

[Reports & Activities]

## A Public Philosophical Critique of Modern Economics

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### 1. Introduction: the necessity to address conceptual issues in economics

Economic issues can be loosely categorized into two kinds: empirical ones and conceptual ones. The main focus of this essay belongs to the latter, i.e., the issue of economic conceptualisation. More specifically, the validity of economics as public philosophy is addressed in what follows, from the perspective of whether the subject's main concepts cover humans' economic daily life in a sufficient manner. Put differently, whether the science of economics merits the status of a public philosophy is at issue here. This investigation is sound, given that the former empirical issues can only be given an appropriate framework on the basis of the latter, i.e., the issue of economic conceptualisation.

### 2. "Public" as defined by the mainstream "Neoclassical economics"

Based on our mundane observation, we take it for granted almost unconsciously that the sphere of our life-related activities can be divided into "private" sphere and "official" one in a mutually exclusive manner. The term "public", though, can be considered as referring to something in between "private" and "official". Namely, "public sphere" serves as an intermediate sphere extant in between private and official spheres. Contemporary economics has "public economics" as its branch, yet it

specifically addresses the government sector's economic activities spending taxes collected, rather than discussing a society's potential for its peaceful functioning as a whole. These all boil down to the statement that there is a need to consider "economics as public philosophy".

The existing and relevant concept, "public goods", is defined as those goods with the two properties of "non-rivalry" among their consumers and "non-excludability" of non-purchasers thereof. Logically, its antonym, "private goods", refers to those goods with "rivalry" and/or "excludability" characters. Post-modernistic thinking including most notably complexity economics, though, makes it impossible to distinguish these two categories of goods, even at the conceptual level.

### 3. "Narrow-mindedness" of the mainstream neoclassical economics after Adam Smith

Within his profession as a teacher of moral philosophy, Adam Smith developed an embryonic argument to be seen today as economics. His argument can be succinctly stated as follows: "people's selfish pursuit of personal gain concurs to the public good of society" as if guided by invisible hands. In other words, altruism results unexpectedly. Smith's successors had honed his argument to come up with the wrong conception that "self-interested people have the inerrancy in achieving the best level of self satisfaction (or utility)". This is the usual *homo economicus* assumption employed in standard economic analyses. Economic people are assumed to be perfectly rational. Thus, the "value-neutral", or "positive" as opposed to "normative", definition of the economics had been established: "economics is the science as to the most efficient allocation of scarce resources". Notorious among all the economic criteria of efficiency is the term "Pareto optimality" (after an Italian engineer-turned economist), which is the most desirable

state of the economic society such that “no-one can be made better off without making at least one person worse-off in terms of the level of self-satisfaction (or utility)”.

Pareto optimality, however, is an efficiency criterion, not a fairness criterion. Amartya Sen’s critique of neoclassical economics’ implicit “survival assumption” of all economic agents (Sen, 1977) is pertinent here. From this perspective, the contemporary economics is built upon a narrow information base, in that it has no attention to whether or not the participating individuals can literally survive the game of economic transactions. This translates directly into the contemporary economics’ inability to address “public” in its true sense of the word, since the notion of “public” should concern people’s subsistence or survival condition, which is a normative question.

Kenneth Arrow, one of a few theoretical contributors to making the economics merely a positive science, has propounded so-called Arrow’s Impossibility Theorem, which claims that it is impossible to come up with a socially consistent value system through democratically aggregating individuals’ diversified personal value system. In an important sense, normative arguments cannot be made at the societal level without compromising on impartiality.

In order for the Arrow’s Impossibility Theorem (Arrow, 1950) to hold, however, a strong theoretical assumption has to be made, i.e., individuals’ value systems are time-consistent and not influenced by other individuals’ economic choices.<sup>1</sup> This is a highly modern as opposed to post-modernistic

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<sup>1</sup> “Bandwagon effect” is the term loosely used in contemporary economics for referring to individuals’ change in choice behaviour because of the change of their rivals’ choice behaviour. This interactive effect, though, is treated as an exception rather than as the governing norm of economic agents.

premise. In actuality, interaction of individuals cause their respective “utility” or perception of their own extent of economic satisfaction to change instantaneously. Put differently, utility is acquired *a posteriori* as a result of interaction among economic agents. And this process is highly non-deterministic, or stochastic, in human perception.

#### 4. Post-modern view: “bounded rationality” and “complexity”

Herbert Simon’s “human bounded rationality” supposition is sound, for the contextual rather than predetermined character of choices dictates individuals’ choice behaviours. His argument stands at odds with the mainstream neoclassical economics in his assertion that individuals’ preferences, to which their respective choice behaviours are subject, interact among themselves for incessant changes. Although treated as just an alternative view, Simon’s theory implies a potential breakthrough out of the current theoretical impasse represented by Arrow’s Impossibility Theorem.

From a methodological perspective, neoclassicism is characterized by the term “reductionism” or the tendency to decompose the whole into countable parts for analysis, whereas casual observations suggest the existence of “non-reducible” factors including interactions (or causal “loops”) among those components which comprise the whole, and also between the whole and its components. The “complexity” science captures these interactions in its “glocal”<sup>2</sup> consideration, hence merits the status of a post-modernistic world view for the third millennium. From this perspective, our society cannot be perceived correctly, let alone controlled, by humans using a set of countable focal points on the basis of methodological “reductionism”.

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<sup>2</sup> This is a new term coined to refer to both “global” and “local” at the same time.

The complexity science, though, does not provide the very reason why our society functions in a not-so-random manner: there is at least a modicum of “order” observed in our society. Two factors can be considered as the source of our society’s order (albeit limited): human capability for perceiving the “essence” of things surrounding them, and the “natural” endowment of economically useful resources.

##### 5. A Proposal: public philosophy of economics with a serious view on “common grace”

Given that both human perception of the essence (although limited in ability) and the “natural” endowment of economic resources (solar energy, water, air, soil and, all the physical matters after all) essential for operating our economic society, have been sustained somewhat “exogenously”, or from outside our human effort, humans should take these as “common grace” granted by “transcendental being” (or God in religion). “Common grace” in Christianity belongs to the sphere of “belief” and not to that of verifiable “proposition”, yet logically (or “apologetically”), this sort of deductive reasoning starting argument from the first principle to empirical observations is well valid along with inductive reasoning with empirical observations as the entry point.

To sum up, the contemporary economics has lost the orientation to take the holistic approach towards achieving human welfare. With only efficiency (or positive) arguments as its core method, it cannot claim the status of public philosophy replete with equity (or normative) arguments. Economics as a public philosophy has to give its serious consideration to the “common grace” of various forms including our perceptive ability and productive resources. Public philosophy should be open to the public for use in our daily life, not in the hands of those inclined to conceptualise things

more than is needed.

(References)

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