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978-0-521-14494-0 - Thoughtful Economic Man: Essays on Rationality, Moral Rules and Benevolence

Edited by J. Gay Tulip Meeks

Excerpt

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Introduction

GAY MEEKS

This cluster of essays centres on ideas of rationality and morality in economics. Rational economic man has sometimes been very narrowly conceived as a crudely calculating self-interested maximiser. That this does less than justice to the scope of his motivations, the subtleties and boundaries of his processes of thought and the complexities of the decision situations that confront him will be a recurrent theme. Most of the essays in some way make a plea for greater richness and examine the implications of it: of allowing a due role for regard for others in society, for instance (whether in the form of benevolent motivation, altruistic rules, the demands of justice or Christian principle); or of incorporating awareness of the possible range of reasonable methods of decision under uncertainty. But there is much less agreement among the authors over whether the practical wisdom of this thoughtful economic man¹ fits happily into the orthodox model of rational choice, properly understood – sophisticated as to motive and to mind – or whether a radical upheaval in economic analysis is needed to accommodate him.

Hahn kicks off in essay 1 with a defence of the standard model of choice against Sen's well-known criticism that a 'rational' agent who attempts to express all the dimensions of his reasons for action just in a single utility ranking 'must be a bit of a fool'. Not so, says Hahn, for our preference ranking does achieve precisely that: competing motives, be they significant as they may, must still at the end of the day be traded against each other to yield a consistent ordering that can issue in rational action. It is a matter of having 'an integrated personality: a man knows what he wants'. But not all preferences will be self-interested ones and the rest of Hahn's essay asks how rational

¹ Patrick McCartan of Cambridge University Press has pointed out a possible feminist objection to this (title) phrase; so I hasten to add that 'man' is of course used here in the sense that is opposed to 'monkey', not to 'woman'. I hope this usage is as inoffensive as that which has drakes living on a duckpond.

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economic agents can most effectively give substance to their concern for others. Benevolence aimed at particular people may act perversely on the general good;² yet an individual's attempts at 'anonymous' benevolence may be thwarted by his limited knowledge and by dependence of the outcome on what other agents do. Hahn concludes that, whether through Government or charities, 'actions for the "common good" . . . are best taken in common'.

Sen was invited to respond to Hahn; and the 'rational fool' complaint promptly resurfaces in essay 2. Here Sen replies that his quarrel was not with the idea of expressing a person's final choice between alternatives by means of a systematic preference ordering but rather with the practice of taking that ordering automatically to represent self-interest maximisation too – which would eliminate recognition of the variety of motivation that can underlie actual choice. As to the best means of putting benevolent motives into practice, Sen seconds the interest of the question but suggests there is unlikely to be a 'simple, qualitative answer' to it. Both particularised and 'anonymous' benevolence *can* succeed in being helpful: whether they actually do 'will depend on particular circumstances'.

The importance of particular circumstances is a central element in essay 3, where Collard analyses why in general 'love is not enough' to secure morally good results in economic life: typically altruistic sympathies will need to be accompanied both by a suitable ethical rule (to secure cooperative action) and by adequate knowledge (to show what the outcome of action is likely to be): 'we expect Love, Ethics and Reason'. In considering the ethics element, he investigates the constructive role of the Kantian imperatives, categorical and hypothetical, and the effect of an additional assumption about the duty to pay a fair share. It is then the 'reason' requirement, Collard argues, that 'perhaps surprisingly . . . provides the most difficulty': for – unless categorical moral duties can be invoked – the usual altruist with 'meddlesome' preferences seems to require some very complex and specific information, on appropriate macro modelling if that exists for instance, before he can be confident that each of his acts will indeed help others in the way that he intends. Four detailed cases are used to illustrate the problem. Yet for several reasons Collard remains more hopeful than was Hahn about the possibility of individual (but Kantian rule-following) altruists learning enough to

² Hahn refers here to an example in Matthews (1981). In that paper Matthews goes on to explore ways of identifying circumstances in which the general outcome is likely to be beneficial or perverse, complementing the discussion in the early essays here.

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succeed in using market transactions as well as extra-market redistribution to achieve ‘something positive’ for others on *balance*, over the longer term, so that acting from altruistic principle would yield benefit as a general strategy.

In Ryan’s paper (essay 4), the theme of regard for others is approached from the opposite direction: he focuses rather on the *lack* of it, for his topic is Marx’s account of exploitation. He asks whether Marx can adequately be interpreted as simply protesting about the results of the interplay of rational self-interest under an (unjust) capitalist system of property rights and argues that he cannot: Marx’s treatment is altogether different – he wants the abolition of property, not its mere reform – and the very notions of justice in exchange, of property rights and indeed of the rationality of orthodox calculating economic man are for him social products of the (‘recent and local’) capitalist mode of production itself. Ryan insists that Marx’s analysis of exploitation has to be seen in holistic, not individualistic, terms – because it is part and parcel of the theory of value – and that there is therefore here ‘a genuine parting of the ways between the research programme based on orthodox rational man analysis . . . and Marxism’. Which is then to be preferred? Ryan goes on to show why, if it has to be the former (and he rather thinks it has), the costs of that choice are high as Marx’s attractively coherent account of exploitation is relinquished in favour of a property rights based approach – informed perhaps by Rawls or Nozick or Hayek – that, drawing on ‘numerous intuitive notions about justice and ownership’ and appealing intuitively to considerations of equality, efficiency, freedom and luck, soon ‘run[s] into tensions’ and can offer only a ‘piecemeal explanation’.

But the paper that follows contends that Marxism is not the only unified alternative to the predominant model of rational man. Cramp notes in essay 5 the difficulty non-Marxian economists often seem to share in framing acceptable ethical principles capable of giving practical guidance, to fill the theoretical gap or (as he sees it) behaviourist vacuum left once the idea that own-utility-maximisation is the only basis for action is abandoned;³ and he goes on to suggest that the problem could be overcome by the adoption of an economics ‘congruent with Christian moral philosophy’. It is perhaps a curious comment on the boundaries of standard economics that the unfamiliar Christian perspective on economics which he champions tends to

³ A difficulty suggested also in Sugden’s (1984) description of the economic analysis of non-selfish behaviour as a ‘particularly puzzling area’ (p. 784).

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be regarded as more unorthodox than the Marxian option itself, even though it might be held to be more in keeping with the traditional political and moral values of Western society. Cramp attacks the narrowness of some current versions of the Benthamite model by putting them in historical perspective; questions strict individualism, echoing Marx and Giddens on the dominance of production and on social influences on preference formation; accords with Sen on the possibility of 'sacrificial' behaviour; and responds to Schelling's discussion of competing motives and self-command by introducing arguments of St Paul and Kant to the effect that man is morally free to resist unworthy preferences, that reason can be judged to be on the side of conscience and thus that 'rational action is something to be achieved by struggling against desires, rather than by yielding to them'. This leads to a relatively optimistic conception of economic man as a meaningful agent, able to choose to act in accordance with principle and therefore (like Collard's *categorical* imperative Kantians) less troubled by the thorny problem of guessing consequences. Action based on the Christian norm of stewardship, Cramp goes on to explain, has radical implications both of only 'limited jurisdiction' over resources and of social responsibility for their use. Assessing the extent of 'stewardly surplus' would involve discounting apparent profit that arises from the exploitation of natural resources in excess,⁴ of market power or of the labour force (through the violation of non-economic norms concerning regard for others). Yet, if conditions of work are not exploitative, work itself would be viewed as bringing fulfilment, not the disutility of standard analysis: this economic man sees wisdom in putting a positive value on employment.

The last three essays move away from economic morality and the question of how thoughtful economic man can make his caring for others effective, but continue the theme of economic rationality with its questions about his ways of thinking.

Broome in essay 6 defends the orthodox approach to rationality – expected utility theory, expressed in a careful form – against the doubts raised about its requirement of coherent preferences by apparent counter-examples to the sure-thing principle for decisions involving uncertainty. The counter-examples, ranging from Allais' to Diamond's, all invoke preferences claimed to be rational, yet which seem to breach the sure-thing principle: however, Broome argues that in justifying the preferences critics of the principle are in effect

⁴ Offering one possible basis, then, for a 'green' economics.

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revealing previously hidden differences between possibilities, differences which mean that the principle is not in fact being violated after all. Too coarse a scheme of individuation of possibilities can leave the sure-thing principle looking vulnerable, then, as the presentation of it has often tended to do; but both the sensation of doubt and the solution to it come from using a subtler one (that takes account, for instance, of feelings of disappointment or regret, or considerations of fair treatment of others, as well as material outcomes). Too *fine* a scheme of individuation, on the other hand, puts coherence at risk for another reason, threatening in the limit to make both the sure-thing principle and the axiom of transitivity ineffective in constraining practical preferences at all. So Broome augments the standard approach to rationality by introducing and defending a non-arbitrary way of deciding how finely to individuate possibilities, so as to give the familiar coherence requirements just the right force – enough to make them bite, but not so much as to undermine their appeal to reason. His proposal does put another axiom in doubt – Savage's first axiom of completeness of preferences among gambles – but Broome suggests that this axiom was in any case insecure and is best avoided by adopting a theory of expected utility, such as Jeffrey's, that does not rely on it.

The possibility that some apparent irrationalities might be regarded as rational once people's objectives are sufficiently carefully identified (including avoidance of regret in the utility function, say) also enters into essay 7, which reprints Matthews' 1984 Keynes Lecture to the British Academy. Matthews analyses the Keynesian idea that the motive for economic action in conditions of uncertainty arises in part not from its prospective consequences but from sheer animal spirits, from 'doing as well as having', so that the goals of the rational agent may be seen as including activity as an end in itself. After describing the Cambridge tradition of linking animal spirits with the response to uncertainty, he discusses how more recent thinking on the psychology of economic behaviour bears on each of them. On motivation, although the psychological literature does not offer an agreed theory, there turns out to be fair support for the activity idea, especially in respect of activity towards a self-selected target. On the cognitive side, a considerable body of evidence suggests that our rationality is limited not only by being bounded but also by being in some ways 'twisted' too, exhibiting systematic errors (though apparent cognitive failings may of course disappear if objectives are redefined, or may be functional in some way and thus

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‘serve a higher rationality’, or may be concomitants of ‘modes of thought that *in general* lead to better results than alternative ones’). Potentially, says Matthews, ‘these are ideas with some radical and far-reaching implications for economics’ and he outlines some economic phenomena in which the animal spirits factor may well be significant. His conclusion is that the psychological forces he has been considering – captured only in part by the animal spirits term – deserve more attention than conventional theory gives them but should not be tied so exclusively to the stimulus to invest in physical capital as Keynes himself seemed to propose: their effect might equally be felt in takeover behaviour, in investment in human capital or in developing new products or processes, or in many other non-routine economic activities.

The eighth and last essay in the book (my contribution) discusses the account Keynes gives of decision procedures under uncertainty and of the investment decision in particular, suggesting that his economically radical analysis is yet set in a respectable philosophical tradition. I think Keynes owes much to Hume in his approach to (inescapable) decision-making, in the face of a future that cannot be rationally known, as a blend of convention and animal spirits; although there is more to investment uncertainty than just inductive doubt and, again, Keynes goes rather further than Hume in his insistence that in behaving in this way we are doing the best we can in our uncomfortable cognitive circumstances – so that our actions can be counted reasonable, even rational, in a sense orthodox economic theory neglects. But Keynes’ argument for viewing such behaviour as rational is at times confusing, even apparently inconsistent: the essay tries to separate out and assess the various elements in it, for the rationality claim is important – it is after all because the individual actions of investors are held to be rationally defensible yet capable of being collectively disastrous that Keynes sees so strong a need for intervention by the state.

In the volume, then, common themes; but a very wide range of perspectives.

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1 Benevolence

FRANK HAHN

It has been argued that the disposition to benevolence is scarce and that sensible societies have institutions which economise in the demands which they make on this disposition in the private actions of individuals. Matthews (1981) lists three reasons in support of this view: benevolence is not a reliable disposition, its object is rarely anonymous and it is limited by ignorance. There are other supporting arguments and one will want to look at these three with some care. There are also counter arguments such that benevolence must be practised if it is to survive as a propensity. But first I shall take a detour.

In *The Theory of Moral Sentiments* Adam Smith writes: 'How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it' (1976, p. 9). This principle in man's nature which no doubt is a true principle, may be thought to negate the doctrine of the Invisible Hand.

Smith however does not deny selfishness. Not only does he say 'how selfish soever,' etc., but he also writes that the benevolent man 'gets nothing from it' but adds 'except the pleasure of seeing it'. This seems to rule out benevolence the fruits of which cannot be observed (or at best imagined) and that is important in thinking about the principle. Certainly there is nothing in this passage which needs to call forth objections from a Benthamite.

Now Amartya Sen in a paper called 'Rational Fools' wants to take matters rather further. We understand sentences like 'he sacrificed his happiness for another' and our understanding comes, so Sen argues, from the recognition that people's actions are guided by a variety of motives. Some of these are purely self-directed while others concern outsiders etc. For instance, the traditional motive which is supposed

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to power the Invisible Hand is only one amongst many. Clearly Sen is correct at a level of analysis which concerns states of mind. But I think he has confused others, especially non-economists, when it comes to action. Why do you give the beggar ten pence and not ten pounds? Why do you visit your friend in hospital once a week and not daily? You are evidently trading between competing desires and motives. But trades involve comparisons and comparisons require comparability. This can be achieved in thinking of the individual not as in search of happiness, or respectability or physical well being but as having preferences over a suitable domain of alternatives. This essentially becomes a theory of the integrated personality: a man knows what he wants.

What he wants, Social Biology and Selfish Genes notwithstanding, is no doubt the outcome of social and personal environment. But the history of Christianity and of the Cultural Revolution suggests that preferences cannot be changed easily or rapidly and that giving weight to the welfare of anonymous others is not a general feature. Indeed, while no doubt there are notable pitfalls in believing this, I am surprised how much we seem to understand the actions of people in the remote past. This in turn suggests at least a certain degree of stability in preferences. It certainly seems safe to aver that at all times a relevant description of the domain of choice includes the welfare or ill-fare of some other persons; this is simply to aver that we live in society. The interesting question is not: 'Do we care about others?' but, 'How much do we care and for which others?'. The not unimportant further point is that to be rational does not entail being greedy or being Ruskin's one-dimensional economic man.

I can now turn to the main argument. I begin by noting that benevolence need not imply that one weighs the interests or happiness of others: it may be purely instrumental. The institution of reciprocal gifts in some tribal societies is one example. There is also the interesting view that this may be a general feature of most societies. My altruistic behaviour is occasioned by the risk that I may myself be in need of altruism and that it will not be forthcoming if I had acted differently. Indeed if one thinks about it one can cast an argument from Imaginative Sympathy in this form. Doing so would allow an explanation of benevolent acts without invoking Smith's principle.

But while there is something in this purely instrumental view it is plainly too extreme to be applied to benevolence in general. Adam Smith's principle seems to me to have great force in what I shall call

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'named benevolence'. By this I mean benevolent acts which arise from the welfare of other named individuals being in the domain of my preferences. 'Friends before Country' is an example of named benevolence as is Nepotism and gifts to one's children. Contrary to some American writers I am willing to grant that such benevolence is not purely instrumental. There is, of course, a gradation from named to anonymous benevolence, that is from one's family, to one's friends, to colleagues, to town, to country, etc. It is part of most economists' contention that, instrumental benevolence excepted, most benevolence is pretty close to named benevolence.

And how could it be otherwise? To love everyone equally means to love no-one at all. But it is equally important that we do not know how to act in the interest of anonymous benevolence. Consider a firm with an unprofitable factory which it has the means to keep going. If it closes down it harms the workers it knows. If it does not it is likely to harm workers and other people it does not know. It is not reasonable to suppose that a private agent can perform the required calculations. Moreover, and of rather central significance, even if he could calculate, the outcome would depend on the benevolence of others. In fact anonymous benevolence is in the nature of a public good. That is so because the state in which I find others will depend on how far the benevolence of others has already operated and the fruitfulness of my own benevolence is likely to be affected by this. So even if one neglects the argument from ignorance it is unlikely that the operation of anonymous benevolence will lead to a quantum of such benevolence which would be chosen if we all acted cooperatively.

But if it is hard to see what it is we ask of people when we ask them to act in the interest of anonymous benevolence it must now also be noted that it is not clearly desirable that they should display benevolence closer to the named variety. I have already mentioned such obvious evils as Nepotism. But there are less obvious examples. Here is one given by Matthews.

British firms in South Africa have been urged to pay their black workers more and treat them better than is generally the case there. Of course there is an argument of setting a good example. But why should these firms be urged to act benevolently specifically in regard to *their* workers? Would it not be better if they spent money on schools, health centres or black agitation? Indeed is it clear that if they are to sacrifice profits it would not be better to take on more workers at the prevailing conditions? By 'better' I mean that it serves

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the purposes of anonymous benevolence. I use that expression because I hold the view that moral injunctions cannot be named injunctions.

The argument then suggests that we should make matters of anonymous benevolence the subject of actions taken collectively or of rules designed collectively and that it is likely that in asking benevolence to play a major role in private action we would either not be understood, or if understood would induce bad outcomes. To ask firms to act with 'Social Responsibility' is not to ask them anything comprehensible and at best will lead to particularised benevolence which harms the common good. Exactly the same would apply to workers' cooperatives or to Unions. Adam Smith proposed that the operation of private preference including amongst these the weight given to named benevolence, provided it was constrained by competition and a relatively small degree of public morality would render private dispositions least harmful to the common good. It would of course be wrong to suppose that this arrangement would also lead to that degree of anonymous benevolence which we jointly might regard as proper. In the basic contention however it seems to me that a further two hundred years of thought on the matter have supported Smith. There simply is no other credible way to decentralise decisions.

The argument which I have advanced is that actions for the 'common good', that is actions designed to further the project of anonymous benevolence, are best taken in common and that it is neither feasible, nor, if it were, desirable to make anonymous benevolence the mainspring of private decisions. It is important here to stress that it is not only the limited capacity for benevolence which we possess – the scarcity aspect – which leads to this conclusion, although it supports it. At least as important is the argument from efficiency and lucidity. That is there will be more to allocate to benevolent purposes if (anonymous) benevolence is not a mainspring of private decisions and the motive of (anonymous) benevolence can be given concrete interpretation if it is part of cooperative decision procedures.

To this view there are several objections. One of these is that a society in which the private actions of individuals are informed only by private concerns (including the concern of named benevolence) is not one in which individuals can realise their full moral potential. The pursuit of private interests is regarded as base and to act for the