

Economics and Philosophy

<http://journals.cambridge.org/EAP>

Additional services for ***Economics and Philosophy***:

Email alerts: [Click here](#)

Subscriptions: [Click here](#)

Commercial reprints: [Click here](#)

Terms of use : [Click here](#)



***Rationality in Economics*, Shaun Hargreaves Heap. Oxford: Basil Blackwell, 1989, ix + 224 pages.**

Bernard Hodgson

Economics and Philosophy / Volume 8 / Issue 02 / October 1992, pp 290 - 298

DOI: 10.1017/S0266267100003102, Published online: 05 December 2008

Link to this article: http://journals.cambridge.org/abstract_S0266267100003102

How to cite this article:

Bernard Hodgson (1992). *Economics and Philosophy*, 8, pp 290-298 doi:10.1017/S0266267100003102

Request Permissions : [Click here](#)

Notwithstanding these discussions and disagreements, this *History of Econometric Ideas* is a major contribution to our understanding of what happened, that was going to give birth to econometrics, a now prosperous and mature domain of research. It is a *pioneering work* that raises questions about how the history of economic thought can and could be done, about how to articulate histories of subfields, and about how to transcend geographical and linguistic barriers so as to have a more complete picture of the *historical process* at work.

Philippe LeGall and Claude Ménard

Université de Paris I (Panthéon-Sorbonne)

REFERENCES

- Canguilhem, Georges. [1966] 1970. "Sur l'objet de l'histoire des sciences." In *Etudes d'histoire et de philosophie des sciences*. Paris: Vrin.
- Frisch, Ragnar. 1933. "Editorial." *Econometrica* 1:1-4.
- Guerlac, Henri. [1963] 1970. "Some Historical Assumptions of the History of Science." In *Scientific Change*, edited by A. C. Crombie. London: Basic Books. Reprinted in Guerlac, H. *Essays and Papers in the History of Modern Science*. Baltimore: Johns Hopkins University Press.
- Haavelmo, Tryge. 1944. "The Probability Approach in Econometrics." *Econometrica* 12 (Suppl.).
- Le Corbeiller, Philippe. 1933. "Les systèmes auto-entretenus et les oscillations de relaxation." *Econometrica* 1:328-32.
- Mirowski, Philip. 1989 "The Measurement without Theory Controversy." *Oeconomia* 11:65-87.
- Qin, Duo. 1989. "Hypothesis Testing and Model Evaluation." Working paper. Oriol College, Oxford University.
- . 1990. "Model Formation during the Formation of Econometrics." Working paper. Oriol College, Oxford University.

Rationality in Economics, SHAUN HARGREAVES HEAP. Oxford: Basil Blackwell, 1989, ix + 224 pages.

Economic agents seek to realize ends by means of maximally efficient courses of action. More particularly, consumers endeavor to maximize the satisfaction of their desires for material goods under the constraint of their incomes as producers attempt to maximize their profits under the constraint of their costs of production. Economic agency, in short, expresses the instrumental rationality of intelligent, interacting human beings. And it is to the considerable achievement of economic science, especially that of "mainstream," or neoclassical, economics, to have constructed a comprehensive, mathematically rigorous theory to conceptualize and explain the action-choices of such "rational men," es-

pecially as their deliberations are confronted with a continuum of evidential support from conditions of certainty through risk to uncertainty.

Put in terms of the preceding overarching "conceptual framework" for understanding economic behavior, it may appear that the still-orthodox view that conventional economics is an "ethically neutral" form of scientific inquiry can be sustained. Neoclassical theory incorporates no categorical moral imperatives stating what an agent ought, on moral grounds, to do. Rather, to the extent that economics is concerned at all with ethical questions, only hypothetical imperatives are countenanced: such directives take ethical goals and values in the realm of economic action as given and simply recommend the most efficient means for realizing these ends.

I myself do not agree with this familiar claim to "value-freedom" within mainstream economics, but this is not the place to pursue a rebuttal. In any case, it has always struck me that the more interesting and important perspective is taken by orthodox economists who admit that neoclassical theory is "value laden" but that its moral point view is philosophically defensible. There are essentially three interrelated elements to this position:

1. A concept of individual liberty for economic agency.
2. The "invisible-hand mechanism" of the equilibrating processes of a perfectly competitive market.
3. A "Pareto optimum" measure of a utilitarian standard of the common good based on the principle of "consumer sovereignty." Put in summary fashion, the general equilibrium "core" of neoclassical theory can be understood to imply that if economic agents (consumers and producers) are left free to act in a solely self-regarding fashion to maximize their own actual interests in a perfectly competitive market economy, then the common good or social utility will be "Pareto" maximized. Any other policy is alleged to lead to a lesser common good. (More precisely, "common good" is here defined as the "Pareto-optimal" satisfaction of the totality of given consumer desires – namely, any movement from such a Pareto-optimal state will make some consumer worse off in terms of the satisfaction of his *de facto* wants.)

Suppose we were to wed this normative dimension of mainstream economic thought to its explanatory role adumbrated above. Is neoclassical economics home free? Has it integrated a factually accurate, reasonably complete explanation of economic behavior with a sound moral conception of our individual and common good? To these fundamental questions, the British economist Shaun Hargreaves Heap, in his important and excellent new book, *Rationality in Economics*, answers with an emphatic no.

From a methodological point of view, Hargreaves Heap's main argument is that the conceptualization and explanation of economic behavior in terms of an underlying principle of instrumental rationality is *incomplete*. Important domains of such behavior cannot be adequately explained in terms of a means-to-given-ends framework – more specifically, in terms of the maximal satisfaction of the actual well-ordered preferences of the individual economic agent. Moreover, Hargreaves Heap argues that such an attenuated concept of rational agency arrests the provision of a legitimate normative application of neoclassical theory in the realm of welfare economics, that is, in the recommendation of policies for the production and distribution of goods that are sufficiently conducive to the well-being of the members of a particular political economy.

What is lacking and why? According to Hargreaves Heap, two further related conceptions of human rationality must be introduced into the explanatory and normative dimensions of neoclassical theory if it is to fully understand and justifiably prescribe economic activities – the procedural and the expressive.

By procedural rationality, Hargreaves Heap refers to factors involving the shared procedures, rules, conventions, and so on, of a particular economic community. Hargreaves Heap stresses that he is not speaking here of Simon's conception of procedural rationality, which, at least formally, can be interpreted as an "ersatz" version of instrumental rationality – namely, where workable "rules of thumb" are substituted for the inaccessible powerful computational capacities of the abstract economic agent of orthodox theory. Rather, he is referring to institutional and informational constraints that contingently "locate" individuals socially and historically, and partially determine the kind of choices they make. Nor, as advocates of neoclassical theory might wish to reply, can principles of procedural rationality be "reduced to" those of instrumental rationality. For there is a certain historical arbitrariness to the relevant procedures for the individual: They express social rules and conventions that she has not chosen and that communicate to her the communal meaning of her choice situation; moreover, different institutional procedures might be efficiently deployed in the realization of the same economic objective. Nor can orthodox economists relegate procedural rationality to the domain of essentially noneconomic behavior, beyond the economist's "universe of discourse." In establishing this point, Hargreaves Heap lucidly explicates an array of examples, central to the explanatory aims of economic theory, that require an appeal to procedural rationality to render them intelligible. He argues (p. 121f.), for instance, that a reference to an irreducibly procedural element of *de facto* property rights is necessary fully to explain wage and price stickiness in the analysis of unemployment triggered by Keynes's *General Theory*.

Similar considerations apply to expressive rationality. This form of rationality is concerned with the individual's effort in her action-choices to develop her autonomy or self-mastery, to enact strategies of choice that are "self-directive" and that will define the kind of person she wills to be. Such rationality, closely aligned with Berlin's concept of "positive freedom" (Berlin, 1958, p. 16f.), requires that we conceive of the human subject or person as a self-conscious, reflective agent, capable of interpreting and appraising the pattern of desires she finds moving her, in order that she choose the structure of motivations she would want to be motivated by. Full-fledged persons are not simply moved by the external "stimuli" of given desires, as if they were "mere" physical objects moved by external forces. Here, again, Hargreaves Heap rejoins anticipated neoclassical replies that would seek to redefine expressive rationality as a variant of the instrumental sort (in, say, classifying self-respect as a given end for the choice of efficient economic means), or would claim that expressive action is not a significant feature of strictly economic behavior. For, expressive rationality is better understood as characterizing certain actions as ends-in-themselves, as giving expression to the agent's self-identity in the very action itself. Furthermore, certain basic economic practices are explained in a severely truncated way unless the role of expressive rationality is integrated into the explanation. For example, an adequate explanation of a good deal of consumer behavior is provided only if it includes an account of the manner in which the purchase of particular commodities and services instantiates a strategy of the agent to communicate the expressive meaning of her consumption to others, that is, to symbolize for others in her pattern of consumption the kind of person she is.

An understanding and use of the principles of procedural and expressive rationality is also, for Hargreaves Heap, of fundamental importance for normative purposes in the construction of a well-grounded welfare economics. How ought a society to organize its economic activities to provide for the common good of its members? According to Hargreaves Heap, prescriptions from within mainstream economics appear to be dead-ended. Thus, his review of the current "mess" of neoclassical welfare economics reveals that it founders on the twin rocks of indeterminacy and Arrow's impossibility findings. It is true that general equilibrium theory does demonstrate that a perfectly competitive market will deliver a Pareto-efficient equilibrium, but there will be a set of such equilibria that are generated by different distributions of initial resources; however, any democratic voting procedure to provide a social welfare function to order the various possible Pareto outcomes is thwarted by the Arrow impossibility theorem.

Hargreaves Heap diagnoses this impasse as following from an atrophied concept of the individual within neoclassical economics as simply

a set of well-behaved preferences, and under which individuals are capable only of exercising the truncated type of rationality of seeking to maximize the satisfaction of their given preferences. Any coherent and well-grounded prescriptive economics must expand its conception of the person to include her reflective capacity embedded in the expressive rationality of seeking to be autonomous or self-directive in her action-choices. Moreover, our social ordering of economic prospects ought to recognize a moral right to such positive freedom and prescribe measures to facilitate its exercise. In this vein, Hargreaves Heap agrees with Sen's view that an acceptable welfare economics would recommend a positive valuation of "capabilities"¹ for alternative choices that is not reducible to a consequentialist, utilitarian calculus of preference satisfaction. However, such a viewpoint is not compatible with the nonutilitarian perspective of the New Right associated with the work of Robert Nozick. For, as Hargreaves Heap sees it, the arguments of the proponents of this perspective lapse into incoherency. They seek to justify a "minimalist state" on the basis of a commitment to Berlin's negative sense of liberty, that is, of the individual's freedom in a maximal sphere of her personal choices from varieties of social control. Furthermore, in line with orthodox economics, such individuals are conceived as choosing in a solely instrumentally rational fashion to satisfy a set of well-behaved preferences. Such choices, however, are unavoidably constrained by the arbitrariness of the historically given social procedures agents follow in framing decisions. But, the only escape from being a "prisoner of history" is to subject the procedures themselves to choice; however, this can be accomplished only by taking collective action in an activist, interventionist state.

I hope that the preceding sketch of Hargreaves Heap's book can give some indication of the extraordinary analytical and philosophical breadth of vision that he introduces into the discussion of the problem of rationality in economics. Moreover, in my judgment, the general case he offers for the need to extend the received conception of economic rationality to include procedural and expressive principles is made in a lucid and logically compelling manner. In this regard, the degree to which Hargreaves Heap has succeeded in both doing justice to the depth and social significance of the philosophical issues and demonstrating the important bearing of these issues on theory-construction in economics with sufficient scope and formal rigor of examples, is especially impressive. If one wished to convince any remaining skeptics of the mutual advantage to be gained by economists and philosophers of studying each other's theories, one could do no better than direct them to *Rationality in Economics*. I do, however, have certain fundamental critical

1. See, for example, Sen (1985).

reservations with Hargreaves Heap's arguments in this work – the first kind methodological; the second, normative.

With respect to the problem of methodology, Hargreaves Heap begins *Rationality in Economics* by aligning himself with what has sometimes been called the "post-empiricist" theory of scientific method. Building on the work of such philosophers and historians of science as Quine, Feyerabend, Lakatos, and Kuhn, such a viewpoint challenges the claim of traditional empiricist methodology that one can choose between competing scientific theories on the basis of their comparative consistency with the empirical evidence of "theory-neutral," publicly observable "facts." But in now-familiar rebuttals, post-empiricists have argued against such a straightforward selection of theory *via* empirical test. In particular, two rival theories might each be consistent with the relevant sensory data (the "underdetermination of theories by the data"), and scientists must use the logically primitive concepts of a theory to identify and describe the kinds of observations that are to count in testing the truth-claims of the theory (the "theory-ladenness of observations"). Accordingly, it is further argued that the prospect of any clear "objectivity" for scientific knowledge is put at risk: Competing basic theories might simply be incommensurable with respect to their truth-value. Admittedly, Hargreaves Heap is a somewhat reluctant fellow traveller with post-empiricists. In appreciating that a wholesale acceptance of post-empiricist conclusions may lead to an arbitrary epistemic relativism where "anything goes" in the choice of scientific theories, Hargreaves Heap wisely points out that empirical evidence can still count against those theories the application of which leads us to act upon a theory-independent world in ineffective ways. But such evidence need not prove decisive: It need not single out only one theory as the sole effective master of nature. In any case, it is clear that Hargreaves Heap does remain a post-empiricist for economic methodology: As he sees it, the fundamental way of comparatively judging economic theories is by the (a priori?) identification and appraisal of the distinct rationality assumptions embedded in the theories. (Even here, objectivity will retain some indeterminacy. Evaluation of rationality principles will narrow the options for theory-choice, but never reduce them to one.)

It seems to me, however, that Hargreaves Heap's attempt to premise his critique of the limitation of the exclusive use of instrumental rationality in neoclassical economics on a post-empiricist methodology is the least successful aspect of his work. In particular, it is just not made sufficiently clear, within his actual case studies arguing for the inclusion of procedural and expressive forms of rationality in the explanation of economic phenomena, as to precisely why we are required to abandon classical empiricist procedures of theory-construction and test. At times, it would appear that conventional empiricist methods could accommodate the explanatory problem – namely, that empirical predictions from

a theory's hypotheses are falsified by observational evidence requiring a rejection or revision of the hypotheses. Hence, for certain highly priced goods, Veblen effects are inconsistent with the predictions of the simple law of demand and the unique equilibrium promised by the traditional demand function (p. 96). But such effects are publicly observable, and it is arguable that they challenge given hypotheses and/or their background assumptions in a classical empiricist fashion. Granted, since a prestige good "enables the purchaser to say something to other people about his/her position in society" (p. 96), the challenge of Veblen effects is a deep one: It should prompt us to recognize the need to reject a background assumption of exclusively instrumental rationality in demand theory, so as to include considerations of expressive rationality. It is not clear enough, however, from Hargreaves Heap's analysis, why such liberalization takes us beyond empiricist methodology itself. On the other hand, his discussion of the relation between "multiple selves" and intertemporal preference changes (pp. 103ff.) does indicate that received empiricist methodology obstructs rather than facilitates the explanation of such phenomena. The underlying "conceptual scheme" of orthodox consumer theory restricts us to conceptualizing our observations of consumer behavior as the maximization of an ordered preference for goods by an individual agent who is herself conceived as merely an ordered set of preferences. But, then, the behavior of an individual who, in the expectation that her preference ordering will change from time t to $t + n$, "precommits" herself for $t + n$ to the earlier ordering at t , provides an inexplicable, incorrigible anomaly for orthodox consumer theory that simple revision of hypotheses cannot resolve. For, an adequate explanation of such behavior requires a fundamental reconceptualization of what is observed that is beyond the conceptual resources of neoclassical theory. Such a conceptual revision will invoke, in particular, a richer conception of the individual as also comprising a reflective capacity capable of assessing the immediate preference orderings of her anticipated "selves" at different time periods. Although Hargreaves Heap himself well elucidates the need for such a reconception, he should have brought more clearly to the surface the specific character of the challenge that the explanation of such phenomena as precommitment provides for standard empiricist accounts of economic methodology. As it stands, a reader can follow and be sympathetic to his critique of the explanatory adequacy of instrumental rationality in part II of *Rationality in Economics*, and yet remain neutral on the claim set forth in part I that empiricist methodology is itself at stake in inquiring into the explanatory limitations of instrumental rationality in neoclassical economic theory.

On a related matter of methodology, Hargreaves Heap instructively notes the strain on traditional empiricist perspectives of the fact that the explananda for social scientists are provided by a world that social actors in part create. Furthermore, as mentioned, one of his basic aims in

Rationality in Economics is to establish and explain the manner in which procedural aspects of rationality place institutional, historical constraints on an individual's capabilities of choice. It is unfortunate, however, that he did not use these related insights to examine more fully the theory-practice nexus of economic science. In particular, he might have instructively addressed the question of whether a methodological symbiosis exists between the truncated concept of (instrumental) rationality in neoclassical economics and the attenuated exercise of rational forms of life induced by the institutional conventions of the actual political economy neoclassical theory represents. The exhibition of the capacity for reflective self-direction characteristic of expressive rationality is not guaranteed by innate dispositions of human nature: The shared procedures/institutions of a particular economic order will foster or suppress this dimension of humanity. And, among the institutional/procedural determinants of the fruition or decay of this capability will be the social use of economic theories of rational decision-making. It would be a sad irony if we were to close the gap between the atrophied image of human rationality in neoclassical theory and the fuller reality of such rationality in real economic life through the extensive application of neoclassical theory to actual human affairs.

The normative reservation I have with *Rationality in Economics* is directed toward the moral dimensions of the political implications of Hargreaves Heap's point of view. Although not fully developed in his analysis, it is clear that Hargreaves Heap believes that the enactment in actual social life of the positive sense of liberty endemic to expressive rationality will require an activist state working with a social welfare function. Hargreaves Heap would do well, however, to return to Berlin's original discussion of positive and negative liberty to review his deeply cautionary reminders of the perversely illiberal history of the positive concept of liberty when it *has* been actually applied to our social lives. Philosophically, the problem is one of fundamental principles of moral epistemology. Again, in negative freedom, I am not prevented from choosing according to my given wants by other human beings; in positive freedom, my choices express my rational self-direction or autonomy. But, then, measured against positive liberty, my actual economic interests may not be my "true interests"; more precisely, the given desires or preference orderings of my empirical self might fail to satisfy the principles of rationality that my "real self" would apply. However, standards of reason have traditionally been understood to have universal, *impersonal authority*. Hence, so understood, external judges, as long as they were capable of reasoning soundly, would be as equipped as the agent herself to submit her *de facto* patterns of desires to the appropriate canons of reason or rationality. They might even be better equipped, if the agent herself, blinded as she was by irrational impulse, was incapable of applying the appropriate criteria of rationality to discern

the true interests of her real self. Of course, as Berlin forewarns, we are on the verge here of supplying the classic philosophical backing for the "monstrous impersonation" (Berlin, 1958, p. 18) of certain historically activist states that have perpetuated immense human misery by repressing the satisfaction of the actual interests of their existent subjects in pursuit of the true interests of the rational selves that these subjects really willed to be – for, as Fichte ominously put it, "No one has . . . rights against reason."²

I am certain that Hargreaves Heap would wish to arrest the preceding line of (bad) argument that fuses a concern for expressive rationality with degenerately paternalistic political systems. As the problem Berlin addresses is one of basic philosophical and historical importance, however, it would have enhanced and further secured the significance of Hargreaves Heap's case for the integration of expressive rationality into mainstream economic theory, if he had met the bogey of political paternalism head on by explicitly discussing it in his book.

None of my reservations, however, gainsay my overall assessment that *Rationality in Economics* is a work of considerable excellence. If practicing economists were to pay heed to Hargreaves Heap's conclusions concerning rationality, they would be in a position to construct theories that provided a deeper understanding of human agency in economic affairs – and thereby be able to prescribe more humane measures for our common good.

Bernard Hodgson

Trent University, Ontario

REFERENCES

- Berlin, Isaiah. 1958. *Two Concepts of Liberty*. Oxford: Oxford University Press.
 Sen, Amartya. 1985. *Commodities and Capabilities*. Amsterdam: North Holland.

Economics and the Philosophy of Science, DEBORAH A. REDMAN. Oxford: Oxford University Press, 1991, vii + 252 pages.

In many respects Deborah Redman's book is an updated version of Mark Blaug's *The Methodology of Economics* (1980) and/or Bruce Caldwell's *Beyond Positivism* (1982). Like these books, *Economics and the Philosophy of Science* provides a critical survey of the literature on economic methodology, as well as a discussion of the works in the philosophy of science

2. Cited in Berlin (1958, p. 36).