

Not-So-Rational: Reflections on the Homo Economicus

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The assumption of perfectly rational actors is perhaps the bedrock assumption for most modern economic theory. In this paper, Juliette Weyand examines the role of this assumption, homo economicus, in shaping the neo classical approach to economics which has dominated the field in the 20th Century. She then explains the flaws in this assumption and concludes displaying the perverse results which this approach yields.

Introduction

The homo economicus (HE), one of the pillars of the neoclassical system (England, 1993; Screpanti and Zamagni, 2005), is central to defining the neoclassical field of inquiry, in founding economists analysis and interpretation, and in determining the political and practical outlook of neoclassical thought (Screpanti and Zamagni, 2005). Recent years have seen HE rise to the centre of disputes. Whilst avidly defended by neoclassical economists, opponents view it as a perversion of reality. Heterodox approaches to economics have contributed to the debate with innovative material (see Ferber et al., 1993). In this essay, I seek to highlight one aspect in particular that emerges from heterodox work. The HE strikes as being both an emblem of a specific vision of reality, and an abstract device purposed to assure that this vision persists. This makes the HE an uncritical and non-scientific generalisation. The introduction of HE comes at the cost of undermining the scientific programme of studying economic reality. I first examine the notion of HE developed within the neoclassical theory. I look at the theoretical commitments with which neoclassical economists operated, and how these were connected through the HE (Screpanti and Zamagni, 2005). In the second section, I turn to criticism mainly moved by philosophers of economics. I consider arguments that show how HE limits the analysis of economic reality unduly, allowing for confusion, misinterpretation and harmful normative stances.

This shows how the vague abstraction of HE ended up shaping and justifying a specific (and maybe not properly real) reality. The last paragraph considers a possible objection to my line of argumentation, namely that an economist might choose to limit the scope of inquiry to this specific reality. In responding to the challenge, I examine the consequences of the HE for economics as a scientific discipline.

Neoclassical myths: How HE came about¹

Colander (2000) characterises neoclassical theory (NCT) by 6 elements:

(1) Focus is set on the problem of efficient allocation at a given point in time. At odds with the Classics concern with growth, authors such as Walras and Jevons envisioned the problem of allocation of available resources as the central question of economic inquiry (Screpanti and Zamagni, 2005).

(2) A form of utilitarianism is adopted to found demand analysis. It holds that human behaviour is reducible to rational calculation oriented towards utility-maximisation (*ibid.*).

(3) Neoclassical analysis focuses on marginal tradeoffs. Individuals pick among available bundles of consumption or production (*ibid.*).

(4) It assumes farsighted rationality, such that it is consistent with constrained optimisation. This is relevant for neoclassical commitment to a constrained maximisation framework.

(5) It accepts methodological individualism (MI). The individual is doing the maximising (Colander, 2000, p.134). Individual rationality is then translated into social rationality.

Lastly, (6) NCT is structured around a general and unique equilibrium conception of the economy. This latter point summed up the idea of an economy left free to find the final levels of equilibrium determined by the factors available at any given moment of time (J.B. Clark, 1899, p.29; *qtd.* Screpanti and Zamagni, 2005), and constituted the core argument of NCT (Screpanti and Zamagni, 2005).

The notion of HE that emerged from neoclassical thought is embedded in these theoretical commitments. In particular, points (2), (3), and (4) define the HE, who becomes the key-actor that, according to (5), realises (6). Point (6) in turn proposes a solution for (1). Given this research structure, the HE is understood as: An idealised agent invested with complete and transitive (rational) preferences, who acts as to maximise his individual utility. His choices are optimal

in that he picks among available bundles combinations that maximise his utility function, and constrained since natural factors (scarcity) limit the availability of bundles.

NCT adopted a utilitarian vision of economic agents combined with marginal analysis to devise general equilibrium models. It derived conclusions about the real world economy from these models deductively (Colander, 2000). HE gave interpretative foundation to models, and allowed for a movement toward mathematical analysis (Drakopolous and Karayannis, 2004). Furthermore, it gave logical cohesion to the neoclassical system to the degree of determining a scientific turn in economic inquiry (Screpanti and Zamagni, 2005). The assumed rationality that was supposed to underlie all acts, matched with the omnipresence of scarcity in the world, seemed to allow for Economics [to be] likened to the natural sciences [] and economic laws finally assumed that absolute and objective characteristic of natural laws (ibid: 166-167). HE was seen as a fundamental generalisation for the neoclassical scientific programme.

The Dis-Functions of HE

Within heterodox and interdisciplinary thought, HE has found widespread contestation. In particular, opponents argue that NCT produces a world-vision that is apologetic of the status quo, and mute to power relations underlying economic reality (Krishnaraj, 2001). In what follows, I focus on three dimensions addressed by criticism: the first concerns wrong assumptions about HE's individualistic rationality, the second the ontological views about the self implied by HE (atomism and androcentrism), the third the way these ungrounded notions of HE shape a distorted view of reality. In virtue of conceptual and interpretative dis-functions, the conclusions and applications of HE fail to provide an adequate assessment of economic reality and individual acts.

HE is not universal: A problem with rationality Preferences are assumed of the individual, i.e. exogenous to the model. The only positive element HE rationality posits is that of consistency. Choosing alternative x over alternative y implies that the HE derives more personal utility from x than from y. Individual rationality is expressed by actions. Sen (1977) opposed this view with what he calls acts from commitment. People act out of commitment when they choose an alternative x which they expect to yield a lower utility than the available alternative y. Sen allows for the possibility of a genuine act out of duty, thus breaking down the equality between personal choice and personal utility (Sen, 1977). As a consequence, individual choices, which produce economic outcomes at an ag-

gregate level (MI), do not necessarily stem from individual utility maximisation. Acts can be done at odds with one's preferences. It would therefore be necessary to at least restrict the appropriateness of unregulated markets for producing a welfare optimal outcome (*ibid.*), a central concern of NCT (Screpanti and Zamagni, 2005).

Sen's commitment acts exemplify that individual preferences have more depth than the HE allows for. In his view, HE gives too little structure, resulting in the envisioned ideal economic actor close to being a social moron (Sen, 1977: 336).

HE becomes positive: Atomism and Androcentrism. If Sen (1977) argued that HE explains too little about human action, I now examine the claims that it explains too much. The HE paves the way for ontological, anthropological and normative conclusions that are unfounded. I first consider the problem of atomism (Heath, 2015). In a second step, I examine how the arising anthropological vision pertains to a specific and problematic philosophical tradition: Androcentrism².

HE limits the scope of neoclassical analysis by excluding social relations as determining factors for individual agency (exogeneity of preferences). This gives rise to an ontological notion of a pre-social individual. The neoclassical narrative of the individual, even if used for illustration, evokes a non-trivial vision of humans. Menger describes pre-economic individuals as engaging in exchange only if their calculated benefits exceed the costs of doing so (Screpanti and Zamagni, 2005). Social interaction is viewed as subsequent and functional to this primitive form of human nature, given by calculative rationality directed at self-interest. Economic institutions arise as the rational development of individual utility-maximising acts. Pursuit of self-interest is understood as natural, standard and normatively correct. HE prepares the ground for an anthropological vision of humans as atomic actors, endowed with a socially independent psychology (here: self-interest; Heath, 2015). This simplistic understanding of human nature determines inferences on what is rational, normal and ethical for man to engage in. Acts dictated by self-interest are associated with the true natural form of humans. Social reality can at best facilitate self-interested acts. England argues that HE rests on a separative self, according to which humans are autonomous, impervious to social influences, and lack sufficient emotional connection to each other to make empathy possible (1993: 154). This vision, so England, is androcentric. Men's experiences are taken to be the norm, whilst women's experiences are either treated as invisible or as deviations (Rolin, 2012). In Western soci-

ety, self-interest, rationality and autonomy are typically male attributes, whilst altruism, irrationality and dependence are associated with the female. Further, male attributes are positively, female negatively connoted. HE becomes the personification of an ideal, the masculine. This ideal is then taken to be a universal and indeed natural model of human acts. The ontological, anthropological, and normative derivations from HE might not be inherent to the model. Rather, they stem from factually ungrounded associations, which lead from an abstract notion of self-interest, to a more substantive ontological vision, and culminate in a normative stance. These associations have repercussions on how economists interpret and evaluate individual acts and economic reality.

Women's experiences become invisible because neoclassical theory blanks how decisions are shaped under social constraints (Ferber et al., 1993). The HE fails to recognise how individual behaviour changes under social coercion (Krishnaraj, 2001). Social coercion stems from norms and values endorsed in a society, which lead individuals to choose certain acts out of fear of social punishment (ibid.). Women's economic choices are influenced by social constraints that apply to them insofar as they are women. This behaviour can still be subsumed under HE rationality, since perceived social concerns are integrated into the individual preference rankings, which are exogenous to the model. However, given that neoclassical economists focus on the analysis of the model, they tend to ignore an important factor that shapes economic reality, namely the tensions between social constraints and individual market actions (Ferber and Nelson, 1993). HE focuses exclusively on socially male attributes. The narrative that follows, and its acceptance are informed and made possible by widely held biases. In turn, this narrative helps perpetuate the underlying ideology by failing to detect the bias, and reinforcing it through scientific explanation. Economists are prone to misinterpret economic reality by not paying the necessary attention to how they define, apply and derive conclusions from certain concepts.

How HE Shapes the World: Neoclassicals in Action While in the previous section we have considered how HE gives rise to misleading conceptions, I now turn to the examination of how these ungrounded notions influence theoretical and normative conclusions neoclassical economists draw about reality. Studies have been conducted on students to test whether their behaviour maximises economic utility (Frank et al., 1993; Seguíno et al., 1996). The findings indicated that economic students were likelier to engage in self-interested behaviour than any other group (Frank et al., 1993). Further, male participants acted in a more self-interested manner than female participants (Seguíno et al., 1996). The find-

ings might hint at two broader mechanisms: (a) that women and men are socialised differently, making the latter more prone to behave in a self-interested way (Seguino et.al, 1996); (b) that an exposure to economic theory is linked to the rationalisation of a certain type of behaviour, namely self interest³.

Another erroneous application of HE is given in the field of New Household Economics that arose in the 1960. Krishnaraj (2001) argues that despite the novelty of Becker's approach (1971, qtd. Krishnaraj, 2001), the model he devised still ended up being apologetic of the status quo. The model takes households as productive units in which domestic labour is equal to home production (Krishnaraj, 2001). By exchanging market and home production, a man and a woman seek to maximise their personal and the household's utilities. The woman's returns from the market are lower, since she is less skilled in wage work. Her returns from domestic labour are higher, since she is better equipped for household work. The reverse holds for the man (ibid.). Households would therefore be better off if men and women specialised according to their expertise. The model completely fails in acknowledging a very important question: why do women have more expertise in the household, and less skills in wage jobs (ibid.)? NCT does not consider the larger socio-economic reality women face. According to HE, the conclusion is that both actors act rationally by specialising. The resulting socio-economic inequality is simply a consequence of women's rational choices (see Rolin, 2012 on Sexism). If not a direct fault of the definition of HE, these examples show that in its interpretation it can and in fact is misunderstood and wrongly applied by economists. Such misunderstandings result from the neoclassical tradition neglecting relevant questions about socio-economic reality in the moment of defining, interpreting and applying HE.

Where has HE gone?

Up to this point, I have left space for the neoclassical theorist's retort that he need not be concerned with these arguments. Economics is -or at least aspires to be- hard science, concerned with facts about human interaction with scarce resources, which are studied through mathematical methods (Screpanti and Zamagni, 2005). In this final paragraph, I consider 3 lines of defence against this argument.

First, economic activity does not happen in isolation (Krishnaraj, 2001). If neoclassical theorists have managed to define a clean-cut field of analysis, it is only because they have made assumptions about society and individuals pre-analytically. The burden is therefore on them to defend that these assumptions effectively

hold, either in practice or theoretically. The defence itself requires excursions into the fields of sociology, political science, and philosophy.

Second, if the neoclassical economist prefers his inquiry to take place in isolation, then he must envision a downsizing of its scope. The ad hoc assumptions must be made explicit, and appropriate settings must be sought out. The applicability of the neoclassical system would decrease considerably.

Finally, in absence of this critical work, neoclassical economics risks to turn into an ideological stance vested in pseudo-scientific clothing. It advances unfounded interpretations, often at the cost of grasping reality. The situation is further exacerbated by neoclassical economics monopolisation of terms such as objectivity, factuality, rationality (Ferber and Nelson, 1993). This creates a stultification of the scientific aspirations of economics⁴. Neoclassical economics defeats its own project by not acknowledging and correcting its limitations.

Recent developments in economic theory show that a revision of NCT is taking place. In fact, by the 1970s neoclassical hegemony was in crisis (Colander, 2000). With the advances in Game Theory, Experimental Economics and Behavioural Economics within orthodoxy, the neoclassical horizon has been widened to include more realistic human behaviour⁵. Some of the ad hoc assumptions are loosened, and models are extended to provide a more useful narrative in view of understanding economic reality (Backhouse, 2000). Economics is starting to integrate work outside its traditional outlook, becoming increasingly eclectic (Backhouse, 2001; Colander, 2000; Screpanti and Zamagni 2005). Recent contributions have come to question the more fundamental ideals of economics as a discipline (see Rolin, 2012). Dichotomies of hard facts soft facts, rationality emotionality, objectivity subjectivity have been increasingly taken under attack (Screpanti and Zamagni, 2005). Rather than conclusively arguing for the abandonment of all scientific aspiration, these positions show that the attainment of an ideal is indeed very demanding, and often implies redefining what we take this ideal to be.

Conclusion

I have presented arguments that point to HE being a metaphysically heavy and pragmatically loaded theory. I have tried to show that its dis-functions become manifest (and to a certain extent corrigible) once we look at them from an ontological point of view, that is, when we realise that it obscures important elements of socio-economic reality, whilst highlighting others. It so winds up creating a distorted, incomplete and falsifying picture of what it set out to study

initially. Which is, ultimately, a self-limiting or even self-defeating strategy.

References

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1. Neoclassical is a historically dubitable term (Colander, 2000). Veblen first introduced it to characterise the marginalism proposed by Marshall, who considered his programme a continuation of the Classical tradition (Aspromorgous, 1986; qtd. Lawson, 2013). About the difficulty of determining which economists actually belonged to NCT, and the disparate use that has been made of this term especially in recent years, see Colander (2000), and Lawson (2013). Rather than a historical exact denomination, it can be understood as a categorisation that stresses a form of continuous common ground among certain economists between 1870 and the 1930s (Colander, 2000).
 2. Dodds (1952) initially brought my attention to this tradition in philosophy. It consists in the view that noble, autonomous, strong men are tied down by social norms imposed by fellow humans. It was already present in ancient Athens, as testified by the figure of Kallikles in Plato's *Gorgias*, and object of fervent debate at the time. It pervades the works of many philosophers, in particular Nietzsche's idea of the *ermensch*. In economics, both Austrian and neoclassical atomism (Heath, 2015) is influenced by the main tenets of this tradition, partly motivated by their basic premises about human action. Among its opponents we find Plato and Feminism (Dodds, 1959; Ferber and Nelson, 1993).
 3. As Frank et al. (1993) point out, economic students might be more

self-interested to begin with, and decide to study economics to pursue their vocation for money. In this case, NCT could still offer an apparent rationalisation for this vocation thanks to the argumentations described above.

4. D Agostini (2013) has brought the term stultification to my attention. She uses the term in a different context, but here it nevertheless provides a valuable intuition: Our understanding is stultified in the moment in which we cannot distinguish between what is true or false, because of false claims appropriating the vocabulary we normally use to assess truth and falsity.

5. This insight comes from M. Suesse's lectures held on the 4/12/2017 and 7/12/2017. Backhouse (2001), Roncaglia (2005), and Screpanti and Zamagni (2005) also discuss the modern developments in economic thought as moving beyond NCT.