GROWING PROBLEMS WITH THE NEO-CLASSICAL ECONOMIC THEORY: TOWARDS A CRITICAL ECONOMIC THEORY

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The neo-classical economic theory is built upon the classical theory of rationality: it takes for granted that agents are fully rational. Fully rational agents decide on imperfect information, however, the more adequate the information, the more rational their decisions. In other words, according to this theory, perfect information is possible, at least in principle: the agents know how to assess it correctly; and their memory too is perfect, so that they do not forget any information that they receive.

Considered from the perspective of the sociology of economics, this is a problematic claim since there are features embedded in the workings of society that prevent rational agents from acting rationally such as the time period considered, the impact of innovations and the formalization of information: Agents lose the opportunity to act while waiting to acquire all the relevant information, supposing that they know what this relevant information is and also that they know the right models with the help of which to apply this information. Agents do not have a clue as to how innovations will affect the markets. Not every item of information is measurable and not everything measurable has stable measurable values that may be reshuffled in models.

Neo-classical economists are familiar with all this. Yet, they act as if all this does not invalidate their assessment of the conduct of agents as rational on the whole, so that markets will stay in equilibrium or at least move towards equilibrium. They claim so, on the assumption that the market mechanism is better than the systems whose markets are not in equilibrium or moving towards it, including those run by central planning authorities. No doubt, competition is better and more natural that planning, as these economists say, but they themselves agree that when things nevertheless get out of hand, central authorities have to plan so as to adjust the system — by either monetary or fiscal means, this matters less. What is lacking is a mechanism of error recognition and correction in relation to the impact of these features on the economy.

Critical rationalism recommends the search for error on which important decisions rest before their applications. This very simple and commonsense step is amazingly absent from the standard wording of classical rationalism (even though Descartes and Spinoza, for example, stressed its importance). Rather then looking for justification of decisions considered unmistakably right and rational, as adherents to neo-classical economic theories do, they will do better to review their achievements periodically in order to assess how far they are from their own standards and goals. As a result, the search and acknowledgement of error in the recommendations of the neo-classical economists may become an act of praise and not one that invites rebuke. The gain will then be two-fold: fist, a gain in credibility and trust instead of the current pathetic justificationism that runs in economic circles; and second, a gain in flexibility in realizing its objective of a fair distribution of wealth in society as originally stated by Adam Smith and repeated by Leon Walras and long forgotten since. In short, critical rationalism may provide the neo-classical economic theory with tools it lacks to redeem humanity out of its pitiful state.