedback loops. It is not rigorously functional, but often functional in spirit.

Similar implicit functional methods exist in other branches of heterodox economics. Perhaps the most striking examples occur within Marxian economics, which has vehemently opposed both structural-functionalist sociology and neoclassical economics. Marxian writers might have been expected to steer clear of functionalism, yet their work has typically taken a functional form. This stems from the argument that ideology and social institutions will, for all modes of production, favour the dominant economic class. Social arrangements are explained by showing that they have desirable consequences for the capitalist class, a functional argument with economic classes as the social units. Elster (1982) criticises such Marxian arguments, calling for a feedback loop linking social outcomes with individual behaviour. He denies natural selection in human societies and endorses a 'rational-choice Marxism' that places purposeful individual behaviour at the hub of social theory. Responding to Elster, Cohen (1982) takes a more eclectic outlook. He admits the functional character of

Marxian reasoning and the shortfalls of theories without proper causal relations but prefers to go for different, more sophisticated theorising, not to jump as Elster does all the way to methodological individualism. It would be better if Marxians and other heterodox economists affirmed their functional arguments, refused to commit themselves to rational-choice methods, and took a more open, dispassionate view of what the actual feedback loops might be.

The implicit functionalism in both neoclassical and non-neoclassical economics illustrates the pervasiveness of functional explanation. When hoping to explain economic or social institutions, theorists frequently assign them functions and theorise in a functional manner. Whether this counts as functional explanation depends on how one defines it and on the nature of the feedback loops. But the tenor of much explanatory theory in the social sciences, including economics, has been functional. The case for explicit functional methods and the role that they might play in explanatory theories are worth examining at greater length.

5. A qualified defence of functional methods

Criticism of functional methods in social science has emphasised three supposed weaknesses: their shallowness and inability to provide causal explanations, their tendency towards holism and the denial of human agency, and their conservatism towards prevailing social arrangements. The present qualified defence of functional methods argues that, while they do have drawbacks and limitations, they do not have these three weaknesses. Employed carefully, functional methods can be consistent with causal explanation, can give due weight to human agency, and are capable of finding fault with the current social order.

Consider first the criticism that functional explanations can never be true explanations because they do not expose the true causality behind economic and social activities. Such

criticism is well founded, in so far that explanatory theory aims to reveal causality, but it takes what might be regarded as a purist line. Few theories, if any, can plausibly claim to have laid bare the full causality behind social behaviour, regardless of whether or not they are searching for it. Functional methods are guilty not so much of failing to find causal relations as of omitting to declare the search for causality as a prime objective. This may be an error, but it is not serious enough to discredit all functional approaches. The descriptiveness of functional approaches, with their reliance on surface phenomena, is at least consistent with the limited claims made about causality. A danger of purportedly causal explanations is that they too will lack depth and thus interpret empirical regularities as proof of causality, as in the Humean account of causality underlying positivism. Mainstream economics has relied heavily on this shallow, empirically rooted view of causal explanation and in doing so has neglected alternative, deeper forms of causality (Lawson 1997). Functional arguments may themselves be shallow and empirically based, but they hold back from equating empirical correlations with causal processes.

Functional reasoning can encourage a more pluralistic attitude to causality. Reticence in specifying causal processes may sometimes be wise, when one remembers the complexity and diversity of economic behaviour. If one is doubtful about the full causality driving events but still feels able to give a partial account of how an economic or social system operates, then the resulting theory is likely to have a functional cast, whether or not one presents it as being explicitly functional. Functional methods may well appear accidentally as theorists strive to find partial explanations of particular facets of economic behaviour. Theories that claim to go further and provide complete causal explanations will frequently pick out one feedback loop (natural selection, learning, purposeful action, etc.) at the expense of others. This is apt to produce oversimplified, reductive theory, where the causal influences come uniquely from a single source. Even if the theory aims to be non-reductive, there may still be a thinning out of the causal relations, offering only a blinkered view of causality. The desire to discover fundamental causal processes, while admirable in itself, could induce theorists to seize prematurely on certain processes and obscure others perhaps equally important. A quest for a

single overriding causal mechanism upon which theorists can found their models will promote rigid, mechanical social theory. To avoid this, a modest functional approach allowing for plurality and indeterminacy of causal relations may be the more fertile method. Causal explanation could be the ultimate goal, but functional methods could provide a stepping stone on the way to later causal accounts.

The second major criticism of functional approaches concerns their alleged bias towards holistic, structural theory and neglect of human agency. Functional arguments are far more pliable on the question of structure and agency than their critics have claimed. The definition of functional explanation leaves open how a social function is fulfilled and never mentions structured behaviour or insists that individual desires must be subordinated to the social interest. Critics of functionalism interpret such openness negatively, as an illegitimate, objective teleology that ascribes functions or purposes to inanimate, disembodied social institutions. There are cases where functional reasoning does imply objective teleology (for example, the later forms of Parsonian structural-functionalism), but its basic nature does not enforce this. In essence, functional explanation is silent about how agency and structure are related and can accommodate various interactions between them. Though the silence might be seen as a problem, it nevertheless gives a flexible framework for handling agency/structure, micro/macro and individual/society issues.

The openness of functional methods is consistent with recent social theory, which has queried the customary opposition of agency and structure, arguing that they are intertwined. Giddens, for example, builds his social theory around the 'duality of structure', whereby agency and structure are conceptually distinct but thoroughly interdependent and inseparable (Giddens 1979, 1984). Other theorists have expressed similar ideas in different conceptual language (Bourdieu 1977; Elias 1991). Giddens's critics, who feel that he has gone too far in playing down social structure, mostly concur that structure should interact with agency (Callinicos 1985; Layder 1987; Archer 1982). The drift of recent social theory has been towards breaking down the barriers between agency and structure (without fusing them into a

reductive unity) and exploring their interdependence. These ideas pertain to all social behaviour and bear on economics no less than on the other social sciences (Jackson 1999). Most social theorists now assume a closer relation between agency and structure than had hitherto been the case in social theory. Functional reasoning, with its indeterminate causality, leaves ample room for a non-reductive, non-dichotomous approach to agency and structure. An example of this is the neofunctionalism championed by the minority of sociologists who have kept faith with functional ideas and sought to develop them in a less holistic fashion (Alexander 1985, 1998; Munch 1987). The customary macro scale of functionalist social theory does not compel a structural bias: as Mouzelis (1995) points out, the scale of analysis can be distinguished from the agency-structure issue. There may exist macro agents whose decisions have important consequences for the whole economy, along with microstructures whose influence is only at a local level. Functional theories defined on a grand, macro scale need not imply the privileging of structure over agency. If used carefully, functional methods can permit a flexible treatment of agency and structure.

Avoidance of reductionism does not mean that agency and structure must play equal, balanced roles in determining human behaviour, and it remains possible that at certain times and for certain people one may dominate the other. Consider the experiences of people at the opposite ends of an organisational hierarchy. Those at the top will generally be rule-makers who have a say in setting the organisation's goals and freedom to criticise and reformulate existing rules and procedures. Their social position creates space for agency and loosens the grip of rules on their everyday activities. Those at the bottom are generally rule-followers who have little or no say in setting the organisation's goals and are bound by existing rules and procedures. Their behaviour at work will adhere to a structured, routinised pattern imposed from above. The people at the top of the hierarchy seem to be free individual agents, untrammelled by structures, whereas the people at the bottom are closer to the structurally dominated view of behaviour commonly associated with functionalist social theory. In neither case, however, should agency and structure be seen as separate and independent of each other. The seemingly free rule-makers will have had their beliefs and capacities

moulded to some extent by their social context, and the structurally bound rule-followers will be exercising agency when conforming to and thereby replicating established practices. Interdependence of agency and structure can take many forms without necessarily yielding a visible balance or evenness between them. But non-reductive approaches (including those couched in functional terms) will not attempt to reduce behaviour to agency or structure alone.

The shift towards non-reductive social theory makes it harder to uphold a strict separation of intended and unintended functions. Intended functions apparently planned and implemented by human actors are not exempt from external influences on the attitudes and social standing of the people concerned. In many cases the designers of an institution will not be the people who implement it, and the level of conscious understanding may be lower among those performing pre-existing roles and procedures. A planned institution will be subject to external structural influences on the plan and characterised by passive rule-following behaviour in its implementation. Conversely, unintended functions that have supposedly emerged without human recognition must still be enacted through human agency and are unlikely to remain wholly beyond the consciousness of the people involved. To assume that a function can stay undetected may underestimate the capacity for learning among both its beneficiaries, who have a vested interest in its preservation, and those who lose out, who stand to gain from social change. If functions can be identified by external academic observers, then they may well be perceived, at least in part, by those with a more immediate interest and involvement. Most functions in practice will be neither fully designed nor completely unrecognised, but fall somewhere in between. The interdependency of agency and structure will blur the distinction between intended and unintended functions within functional methods, and in this respect the narrow definition of functional explanation, which discounts intended functions, is out of tune with recent social theory. Interpreted broadly, however, functional arguments are consonant with the non-reductive social theory espoused by their critics.

Contrary to its reductive image, functionalist social theory has distinguished many analytical levels and the relationships among them. Parsons divided social systems into four subsystems – economic, political, social and cultural – each of which contained further subsystems. The stratified approach, creating subsystems of subsystems of subsystems, yielded a rich analytical framework far removed from what would normally be deemed oversimplified or reductive. Functionalism has often been aligned with systems theory, which sets up a highly generalised, multilayered, non-reductive framework within which further theorising can take place. Few economists have ever subscribed to systems theory, despite its potential to encompass economic matters and place them within their social and natural setting (Boulding 1985; Hodgson 1987). When economists have dealt with classic systems issues – the context of economic behaviour, endogeneity of preferences and technology, structural complexity and variety – they have seldom drawn explicit comparisons with systems theory or with the associated functional arguments. Greater acceptance of functional methods might help to revive the broad, interdisciplinary outlook characterised by the systems approach.

Similar views upholding a stratified conception of reality have been voiced by the realist research programme, which originated in the philosophy of science and has lately been extended from natural to social sciences (Bhaskar 1979; Outhwaite 1987; Sayer 1992). Realism presupposes a real object of enquiry for social-scientific activities; reality exists in its own right, independently of scientific study, but has a complex, stratified form that can accommodate the intricacies of social science. As with Parsons's functionalism, the various analytical levels may possess properties emergent from the other levels but irreducible to them. Realism differs from functional methods in rejecting shallow, empirically based functional explanations and aiming to reveal the deeper causality beneath observed events. Structural-functionalism, for all its stratified character, operated at the higher levels of social structure and did not investigate fully the relationships among levels – it evolved, quite arbitrarily, into structural reductionism. Realist approaches, if used with care, should be able to eschew reductionism of either structural or individualistic varieties. As yet, realism has

made little headway in economics, except for the work of a few heterodox economists (Mäki 1989; Lawson 1994, 1997; Fleetwood 1999). Conscious realism could clarify economic method and bring economics nearer to the non-reductive naturalism and materialism seen elsewhere in the natural and social sciences (Jackson 1995, 1996). On its own, a functional approach does not amount to realism, but it can foster a style of layered theorising consistent with the realist perspective.

The third main criticism of functional methods – that they are conservative and incapable of contemplating social conflict and change – follows the previous two in underestimating the versatility of functional reasoning. To ascribe functions when theorising about society need not be to support the status quo or deny the possibility of social progress. The term 'function' is a neutral concept that carries no ethical guarantee of utility or social desirability (Merton 1968). In common parlance, people frequently assume that anything with a function must have value, yet the fulfilment of a function cannot on its own provide a watertight case for the item in question. Certain functions might be thought ethically undesirable, at least by some sections of the population, and it might be better if these functions were left unfulfilled. Whenever institutions serve the interests of particular social groups, there will be ethical doubts about the institutions concerned: one of their functions may be to preserve inequality and privilege. Although functional theories have in the past portrayed social institutions as fulfilling valuable functions for the benefit of society as a whole, this is only one functional approach among other, less conservative possibilities. Functional theories can promote conservative interests, but they can also depict current arrangements in a less flattering light. The political and ethical stance of a functional theory originates with the theorist and is not built into the nature of functional methods.

Tacit functional arguments have always been a keystone of critical thinking. Much social criticism rests on the claim that institutional arrangements benefit some social groups at the expense of others; preserving inequality and exploitation becomes a function (intended or unintended) of social institutions. If social theorists stay aloof from anything resembling

functionalism, then it becomes difficult for them to make this argument. Arrangements that are not stable and replicated over time would be ephemeral and less worthy as an object of criticism. The stress on the persistence of social institutions and on the systemic aspect of society in functional methods has great relevance for the analysis of entrenched social privilege. Making critical class-based or group-based arguments, in the manner of Marxian and other radical theories, will generally require functional habits of thought. While functional thinking is not necessarily radical, radical thinking has often been functional, and the attempt to banish all functional ideas would hamper social criticism.

The foregoing argument amounts to only a qualified defence of functional methods, on the grounds that they do not possess the major faults attributed to them by their critics. Such a defence falls short of claiming that functional methods alone can ever be adequate for explanatory theorising. Ideally, they should be integrated with a wider, realist perspective that aspires to provide full causal explanations founded on a non-mechanistic notion of causality. The issues in day-to-day economic theorising are more pragmatic than this, however, and economists have nothing to gain by spurning functional ideas. As a step on the way to causal explanations, functional logic may be fruitful; the vagueness about causality may be a strength if it can encourage subtler, more pluralistic theory and prevent premature commitment to oversimplified 'causal' relations. Whether this should be described as functional explanation is perhaps debatable, for causal explanation is the ultimate aim. But the argument here is simply that functional methods may have something to contribute within a larger scheme, not that they should supplant causal explanation.

6. Conclusion

There are two main reasons why greater tolerance of functional methods in economics would be desirable. The first is that functional ideas have always been a part of economic theorising,

whether or not the theorists were conscious of them. Any attempt to debar them from economics would impose a constraint on the discipline that economists would be hard pressed to meet, since implicit functionalism keeps breaking out, even when theorists avoid functional language. Rather than trying to eliminate functional ideas and then suffering the embarrassment of failing to do so, economists might be better advised to take a more tolerant view.

The second reason for tolerance is that functional methods have several attractive features of potential value to economics, such as a cautious and pluralistic attitude to causality, an awareness of stratification and emergence, and a compatibility with realist social science. Explanatory theory should aim for full-blooded causal explanation, but may still profitably adopt functional modes of argument, which then become the means to a higher end, not an end in themselves. By bringing out the functional methods in economics and making them explicit, one can raise important questions, suppressed in the mainstream, about how an economic system operates, how it is reproduced, and how it relates to individual members of society.

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