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A Biased View of Rationality As a Brake to Progress in Economics

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Efficiency and equity in economics always seem to be at odds. In terms of ultimate truth a dichotomy of this sort has little meaning because the use of a strategic rationality in the standard textbooks has privileged efficiency to the detriment of equality. In my estimation, this is a biased use of the concept implying that economic criteria are far from that of other social sciences. In this way, an incorrect alternative is presented: being scientific (economics) or being normative-political (other social sciences). Society does not maintain a unique equilibrium: Many different languages can live together and engage in communication with each other. Approaching the relation between efficiency and equity in economics as such can enrich the dialogue among sciences.

Over the last decade, economic science has entered into a stationary period, mainly in macroeconomics. The lively debates that originated in the 1970s are gone. Certain skepticism prevails concerning the possibility of real progress in the development of new ideas to generate a revolution à la Keynes. Economic theory is in disarray and unable to tackle the central policy problems of the developed economies. "Success in the economics profession … came principally to those with a knowledge of mathematical economics and econometrics."[1] Although until the 1950s mathematical statistics was a separate option, taken by only a small minority of doctoral candidates, all the effort seems to be centered in the refinement of econometric modeling.

We will focus on a single idea to explain what is perhaps going wrong with economics: to maintain a biased view of rationality, which acts as a brake to progress in our science. For this purpose, I will use the expression *strategic* *rationality* to describe the viewpoint that economics takes in its analysis of the world.

Faith in prediction is strongest where conventional wisdom would least expect it to be. Our discipline looks like a ringing endorsement of the *status quo*. It seems that we economists have stopped posing ourselves interesting questions, in the way that Smith or Marshall did. As Reder puts it, the ultimate rationale for expertise is the ability to predict and control;[2] the important point is that capability of successful prediction unrelated to a law is not considered to be scientific. The archetypal absolute prediction is a weather forecast: The vicissitudes attending such forecasts are painfully similar to those associated with forecasts of business conditions, but surely this would be incorrect—most empirical research has been directed at providing explanations of the past.

Moving further, we must address the issue of the so-called *crisis in economics* these days, but how real a problem is it? For Kristol, the present crisis is rooted in the growth of its grandiose scientific pretensions over many decades.[3] These pretensions accumulated under the influence of rationalism—the belief that a comprehensive understanding of all human affairs can be achieved through the same methods and with the same degree of success as our understanding of physical processes in nature (the Hayekian *scientism*). As a result, in the first three decades of this century, economics fell to a low level of esteem, especially in the United States.[4] It was regarded as "academic" (in the pejorative sense of the word), as "theoretical" (again pejorative), abstract, ahistorical, hypothetical-deductive, and so forth. Empirical economists had to find ways of relating the abstract image to the confusion of the everyday, workaday world.

Only for a decade or two after 1945 did things look promising. That was when a revolution in methodology led many to believe that economics would at last become a proper science, not a literary pursuit for gentlemen-scholars. Mathematics, statistics, and formal theoretical models were the new way forward; better forecasts and scientifically proven economic policies would be the result. Alas, the mathematics stayed, but the optimism did not. Clarity and certainty, not to mention public esteem, still elude the discipline.

In this article I offer a tentative explanation. In the beginning of the twentieth century, other social sciences abandoned rationality as an undeniable axiom and cornerstone of its further elaboration—but economics continues to be bound to what I refer (provisionally and without claim to epistemological rigor) as *strategic rationality*, which maintains neutrality toward values and ends. This rationality may be defined as a case of elephantiasis of the spirit of rational inquiry but, as other sciences realized long ago, it is difficult to maintain this approach since the very facts of observing, collecting data, and making calculations are loaded with values.

Maintaining this concept of rationality enables economics to work out principles that foster and structure it as a pseudoscience. This has fueled a number of criticisms of mainstream economics that have proposed alternative approaches for the discipline: That is, evolutionist economics, which does not stress the concept of efficiency but the ideas of adaptation and innovation (which fuels the progress in economic science); and also bounded rationality (Herbert Simon), post-Keynesians, Austrians, Institutionalists, and supporters of McCloskey's rhetorics of economics. All of them have attacked economists for continuing their adherence to the rationality hypothesis in the face of experimental evidence to the contrary and have invited them to abandon this hypothesis, at least in some contexts.

However, because each stream defines its own qualities and emphasizes its differences from the others, there has been no fruitful dialogue among alternative approaches.[5] We find here a few ideas that have at least the potential of becoming roots of paradigms. The only constructive approach is one that emphasizes the similarities in the proposed alternatives, not their differences, but the small degree of support offered to rationality opponents from within the profession reflects the predisposition among economists to minimize the psychological commitments entailed by economic theory.[6] What unifies the various antirationalists is opposition to the Resource Allocation Paradigm as an *exclusive* source of explanation for human behavior and as a guide to its improvements. There are signs that a scientific subculture is beginning to form around the idea that the process of choice-making contains systematic departures from strategic rationality.

Indeed, a prior question about the fundamental postulates of this neoclassical economics is emerging. It is about the model of a competitive equilibrium and the guiding assumptions as to how individuals, firms, and governments behave (for example, utility maximization). The question is not only if there is a crisis *in* economic theory but also if there is a crisis *of* economic theory itself.

In this scheme, values have a place only in arguing about the choice to be made among feasible outcomes; the functional relationship on the economic system that link means and ends as cause and effect would be value-neutral objects of understanding, not of valuation. Critics such as G. Myrdal[7] have argued that this traditional view vastly oversimplifies the problem of the role of values in social science. Tiemstra[8] also states that most people believe that theories are value-free and can be validated scientifically, without reference to any tastes and ethical opinions about which people differ. Value judgments are at the bottom of many theoretical disputes.

Keeping social science value-free builds on a distinction between means and ends. Let ends be understood as alternative states of the economic system achievable as the outcomes of different sets of policies, which are the means. The task of the economist, as a social scientist, is to explain the linkage between ends and means. Subjective political values are said to pertain only to outcomes. If the economist wants to be fair, he or she should separate unachievable from achievable outcomes; that is, to say what happens to efficiency when one or another value is implemented. So, the task is not so much to channel axiological pluralism into a monism in which one value scores all the points or all the values are strictly hierarchical but to maintain, and even increase, the differences.

What is the novelty of this approach? There are three points:

1. A new view of economics as the locus for the integration of as many distinct visions of the world as possible, not only for the searching of welfare but also for the outlining of a shared plural axiological nucleus;
2. The striving to overcome the discrepancy between rationality and values, assuming that rationality is but one, limited value among a constellation of values, every one of which is subject to rationalization;
3. The commitment to account for the practical and axiological aspects of rationality involved in each process of decision-making.

When economists work under the umbrella of this type of rationality, an apparent discrepancy emerges between the principles of efficiency and equity that does not actually exist. A single value cannot sustain a whole economic or social system. *Both values do work together.* What is relevant is to analyze the plurality of values behind a specific system and its respective weights. In the name of efficiency, for example, the community (equity) could be destroyed through massive lay-off. A trade-off is always working between them: A less-cohesive society could be more efficient for a while, but in the end, society comes back to a more compromised attitude for the inequality that it creates. In a nutshell, this constitutes the difference between the approach to economic issues in Anglo-Saxon countries (leaning toward efficiency) and continental ones (toward equity).

The problem lies in the relationship between the economic domain (facts and values together) and the others in social life, including the political sphere, and with society as a whole. Our individualistic ideology happens to have economic consequences that we would prefer to do without but we are not quite at liberty to reject.[9] We cannot be blind to the economic outcomes of our ideology; namely, social justice (equity).

Every science builds its own body of postulates, objectives, and goals. Economics, based on this concept of strategic rationality, sets up a world in which efficiency is the near exclusive value. Without departing from such a concept of rationality (as strategic rationality), economics is at a loss, for it does not know how to work in the absence of a shaping principle to structure it as a science. Economics could leave, at the level of analysis, an opening by which to incorporate other values than efficiency, but this is not the case because those values would be considered subsidiary. What is called for is an increased awareness of the complexity of social life and of the need for a hierarchy of levels on which secondary values can be accommodated without risk of direct collision with primary values. In short, we need an axiological pluralism to integrate the various aspects of this puzzle.

From this biased rationality, economics builds a world in which efficiency, or maximization of profits, is the main factor. Either the values are assigned a marginal character or there is no room for them at all. This is the central question: whether economics today is *monist* in its hard core (axiological) or *holist* (management, for instance, includes a variety of values). Efficiency used to accompany other values that belong to the same hard core, but in most practical cases, a monistic economic rationality tends to integrate such a diversity of values into the supreme value of efficiency.

Defining rationality in a holistic and comprehensive manner (as integration and ethical deliberation of all aspects of an action) leaves a larger burden of decision on the individual and is less open to mathematical formalization and quantification than to theoretical decision or economic models of rationality.[10] But the lack of formal rigor is compensated by the more comprehensive inclusion of the holistic aspects to human existence. A rational behavior requires that economists should endeavor to communicate their ideas to as wide a public as possible so as to explain, educate, and inform. This wider audience has been found for the natural sciences, and there is no reason why economics cannot find a public voice.

The question arises with the various definitions of rationality, sometimes unsuited or mutually discordant among them.[11] Modern ethnology has cast doubt upon intercultural standards of rationality. Indeed, even within the philosophy of science the concept of rationality has reached the critical point with the development of the history of science, and political movements also do their part to make the unified, strictly general concept of rationality seem impossible.

For some, economics is a subordinate branch of political philosophy but not an autonomous intellectual discipline, for economics as a distinctive mode of intellectual inquiry into human affairs can exist only to the extent that it does *not* recognize and integrate the full range of basic human values.[12] Most economists would agree that this is so but would point out that there are forms of human inquiry such as political philosophy, moral philosophy, and theology whose task is to deal with such *normative* issues—but, in economics, theoretical disagreements are based mostly on normative issues. The trouble with this sort of value-orientation is that in recent decades these disciplines have become transformed into positivistic, *value-free* sciences, so the young economist with moral passions turns upon economics itself and proceeds to devour its substance. He or she has been trained to regard ideologies as "unclean" and knows that one requirement for respectability is to remain above suspicion.

If it is true, however, that ideology has been and is an obstacle to progress, then we should try to bring the problem out in the open and not avoid or try to suppress it.[13] Nevertheless, it is an error to equate values and ideology: The problem of ideology is keeping the personal political valuations out of economic theory. By avoiding it, we fail to understand what our disagreements are about and why we seem condemned to relive the same old quarrels over and over again. It might help if economists could resign themselves to the fact that, whatever they do, they will live "below suspicion" of ideological bias. The difficulty would not exist if there were not several theories (paradigms) in contention.

The problem is independent from the fact that economics does not include tools for evaluation other than efficiency and strategic rationality (i.e., making a noncritical use of mathematical methods). Our science is in danger of sliding toward a soft imperialism: Economic logic would be the exclusive *value* to build society.[14] Even more, what is rational in economic terms should be rational under moral considerations whenever such considerations are involved. This could lead to a confusion of economic and moral values. Though the interrelation and overlapping of scientific disciplines is a common phenomenon to all social sciences, economics has an added advantage that is the simplicity of the models in use.

One way to avoid such imperialism is to integrate economic science into a more *political* view of society (in the classical definition of politics). This is the viewpoint of Habermas, who demands that the requirements of the economic system are subordinate to democratic, communicative leadership, and so forth. The notion that politics and economics are either valid for separate "realms" or that in the case of a conflict, the former takes preference over the latter, steadfastly maintains its validity. To achieve such embedding of realms, three things are required:

1. To transform the methodological principles of economic science (strategic rationality and efficiency) into valuable assets for other social sciences;
2. To apply the principle of reflexibility to economics: An economic world based in the principle of efficiency *per se* does not exist, nor it is apparent that humans construct the world through economic glasses (the objective should be to decentralize the role of economic principles); and,
3. To prevent economic efficiency from being the only value in society: Economics should recognize and assume its limitations.

Paul Samuelson has noted that many economists "separate economics from sociology on the basis of rational or irrational behavior, where these terms are defined in the penumbra of utility theory." Utility is identified as egoism or self-interest, and rationality is defined as consistency; that is, that preferences are transitive.[15] The quest of the entire enterprise is whether the obverse of the rational is the irrational rather than the nonrational, and whether nonrational motivations can provide a valid assumption for an understanding of economic behavior.

The most strongly held beliefs of a large segment of the economics profession are the postulates of profit maximization, utility maximization, and cost minimization, but we all know that the firm maximizes items other than pure efficiency. Efficiency used to be implemented along with other values that belong to the axiological hard core of our science. It is doubtful, therefore, whether an axiological monism in economics can be maintained that will be expected to yield practical results. What happens is that economic rationality tends to integrate and sacrifice that diversity of values on the sacred altar of efficiency. To assume values such as social stability or ecology, implies spending (and perhaps economic inefficiencies) that are difficult to cope with.

To the extent that economics becomes the driving force to order society, efficiency tends to be *the* criteria for judging the economic outcome. A common world for sciences comes to an end when the only viewpoint is that which is provided through the eyeglasses of economics. The richness of the public sphere rests on the simultaneous presence of diverse approaches to common problems, such a strategy fuels economic progress and provokes feedback among different disciplines.

The point has to do with the ability of economics to make room in its analysis for other values (security, social cohesion, personal satisfaction) to avoid making economic rationality as dominant. It was not without good reason that, as soon as we incorporate other values such as redistribution or fairness to measure the quality of goods and services provided by the market, the whole social system improves. These added values should act as a counterbalance to the weight of utility or efficiency, which returns the discussion again to a more political (in the classical sense) vision of society. It is just this ability to integrate opposed values into a unique system that gives us the positive validation of a system of values.

R. H. Frank[16] offers a challenge to the rationality hypothesis and emphasizes that (because of hard-wiring) individuals derive personal satisfaction from behaving in a socially approved manner, even when such behavior cannot be observed by others. He also notes that contributions to charities, churches, and the like occur in appreciable quantity even under circumstances where failure to contribute could not be detected, and that people take the time and trouble to vote even when the probability that their vote will affect the outcome is negligible. But it is this axiological pluralism that is essentially impossible to measure.

In conclusion, we must look for alternative ways to examine whether an economic criterion is the exclusive value taken into account. It is society's responsibility to reach equilibrium among distinct values in every stage of its progress. According to the needs we want to satisfy, the axiological core assumptions will change. The whole range of alternative goals is open: growth of individual wealth, solidarity, quality of life, ecology, respect for liberty, and diverse sensibilities. Nevertheless, to measure welfare without taking into account the utilitarian money-criteria is a hard task. The ultimate problem is not whether people speak different languages but in what sort of communication exists between economics and the other social sciences. There is no unique axiological equilibrium in society; several different core assumptions can coexist together.

Notes

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15. Bell and Kristol, *The Crisis in Economic Theory*, 70.
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