

ECONOMICS

“RATIONAL ECONOMICAL PERSON” HYPOTHESIS: PROBLEMS AND BOUNDS

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There is represented the critical analysis of “rational economical person” hypothesis, which belongs to neo-classical economic theory. Here the bounds of maximization and rational economical behaviour theories are shown. The conclusion is made, that behaviour of economical subject should be studied in the context of social environment, where he acts.

Giving critical specification of the main features of rational economical person in neo-classical economic theory, first of all, it should be dwelled upon theory of maximization or optimization and its utility function, as well as, on the idea of rational calculation which is prevails in human activities. These regulations, in turn, are based on methodological individualism, appropriate of neo-classical economic theory, in describing processes which influence on individual perceptions and preferences.

One may agree with G. Hodgson, who states that “although, there is no uniformity in using the widespread notion “methodological individualism”, the key element of the canonical theses of this doctrine always was a rejection to explore institutional and other powers, involved in forming preferences and goals”¹. The interpretation of individual behaviour in neo-classical theory loses social context, and to the impact of the external world is given limited value. It is manifested in that the individual (very often institutions) only reacts on external restrictions and uses opportunities, which are rendered by the environment. Therefore, reactions of the agent on the economic environment are programmed in advance and carry an optimizing character. And if the preferences are programmed, then the choice is preprogrammed. The interpretation of social phenomenon, common for the neo-classic approach, mainly starts from the individual to the society, but not vice versa, as long as the main mechanism of correction inverse relationship is not paid proper attention. However, the cultural influence is leveled, particularly in forming goals of individual activities, which are either programmed or exogenous

concerning with economic system. On the one hand, the neo-classical theory is determined by preference of tough assumptions concerning with the individual, on the other hand, its atemporal character. There is no place left for analysis of evolvement impulses, coming from the past, trends of developing future based on them.

Acknowledgment of the individual goals carries out institutional and social character, but it doesn’t designate denial of purposeful human activities and recognition of that individual behaviour is fully determined, by these factors. A synthetic explanation is needed, which includes not only personal factors, but also social structure. Moreover, the meaning of the institutions doesn’t come up to the restrictions and factors only, which allowed to judge on expectable individual behaviour. As truly noticed by G. Hodgson the importance of institutions and culture is also consisted in that “they play role in forming goals and influence on the latest. Such factors as institutional structure, routine, social norms and social environment influence not only on our possible actions, but also on our world outlook and goals, to which we are attaining”.² That is why institutions obtain analytic significance along with ideas on individual. By this approach individual isn’t considered as an abstract element of society, agent, but a social subject, which is a creator and which is created by the society. The difference between individual and social which can be found in orthodox economic theory is rejected. One cannot but recognize that socio-economic environment has an essential influence on type of information received by people, on its understanding and preference so that people are being formed by cultural and institutional environment around them.

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Rationality from the very beginning was a core of mainstream economic theory, that is why, economists (beginning with neoclassics) consider discussion of ideas on irrational behaviour of people excessive, if not absurd. In this case the category of "rational" itself, which was studied more effectively under other social disciplines, whereas in economics, has many complicated and open-ended problems³. In spite of different editions of "rational economical subject", there is one and the same idea in them, which lies in that economical agents minimize something, usually named as utility⁴. Rational economical subject in this case engages with adjustment of preferences within his ideas on optimization and maximization, which in its turn allows his complete knowledge and simplicity of function of preferences itself. As G. Hodgson points out, neo-classical theory doesn't distinguish between perceptions, information and knowledge, and besides, it is believed that information or knowledge is given by experience apart from beliefs, conceptions or theories, to which an observer adheres to⁵.

Some of the key features of mainstream are being criticized during the last years. First of all, it is concerned with possibility of maximization of rationality with available and appraisable alternatives of choice. There is a wide range of critical score. Above all, it is concerned with the formula about fullness and availability of information in the context of exchange relations, and also to that every man is able to revise this stream of information and take rational decisions.

Some critics of theory of maximization point out that maximizing behaviour ignores uncertainty, with which a subject encounters in the process of making decisions. This kind of critic is based on the works of F. Hayek, J.M. Keynes and now it is supported by many scholars, including economists.

H.Simon, for instance, under the theory of incomplete rationality fiercely criticized the model of rational choice homo economicus as a perfect calculator and suggested a less strict model of "bounded" rationality. In theory of incomplete rationality not only high information costs, connected with data acceptance about bargains and situations on the markets is taken into consideration, the insufficiency of certain type of information is emphasized, but also it shows cognitive bounds, drew from difficulties with processing information. H.Simon believes that Intelligence, the ability to process information is also a rare source⁶. These conclusions are bases on researches, hold in related sciences with economics, first of all in psychology.

In practice due to abovementioned bounds an individual will (regardless his considerations on it) either act according to the accustomed scheme, based on other agents' experiences or on the well-known facts (this is the move to individual approach) or on subjective suppositions (which is close to "Austrian" variant of subjectivism). The demand that individual, making decisions, must chose such an action which will result in a better advantage of any possible alternative actions, is difficult to achieve, because the knowledge about future will never be enough to choose one maximizing action or a set of actions out of cause-effect chains. The same maybe said about hypothesis of maximizing profits at firm. But any doubt in the spirit of incomplete rationality subjects to adjusting the principle of maximization, which forms the basis for a model of rational choice. The model of rational choice itself, it its turn, inseparably associated with the theory of balance, which is fundamental for neoclassics.

Cognitive bounds and high information costs, which are pointed out by followers of bound rationality, make to admit the fact that firms and consumers don't try to achieve the only maximizing, but some "satisfactory" result. Above-mentioned bounds let J. M. Buchanan draw a conclusion that the economic optimum question in the text of the market couldn't be solved, because knowing characteristics of national economy situation isn't sufficient, there is uncertainty about future, and judgmental estimate of benefits of active individuals couldn't be defined outside. It turns out that adjusting connected with theory of incomplete rationality, contests an orthodox dilemma and key, for neoclassics, equilibrium analysis. Thus, the criticism of theory of maximisation in the context of "bound" rationality, nevertheless, remains within the limits of neo-classical approach. Other critic school of theory of maximisation is based on that the economical behaviour cannot always be specified by rational calculations. There are many evidences of irrational behaviour. Empirical data, and also researches in the field of psychology testify to correctness of such conclusions when actions of people in economic domain cannot be explained with any rational calculations.⁷

Scientists progressively specify the fact that economic phenomenon considerably depends on results of cognitive activity of economic subjects. However, Thus neo-classical economic theory basically focuses on the primary mode of behaviour which is goal-oriented, and behaviour itself is treat-

ed as determined function of the exogenous factors influencing on programmed preferences.

It should be admitted that though knowledge and the information possess the important subjective and individual characteristics, mechanisms of perception and finding of knowledge bear social character, reflect culture and practical experience which has been accumulated by the society. Since no information and no knowledge exist irrespectively of some ... (concepts and theories) or other concepts and theories they cannot be purely subjective. Apart from that, the cognitive process has social character: it uses accepted language and concepts of a society, reflects ideas and practical experience. Therefore problems of the information and knowledge are directly connected with norms and routines, peculiar for culture and society institutions, however actions of people nevertheless remain only partially determined by the environment. Though environment plays an important role, it does not determine completely that the person aspires to make.

Thus, perceptions and preferences of individuals in the neo-classical theory are set over bounds of sphere of the economic system analysis and treated as exogenous. It is made by means of restriction assumptions about an actual invariance of preferences in time. Thus it is ignored that development of individual requirements can occur under the influence of socioeconomic situation, relation between cognitive processes and making up of expectations and goals is underestimated, on the one hand, and the social and cultural environment on the other. G. Hodgson marks, "at any stage of technological development the set of various ways of the organisation of management is possible... different people have different learning abilities; besides, there are distinctions in cultural level, and also the distinctions connected with ... practical experience of labour force... And so far as a variety of institutions connected with management, and relations of production take place, so both different costs and performance levels are inevitable"⁸.

If we take into account the correlation between exogenous goals of the rational economic person and means of their achievement, then the latest within the neoclassical analysis is given considerable attention. If the goals appear set then the choice of means of their achievement becomes a subject of steadfast studying. Besides, the goals and means are considered independently from each other. At the same time for institutional economics the process of an inter-

lacing of the goals with means, their interdependence and interference is considered very important. For this reason institutional economics cannot take an independent position out of the value system. And it is not a question of simple hierarchical structurization when a determined objective becomes means of achieving another goal, but about deeper interrelations when in the course of achievement of the goals and acquisition of new experience means can change the goals. It is necessary to notice, however, the doubt was expressed and has been expressed for a long time on a hypothesis of predetermined goals within neo-classical theory. For example, A. Marshall in his work "Principles of economics" specified an influence of social and cultural factors on character of an individual and his goals.⁹ However, if we recognize such approach essential, then it will be an equivalent to challenge to classical liberalism and individualism which neoclassical theory traditionally associates with.

To be delimited from the simplified neo-classical model according to which in the course of gaining experience the person simply receives more information which leads to fluctuation of the purposes, it is necessary to point out that there is no estimation of experience which is distinct from the observer, its beliefs and features of thinking. The person, finally, can accept only that information which corresponds to his beliefs and preferences. To these conclusions representatives of other social studies, first of all, philosophies have come.

The following key idea of neoclassic, in view of all its features, is that the human activity rationally calculated which dictates the most part of person behaviour. According to these approaches, the system of person's reasons is consequent and free from contradictions and inconsistency. The person is not only aware of the goals and adequate means of their achievement, but also operates as the huge computer continuously performing check and monitoring of numerous complex reasons by which it is guided in the actions.

The given approach receives the rigid criticism first of all from outside theorists of sociology, psychology, political science, and also from outside representatives of institutional economic school.¹⁰ There are economists among neo-classics who consider that people perform numerous actions which are instinctive by force of habit, i.e. irrational. If the modern neo-classical theory applies for validity of the rationalistic concept of human activity to exclusively wide variety of acts of people, that, according

to Pareto, is applicable only to limited, although to the important class of human behaviour. Simon adheres to the similar opinion, referring to achievements in the fields of psychology and sociology.¹¹ Certainly, it must be understood that, subjecting to criticism the idea of full rationality, the majority of authors do not put in question a problem that the mind serves as motivation and a management for acts. Simply, there are many actions performed by people which have other nature in economic domain. Therefore the urgency of developing theory of human activity based not only on rationalistic mechanisms and the preconditions is very high. Even if all person's actions we connect with reasoning actions it is rightful to claim that these actions are proved by something, and finally there is the certain aggregate of the ideas which have been not determined by any reasoning. It is necessary to recognize that there are the acts which are not submitted to arguments of mind, and they cannot be ranged in a class of allogical actions. They are imposed by motives which, as a rule, are complicated and subordinated to many other conditions.

Besides, the person cannot completely provide for or perceive consecutive train of reasons which can be connected with all acts. The person cannot constantly be engaged in comparison of all variants of a choice as it is demanded by neoclassical model. Even having all the relevant information, it is impossible to carry out full calculation of probable benefits choosing each of variants. Decision-making process remains difficult enough and does not submit to the full extent to conscious calculation. The irrational process takes place to the same degree as a process of rational calculation, it is connected, on the one hand, with an unconscious element of human thinking, and on the other hand, with a complex of beliefs and values set from on high. People are both rational and irrational. Motives of their behaviour can be connected, in particular, with categories of higher order.

Referring to Hines, G. Hodgson writes that the rationalistic concept as though splits social being into several parts: "It postulates existence of "a sphere of ideas, sphere of the nature and mechanism of an embodiment of ideas in a nature sphere, namely human activity. To avoid internal contradictions, the rationalistic concept of activity cannot be applied to a sphere of ideas ... it can be only applied to the activity in natural or material world".¹² L. Mises considers that "dualistic philosophy" is at the heart of the

rationalistic concept of human activity which in Cartesian spirit draws an accurate distinction between the natural world and sphere of human thinking.¹³ Thus, at philosophical level the rationalistic concept of human activity provides for the world division into two parts and consequently it cannot explain acts of mind, without running into internal contradictions. At the same time, to provide a basis for the actions, people are bound to rely on other people, understanding of the world which exists around them.

The neo-classical economic theory does not differ actions which are subsequent of conscious calculation, and those which are not. After all, it is clear that the recognition of this fact means that the popular idea about firmness of individual judgement is put into a question. Despite attempts of some branches of neoclassic to consider separate forms of habitual activity in models of human behaviour or to present decision-making mechanisms as a multilevel process, all of them remain within the neoclassical approach where rationality keeps dominant position.

Recently, there are many modified variants of the neoclassical approach which purpose is to ease critical tension of neoclassical approaches to the subject behaviour in economy, however the hypothesis of maximization and rationalistic behaviour of person not simply remains, but also continues to occupy leading positions. At the same time the rationalistic concept and maximization hypothesis are incompatible with those theoretical views, which are universally recognized in modern psychology, anthropology and sociology. Institutional economic theory stands on the other grounds.

¹ G. Hodgson. Economics and Institutions: A Manifesto for a Modern Institutional Economics, M., 2003, P. 94.

² *Ib*, P 106.

³ I. Lakatos. Criticism and the Growth of Knowledge, M., 1995.

⁴ G. Hodgson. *OP.cit.* P. 122.

⁵ *Ib*, P 134.

⁶ H. Simon. Administrative Behavior: A Study of Decision-Making Processes in Administrative Organizations, St.Pet., 1995.

⁷ K. Arrow. Perception of risk in psychology and economics // THESIS, 1994. Pub. 5. P. 82.

⁸ G. Hodgson. *OP.cit.* P. 44.

⁹ A. Marshall. Principles of economics, T. 1, M., 1993.

¹⁰ M. Oakshott. Rationalism in politics and other essays, M., 2002.

¹¹ H. Simon. *OP.cit.* P. 101.

¹² G. Hodgson. *OP.cit.* P. 162.

¹³ L. Mises. Theory and History: An Interpretation of Social and Economic Evolution, M., 2001, P. 13.