

THE PRAISE OF FOOLISH: ECONOMIC CHIMERS AND POLITICAL RHETORICS¹

F. CONDIS Y TROYANO and F. TERRANOVA Catholic University of Louvain (Belgium)

" Which interest is there to study the philosophy, if all that it makes for you is to make you able to express yourself in a relatively plausible way on certain abstruse questions of logic, etc, and if that does not improve your way of thinking on the significant questions of the day-to-day life (...) " Ludwig Wittgenstein

I) Introduction: Rational behaviors and social marginality

Each period of our history has its marginal and excluded social class. Michel Foucault (1972) talks about for instance, the substitution of leprosy by another kind of marginal people: the insane ones, condemned to sail all the time in the « *Stultifera navis* » (the “crazy” boats) with any possibility to board out of the ship².

During the « Renaissance » period the excluded were the poor, the insane ones, the unemployed and the mendicants; in other words, all the «useless for the world» (Geremek B., 1976).

XX century was not an exception, the new ultra-liberal capitalism ideology has secreted with the mundialization , also the excluded people from the Mac Donald and Coca Cola era of consumption with the immigration and delocalization for the poor countries.

Marginality is, then, a social phenomenon existing in all civilizations and economic systems (communist countries were not an exception when all opponents became « marginal » too).

But marginality is not only the exclusion from the economic wealth. Really speaking, marginality is a kind of « alienation », that is, people that have another rationality than the official one. Someone becomes marginal not only because he is « poor » but also because he is « crazy ».

II) The marvelous country of economists

In the second period of XX century, we see two contradictory phenomena. On one hand, the acceptability of economic rationality not only by politicians and managers, but also by all scientists. The rational postulates of economic theories (productivity and efficiency of allocation resources) belong today to rational behaviors of human kind. Our century involved the same problems with the development of technology and digital revolution.

But on the other hand, the poverty and marginality grow more and more in the world in spite of the enormous development of our economic models and rational behavior theories.

We observe that, paradoxically, the more the production of economic papers grows, the less our ideas are able to solve the misery of the world.

Between 1985 and 1989 the average production (yearly) of economic papers in the USA were 47,7 % (for 41 most prestigious reviews). In the same period, the average production of all 3500 scientific reviews and sciences of eight different sectors were 39,3 %, that is 8,4 % less. Another phenomenon concerning the explosion of economic papers: the number of pages by paper grew 21 % in the period.³

SCIENTIFIC PRODUCTION (1985-1989)		
	Number Of Journals	Average Production
Eight Scientific Sectors	3500	47,7
Economy	41	39,3

Table 1

The question is very clear: is it possible to consider the economic rationality so efficient in the allocation of resources? Our theories are really so logically consistent that we can use them like model or

¹ This article was written in the last Century. For different reasons remains unpublished but we think that ideas are already actual and fresh for discussion.

² *Histoire de la folie à l'âge classique*, Gallimard, Paris 2014

³ Calculation from the Journal of Economic Literature 1994 and from the Science Foundation 1995

“*paradigm of rationality*» for other sciences and decisions? Is it possible to consider the economic rationality postulates like the postulates of a new rational ethics? Furthermore, can be the economy theories and postulates (rentability) be considered as the rational framework for our social decisions?

III) The rational foundation of economic theories

Donald McCloskey (1994) distinguishes three essential characteristics in all scientific and rational thinking: consistence, correspondence and persuasion of proposed theory.

The consistence could be understood from two points of view: the articulation between different theories (or non-contradiction of their logical conclusions) and the consistence of a particular theory with its predicted facts.

Now, the inconsistency between the three main economic theories of this century (Marx- Walras- Keynes) is almost evident in the capital and labor markets.

MARKETS	MARX	WALRAS	KEYNES
CAPITAL MARKET	More ‘plus-value’ and Profits ↓ more investments	Increase in interest rate. ↓ less investments	Increase in income. ↓ more investments
LABOR MARKET	Increase in real salaries. ↓ less employment	Increase in real salaries. ↓ less employment	Increase in real salaries. ↓ more employment

Table 2

The postulates of these three theories are then inconsistent: concerning the capital market.

Keynes and Marx believed that the more the income grows, the more the investment grows too. But however, they are opposite in the conclusions about labor market.

The same, Marx and Walras believed that the grow of (real) salary will negatively influence the employment market, but they differed in the premises concerning capital market.

This semantic incommensurability explains the juxtaposition of different and contradictory explanations of economic phenomena.

But the most important perhaps, from the epistemological point of view, is the logical inconsistency of economic theories themselves. We are not going to talk about the number of “anomalies” or « paradoxes » that economists like to expose in the international meetings. Marc Blaug (1982) gives all the details about the examples of antinomies in the economic theory. We are not coming back to this point.

Our proposal here is to analyze in particular the postulate concerning the « rational behavior of economic agents », that is the maximization of production (for producers) and the maximization of utility (for consumers).

As everybody knows, the Cambridge criticisms (Sraffa, Robinson, Kaldor, etc.) have shown the internal inconsistency of the profit maximization in the well-known paradox of « *reswitching technology* ». (See Schmidt C., 1995)

In short, the problem is that, under some specific hypotheses, the producer will choose a technology more « labor using » when the interest rate for capital falls. Of course, this behavior is irrational according to the neo-classical theory.

In his consumer theory, A. Sen (1972), explains the dramatic end of the Bouridan's donkey who died of hunger in front of a bundle of hay and a bundle of oat (unable to decide which one he preferred) and concluded that if the poor animal died was because he knew very well his indifference curve. Then he knew *before* the absolute value of each good and not only its relative given by the indifference curve. In short, we can have a relative preference for one good compared to another good only if we have tasted before each good separately.

The paradox proposed by Sraffa had only one solution: the Marxian concept of (social) organic composition of capital. The paradox of Sen shows that social value precedes (as « necessary condition ») all economic choice.

The foundation of economic rational choice is a social rational choice, and all economic value is unintelligible for the actors without social reference and meaning.

IV. The problem of correspondence

If many economists accepted the critics against the logical foundations of neo-classical theory, they found that the paradigm could be consistent under the logical positivism philosophy.

We remember that the "hard-core" of this positivism of Bridgman, Samuelson and Friedman is that if we observe in a regular manner two phenomena, we can postulate that there is a causal relation without theoretical support. For instance, if we see that the leaves of tree are greener in the side exposed to the sun, we can logically conclude that the tree tries to maximize their exposition to the sun. Even if nobody has never seen a tree moving to the sun... Evidence of experience becomes then the logic support to theories.

EVIDENCES	CONFIRMATION	REFUTATION
1. <u>If</u> the minimum wage increases, <u>then</u> employment decreases	Brown, Gilroy and Kohen (1982) (Survey)	Card and Krueger (1994)
2. <u>If</u> the interest rate is modified, <u>then</u> the saving reacts slightly	Boskin (1978)	Hausman-Poterba (1987) (Survey)
3. <u>If</u> the agents anticipate on the money market, <u>then</u> the national income does not move	Barro (1978, 1981)	Mishkin (1982, 1983)
4. <u>If</u> income tax of the capital decreases, <u>then</u> the income increases	Feldstein, Stenrod et Kitzak (1980)	Auten et Corder (1991) Burman et Randolph (1994)
5. <u>If</u> inflation increases, <u>then</u> unemployment decreases (and vice versa)	Phillips (1958) Lipsey (1960)	Santomero et Seaten (1978) (Survey)
6. <u>If</u> exports increase, <u>then</u> the national income also increases (multiplier)	Balassa (1985), Ram (1985)	Gray et Singer (1988)

Table 3

Now, the epistemological foundations of logical positivism are in the « regular observation » of facts and their logical consistence with hypothesis.

But in economics the interpretation of those « *faits évidents* » changes from one to another scientist.

In the Table 3 we took six of the most important regular facts and their contradictory interpretation by the economists. The logical positivism looks a very unrealistic methodology of economics.

V. How persuasive are economists?

The rhetoric is the most important support of economic theories. People need dreams and economists like to talk about chimeras and fantastic world of happiness and welfare.

Economists like « *Le Comte de Permission* » (strange personality of Paris in the XVII century), one quarter mendicant, one quarter crook and half rhetorician- imagined extraordinary adventures and chimerical trips that he sold to selected customers. The legend of « *Le Comte de Permission* » said that even Henry IV was seduced by this personality that liked to say that he didn't know neither to write neither to read...

In 1606 he predicted the end of the city of Paris, like Marx predicted the end of capitalism, Schumpeter the end of democracy and Keynes the end of communism.

These days, how do economists persuade the humankind? With empirical **corroborated** hypotheses and theories as Popper considered the credible science. Oh, non, the persuasion of economist is through the politicians, of course. The Politicians are the most important clients of economists, and they know how to use in their rhetoric policy the economic chimeras.

In social policy they give priority to labor (if they are socialist) or to market (if they are liberal). In the employment problems they are for the Keynes chimeras or for the Say chimeras. The same in period of crisis: they believe in Keynes dreams or in Friedman dreams. (Freedman C., 1995)

For each rhetoric speech of politicians there is one or several economic chimeras.

But ideas are not the only link between economists and politicians. In the « real » world, this relation is not only about dreams, but also about realities. Corruption is in our time the romantic relation between economic dreams and political realities. (See Bardhan P., 1997)

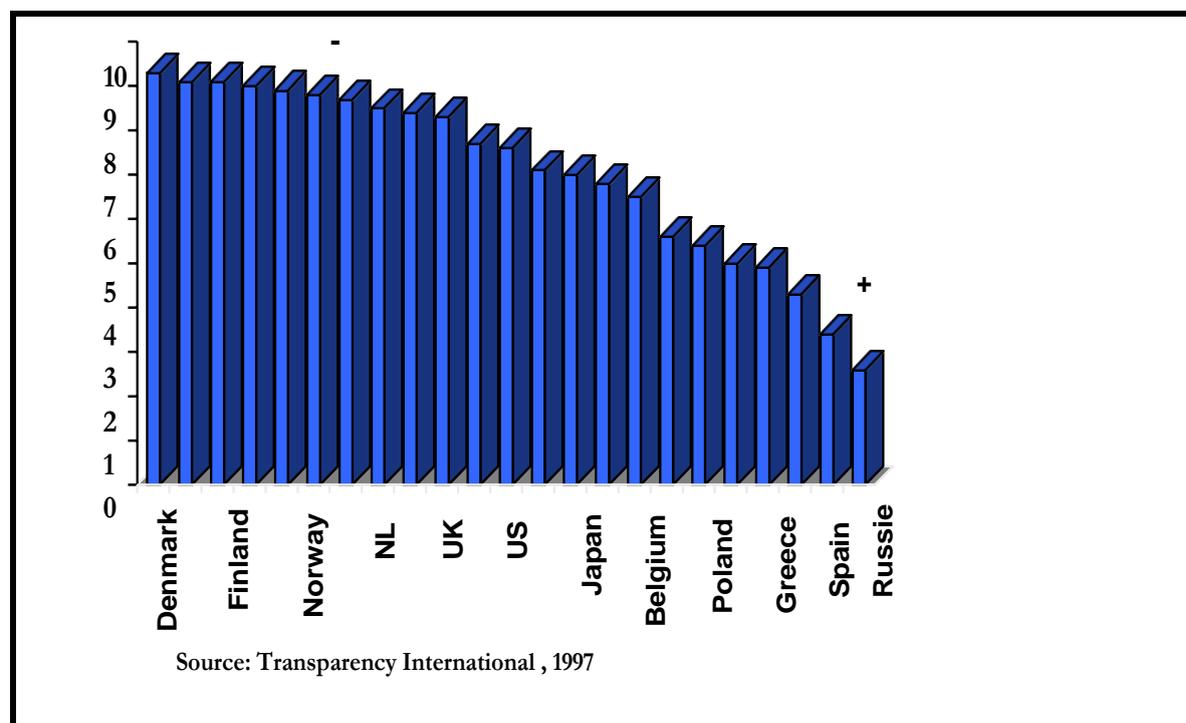


Figure I The Corruption hit parade.

VI. The paradox of Matthew: the Rich and the Poor (Math.25, 29).

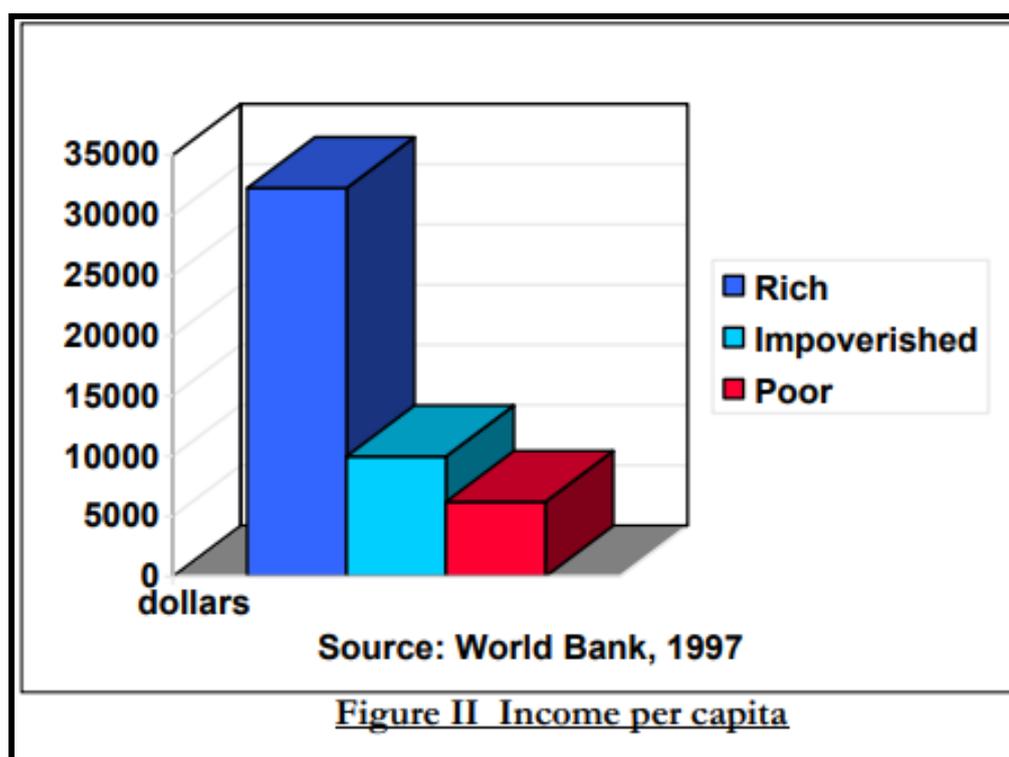
B. Geremek (1978) said that historically the European society was divided in three categories: the rich, the poor and those that become poor (because of the technological progress) that is the aristocracy ruined by the industrial changes.

Our centuries are also divided too in three categories: the rich (industrialized) countries, the poor (third world countries most of them in Africa) and the relative impoverish countries (the East European countries and the provider countries of raw materials)

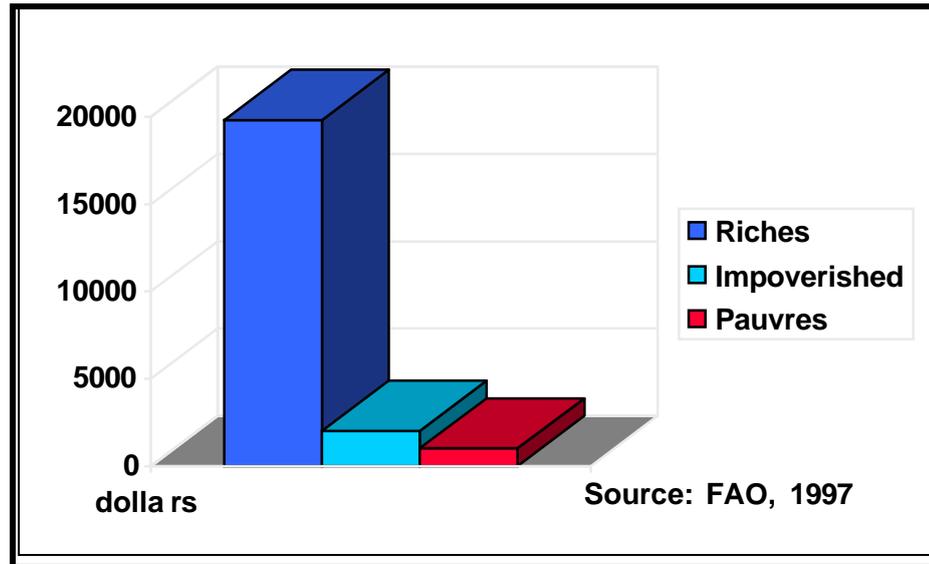
Like in the past, the ideology of the rich tries to explain that the poor are necessary for the safety of the rich⁴. In the ex-communist bloc, the official ideology impoverished the countries like the ultra-liberalism ideology and the Structural Adjustment Program impoverished the countries of the Third World and some BRIC countries (like Brazil or Bangladesh).

Neo-classical theory considers that the poor countries are poor because they are not under the pressures of market ideology. If poor countries want to become rich, they must become « rational » in the allocation of their resources.

Really speaking, the problem is the « blind » or schizophrenic approach to the poverty by the international political forces. Schizophrenic because the economic chimeras and political rhetoric become an irrational and inconsistent speech in this topic. The speculative forces are the real logical behavior in the international economics and politics.



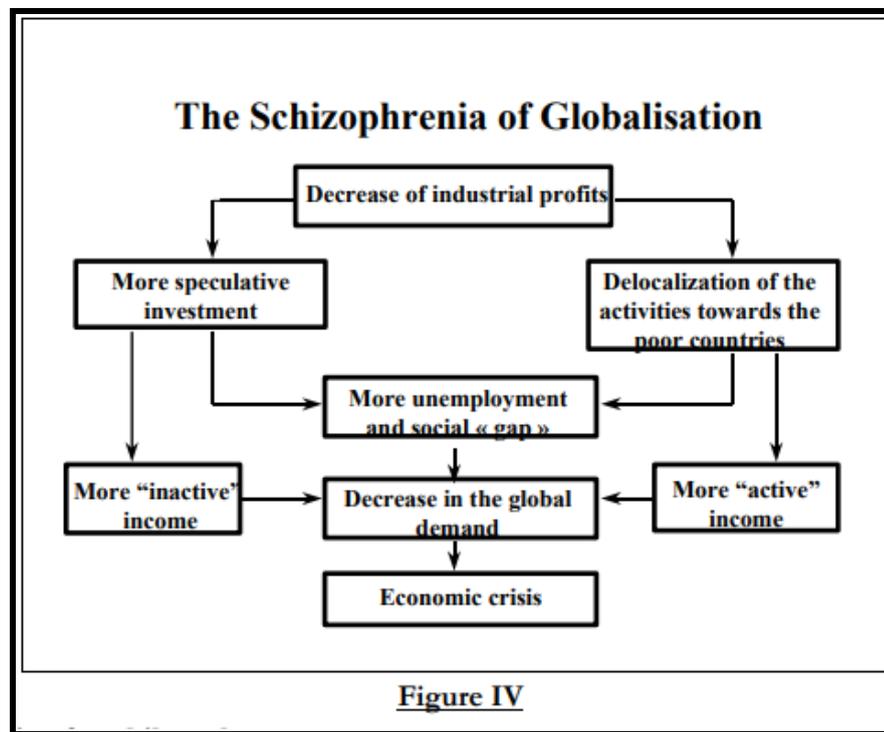
⁴ Following Mathieu speech, some theologians defended the idea that without poor and mendicants, Rich will go directly to the hell. Then, Good created the poor, not only for their own safety but also for the safety of rich people.



Consumption per inhabitant

Figure III

Two opposite and contradictory forces emerge from the fall of industrial profits (Marx?) and get down the international demand: on one hand the speculation raises the « inactive income » (not used in the industrial sector), and on the other hand the delocalizations reduces the « active income » that is investment. Our world is not irrational, but crazy!



VII. Consolation for philosophers

In the comments about the book of Gerald Feldman (« The Big Disorder ») concerning the hyperinflation that preceded the nazi period, Charles Kindleberger relates the history of a producer of rope: his turnover increased more and more and became an astronomical figure, but it was not sufficient to rebuild his inventory stock. He became millionaire and even billionaire but unable to buy enough raw material to sell his rope...

Finally, he was left with the last meter of rope, and he used it for hanging himself.

Rich countries become more and more rich because they sell their products at a price more and more expensive, without giving to the poor countries the possibility to buy those products, because raw materials are more and more relative cheap. Rich countries risk to become billionaires but with just enough to buy the last meter of rope.

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