

Economics without the Rationality Postulate: Why it is Needed and What it Could Look Like

By Dr. Steve Szeghi, Professor of Economics, Wilmington College

Abstract

For thousands of years we had an economics that studied what was produced, by whom, and for whom, without the rationality postulate. It was also an economics that was grounded in ethics and moral considerations. We need once again an economics that is not limited in conception and burdened with such an unrealistic and tired assumption as constant and continuous rational behavior. This paper will describe the reasons why such an economics is needed.

Such an economics is needed in the interest of realism. It is also needed to move beyond the straight jacket of efficiency both in terms of how it is defined, and the tendency to ignore or downplay far more important considerations. Finally it is needed to move beyond the moral equivalency of all human actions. Ethics and spiritual values do matter for the sake of both personal happiness and the ability to be a community.

In addition to establishing the need for such an economics, this paper will lay out a sketch of what Economics will or could look like, once it moves beyond the rationality postulate.

This paper does not claim that we, as human beings, are incapable of rational calculation. Nor does this paper claim that human beings never engage in rational calculation. Human beings may well engage in rational calculation on some matters, some of the time. This paper merely claims that rational calculation is not what human beings engage in all of the time on all matters, with all things. The universality of the assumption of rationality is implied by Homo Economicus. The universality of the assumption is specifically what is at fault.

INTRODUCTION; What is Real and what is Not

Yes, the world is in desperate need of a new economics that goes beyond the tired and unrealistic assumption of rational calculation also known as Homo Economicus or Rational Man.

It is needed for the following reasons. First rational calculation is quite simply not what we human beings do at least not for much if not most of the time. The assumption of rationality is quite unrealistic even dangerously delusional. Who do we imagine ourselves to be, or what are we imagining about human nature when we make such an assumption? It is quite heroic grandiose in breadth and arrogant in depth. Through the assumption of rationality we attach undue importance to every human want and whim. We enshrine human decisions in an importance they do not deserve. Given the assumption of rationality many come to the not necessarily logical conclusion that want fulfillment is synonymous with happiness and may, even take the next step and associate want fulfillment with well-being.

Human Beings are subject to powerful emotions, passions, and impulses. We act on impulse much if not most of the time, and then after the fact easily rationalize what we have done or felt. There is nothing rational or objective or constant about how we perceive benefits and costs. Our perceptions are made

to fit the impulses of the moment. Many of our impulses are based upon habits, customs, and past decisions, while others derive from transitory sensations. Far from rational decision making, we instead merely rationalize. We talk ourselves into viewing our decisions as rational. We act on impulse and every kind of passion but our perceptions stand ready for alteration and tailoring in an ex post rationalization.

We are more complex than being driven by Pleasure and Pain

Jeremy Bentham postulated that Mankind was governed by Two Masters, Pleasure and Pain, and that we seek the first and avoid the later. But we as human beings are far more complex than what Bentham's analysis portends. We are at our essence an array of conflicting passions and impulses, some fleeting, some ever-present. Oftentimes we are even aware of conflicting passions and impulses as we hold them all in our minds and hearts simultaneously. Some of our passions and impulses form the basis of goodness and ground our ethics and spirituality, while others reflect more primal urges, but all encompass our humanity and are key aspects of identity.

A few examples of some of the powerful emotions and impulses that govern us will suffice to show that human beings are far more complex than what Bentham's formula depicts.

Among the many passions and impulses are love, duty, loyalty, a hunger and thirst for justice (between people or even for the earth), they may be motivated by a righteous anger, and also darker passions such as fear, mistrust, superstition, phobias, prejudice, as well as hope and fantasy and delusion. When we pulsate with strong emotion, we can frequently and easily act on those emotions, without much thought or reason. Any reason or thought is colored with the emotion. Other emotions such as fear may paralyze actions or freeze decisions. When we feel a strong impulse such as falling in love we quite easily and frequently perceive more benefits and lower costs in acting accordingly, than what fit the reality of the situation. When we pulsate with fear or suspicion, we quite easily and frequently perceive fewer benefits and higher costs than what are reasonable for the situation.

People have a way to perceive their costs and benefits that is far from rational, or logical, or accurate. Given people's perceived costs and benefits they may well act rationally, but there is nothing rational or accurate about how perceptions are formed. Perceptions are based upon impulse, upon social conditioning, upon habit, upon fear and superstition, and sometimes upon hope and love. Individuals likely make their perceptions conform to their emotions so that they can fool themselves into thinking their choices are rational, when they are far from it. Individuals oftentimes perceive the benefits of a particular action as being greater than the costs of that action, when such is not the case. They are driven by impulse or passion and such impulses color perception. In so doing, individuals try to justify or rationalize their emotions, fear, aspirations, and passions, but how can we call this rational decision making. Perception in such a case is a type of willful ignorance.

Being a slave to one's emotions or wants or desires, is hardly freedom, and is hardly rational, but that is freedom for the economist who takes wants and desires as a given. True freedom, true rational decision making would involve the freedom to say no to ones desires and wants, to be able to reflect upon them, to critically evaluate them. It is also important to note that particularly in the times we live with very subtle and sophisticated, and even subliminal forms of advertising and propaganda in commercials and

mass media that the wants and desires of individuals are subject to continuous manipulation. The wants of individuals are not really their own.

Consumer Sovereignty and the Rationality Postulate

Consumer Sovereignty and claims by economists that markets under certain ideal conditions are efficient rest on the idea that want fulfillment truly enhances well-being, which in turn relies on the twin notions that individuals know what they want, and that individuals make choices and that the choices made are rational.

Highlighting the Issues with Consumer Sovereignty and the Rationality Postulate:

1, Much, perhaps most, of what people want is not the result of any sort of enlightened choice but rather stems from habit, upbringing, and cultural attitudes. In addition WANTS are also created, nurtured, and maintained by Advertisers and Propagandists. Wants can be chosen. Wants can be altered, but are more often than not merely given. Serving such wants is not freedom but rather slavery and not consistent with true well-being or happiness.

2, Wants are ever increasingly adroitly and subtly manipulated by others such as advertisers and propagandists, ever more sophisticated and subtle, even subliminal and coming at people not only in commercials but also in the body of TV shows, books, and magazines in email and computer pop-ups. How is a slavish devotion to one's desires, bred by others, true freedom?

3, Often, whether or not wants are given or self-selected, they remain unknown or ill-defined. Many people do not know what they really want, or their preferences are frequently inconsistent or oftentimes whimsical or fleeting. How can either the desire to serve wants or their fulfillment be considered to be either rational or welfare enhancing?

4, Even if people knew what they want, and their wants were the result of a deliberative process and at some point chosen, the whole idea that want fulfillment truly enhances the well-being of individuals runs contrary to ancient wisdom and philosophical traditions which counsel denial and doing without. We have only to think of the wisdom of the Buddha, of Jesus of Nazareth, of Rumi, of Francis of Assisi, or the countless examples of indigenous spirituality, all of which counsel against avarice and greed, materialist acquisition or even the desire to fulfill wants.

5, Human Beings are, in fact, social beings whose wants and preferences are shaped by their culture, their societies, their relationships. Human beings are motivated by duty, loyalty, and love far more than the atomistic calculation theorized in economics. Even if the utility function is broadened to include all manner of ethical, social, and spiritual values, it makes the center of an individual's universe the individual who still does what she does to maximize her utility. It is incredibly narrow and rather twisted on an ethical plane.

Why such unrealism matters

But why does this unrealistic assumption of rationality matter? The claim for market efficient allocation, under certain ideal conditions rests is impossible without rationality. Assuming rationality makes it far too easy to claim that markets are efficient when they are not in fact so.

Standard economics teaches that markets fail to be efficient because of a lack of competition, and the existence of externalities. Standard theory also teaches that markets fail in the case of public goods. In short the market will not produce an adequate quantity of any public good such as clean air and biodiversity. But in the event of a workable level of competition, zero externalities, and the case of private goods, standard theory does teach that markets are efficient. Standard theory also clearly states that even where efficient markets cannot be counted upon for social justice or for a reasonable or socially acceptable level of equality. Equality and fairness or justice is a separate consideration and unlikely to be produced by the market. Market fundamentalists who seek to undo every type of role for government in regulation and law ignore the issue of market failure but would be completely disempowered without the assumption of rationality.

Given the typical assumptions coupled with the rationality postulate an air tight case is made for market efficiency. This makes it possible to remain stuck on efficiency and not consider what is more important; social justice, ecology's intrinsic value, as well as values and ethics. It also empowers and emboldens market fundamentalists, who could alternatively be called market totalitarians as they seek to subordinate all aspects of life to the marketplace.

This assumption of rationality, with individuals weighing their benefits and costs according to their perceptions and then acting accordingly is traditionally referred to as hedonistic calculus. The individual seeks her own gain and is a maximizer of utility. This assumption sets up a moral equivalence between all human beings. Jesus of Nazareth, Buddha, Francis of Assisi, Cesar Chavez, along with Michael Milken, Donald Trump, and William Keating are all explained in exactly the same manner. All are merely responding to their given tastes and preferences, and acting according to what happens to be in their respective utility functions. There is no judgment from economics on what is in an individual's utility function. Economics is value free. There are different items in individual's respective utility functions, but all are engaged in self-interest, making one feel good by gaining more utility. So a moral equivalence between Francis of Assisi and Donald Trump is established. Trump receives utility from wielding power while Francis of Assisi received utility from giving power away. But everyone is a utility maximizer. This moral equivalence between the selfish and the unselfish is dangerous and comes replete with deleterious spiritual and ethical effects upon a society that takes it seriously.

In addition the rationality postulate enshrines greed and narcissism as a virtue. Through the use of circular reasoning it even turns the selfless act into a selfish one. Well beyond the profession of economics this has had a tremendous impact upon our society and our culture, globally. It is one aspect of economics heartily embraced by a materialist, consumerist, and atomistic capitalist culture. It is a culture that seeks to subordinate all aspects of life to the market and ignore ethics and values. It is quite

delusional and dangerously so. Rational Calculation is not what we do, but why is it inherently dangerously as an assumption or a belief?

The rationality postulate besides establishing a moral equivalence between the selfish and the selfless, or with a certain sleight of hand, the selfless becomes selfish, and emboldening the cult of Narcissism and beyond the cult of Market Totalitarianism, there is more. If we don't know who we truly are as human beings, we can unwittingly hurt other people, the earth, and even ourselves, and our interconnections. Assuming, believing in or trusting in our supposed rationality too easily allows us to ignore the damages we do to others and to our relationships and interconnections or to not see the damage or to think it inevitable. The delusion of rationality may even perceive the harm it causes, or the harm done by atomistic calculation as somehow good, a transfiguration of dangerously delusional proportions.

Beyond Rationality: Why this unrealistic and tired assumption is so dangerous

1, The assumption of Rationality makes it possible to stay stuck in efficiency considerations alone and gives inadequate attention to relationships, community, equality, ecology. Given the assumptions typically made in standard theory coupled with rationality, Perfect Efficiency is indeed possible. It is well defined as to meaning, and the rigors of this model therefore can and usually do overpower other considerations such as social justice or ecology or true freedom. Other considerations do not lend themselves so easily to the type of rigor or quantification that rationality and the other standard attendant assumptions bring to efficiency as a consideration. Yet what is easily quantified and formatted with rigor and proven given the assumptions made, can nonetheless be terribly wrong and without merit in reality.

2, The assumption of Rationality makes it possible to claim that markets are efficient under the assumptions made, even though actual markets (without the assumptions) are rarely if ever efficient

3, It promotes a circular reasoning which blinds the adherent to the possibility that some people do not really act out of atomistic self-interested calculation, and Malaya did not do what she did to make herself feel good or to derive utility, She and Donald Trump are not both pursuing their own utility but with different objects in their utility function, there is no equivalence between Trump and Malaya but theory says so. Such an assumption provides for a rather poor ethical foundation, and establishing a type of moral equivalence between all actions. It can amount to a denial of the truly selfless act or individual.

4, If we keep articulating the assumption of Rational Calculation enough, it blinds us to the fact that it is the system we live in with its cultural values that is rendering individuals self-absorbed and self-interested and continually running after material things. It turns a Pavlovian response to advertising (if it didn't work on people why would firms engage in it) into something sacred. Perhaps people are actually naturally other-oriented. There is ample evidence that prior to contact American Indians were of more generous spirit and not possessed of materialism and greed. Sitting Bull once said of the white man, "their love of possessions is like a disease with them". (Matthiessen, p9) American Indians were described by countless missionaries upon contact (both in the accounts of New Englanders and the Spanish as well) as being without selfishness, wanting to share everything, and without private property.

(Zinn, p1-21) Centuries later Henry Dawes would find this same characteristic of American Indians to be a fault. He thought that selfishness was at the core of civilization and that the lack of it among American Indians was impeding their progress and development. (Matthiessen, p17)

5, Selfishness and greed and self-interest (what we in Economics call the rational) are not really rational, not in the sense of Reason; they are rather a form of insanity – narcissism. They are engendered by the economic insecurity of a dog eat dog society and culture. Selfishness, greed and self-interest are nourished by a loss of connection to others and to community, and to ecology.

6, Whether it is Rational Calculation or the cult of self-interest, the cult of narcissism, people become more and more, what they are assumed to be or what they believe themselves to be. Ayn Rand, as well as Gordon 'Greed is Good' Gecko are the unintended result of making rational calculation or *homo economicus* the overarching explainer and motivator for all human activity. People to some extent become what they expect themselves to be, and it conforms to all the advertising impulses to buy, to acquire, to collect, and to own.

7, The Cult of Market Fundamentalism is unwittingly strengthened by the assumption of rationality. It enshrines the individual and individual choice, making society unreal, or nothing more than the sum of individuals, with moral equivalence between all tastes and preferences. Margaret Thatcher once claimed that there is no such thing as society, but she was merely echoing Jeremy Bentham. And if there is no such thing as society then society or government has no business interfering with individuals or business in the choices they make.

8, What people supposedly do, Rational Behavior, spills or bleeds into the theory of the firm, and Law. The assumption that firms engage in profit maximization, has become essentially a Law, in many countries, that firms must be profit maximizers. Publicly traded companies are legally charged in the United States and many other countries to maximize share-holder value by maximizing profits. They are legally required to ignore what is socially responsible, such as ecological considerations, or just wages; if and when such pursuits could harm shareholder value. The game is rigged for short term profits, and to benefit fast buck operators. What theory assumed firms do, the law now requires that they actually do do. Milton Friedman would be proud, but humanity is suffering. It is a slippery slope indeed.

9, Enshrining individual choice, the rationality postulate promotes Consumerism. Consumerism takes the mirage of the little consumer choices and variations offered in the market by various companies, far too seriously. Consumerism equates this pickiness over little differences with an enhancement of welfare or even thinking of it as 'freedom' as did the famous development economist Arthur Lewis. Ponder for a moment the number of flavors that Coke Zero, or Coke comes in. Now does this really have anything to do with welfare or freedom? So what if we get to make these little choices.

10, The assumption of rationality also promotes Materialism. Materialism associates the drive for, and the attainment of, more and more things, with improvement in well-being. The accumulation of things (more houses, more cars, more clothes) without relationships just wets the appetite for even more. Materialism becomes a substitute for the security that only relationships and connections and collective security can bring. But sanctioned by the rationality postulate most of standard economics does

associate more things with more welfare or more well-being. The well regarded economist Ben Friedman even associates successful materialism with moral betterment.

The Duty of Society, of the Collective Whole

Returning briefly to the straightjacket of rationality, or at least the language of rationality or rather to think within the current box of the terms of economics, while attempting to broaden it somewhat, what lies within an individual's utility function should not be regarded as a 'sacred given' either for the individual or for society. Individuals are ethically responsible, morally culpable, for their wants, for what they are trying to maximize, just as society is responsible to shape that which individuals attempt to maximize. Individuals are responsible to put into their utility function that which will make them more relational and responsive to other human beings and other species and the earth, herself. In so doing, individuals will become more relationally oriented and make themselves more capable of happiness and goodness, true well-being and freedom. And then there is much that society can do to shape the utility functions of individuals.

Society can and must shape what is in the utility functions of individuals by at least some of the following:

1 teaching through values in education, civil society, civic life, government and other forms of collective, and community life

2 assisting relationships by mitigating fear and insecurity, through merit goods such as education and health care and establishing and providing access to channels of communication social safety net, defined benefits as in Social Security, public spaces as in National Parks and Wilderness, as well as urban areas

3 providing a system of rules and laws including the rules of the game in international trade and finance to protect communities, labor rights, the environment, ecological systems, and to limit inequality and to pro-actively shape the income and wealth distributions in the direction of greater equality through an appropriate array of, penalties, taxes, rewards, and incentives.

But ultimately we must for the reasons enumerated previously even move beyond this broadened framework. We are so much more than atomistic calculators no matter how broadly we make or define the atomistic calculation. Atomistic calculation retains the self or the individual at the center and is thus inherently flawed and riddled with the limitations of Narcissus and a touch of insanity. It is poor soil in which to grow an ethics grounded in the happiness and joy of relationships and an 'other' orientation.

What could an Economics without the Rationality Postulate look like

What would an economics beyond the rationality postulate look like? Without Rationality we could still count the GDP but GDP would be robbed of some of its current undeserved significance. We could still equate quantity demanded with quantity supplied as with market prices but could not be so confident of the result being efficient in a social sense. We could say that fewer firms in an industry results in higher prices and lower production. We could even show the loss of consumer surplus, but we couldn't make grand social welfare claims. Without rationality most of the bold claims about market efficiency would be suspect as would consumer sovereignty although it could still be trumpeted in weaker form such as the consumer being the best judge of her own welfare. All the claims for market efficiency could be far more effectively questioned as meaningless in comparison to far more important considerations such as unfair income distribution, as well as values, and ethics.

Economics would still exist but it would be less grandiose, far more humble in what it claimed. We would still study what is produced, by whom and for whom. Although we would still count GDP we might regard human connections and relationships and community, between people and between people and the rest of nature as far more important to happiness than GDP. And we might even regard ethics, doing our duty to community and nature, as far more important than even happiness. The economy would then seek to serve basic human needs. It would be freed to allocate goods and services in a manner that supports and sustains the relationships that make for happiness. And economics the science of studying how choices are made could finally, once again, give due regard to values and ethics.

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