

Chapter 3

How Economics Becomes Ideology: The Uses and Abuses of Rational Choice Theory



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Abstract Rational choice theory is often presented as essential to the truly scientific study of economics. To the contrary, in this paper I argue that when rational choice is treated as the key to a science of human agency, it ensnares economics in certain intractable dilemmas. Drawing on hermeneutic philosophy, I argue that economists need to distinguish legitimate from illegitimate uses of rational choice theory. Failure to do so not only leads to self-defeating research goals, but also mires the discipline in an extreme form of free-market ideology. Economists thus have not only empirical but also ethical and political reasons for rejecting the mainstream deployment of rational choice. The paper concludes by briefly sketching a philosophically defensible use of rational choice in economics – one that is more sensitive to the expressive dimensions of human agency and the limits of mechanistic causality.

3.1 Introduction

Unbeknownst to many economists, much of their discipline has been absorbed into a worldview known to philosophers as “naturalism.” Naturalism can take a dizzying array of forms but at the most general level it holds that the study of human beings should adopt the basic conceptual features of the natural sciences.¹ In economics this sometimes occurs through the attempt to place human agency under supposedly

¹ Jason Blakely, *Alasdair MacIntyre, Charles Taylor, and the Demise of Naturalism* (Notre Dame: University of Notre Dame Press, 2016), ch. 1.

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value-neutral, formal causal laws akin to physics.² It is also evident in the way economics is often lauded as outpacing the other social sciences on the road to science.³

In this paper, I give a critical account of how a philosophically naturalist notion of agency and causality has shaped a central method of mainstream economics—rational choice theory.⁴ Of course, rational choice is far from being the whole of economics and naturalism does not comprise its only philosophical basis.⁵ Nonetheless the two working in tandem remain enormously influential. One of my major claims is that rational choice remains philosophically legitimate only insofar as it disentangles itself from naturalism. Rational choice has a role to play in social science but it needs to be fundamentally rethought.⁶ To advance my argument I draw on the resources of the philosophical traditions of hermeneutics and anti-naturalism.⁷ These traditions maintain that because human agency is expressive of meanings it is not compatible with the formal, mechanistic causality of naturalism.

My argument proceeds in three stages. First, I explain how rational choice's absorption into naturalism generates intractable dilemmas for economics. Hermeneutics offers a better account of these dilemmas than the leading proponents of naturalist rational choice. This leads to the second stage of my argument in which I explain how subsuming agency under naturalist notions of causality does not achieve scientific neutrality. Instead, rational choice becomes fused with highly contestable forms of technocratic and neoliberal ideology. This means economists have political reasons for abandoning a naturalistic use of this method. Finally, hermeneutics offers economists an alternative conception of rational choice—one consistent with the unique form of causality typical of human agency. A philosophically defensible use of rational choice must remain aware of certain limitations.⁸

²For a key early work in neoclassical economics that avows many naturalist goals, see: Lionel Robbins, *An Essay on the Nature and Significance of Economic Science*, second edition (London: Macmillan & Co., 1935).

³Cf., Daniel Hausman: "Introduction," in *The Philosophy of Economics*, 3rd edition (Cambridge: Cambridge University Press, 2008) 3; "Philosophy of Economics," *The Stanford Encyclopedia of Philosophy* (Winter 2013 Edition), Edward N. Zalta ed., <https://plato.stanford.edu/archives/win2013/entries/economics/>

⁴For the importance of rational choice to economics, see: Julian Reiss, *Philosophy of Economics* (New York: Routledge, 2013) 6; Daniel Hausman, "Philosophy of Economics," in *Routledge Encyclopedia of Philosophy*, vol. 3, ed. Edward Craig (London: Routledge, 1998) 211–222.

⁵Bruce Caldwell notes the pluralization of post-positivist theories: "Economic Methodology and Behavioral Economics: An Interpretive History," in Benjamin Gilad and Stanley Kaish, eds. *Handbook of Behavioral Economics*, vol. 2 (Greenwich, CT: JAI Press, 1986) 11–13.

⁶For why some critics advocate abandoning this method entirely, see: Norman Denzin, "The Long Good-Bye: Farewell to Rational Choice Theory," *Rationality and Society* 2:4 (1990): 504–506.

⁷For key volumes on the hermeneutic or interpretive turn, see: Michael Gibbons, *Interpreting Politics* (Oxford: Basil Blackwell, 1987); David Hiley, James Bohman, and Richard Shusterman, eds., *The Interpretive Turn* (Ithaca: Cornell University Press, 1991); Paul Rabinow and William Sullivan, eds., *Interpretive Social Science: A Second Look* (Berkeley: University of California Press, 1987).

⁸This runs against the qualitative-quantitative debate in the social sciences that treats methods as a binary choice between paradigms. For a sketch of this debate, see: Matthew B. Miles and A. Michael Huberman, *Qualitative Data Analysis: An Expanded Sourcebook, Second Edition* (Thousand Oaks, CA: SAGE Publications, 1994) 40.

Far from economics leading the way to science, the discipline should return to its historical roots in the humanities and become part of the interpretive turn.

3.2 Rational Choice and Scientific Causality

Rational choice is widely recognized as a key methodological resource for mainstream economics.⁹ At its most basic level, rational choice consists of the construction of an ideally rational agent by positing certain *a priori* postulates or axioms. Two axioms of particular importance are completeness and transitivity. The completeness axiom holds that an ideally rational actor always ranks preferences—though ties and indifference are allowed. While transitivity posits that these preferences are transferable from one object to another—such that someone who, say, prefers Giotto to Monet, and Monet to Warhol, also prefers Giotto over Warhol.¹⁰ What this vision of human agency gives economists is an idealized model that can be used to conceptualize an enormous variety of decision scenarios.

Today many economists implicitly ground rational choice in naturalist philosophical assumptions. This happens in two ways I wish to examine at some length. First, economists sometimes slide into treating rational choice as a quasi-behavioral, scientific account of the structure of human agency (that is, they *anthropologize* rational choice). Meanwhile other economists concede rational choice does not offer a quasi-behavioral science, but nonetheless insist on this method's scientific, predictive value. What both approaches share is the naturalist conviction that rational choice helps loft economics onto a higher plain of science than the other social sciences.

First let's examine the naturalist assumption that rational choice captures an essential behavioral structure of human agency. The idea that economics is premised on a true anthropology has important antecedents in classical and neoclassical economists who helped envision humans as a species of *homo economicus*—naturally calculative, haggling, and materially acquisitive. Such speculations go back at least as far as Adam Smith and John Locke.¹¹ Later William Stanley Jevons gave an influential utilitarian account of *homo economicus*.¹² Yet mainstream economics only took on its current form when economists abandoned these earlier psychological conjectures in favor of what some scholars have called a “pure logic of choice” (a move we will return to below).¹³ Nonetheless, the project of *homo economicus* has never fully vanished. One common way *homo economicus* has survived is through the assumption that rational choice captures some essential behavioral features of folk psychology.¹⁴

⁹ Julian Reiss, *Philosophy of Economics* (New York: Routledge, 2013) 6.

¹⁰ Itzhak Gilboa, *Rational Choice* (Cambridge, MA: MIT Press, 2010) 39–40.

¹¹ For discussion of the eighteenth-century myth of the bartering “savage,” see: Karl Polanyi, *The Great Transformation* (Boston: Beacon Street Press, 2001) 45–46.

¹² William Stanley Jevons, *The Theory of Political Economy* (New York: Sentry Press, 1957) 23, 21.

¹³ Caldwell, “Economic Methodology,” 6. This theory of rational choice originated in the strategic nuclear defense analysis of the Cold War: S. M. Amadae, *Rationalizing Capitalist Democracy: The Cold War Origins of Rational Choice Liberalism* (Chicago: University of Chicago Press, 2003).

¹⁴ See: Reiss, *Philosophy of Economics*, 29–31.

Folk psychology is the view that the reasons people hold are the causes of their actions.¹⁵ According to folk psychological approaches to economics, rational choice reveals the essential logical features of human reasoning, and so its formal models can provide predictable outcomes for how humans in aggregate will reason and behave in decision-making scenarios.

A prominent example of this approach is Nobel laureate Gary S. Becker's defense of what he called the "economic approach" to human behavior. Becker believed that rational choice assumptions offered researchers a "unified framework for understanding all human behavior" that was compatible with the empirical findings of the social sciences as well as evolutionary biology.¹⁶ Indeed, Becker insisted that "the economic approach" together with "modern psychology come to similar conclusions."¹⁷ Becker thus rendered rational choice assumptions into a quasi-behavioral claim that grounded a science of society more generally, explaining everything from marriage rituals to crime patterns.¹⁸

This quasi-behavioral account of the structure of human agency has had a large ideological impact in the United States.¹⁹ It has also been championed by prominent social scientists working in other disciplines. For instance, in political science the public choice approach to institutions (associated with the economist James Buchanan) has led to rational choice postulates being used to model the behavior of various political actors including voters, legislators, bureaucrats, and welfare recipients.²⁰ A leading example of this paradigm of study is David Mayhew's massively influential research on Congress.²¹

Despite its large presence in the social sciences, this quasi-behavioral approach to rational choice has never overcome certain intractable dilemmas. Specifically, psychological findings contradict this account of human agency showing that actual individuals both on the micro-level and in aggregate violate the axioms of rationality in myriad ways. For example, individuals sometimes treat the same choice dif-

¹⁵For a philosopher sometimes evoked to justify this view, see: Donald Davidson, *Essays on Actions and Events* (Oxford: Oxford University Press, 2011).

¹⁶Gary S. Becker, *The Economic Approach to Human Behavior* (Chicago: University of Chicago Press, 1976) 14.

¹⁷Becker, *The Economic Approach*, 10.

¹⁸Becker, *The Economic Approach*. See also: Gary S. Becker and Julio Jorge Elías, "Introducing Incentives in the Market for Live and Cadaveric Organ Donations," *Journal of Economic Perspectives* 21:3 (2007): 3–24.

¹⁹This has partly occurred through popularizations of *homo economicus* on the fringes of professional economics: Steven Levitt and Stephen Dubner, *Freakonomics* (New York: Harper Perennial, 2005) 16; Tyler Cowen, *Discover Your Inner Economist: Use Incentives to Fall in Love, Survive your Next Meeting, and Motivate Your Dentist* (New York: Penguin, 2008).

²⁰Buchanan's Austrian School background made him less prone to describe economics as a full-blown science. Nonetheless, he often slid into treating *homo economicus* as reflecting "empirical presuppositions." See: Geoffrey Brennan and James Buchanan, *The Reason of Rules in The Collected Works of James M. Buchanan, vol. 10* (Indianapolis: Liberty Fund, 2000) 58–59.

²¹David R. Mayhew, *Congress: The Electoral Connection* (New Haven, CT: Yale University Press, 2004).

ferently (reversing their preferences) depending on how it is framed.²² They also exhibit circularity of preferences when holding conflicting criteria for deciding between options.²³ This implies that the quasi-behavioral grounding of rational choice theory is empirically false. While humans do act on the basis of reasons their reasoning is not formally fixed or structured by rational choice postulates.

This brings us to a second way economists have commonly grounded rational choice theory in naturalist philosophy. Namely, by arguing that although its axioms are empirically false, they nonetheless generate scientific predictions. An influential statement of this position remains Milton Friedman's controversial 1953 essay, "The Methodology of Positive Economics."²⁴ Like many economists working today Friedman saw economics as akin to physics since both relied on idealized models (for example, in physics falling bodies are imagined in a perfect vacuum).²⁵ Friedman inferred from this that neither economics nor physics depended on the realism of their theoretical assumptions but instead on their ability to yield reliable scientific predictions. As Friedman put it: "the relevant question to ask about the 'assumptions' of a theory is not whether they are descriptively 'realistic,' for they never are" but instead "whether it yields sufficiently accurate predictions."²⁶ In other words, Friedman offered economists a way out of the empirical problems facing rational choice: false or distortive assumptions might still have scientific value.²⁷

Yet once again naturalist rational choice was unable to succeed on its own terms. For rational choice has not granted economists predictive powers even approaching that of physics and the natural sciences. To the contrary, the most recent studies have found that the ability of economic experts to predict phenomena as diverse as GDP growth, inflation, unemployment, and entry or exit from membership in free-trade agreements is no better than dilettantes.²⁸ As Philip Tetlock summarized these findings: "people who devoted years of arduous study to a topic were as hard-pressed as colleagues casually dropping in from other fields to affix realistic prob-

²² Framing a choice in terms of gain led some individuals to risk aversion, while the equivalent choice framed in terms of loss led to more risk taking. Amos Tversky and Daniel Kahneman, "The Framing of Decisions and the Psychology of Choice," *Science* 211 (1981): 453–458.

²³ For example, when selecting a spouse according to criteria of beauty, intelligence, and wealth: Kenneth O. May, "Intransitivity, Utility, and the Aggregation of Preference Patterns," *Econometrica* 22:1 (1954): 1–13. Other cases of intransitivity were observed when features were gradually added to an initial option (for example, accessories to a car purchase). Amos Tversky, "Intransitivity of Preferences," *Psychological Review* 76:1 (1969): 31–48. For an early list of violations of rational axioms, see: Amos Tversky and Daniel Kahneman, "Advances in Prospect Theory: Cumulative Representation of Uncertainty," *Journal of Risk and Uncertainty* 5 (1992): 298.

²⁴ See: Hausman, "Philosophy of Economics," 218; Caldwell, "Economic Methodology," 10.

²⁵ Reiss notes the idealization of objects in physics differs from rational choice in that the former does not add substantive features to reality. Reiss, *Philosophy of Economics*, 131.

²⁶ Milton Friedman, "The Methodology of Positive Economics," in *The Philosophy of Economics*, 3rd edition, ed. Daniel Hausman (Cambridge: Cambridge University Press, 2008) 153.

²⁷ Cf., Caldwell, "Economic Methodology," 10.

²⁸ Philip Tetlock, *Expert Political Judgment: How Good Is It? How Can We Know?* (Princeton, NJ: Princeton University Press, 2005) 59, 247.

abilities to possible futures.”²⁹ Indeed, economic experts were not even able to decisively best mindless, computer-generated predictions in either the form of “crude extrapolation algorithms” or “sophisticated statistical ones.”³⁰ Thus, rational choice cannot be philosophically grounded on its scientific predictive powers.

The leading naturalist uses of rational choice are therefore stuck in a bind where entire research programs are based on false philosophical assumptions.³¹ This brings us to the first place hermeneutics is useful to economists. Namely, hermeneutics avoids these dilemmas by clarifying why both *homo economicus* and strong prediction are not appropriate conceptions of rational choice. But seeing how this is the case requires articulating some basic philosophical concepts.

Hermeneutics holds that human agency is expressive of meanings, making the social sciences philosophically distinct from the natural ones. One way to understand this is through Charles Taylor’s influential claim that humans are “self-interpreting animals.”³² Self-interpretation refers to how in human beings any one belief or action is related to a wider web of meanings that are the result of creative, interpretive activity. Grasping human beliefs and actions therefore requires that economists interpret the interpretations of the agents in question. Human behavior is not an ahistorical structure but a set of historically local meanings (like written texts in need of decoding). This is what is meant by the claim that the human sciences—including economics—are interpretive disciplines. Namely, they must engage in the “hermeneutic circle,” relating a given action and belief to a wider context of meaning.³³ Economists must learn the art of interpreting meanings developed over centuries in the humanities (particularly literature and history).

Self-interpretation also implies a different kind of causality than that typical of the natural sciences. The natural sciences largely focus on necessary causality, as classically articulated by David Hume who theorized that a “cause” referred to the repeated experience of observing two events joined together where the antecedent event was producing the ensuing effect. As Hume put it: “we may define a cause to be an object, followed by another, and where all objects similar to the first are followed by objects similar to the second.”³⁴ This Humean line of thought inspired a certain vision of the natural sciences in which predictive power was made possible by identifying antecedent conditions “X” in constant conjunction with a consequent set of conditions “Y” (so long as there are not intervening factors). In this view,

²⁹Tetlock, *Expert Political Judgment*, 54.

³⁰Tetlock, *Expert Political Judgment*, 54.

³¹This dilemma is widely recognized in the philosophy of economics. For example, the leading textbook on the philosophy of economics candidly admits that the discipline is bedeviled by a cyclical set of debates and unresolved paradoxes concerning its assumptions about human agency: Reiss, *Philosophy of Economics*, 127, 141, 172.

³²Charles Taylor, “Self-Interpreting Animals,” in *Human Agency and Language* (Cambridge: Cambridge University Press, 1985) 45–76.

³³For an influential discussion, see: Charles Taylor, “Interpretation and the Sciences of Man” in *Philosophy and the Human Sciences* (Cambridge: Cambridge University Press, 1985), 14.

³⁴David Hume, *An Enquiry Concerning Human Understanding* (Chicago: The Open Court Publishing, 1912) 79.

predictive science is achieved when an ahistorical mechanism is discovered between two variables. When two variables have been causally linked a law of science might be inferred or formulated—such as whenever, X occurs, all things being equal, Y necessarily follows.

The problem is that in the case of human agency there is no set of antecedent conditions that necessitates or predictably generates the outcome of a consequent belief or action. To the contrary, because human beings are self-interpreting agents this implies that an individual is not locked into a fixed pattern of belief or action. The pattern of beliefs and actions is always contingent and never necessary. The formal structure of belief which rational choice posits is therefore unable to predict or explain human actions. Instead, beliefs and meanings must be described and explained in terms of a narrative or story about why a particular pattern of action and belief arose. This narrative is historically situated and not a formal, ahistorical structure.

The key lesson for economists is that they must always keep in mind that human agency is contingent and not mechanistic as in the natural sciences. This means economists might very well correlate variables and discover interesting patterns, but such variables never amount to causal discoveries or explanations (causal inference in this mode is impossible). Tightly associating variables while perhaps capturing a true description of the world still leaves all the explanatory work to be done. This is a key philosophical insight of hermeneutic theorists like Taylor as well as analytic philosophers like Donald Davidson.³⁵ Yet contemporary economists frequently make the philosophical mistake of assuming that non-agential variables are causally explanatory (e.g., inflation, the pricing system, environmental triggers, etc.). The quasi-behavioral appropriation of rational choice is therefore like the strongly predictive project also doomed to fail. This is because the self-interpretive nature of human agency does not universally conform to an *a priori* structure. Humans need not, for instance, prefer things in a predictably complete and transitive manner, because other beliefs might push them in the direction of circularity or lead them to reverse their preferences willy-nilly.

Hermeneutics also gives grounds for rejecting an argument often made by economists that anomalous behavior that breaks away from the parameters of rational choice is “noise” that can be ignored in aggregate by considering the overall statistical propensities and patterns of a population.³⁶ The problem with this argument is that rational choice does not in fact explain anything—not a particular individual’s actions nor those of a group in aggregate. This is because only a narrative capturing the contingent meanings and beliefs of an actor or group explain their actions. Of course, particular, historically situated agents might happen in some cases to approximate or match the structure, but it still is not the decision structure doing the explaining. What does the explaining is a story about the beliefs that were taken on

³⁵ See: Donald Davidson, “Actions, Reasons, and Causes,” in *Essays on Actions and Events*, 3–20.

³⁶ Leonard Lee, On Amir, and Dan Ariely, “In Search of Homo Economicus: Cognitive Noise and the Role of Emotion in Preference Consistency,” *Journal of Consumer Research* 36 (2009): 173; Reiss, *Philosophy of Economics*, 111.

board by particular individuals, groups, and societies. In other words, the common defense of rational choice as a folk psychology is far from a true folk psychology. To the contrary, the idea that humans act for reasons structured by technical axioms in fact mutes and ignores an individual's reasons for acting. The transcendental formalism of rational choice is incompatible with the thick psychological, cultural, and historical realities motivating self-interpreting agents.

3.3 Rational Choice and Neoliberal Ideology

So far I have argued that rational choice fails at the naturalist goal of a hard science. But there are other problems with the absorption of this method into naturalism. One of the primary doctrines of naturalism is the fact-value dichotomy, which holds that scientific theories are purely factual and logically distinct from ideological commitments. In economics this doctrine is echoed frequently as the claim that “positive” economics is “independent of any particular ethical position” and so “an ‘objective’ science, in precisely the same sense as any of the physical sciences.”³⁷ But do naturalist conceptions of rational choice achieve value neutrality? I now want to argue that naturalism links rational choice to a form of technocratic neoliberal ideology. This happens in at least two ways that parallel the above discussion—first by rendering neoliberalized notions of selfhood inescapable features of human agency; and second by buttressing neoliberal technocracy.

I must begin with a brief definition of my political terminology: neoliberalism emerged at the end of the twentieth century as an ideology maintaining markets are natural, spontaneous forms of human association and that the state is “inherently inefficient when compared with markets.”³⁸ Neoliberals advocate shrinking government through austerity, privatization, and revamping public institutions according to market logics. What is less frequently appreciated is that neoliberals present their arguments as justified by a value-neutral science of economics—that is, by a form of naturalism.³⁹

Hermeneutics reveals that when rational choice is presented as a quasi-behavioral psychology it reduces human agency to a highly contestable form of life—a neoliberalized selfhood in which all goods are subject to calculation within a market. Take the “completeness” maxim of rational choice, which assumes that a rational actor can always compare and rank preferences. On this view not being able to consistently rank two or more preferences is by definition irrational.⁴⁰ This assumption entails that all the goods in a human life are in principle reducible to the level of calculation

³⁷ Friedman, “Methodology of Positive Economics,” 146.

³⁸ Mark Bevir, *Democratic Governance* (Princeton: Princeton University Press, 2010) 30. For an overview of this ideological tradition, see: David Harvey, *A Brief History of Neoliberalism* (Oxford: Oxford University Press, 2005).

³⁹ See: Bevir, *Democratic Governance*.

⁴⁰ Gilboa, *Rational Choice*, 39–40.

and exchange—that they are finite and bounded. The aims of human life are analogous to commodities and ordered the same way as market goods in terms of a hierarchy of preferences.

But what is the nature of such a self when socially and psychologically embodied? The hermeneutic psychologist, Philip Cushman, has written extensively on the emergence and proliferation of a particular kind of “empty self” that he associates with a “neoliberal way of being.”⁴¹ This is a form of selfhood is expressive of a culture of mass consumerism, in which human problems are treated as resolvable through the right purchases on a market. According to Cushman, “the empty self is soothed and made cohesive by becoming ‘filled’ up with food, consumer products and celebrities.”⁴² This kind of self views human fulfillment as a form of preference maximizing. But Cushman found that such a self suffered various psychological pathologies as preference maximizing behavior is unable to meet deeper needs for what he calls “mutual recognition.”⁴³ Specifically, treating all human relations as subject to calculable rankings undermines unbounded, infinite sources of allegiance and value—be it to other people, creeds, or communities. In other words, Cushman argues that there is clinical evidence that the attempt to reduce all goods in life to a hierarchy of calculative preferences damages human psychological health.

Whether or not we accept all of Cushman’s conclusions, his psychological research suggests that a self who ranks all goods as-if on a market is only one possibility and not the universal state of human psychology. This fits with hermeneutic claims that there is no necessary, scientifically fixed way of holding preferences. Instead forms of self are expressive of rival self-interpretations and therefore also radically contestable. Indeed, Taylor has argued that moral selfhood is characterized by rival visions of what he calls “hypergoods” or sources of meaning that are of such ultimate, intrinsic value that they cannot be placed on a calculable value scale.⁴⁴ Hypergoods are sources of ultimate value—for example, a sense of human dignity; a role in a family or nation; adherence to a political or religious way of life—that in turn organize the other goods of a particular identity. According to Taylor there is no way to subject hypergoods to the market logic of exchange, pricing, and calculation. To the contrary, hypergoods are such that the very act of haggling corrupts and undermines them, potentially leading to betrayal or a compromised sense of self.⁴⁵ Humans thus live deep tensions between competing hypergoods; say, their love of a family member or friend and their sense of loyalty to a religious or political cause. Individuals can find themselves stuck in tragic binds over these unbounded goods, in which there is no simple way to calculate and rank them.

⁴¹ Philip Cushman: “Relational Psychoanalysis as Political Resistance,” *Contemporary Psychoanalysis* 51:3 (2015): 423; “Why the Self is Empty: Toward a Historically Situated Psychology,” *American Psychologist* 45:5 (1990): 599–611.

⁴² Cushman, “Why the Self is Empty,” 603.

⁴³ Cushman, “Relational Psychoanalysis,” 444.

⁴⁴ Charles Taylor, *Sources of the Self* (Cambridge, UK: Cambridge University Press, 1989) 66.

⁴⁵ Taylor, *Sources of the Self*, 31–32.

If many humans structure their lives around hypergoods then rational choice is a woefully limited and hobbled account of action. This is because the central and most important goods motivating action are often incommensurable, not subject to ranking, calculation, completeness, or transitivity. In fact, human life (including the market) is saturated by claims to ultimate meaning. These meanings are conceived as unbounded and potentially infinitely demanding. For this reason, the completeness maxim, which simply stipulates that there are no incommensurable, unbounded goods is highly problematic. Far from constituting an autonomous, separate zone of inquiry, economics is instead pervaded by a field of hypergoods. Economics, in other words, occurs inside of ethics and politics and cannot be abstracted from it without creating serious misunderstandings and distortions.

Hermeneutics opens the deep historicity of the human subject. The content of human psychology is not ahistorically one of market preference calculation. This fixes one possible life world and obfuscates all the rest. Rather, humans make choices against a backdrop of historical meanings that rational choice erases and mutes in favor of a supposedly logically necessary structure. And yet normally economists think of rational choice as making no substantive assumptions about human psychology. They do this by drawing a distinction between “formal” versus “substantive” theories of rationality—where the former only provides constraints of consistency, the latter imposes substantive values onto the agent.⁴⁶ But the foregoing analysis suggests that the self of rational choice taken as a quasi-behavioral thesis is a substantive subject—a hyper-marketized, neoliberal way of being. As S. M. Amadae has made clear this neoliberalism has in turn generated a game-theory view of society as profoundly non-cooperative and self-interested. This is not an uncovering of the natural, universal mechanics of society but rather a form of “neoliberal subjectivity.”⁴⁷ Rational choice taken as a science of action is thus entangled in a substantive psychology and political theory of society.

In other words, philosophical naturalism offers the exact opposite of a descriptive, value-neutral theory. Instead, a tendentious form of selfhood grounds the basis for neoliberals’ belief that markets are the best way to organize societies. This means naturalist rational choice is often creating a new kind of ideological world, not describing or discovering what is already given. Indeed, naturalist forms of rational choice are closer to purely normative accounts of what rational agents ought to be, akin to a transcendental Kantian subject (albeit a transcendental subject whose moral concerns are far less lofty). Axiomized, thin constructs of a rational subject might chiefly become normative and ideological interventions within the economic and political lives of ordinary citizens. Institutions are restructured, incentives calibrated, in order to form and discipline neoliberal subjects.

The interventionist possibilities of naturalism bring us to the second ideological dimension of these theories—namely their use of a purported predictive science to bolster technocracy. Here the descriptive claim that economics is a science is used

⁴⁶Reiss, *Philosophy of Economics*, 51.

⁴⁷S. M. Amadae, *Prisoners of Reason: Game Theory and Neoliberal Political Economy* (Cambridge: Cambridge University Press, 2015) 293.

to construct a form of political authority—that of the technocrat.⁴⁸ Historians have shown that rational choice was self-consciously developed during the twentieth century as a science of society meant to bolster liberal capitalism and fend off Marxist accounts of human agency as based in common class interests.⁴⁹ This led to the radical conceptual revamping of voting, legislation, collective action, consent, and even the social contract itself as all based on hyper-individualistic notions of self-interest.⁵⁰ Today rational choice is used as an interpretive lens for understanding human actions in everything from the high offices of government to the low-level haggling of the market.

This massive, restructuring interpretation of politics in North Atlantic democracies was largely carried out by a new expert class trained in economics departments and business schools, who came to see rational choice as a science.⁵¹ A cadre of neoliberal technocrats maintained a relentless public relations effort to persuade ordinary citizens that they were the masters of a science of wealth creation, innovation, and efficiency. In Britain and America this type of technocracy ascended in the 1970s with the welfare state as its chief foe. Neoliberal technocrats declared the state in crisis and the public sector inherently inefficient—the authority of Keynesian and civil service technocrats was challenged by the new neoliberal technocracy. These new technocrats demanded that the state needed to be rolled back and also engineered into quasi-markets. The social democracies built at midcentury were unremittingly disassembled via austerity, deregulation, contracting out, and privatization. In addition, market discipline through auditing and customerization were imposed on the public sector.⁵²

Public choice economists like James Buchanan proclaimed the discovery of a science of rational choice that also happened to attack social welfare and advance neoliberalism.⁵³ For example, Buchanan used rational choice assumptions to argue that modern citizens had become too “soft” and allowed “parasites” to take advantage of them through welfare programs.⁵⁴ He used a similar rationale to claim that civil servants and bureaucrats necessarily had self-interested incentives to inflate government budgets indefinitely.⁵⁵ His proposed reforms were meant to design institutions from the top-down—especially through constitutional amendments that

⁴⁸ Indeed, technocratic defense rationalists invented modern choice theory by modeling what strategic action looked like between two players competing in a zero-sum, nuclear weapons showdown. Amadae, *Rationalizing Capitalist Democracy*, 75–80, 176–189.

⁴⁹ Amadae, *Rationalizing Capitalist Democracy*, 2–5, 12–14.

⁵⁰ Amadae, *Prisoners of Reason*, Part II.

⁵¹ Amadae, *Rationalizing Capitalist Democracy*, 57–75; Bevir, *Democratic Governance*.

⁵² Bevir, *Democratic Governance*, 28–29, 30–31, 67–75.

⁵³ James Buchanan and Gordon Tullock, *The Calculus of Consent* (Ann Arbor, MI: University of Michigan Press, 1965) 12, 19, 35, 123, 291.

⁵⁴ James Buchanan, “The Samaritan’s Dilemma,” in *Altruism, Morality and Economic Theory*, ed. Edmund Phelps (New York: Russell Sage Foundation, 1975) 75.

⁵⁵ See: James Buchanan, “Why Does Government Grow?” in *Budgets and Bureaucrats*, ed. Thomas Borcherding (Durham, NC: Duke University Press, 1977) 3–18.

limited the will of the majority (Buchanan later worked with the Chilean dictator Augusto Pinochet on a neoliberal constitution).⁵⁶ Yet Buchanan tellingly insisted that his theories were a value-free “science” akin to “the physical scientist” making “progress toward uncovering the laws that govern the natural world.”⁵⁷ In this way austerity, marketization, privatization, and the dismantling of social democracy were all presented as dictates of economic science.⁵⁸

Yet hermeneutics shows how the technocratic authority of neoliberals like Buchanan rests on a misplaced application of ahistorical formalism and mechanistic causality onto the human cultural matrix. This means the kind of knowledge claimed by neoliberal technocrats is a chimera. Neoliberal technocracy is at best a misunderstanding at worst a pseudoscientific power grab. And where neoliberals often present markets and the minimal state as anti-elitist the current analysis suggests the reverse—errant majority decision-making must constantly be corrected from the top down by economic “science.” Neoliberalism shares affinities with a specific form of elite state control.⁵⁹

Economics imbued in naturalism thus cannot uphold a split between so-called “positive” and “normative” branches of the field. The philosophical approach to the positive side of rational choice has normative implications. This implies it is valid to reject naturalist appropriations of rational choice on ethical and political grounds. The values of ordinary citizens can and should be used to contest these supposedly inescapable, “scientific” facts.

3.4 An Alternative Rational Choice

So what is the alternative to rational choice conceived as a value-neutral predictive science? Hermeneutics encourages economists to conceive of rational choice as a heuristic. Heuristics, in this sense, are fruitful ways of generating insights or conclusions about social reality. Heuristics are not to be confused with explanations. Because humans are self-interpreting, explanation requires grasping the actual meanings and beliefs that contingently cause a belief or action. To explain social reality economists must construct narratives or stories. By contrast, a heuristic need neither describe nor explain economic life. Instead, it offers a way of thinking about

⁵⁶ Buchanan, “Samaritan’s Dilemma,” 71, 77–82. For Buchanan’s connection to authoritarianism and Pinochet see, Nancy MacLean, *Democracy in Chains* (New York: Penguin Random House, 2017) 155, 157–164, 168.

⁵⁷ Buchanan and Tullock, *The Calculus of Consent*, 295, see also: xvii, 28–29, 294–296.

⁵⁸ More recently neoliberal technocracy played a major role in the 2008 global financial crisis where idealized models fueled the housing crisis and financial deregulation. See: David Colander, et al., “The Financial Crisis and the Systematic Failure of Academic Economists,” in *The Economics of Economists*, eds. Alessandro Lanteri and Jack Vromen (Cambridge: Cambridge University Press, 2014): 344–360.

⁵⁹ Compare: Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 2002) 15.

society that might help consider possible outcomes and hypothetical scenarios. This means that rational choice must never be confused as having generated an actual account of what particular people are doing or why they are doing it.

Colin Hay helpfully proposes the notion of rational choice as an effective method for considering as-if or hypothetical scenarios. Hay argues that rational choice is at best a tool for generating “hypothetical thought experiments” that pose the question “what if the world were like this?”⁶⁰ For example, rational choice can illuminate the vicious consequences of social situations where agents have a tendency to think in very limited strategic and self-interested ways. In an age of neoliberalization, rational choice scenarios might issue forth political warnings about the destructive consequences of treating shared goods like education and the environment in certain ways. As Hay notes, this use of rational choice does not claim a “predictive hypothesis” but only an admonition or “precautionary political warning.”⁶¹ Self-interpretation implies that the world might become more this way even if it is unlikely to ever become fully neoliberalized.

Clearly hermeneutics dethrones the centrality of rational choice in economics. Hermeneutics implies the use of this method depends on judgment in context and certain rules of thumb. First, economists must be sensitive to the way rational choice as a kind of formalism drops the cultural and ethnographic content of economic reality. This idealized formalism means rational choice is more useful when thinking about contexts where human beings are already engaged in strategic reasoning. In particular, heuristic rational choice is more likely to yield insights in cases where individuals have an opportunity at iterative, calculative repetition, weighing what they view as bounded, commensurable goods. One modern practice where agents regularly approximate this kind of strategic subjectivity is the mundane market—another is gaming and gambling. Of course, this does not mean humans even in these scenarios are ever simply rational choice beasts. It just means that certain cultural practices come closer to fitting the model than others and so are more likely to be relevant to a heuristic analysis. This echoes what early critics of rational choice like Donald Green and Ian Shapiro have referred to as a domain limited approach.⁶² It also goes a long way towards explaining the strange mix of successes and failures of rational choice economics as a discipline. Too often economists have jumped to naturalist conclusions about modeling, instead of seeing it as an only sometimes useful way of thinking about social contexts where strategic agency is being continually repeated and practiced.

For the same reasons rational choice can also be wildly misguided when considering human action that is heavily imbued in hypergoods or those ultimate goals and meanings of human life that are not reducible to rational calculation. Perhaps this is why naturalist rational choice has always seemed more plausible for researchers

⁶⁰ Colin Hay, “Theory, Stylized Heuristic, or Self-Fulfilling Prophecy? The Status of Rational Choice Theory in Public Administration,” *Public Administration* 82:1 (2004): 55.

⁶¹ Hay, “Theory, Stylized Heuristic, or Self-Fulfilling Prophecy?” 57.

⁶² Green and Shapiro, *Pathologies of Rational Choice Theory* (New Haven: Yale University Press, 1994) 54.

whose primary goal is thinking about mundane commodities, markets, and money than for those thinking about political realities like justice and identity or psychological ones like recognition and self-actualization.

This brings me to a second rule of thumb. Economists who actually wish to understand and explain economic reality will often need to reintegrate heuristic rational choice into a wider research program that incorporates the ethnographic, cultural, and historical knowledge of the other social sciences. To escape naturalism economists must take an interpretive, historicizing turn, transforming economics into a culturally aware discipline. This means either achieving dexterity in multi-methods or cooperating with other researchers whose specialty is, say, long-form interviews, languages, history, area-expertise, and ethnographic observation. Obviously there are practical obstacles to training cultural economists of this kind in the near future. Moreover, many of the most sophisticated methods require years of training. Hermeneutic, cultural economists might therefore try drawing on the enormous amount of existing research in the social sciences in order to repurpose it in light of new research questions and method expertise. In a sense, naturalist research might be harvested and reconfigured for hermeneutic ends.

Ultimately, hermeneutics encourages economists to become more aware of the way economies are always immersed in meanings, history, politics, and culture. Recognizing the historicity of human agency has the effect of de-naturalizing all versions of *homo economicus* and the transcendental pretensions of rational choice. This opens the door to understanding that there have been multiple, rival economies across history and not simply one universal economic mechanics or logic of action underlying all social arrangements.⁶³ Thus, hermeneutic economics opens the door to the great historical sociologies of the nineteenth century—albeit now free from naturalist distortions and recognizing more deeply the contingency of history. This means that historical sociology and economics might reunify. Indeed, the first seeds of such a transformation are evident in some prominent economists' frustration with the neoclassical craze for formal modeling free of greater historical awareness.⁶⁴

Finally hermeneutics implies that economists should renounce the use of rational choice as a technical jargon that props up technocratic authority and status while excluding ordinary citizens. Economists cannot legitimately claim to have discovered the single scientific discourse for capturing economic reality that somehow overrides the concerns of ordinary citizens. Once naturalism is rejected the role of the economic expert is to offer theories, facts, insights, and knowledge that aid in the deliberative process amid ordinary citizens. There is no scientifically necessary or inescapable feature of economy that must be adopted by a given society. Rather,

⁶³ Cf., Karl Polanyi, *The Great Transformation*, 48–52.

⁶⁴ Ha-Joon Chang's call for an "historical approach to economics" is an example even if he slides into naturalism when he uses history to construct inductive, midlevel generalizations and reifies institutions. Ha-Joon Chang, *Kicking Away the Ladder: Development Strategy in Historical Perspective* (London: Anthem Press, 2002) 5–8. A similar point could be made for the important work of Thomas Piketty in *Capital*, trans. Arthur Goldhammer (Cambridge, MA: Belknap Press, 2014).

ordinary citizens are perfectly philosophically justified in contesting the meaning of economic theories and the heuristic uses of rational choice. Economists have no special authority over the meaning or significance of the economy nor do they have any special predictive or prophetic powers. Rather, they must join fellow citizens in the process of contesting and debating the moral, ethical, and economic significance of, say, deregulating a market or enacting a particular policy. And they must come to terms with being much more on the same level as others vis-à-vis generating informed guesses about the economy.

Economists, in other words, should reconceive their role along a humanistic not a scientific authoritative model. Humanists advise and offer understanding and knowledge of a subject area, without making the naturalist move of claiming scientific status and epistemic authority over all other participants. Humanists are sensitive to the contingency and contestability of social reality, they recognize the creative agency of human beings, and they are aware of the radical changes and ruptures that mark human history. Where the naturalist technocrat claims science dictates how things must be, the humanist recognizes the role of creative agency and the need to dialogue over contested beliefs, practices, and institutions. Thus, economics becomes humanistic when it abandons its top-down view of the discipline, and sees itself instead in deliberative dialogue with the society it inhabits.

In sum, hermeneutics urges an end to philosophical naiveté in the use of rational choice. Any researcher who picks up this tool in light of the foregoing discussion must ask careful questions like: What are the ideological ramifications of modeling social, economic, and political reality in this way? What are the limits of this idealized formalism? What does it hide from the economic situation in question? What does it illuminate? How do the formal heuristic elements relate back to the world of thick cultural and historical selves? Is there a good fit with the self-interpretive situation of the particular individuals being studied? How does the articulation of economic theory fit inside a particular historical instantiation of economy and the meanings and practices of a given community?

Because economics is not conducted in isolation from its object of study, economists must remain aware of the role economic discourse has in shaping political reality. To study economics always has the potential to reshape economies in non-trivial ways. The case of Marxist economics is dramatic in this regard but at this point so should neoliberal uses (and the same point holds for Keynesianism, mercantilism, and every other kind of economic paradigm). The study of economics is itself a practice internal to economic and political reality.

This means that economics needs to be put back into politics. A particular danger unleashed by the influence of naturalism is that economics becomes an “imperial” discipline with no desire to learn from sociology, anthropology, or politics let alone the humanities, philosophy, literature, and history.⁶⁵ Unfortunately, at present the influence is very much in the other direction, with naturalist conceptions of rational choice colonizing disciplines as varied as political science and evolutionary biology.⁶⁶ Yet even to have spent a few hours thinking about economics philosophi-

⁶⁵ Cf.: Caldwell, “Economic Methodology,” 11.

⁶⁶ For example: Mayhew, *Congress*; Amadae, *Prisoners of Reason*, 247–268.

cally—opening a dialogue between philosophical reflection and economic thought—marks the small stirrings of a new discipline. Whether a new, hermeneutic economics emerges from such considerations depends solely on the creative energies of future thinkers.

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