



## *Identity, Capabilities, and Changing Economics*

Mainstream economics assumes economic agents act and make decisions to maximize their utility. This model of economic behavior, based on rational choice theory, has come under increasing attack in economics because it does not accurately reflect the way people behave and reason. The shift toward a more realistic account of economic agents has been mostly associated with the rise of behavioral economics, which views individuals through the lens of bounded rationality. *Identity, Capabilities, and Changing Economics* goes further and uses identity analysis to build on this critique of the utility conception of individuals, arguing it should be replaced by a conception of economic agents in an uncertain world as socially embedded and identified with their capabilities. Written by one of the world's leading philosophers of economics, this book develops a new approach to economics' theory of the individual, explaining individuals as adaptive and reflexive rather than utility maximizing.

JOHN B. DAVIS is Professor Emeritus of Economics at both Marquette University and University of Amsterdam. He is the author of *Keynes's Philosophical Development* (1994), *The Theory of the Individual in Economics* (2003), and *Individuals and Identity in Economics* (Cambridge University Press, 2010) and a former co-editor of the *Journal of Economic Methodology* and former editor of the *Review of Social Economy*.

# Identity, Capabilities, and Changing Economics

Reflexive, Adaptive, Socially  
Embedded Individuals

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*For Zohreh*

Contents

<i>List of Tables</i>	<i>page</i> viii
<i>List of Boxes</i>	ix
<i>Preface</i>	xi
<i>Acknowledgments</i>	xiii
 <b>Part I The Failed Pathway and Exit Strategies</b>	 <b>1</b>
1 Objectivity in Economics and the Problem of the Individual	3
2 The Untenability of the Unembedded <i>Homo economicus</i>	27
3 From the “Reconciliation Problem” to an Individuality Reconstruction Problem	53
 <b>Part II Building a Socially Embedded Individual Conception</b>	 <b>79</b>
4 Adaptive Reflexive Individuals: A Capability Conception of the Person	83
5 A General Theory of Social Economic Stratification: Stigmatization, Exclusion, and Capability Shortfalls	109
6 Roads Not Taken Yet to Be Taken: Enhanced Capabilities	135
 <b>Part III Value and Subjectivity</b>	 <b>161</b>
7 Economics as a Normative Discipline: Value Disentanglement in an “Objective” Economics	165
8 Individual Realization? Rethinking Subjectivity in Economics	192
9 Change in and Changing Economics	219
 <i>References</i>	 246
<i>Index</i>	279
	vii

Tables

1.1 Characteristics of open and closed science	<i>page</i> 15
1.2 Open and closed science practices	15
4.1 Limitations of small world and large world strategies	99
4.2 Counterfactual thinking and capability adjustment	104
5.1 Two types of social identity	116
5.2 Standard taxonomy of goods	126
7.1 Disciplinary relationships and economics and ethics	188
7.2 Two possible conceptions of an ethics in economics	190

Boxes

2.1 A fallacious inference	<i>page</i> 35
2.2 Coase’s inference	37
2.3 Sen’s inference	42
4.1 A continuous reflexive feedback loop pattern of behavioral adjustment	94
4.2 An ability/stock <sub>x</sub> – action/flow <sub>xy</sub> – ability/stock <sub>y</sub> pattern of reflexive adjustment	95
4.3 A capability–action–capability pattern of reflexive adjustment	97
5.1 A “microeconomics” of selective stigmatization	120
5.2 Simon’s complex systems model	130
7.1 The mainstream normative economic framework	173
7.2 The capability approach normative economic framework	179
9.1 Change in economics	222
9.2 External forces influencing change in economics	224
9.3 Emancipative values in the shift from survival to self-expression values	240

## Preface

The dominant economic paradigm is facing a crisis of legitimacy. There are numerous dimensions to this fall from grace – rising inequality and economic insecurity; raw memories of the global financial crisis and the impunity enjoyed by those who provoked it; and a pattern of globalization perceived to privilege large corporations and the financial elite. Looming over it all is the specter of climate change. These fault lines are undermining trust in institutions, both national and global, and sometimes even provoking a backlash in the form of insularity and a tilt toward extremism. [...] This shift in turn requires a serious rethink about the ethical foundations of modern economics.

Annet (2018)

This book looks backward in order to look forward, or rather it sees economics' recent past from the point of view of its possible future. Edward Bellamy did this in his highly successful *Looking Backward: 2000–1887* (Bellamy, 1889; Davis, 1988), a book that soon after publication sold over 400,000 copies, a vast number only exceeded at the time in copies sold by Harriet Beecher Stowe's searing condemnation of slavery in *Uncle Tom's Cabin* (Stowe, 1852). Bellamy in 1887 imagined life in future Boston in 2000 and saw that future as a product of its past and one explaining it. The past, he believed, could only be understood in terms of its possible future, and its meaning in itself was empty which by itself only asked one to search even further backward for its dim antecedents. In the years I taught History of Recent Economics at University of Amsterdam, I began by arguing that the present is a history that is open-ended with its future lying ahead depending on choices made today and that we needed to read the present and the past as history in the same way. The mistake often made in much reading of the past is to see it as it appears at its time, done and closed to the future as if people never thought about where things were going. Studying the history of the economics of the present with an undetermined future thus serves as a corrective to much backward-looking thinking in the economics today. It gives us a lens



through which we can examine today's economics. The issue is not where have we come from but where are we going.

This book about the nature and identity of the individual in economics builds upon my two previous books on the individual in economics (Davis, 2003b, 2011) but goes well beyond them in advancing a specific conception of individuals as adaptive – a reflexive capability conception – alternative to the standard *Homo economicus* utility maximization atomistic individual conception. By reflexive, as I have argued previously, I mean an essential part of what individuals are is that they operate with working self-concepts and a continually developing sense of themselves. A subject only of interest to a relatively small number of scholars? That depends on whether you see people today as simply instrumental calculators without self-awareness or as concerned with who they are.

Mainstream economics' individual conception is highly idealized and reflects the nature of human individuality in at best a limited way that serves the goal of explaining the social world as a market process. But what it means to be and survive as an individual in an our increasingly complex social world matters to people. It thus seems incumbent upon economics, with its tremendous influence in the world, to do more to explain individual life than it has and seeks to do.

I worry that economics is not only not up to the job of dealing with the future but seems oriented in a backward-looking way on ignoring what the future may bring given its uses in the world. Thus this book aims to make one contribution to reorienting the field in connection with what has long seemed to me to be its most important subject, what individuals are in economic life. My belief is that individual conceptions in economics not systematically grounded in identity analysis are unlikely to provide secure foundations for good causal explanations in economics, and likely to be ideological in promoting policies and normative views more reflective of dominant political thinking. For individuals, identity is paramount. But my more long-range concern is that individuality is at risk, a fragile achievement of our recent history, threatened by many emerging forces. This book will hardly address everything this agenda calls for, but it is an effort in the direction of making thinking about what individuals are in economics a needed focus.

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