

Maurice Lagueux

Rationality and Explanation in Economics.

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Economics is generally viewed as the most advanced of the social sciences mainly because, with its high levels of quantitative expression serving as the basis for its explanatory and predictive efforts according to the dictates of orthodox scientific research, it gives the appearance of theoretical sophistication. It should be noted that before its modern self ascription as a positive science the discipline was known as political economy, developed especially by Smith, Ricardo, and Malthus. But in its search for scientific authenticity, political economy, under the guidance of its modernizing practitioners, dropped its political content with the intention of becoming a wholly positive social science. Yet ever since the pioneering efforts of theorists such as Jevons and Marshall, followed later by the theoretical efforts of Walras, economics as a positive science has not been able to settle the issue concerning its scientific status. The epistemological questions have been so persistent that prominent theorists such as Samuelson (revealed preference theory), Friedman (instrumentalism) and Simon (bounded rationality) have seen fit to write on this issue. The question ultimately reduces to whether economics as a positive science fulfils the required criteria expected of any genuine science. This is the question that epistemologists of economics such as Rosenberg, Sen, Blaug, Hausman, Wong, Maki, Mirowski, et al., have sought to answer over the years.

Maurice Lagueux's *Rationality and Explanation in Economics* should be appraised in just this light. What is interesting about this book, which comprehensively discusses most of the current literature on the scientific status of economics, is that although its author focuses on the role that the principle of rationality plays in economic theory, he discusses this concept within the general framework of the philosophy of science. In this connection the author sees fit to discuss the diverse approaches to scientific explanation developed by theorists such as Popper, Hempel, Salmon, and Van Fraassen. In the area of epistemological analysis proper the author also discusses Dennett and Ross on the idea of rationality as the intentional stance of fully conscious agents. The general question in all of this is whether economics fulfils the methodological requirements of genuine empirical science. The more specific question is whether the principle of rationality can justifiably serve as the necessary heuristic to allow the development of economics as a genuine science.

For Lagueux, the principle of rationality is the foundational principle for economics. As he puts it: 'Few economists would deny that the rationality principle plays a fundamental role in economics and in all social sciences, but the nature of this

principle and the way it operates in economics are far from garnering consensus' (1). But despite its seemingly necessary usage in economics to mean 'maximization or consistency' (1), some authors such as Charles Plott observed that the concept of rationality 'lacks scientific precision and as a result is a source of needless controversy and misunderstandings' (1).

Lagueux begins his defense of rationality's role in economics as follows: 'Let us tentatively admit that people are said to act rationally when their actions are motivated by intentions that can be construed as reasons' (2). He then goes on to make the rather problematic statement that 'reasons' are interesting from an explanatory social science standpoint because 'researchers are presumed to be rational as well' (2). This argument is problematic, because we have no idea what might be the actual notions of rationality to which individuals themselves are or would be committed.

Although rationality is seen to be central to explanation in economics, Lagueux does not opt for what he refers to as 'maximal rationality'. Rather, he opts for a 'minimal rationality' that does not require 'maximization' or 'consistency' in decision-making. This is how Lagueux defines 'rational decision-making':

Being rational simply means having the capacity to decide in a way that makes sense, which means having the capacity, when making decisions, to choose means after evaluating them as appropriate for reaching goals, which for whatever reasons, have been previously judged worthwhile (236).

But this answer does not solve the epistemological problem for economics, given that it is viewed by its practitioners as a science of some sorts. Science, as it is defined, is essentially about the controlled explanation and prediction of phenomena in the empirical world. This exactly is the goal of the maximal rationality principle which, as Lagueux would admit, has proven itself to be inadequate: agents more often than not make choices that are neither optimal nor consistent according to the prescribed predictive principle of rationality. In his discussion Lagueux attempts to show some link between the social scientific concept of methodological individualism and rationality (Chapter 3, 'Can Methodological Individualism Survive?'). His efforts here are misguided, because theoretical economists have long recognized that economic decision-making begins with the particular choices made by individual agents. This principle extends even to the sphere of macroeconomics regarding topics such as the efficient market hypothesis and rational expectations theory.

But the most important question in all this is whether economic theory could dispense altogether with the rationality principle, as was argued by Becker with his 'survival mechanism' thesis contra the idea, promoted by Kirzner (153-64), that rationality is a necessary assumption. The problem with the 'survival mechanism'

thesis—think of agents locked in Darwinian competition in which maximally rational agents survive—is that it denies to economic theory the conscious decision-making behavior by agents that explains their actions in terms of consciously held subjective reasons. It is for this important reason that Lagueux appeals to the theoretical defense of such by Dennett and Ross and their idea of the ‘intentional stance’ (168-75). This is what generates the epistemological problem for economics. Can it be solved by the positivist route of a Comte, or must it resort to the reductionist program of neuroeconomics (242-4)?

My answer to the question whether economics can be a science despite its resort to a heuristic principle of rationality is that it cannot, given that successful or unsuccessful human decision-making must best be explained not by appeal to neuronomic causes, but by appeal to reasons. Why not just settle for the answer that theoretical economics is essentially a normative research area reflecting the value judgments of its practitioners? The paradigm-changing result of this is that economics reverts to its original nomenclature of political economy and the concept of efficiency collapses into considerations of equity. In short, economics is thusly and effectively transmuted into a kind of applied ethics. The question then is what kind of ethics should theorists adopt? One might consider in this regard Sen’s 1987 *On Ethics and Economics* and Peter Groenewegen(ed., 1987) *Economics and Ethics* where the issue is discussed. If my thesis happens to be valid then all the recent forays into behavioral economics and neuroeconomics(238-44) would be rendered more or less moot. Lagueux’s book is to be recommended, in that it puts on the table all these important questions about contemporary economics.

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