Reconstructing Economics: The Problem of Human Agency

Allen Oakley

Cheltenham, United Kingdom: Edward Elgar, 2002 (234 pages)

There is nothing inherently wrong with economic modeling. A thought experiment, which abstracts from a relevant factor in the economy, helps us to understand the role of that factor (cf. Mises' *Human Action*, chapter 14). Neoclassical economics and game theory are both entirely mathematized, a result of the elegant models upon which they base their calculations. If models in economics serve the purpose of bringing to light the importance of certain aspects of the economy—such as prices, or the entrepeneur, or time preferences—why are they included in almost every economic journal article addressing specific current or historical events? How has the learning tool of economic modeling become extended so that it is consistently applied to the real world of the complex market economy? If asked, all economists would agree that their models are unrealistic idealizations of an economy, designed to simplify complexities in order to clarify the role or behavior of a particular economic variable. Yet, these same economists go on to assess complex economic situations in particular circumstances, going so far as to make predictions and policy recommendations, according to these models. In fact, it is difficult to get published if one does not.

Allen Oakley is concerned that the discipline of economics is not being well-served by this trend. He critiques current economic methodology in a number of ways, but the ultimate origin of its problems, he believes, is an inaccurate depiction of the human agent. He follows in the tradition of the Austrians by focusing on human action as the source of our understanding of economics. Prices are generated by supply and demand, and supply and demand are generated by humans. Humans are both constrained and enabled by their skill level, by nature, and by their social circumstances. Humans, although situated in a particular environment, are still actors; that is, free and creative choosers. However, the supply and demand curves of neoclassical economists present prices as something pre-given to which humans—automaton-like—must adjust themselves (cf. Steven Landsburg's *Price Theory*). They present equilibrium models to which governments must adjust their economies. In Oakley's view, if economic methodology hopes to generate true and useful knowledge, it needs to adjust itself to human beings.

Oakley takes leave from the neoclassical and game theoretic depiction of the human agent on several accounts, all of which have to do with knowledge. The model of perfect competition assumes perfect knowledge of all relevant circumstances. Similarly, most game theoretic models assume that all players have the same information that all other players have, including the utility functions of all the other players. Oakley questions not only these obviously absurd assumptions but also the assumption that agents know their own preferences and circumstances to the extent that they can articulate their preferences, order them transitively, and attach probabilities to all the possible outcomes of their action. In both of these types of models, decisions or outcomes occur instantaneously. The notion of real time, in which agents' decisions develop and change because their knowledge, preferences, and circumstances develop and change over time, is ignored. Because these models take these factors as simply given in order to calculate one ultimate action (or price, and so forth), they cannot take into account what sociological factors contribute to preferences, knowledge, and circumstances—nor can they include in their analysis the ways in which agents compensate for their lack of knowledge about the future. Modeling is, then, not only inaccurate but also anorexic. It fails to convey a rich account of human action. An economist might respond that such a concern is outside her field. Oakley's contention is that if this is so, economics can tell us very little indeed.

Oakley takes his inspiration from five thinkers: phenomenologist Alfred Schutz; philosopher of science Karl Popper; economic theorists George Schackle and Herbert Simon; and sociologist Anthony Giddens. The vast majority of the book is spent reviewing these scholars' works in order to detect similar concerns in them, and then using particular aspects of their work to recommend a new grounding for the science of economics. So much of the book is spent doing this, in fact, that it is sometimes difficult to detect Oakley's voice amid the plethora of long quotations. Oakley seems to intend his work to be a kind of introduction to the relevant thought of those scholars whom he considers useful for his radical new project of regrounding economics in a theory of situated human agency.

I will only draw out a few points that were particularly compelling in making the case that current economic methodology is missing important aspects of economic activity. By ignoring the lack of perfect knowledge in real agents, mainstream economists miss the ways in which agents overcome such constraints. These strategies include typifying our mental processes, intersubjective relationships, and other aspects of our life-world, adopting a role in an organization, and participating in institutional structures. Typification is a tool that allows us to order an otherwise overwhelming amount of data into useful categories such as that of "relevant information," "possible/impossible courses of action," or "reasonable expectations for some course of action." These categories are, by no means, accurate. We may err in our assessment of relevance or reasonableness. In fact, we are bound to err, since all economic decisions regard the future, of which we have no knowledge, strictly speaking. Imaginative projections based on our experience of the past allow us not to become frozen by uncertainty. Also, since any agent's time is limited, the process of formulating possible courses of action is limited and therefore must come to a stop at the moment the decision is required. Adopting a role in an organization, such as a firm, provides us with a set of relevant knowledge claims. The role to which we are assigned provides specialized goals and sometimes strategies for achieving these goals. This, in no way, guarantees that we will always get the right information, have good strategies or goals, or even be well-placed according to our talents. Yet, the organization enables us to move forward with projects so that the process of trial and error can begin to whittle down such mistakes.

Oakley offers an effective critique of mainstream economic thought throughout this book. However, his positive project is not clear. Admittedly, Oakley claims only to make metatheoretical suggestions; he is only suggesting, not doing, a reconstruction of economics, but surely he can provide some hint as to the application of this theory. His comments on the problem of application appear only in the last paragraph of the book and are vague and elliptical at best. It is not clear whether he believes that we can generate more predictability through an application of his method, or that the nature of economics is simply not predictive.

Second, although Oakley often adopts the technical language of each thinker when writing about him, he does not always clearly delineate his uses of terms. For instance, "Rationality," has both thick and thin connotations. Throughout the book he refers to the "irrational action" of agents, meaning sometimes their acting on lack of knowledge and at other times meaning their acting on imaginative constructs of the future rather than on real knowledge of it. Plenty of accounts of substantive rationality allow for the inclusion of imagination, and even passion, in a rational, human, thought process. Other non-substantive accounts restrict rationality to the thin economic notion of instrumental rationality (the ability to calculate means for a given end).

The technical language in the section on Schutz can also be obfuscating for those unfamiliar with phenomenology. Because Oakley chooses to deal with each thinker one by one rather than with each subject of neoclassical critique, the book can sometimes feel like an introductory reader to a new economic meta-theory rather than a book that itself presents a coherent theory. Furthermore, this organizational style also leads to redundancies in the text. On at least two occasions, several sentences are repeated word for word approximately forty pages apart (for example, 108, 147).

Third, I can only assume that Oakley, by introducing psychological and sociological factors into his analysis of human agency, does not mean to usurp the place of the logical analysis of human agency from which economic law is derived in the Austrian tradition. I do not see that there is any direct opposition between the two methods. One aims to establish axiomatically valid, economic law and the other aims to increase our understanding of socially and culturally embedded economic action. Adherents of the Austrian school are adamant that psychologism is not at issue in their establishment of economic law. Assuming that Oakley accepts the Austrian position here, he might have been clearer about it; a reader ignorant of the Austrian tradition in economics could easily take some of his comments to mean that economic analysis will be wildly different from culture to culture.

Nevertheless, Oakley's topic is important and his approach is novel and promising. He means only to begin what he hopes will flower into a new research project: pulling economics back toward its philosophical roots and away from mathematization. I believe that it is well-worth struggling through the smattering of work that he presents on this subject in order to begin shaping a more compelling economic tradition.

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