Irrelevance and Ideology
A comment on Tony Lawson's book *Reorienting Economics*

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There are plenty of interesting ideas in Lawson's book about how economic theory and practice need to be "reoriented". I agree with him that economics must start from observation of the world where we live. I must say, however, that I do not see why Lawson needs the special word "ontology" to designate an "enquiry into (or a theory of) the nature of being or existence" (p. xv). Nor am I convinced by his "evolutionary explanation" – in Darwinian terms – of the "mathematising tendency" in economics (Chapter 10)[1]. But I do not want to discuss these complex subjects here. I am only going to consider Lawson's main criticism of neoclassical economics: its "lack of *realism*". I think that it is not the appropriate objection: *all* theories lack realism, as they take into consideration only some aspects of reality. Everyone agrees on this, even neoclassical economists. The real problem with neoclassical theory is not its' "lack of *realism*" but the "ideology" (a word Lawson never uses) that it smuggles in and carries with it.

Lack of realism and *homo oeconomicus*

If economics needs to be "reoriented", it is because its present orientation is wrong. What precisely is wrong with its orientation? If you read Lawson's book, it is wrong partly because of the assumption about man that it adopts. Man is assumed to be "rational", "omniscient", "selfish without limit" and so on. For example, in the section called "Fictions", in the first chapter about modern economics, Lawson writes:

> Assumptions abound even to the effect that individuals possess perfect foresight (or, only slightly weaker, have rational expectations), or are selfish without limit, or are omniscient, or live for ever (p. 18).

Or, to quote him again :

> Just as a class of assumptions, such as rationality or total greed, always appear in order to render the human agent atomistic, a further set of assumptions, like a given number of agents or three goods and two periods, are always in place serving to fix the boundaries of the analysis, to isolate the set of atoms on which the analysis focuses. (p. 19).

According to Lawson then, the fundamental "lack of realism" consists in considering individuals as "atoms", and as "isolated":

> The reasons for the fictitious nature of modern economics, then, are clear. To the extent that human beings as well as society are, in reality, complex, evolving and open, a methodology which necessitates that the subject-matter addressed is everywhere atomistic and isolated is likely very often to throw up accounts of human individual and collective behaviour that are fictitious and rather superficial, to say the least (p. 19).

The problem with this objection is that a neoclassical theorist would agree with it. He would argue that he is considering only a special aspect of human behaviour: the fact that people try to pay less (rather than more) for a given good, or try to get more satisfaction (rather than less) from given resources. They then try to derive or to "deduce" (to use a word that Lawson doesn't like) certain *ceteris paribus* consequences from this assumption.

Actually, almost all economists, classical, neoclassical or others, agree that humans are not completely selfish, or greedy; but they say that this is not the aspect of human behaviour they are reasoning about. It is the other aspect they are focussing on, and who can deny that self love exists? Even Marx supposes that the capitalists' motive is profit[2], and that workers try to get a better life. This is all that is meant when neoclassical theorists assume that people are rational.

On the other hand, neoclassical theorists *do not* assume that people are 'omniscient', because this would be nonsense (consequences of my decisions depend of others' decisions which depend, at least partly, of my decision[3]). Sometimes, not often, they suppose that people have an infinite life. This is an approximation that can be accepted: in general, when we take a decision concerning present and future, we do not think about death (we suppose that we will still live a long time). This is 'unrealistic', for sure, but not enough to say that the theory is irrelevant, or without interest.

Actually, the main problem with "modern economics" (neoclassical theory) does not stem from the type of man (the infamous *homo œconomicus*) that it supposes, but from the type of "social structures" that are supposed or implied. The problem with these social structures is not exactly that they *lack realism* but that they are *totally irrelevant*.

"Modern economics" and social structures

Tony Lawson also insists on the importance of what he call "social systems", or "social structures", or "structured processes of interaction" (p. 43), and he is right in doing so: human (rational) action can be determined – for *logical reasons* – only if rules and context are unambiguously defined. One of his main objections to "modern economics" is that it is "atomistic" – that people take their (optimal) decisions in an "isolated" way; it would seem then that for Lawson, no "social structures" are implied in neoclassical models (one more example of their "lack of realism"). But social structures *are implied*, and it is a pity that Lawson never mentions them, as they are the real Achilles' heel of neoclassical economics – and, more generally, of methodological individualism. Because it is not enough to say that people are rational, and that they "optimise". Even in the simplest model - bargaining - it is supposed (as a minimal requirement) that people don't use force (that trade is voluntary). But bargaining results depend on a lot of factors, such as bargainers' psychology, resources, impatience, etc.. To obtain a determinate result (or prediction), more "social structure" is needed. Consider the neoclassical benchmark model, perfect competition. It supposes a very special and strange "social structure": households and firms are *obliged* to "take" prices, given by an auctioneer, and to inform him of their supplies and demands at these prices; they *are not allowed* to bargain and trade directly among each other, even if the auctioneer has found equilibrium prices. Now, one could say that this model "lacks realism". But, wouldn't it be more appropriate to say that it describes a completely different kind of reality, or social structure – that it describes not a market but a centralised economy, with specific rules and institutions?

Neoclassical economists (and, unhappily, almost all heterodox economists) *never* present perfect competition in this manner: they speak, as Lawson does, of "atoms", "many agents", and so on. They prefer to discuss the lack of realism of *homo œconomicus* rather than about the total irrelevance of the social structures *implicitly assumed* in their models.

What about ideology ?

Lawson also discusses econometrics, especially the “Lucas critique”. But here again, the problem *is not* with econometrics – or the “realism” of its *statistical* assumptions; it is with the “social structure” that Lucas and others suppose, in their models, as they reduce the whole economy to a “representative” agent’s choice – or to a “young” choice in an overlapping generations model. This obviously is *nonsense*, as it is also to discuss econometric tests about these models (even if you obtain $R^2 = 0{,}99999$). The same can be said about “Real Business Cycle” and “Computable General Equilibrium” models. The question is, again: how such intelligent people can propose – and endlessly study – such *stupid* models? I only see one reason for that: *ideology* (intuitive beliefs which render them blind). Here, the belief alluded to is that “market mechanisms” (whatever that may mean) produce “efficient” results – if you abstract from “frictions”, “failures”, etc. (ignoring these “imperfections” being, for neoclassical theorists, the principal reason of “lack of realism”). As there is a strong link between competitive equilibrium (that is, with auctioneer, etc.) and efficient states – link given by the two Welfare Theorems –, then competitive equilibrium *must be* identified with “perfect market” (as both are supposed to be efficient). In some books (especially those on growth, in the “macro” mood – as those of Romer and Barro & Sala-I-Martins), perfect competition and an “omniscient” “representative agent” (or planner) choice are presented as giving the same results. How can a normal person make any sense of this ?

Identifying the real reasons why the standard, dominant theory is *totally irrelevant* is an unavoidable first step, before proposing some other – completely different – alternative theory, whatever theory one may wish to propose. For that, you do not need complicated “methodological” or “epistemological” or “ontological” debates.

Notes

1. Quite curiously, Lawson refers to Richard Dawkins’ theory of evolution, which seems to be inspired, at least partly, by neoclassical theory (the title of Dawkins’ popular book is *The Selfish Gene*, and sometimes he writes that genes have “utility functions”).
2. Bourdieu does the same thing but with an enlarged vision of capital (which includes “culture” and networks)

3. The only interesting aspect of game theory is that it insists on this point: even when there is common knowledge about players' characteristics and the rules of the game (issues, payoffs, etc.) – that is, "omniscience" –, each rational player's decision depends on his *beliefs* about others players' decisions.

Reference

Lawson, Tony. (2003) *Reorienting Economics*, London: Routledge.

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