Homo Economicus and the Reconstruction of Political Economy:

Six Theses on the Role of Values in Economics

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Abstract

The argument of this paper is that a revitalised political economy in the future must become more interdisciplinary. In particular it argues for a more explicit engagement of political economy with values, and presents a number of critiques of the ethical limitations of both markets and neoclassical economics. Because of the commitment to the ideal of the market, neoclassical theory is unlikely to be able to take on board this critique since it challenges the most important building block of the theory, namely homo economicus. But this is not the case for political economy in the tradition of post-keynesianism, marxism and institutionalism. The reason why political economy has not exploited this advantage to any great extent has to do with the fear of many political economists that an engagement with values necessarily diminishes the scientific status of their approach. The paper presents six theses in order to convince that this fear is fundamentally misconceived.

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The argument of this paper is that if political economy is to dislodge neoclassical economics from its position of dominance it must become more interdisciplinary. There has been a long running debate on the question of whether critics of mainstream economics are merely opposed to the specific theoretical toolbox of the neoclassicals, or whether, on the contrary, the critique encompasses the very category of economics itself as understood as a set of propositions about the economy and abstracted from politics, culture and values. This paper presents six theses around this theme and takes sides in favour of the latter proposition. It is argued that abstracting from values, and culture more generally, does not constitute a methodologically neutral stance, but entails taking up a value position, with important consequences for how social reality, including economic institutions and policies, is understood. Any alternative to the mainstream paradigm must therefore directly engage with values in a number of ways to be explored in this paper.

The background of this paper rests on important insights stemming from the work of both historians and philosophers of science which we can only allude to briefly here. For most commentators who have sought to explain the rise of a methodological programme that radically divides science from values, the explanation revolves around social and economic developments since the eighteenth century. Central assumptions of neoclassical economics, such as homo economicus and given preferences, have a materialist basis in the fact that the rise of capitalism was indeed associated with a growing impersonality of economic transactions. Thus ‘[i]n a market economy, the dominant question is not what is right or good but what will sell; virtues give way to subjective values and preferences. Not surprisingly, in political economy, subjective theories of value become dominant’ (Sayer, 2000, p.87). Moreover these commentators, precisely because they see the history of political economy as something to be explained, are also likely, while not questioning the historic importance of the values of homo economicus to capitalist development, to point out that that they are nevertheless historically contingent values. This clearly has a relevance not just with respect to understanding the past but in deliberating on possible futures as well.

1 In the marxist literature the debate has been in terms of whether Marx was presenting a critique of bourgeois political economy or political economy as such (See Thompson, 1978, pp.252 & 257).
The philosophical background revolves around what Hilary Putnam (2002) has recently called the collapse of the fact/value distinction. That distinction, Putnam argues, was based on the specific metaphysical premises of the philosophy of Hume (in particular the sharp dichotomy drawn between matters of fact and relations of ideas) and of the logico-positivists (and the emphasis given to the crucial analytic-factual divide). However these metaphysical premises have since the 1950s been so undermined, starting from Quine’s work\(^3\) and the gradual recognition that what the logico-positivists understood as a fact was fast becoming overtaken by actual scientific practice, that little remains of the project of radically separating facts from values (see Putnam, 2002, chapters 1 & 2)\(^4\). This has important implications for economics for it suggests both the entanglement of facts and values, and the possibility that, contrary to the influential views of Robbins (1932) and Becker and Stigler (1977), values are themselves open to rational scrutiny\(^5\). However with notable exceptions, such as the work of Sen\(^6\), it cannot be said that these developments within philosophy have made any major inroads into mainstream economic thinking – something likely to continue in the future if we are to judge by the enthusiasm exhibited in most economic departments for cutting out philosophical and methodological courses in undergraduate, but even more so, postgraduate programmes.

Still there has been a growing interdisciplinary literature examining the ethical limitations of both markets and neoclassical economics, and the implications of this forms the subject of the six theses to be presented. At the centre of this critique has been the critique of the assumption of *homo economicus*. This literature is unlikely to make much of a dent in neoclassical economics. The reason has to do with the commitment of most neoclassicals if not to perfect competition itself, than at least to the ideal of perfect competition. Moreover, as we shall see, this commitment is not merely contingent – it is there in the theoretical underpinnings and structure of the theory.

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2 See amongst others Tawney (1938), Polanyi (1944), Thompson (1978) and more recently Sayer (2000).

3 See Quine (1980) for a number of his collected articles on this issue.

4 There are other philosophical underpinnings, in the work of philosophers such as Williams and Mackie for instance, for a sharp distinction between fact and value, but for various reasons (not least the fact that these arguments are explicitly based in metaphysics) these are unlikely to appeal to mainstream economists (see Putnam, 2002, pp. 40-43; Walsh, 2000, pp. 7-8).

5 Benton (1982, p.464) argues that the economists’ belief that arguing about ends is literally impossible has its basis in Newtonian metaphysics. For a rigorous philosophical defense of the possibility of debating ends, see Richardson (1997).

6 Sen (1987) is a central reference here, although nearly his whole vast output is inspired by the project of taking ethics seriously. For a commentary on this work, and in particular how it relates to the decline of the fact/value distinction, see Putnam (2002) and Walsh (2000; 2003).
But such is not the case for most political economists in the tradition of post-keynesianism, marxism, and institutionalism. Economists here would, to be sure, have many differences between them on the scope of the market, the role of other institutions of economic governance and so on. But there is no rock bottom commitment to the market. Thus a revitalized political economy can take on board the ethical critique far more readily. The reason why it has not done so to any great extent has to do with the fear of many political economists that an engagement with values necessarily diminishes the scientific status of their approach. The task of the following theses is to convince that this is not in fact the case, and that ignoring values merely entails playing on the privileged epistemological ground of the neoclassicals.

**Thesis One: The centrality of values to economic theory**

The first thesis says that values are crucial to peoples’ understanding of reality and helps them to make sense of that reality. Since economics purports to be concerned with reality it cannot avoid values. This thesis therefore has to do with the entanglement of facts and values, and therefore the impossibility of sticking to any rigid positive-normative divide in economic theorising. The basic argument is based on two almost self-evident propositions. The first is that people are for the most part self-evaluating beings who have some understanding (however incomplete) of the practices in which they are involved. They also debate such understandings with others and are often keen to justify not only the social practices that matter most to them but also their own role within them. The second is that social theory has as its main object such practices, not only describing them but, and this is crucial to understanding the weakness of the normative-positive distinction, informing them and even criticising them⁷.

Of course we can in principle distinguish models of a particular practice from models for but often in practice this distinction falters on the first proposition above. Because people want to impose order on experience and create meanings, which will not only make sense of reality but also provide practical guidance, they develop models that are at one and the same time for

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⁷ Charles Taylor has been particularly associated with such an account of the social sciences – see the collection of articles published in Taylor (1985). Some, for instance Putnam (2002, p. 63), suggest that the terms one uses even in descriptions are ‘invariably ethically colored’.
and of (see Benton, 1982, pp.464-5). Most economic models have this property. Thus a model that has as its fundamental building block *homo economicus* can easily turn into one that recommends self-interested behaviour. This may not be a logical necessity but it may be nevertheless difficult to resist in practice.

How can neoclassical theorising ignore this? One way is to think of values, or norms, as constraints. But what is it that is being constrained? As Sunstein (1997, p.54), points it is very difficult to make sense of economists’ separation of rationality from social norms, or even the conception of a pure rationality with social norms as constraints, for ‘a norm-free conception of rationality would have to depend on a conception of what peoples’ rational “interests” are in a social vacuum. Since people never act in a social vacuum, such a conception would not be intelligible’.

What is being privileged by neoclassical theory is *homo economicus* - self-interest as a rock bottom, or at least baseline, behavioural assumption, which other norms or values may merely constrain. But stated like this it becomes clear that this needs some justification and it seems difficult to conceive how this can be done without a debate that would be frankly normative. Why can we not start with models that associate rationality with what can be publicly defended on ideal considerations with self-interest as a constraint? Would economic theory not look different and privilege different social practices? The theses that follow take up this issue in more detail.

The central issue here is that norms, and values, do not just help us to carry out better the goals which we already adhere to, they also determine the kind of people we are or want to become. They will, to give just one trivial example, determine whether we avoid joining a pressure group because we calculate that while our contribution to the cause will be slight the cost is not, or whether, on the contrary, we join because that is the kind of person – with

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8 North (1999, pp. 10-11) has a similar conception, although interestingly with respect to a theme to be taken up in thesis five below, he adds that there may not be a consensus view about how to understand society but “widely disparate views….reflecting fundamental divisions in perceptions about the society”.


10 Thompson (1978, p.159), from the perspective of economy history, and Geertz (1973), from that of anthropology, have made essentially the same point.

11 For such a conception with norms as constraints, see Sugden (1998). Here people are prevented from carrying out their interests because of having to take into account what others will think of various actions. But these norms are not open to debate and go unchallenged –an attempt to limit the damage that can be done to the economics approach where talking about ends is discouraged.
certain specific values – that we are or aspire to become\textsuperscript{12}. Norms provide the context of rationality in part because they influence both means and ends\textsuperscript{13}. As Sen (1987, p. 14) has never tired of saying the internal consistency of choice which so much dominates neoclassical thinking in this area must not be allowed to exhaust the issue for “what we regard as consistent in a set of observed choices must depend on the interpretation of those choices and on some features external to choice as such (e.g. the nature of our preferences, aims, values, motivations).”

**Thesis Two: Avoiding value analysis leads to bias that is all the more pernicious for being unacknowledged**

The second thesis says that economic models that purport to avoid values while at the same time privileging certain behavioural traits, such as self-interest, can never hope to be value-free. As has often been said the rejection of a norm is itself a norm. Abandoning the terrain of values is a position that is value-laden to the core.

*Homo economicus* comes packaged with a whole set of values that have been extensively discussed in the literature\textsuperscript{14}, and the following is not to be seen as a comprehensive account. She is interested in satisfying given preferences, and in consuming privately “bundles” of goods, rather than investing in relationships. She is basically asocial, acting more through “exit” than “voice”, and most (if not all) of her relationships with others are through markets or contracts\textsuperscript{15}. Since these exchanges and contracts are entered into voluntary there need be little conflict. What conflict there is will result from the existence of scarcity which itself can be attenuated by an orientation to ever greater production\textsuperscript{16}. Politically she is interested in negative freedom – minimising the interference with the satisfaction of preferences from either other individuals or the state.

The importance of such concepts as efficiency, defined as the best possible satisfaction of given preferences, follow quite straightforwardly from the above. But as Charles Taylor

\textsuperscript{12}See Hirschman (1985, p.15).

\textsuperscript{13}For more on this relationship between means and ends see Stewart (1995).


\textsuperscript{15}‘To postulate a sovereign, purposeful, and pre-constituted individual is to imply that the ontology of contracts is the normal state of the economy’ (Adaman and Madra, 2002, p.1053).

\textsuperscript{16}See Benton (1982, p.466).
(1985, p.76) has argued ‘in so far as we characterize societies in terms of their fulfilling in
different ways and to different degrees the same set of functions, the crucial dimension of
variation for explanatory purposes is also a normatively significant one. Those societies
which fulfil the function more completely are pro tanto better’. Moreover because a given
theoretical framework restricts the dimension of variation in respect to values ‘...certain goods
can be accepted as such without further argument, whereas other rival ones cannot be adopted
without adducing over-riding considerations. The framework can be said to distribute the
onus of argument in a certain way; It is thus not neutral.’(ibid. p.90).

That certain goods are left out of the neoclassical framework can scarcely be doubted. By way
of comparison let us imagine a society of people with a set of concerns rather different from
those of homo economicus described above. People in this society are interested not only in
negative freedom but also in positive freedom. They have an interest in collective goods17 and
the community debating and promoting, where appropriate ‘...a sense of limit and a necessary
framework in which the search for self-realization can take place’ (Ginsborg, 2003, p. 23)18.
This implies that people have a legitimate interest in the “social relations” and “background
conditions” in which preferences are made (see Bowles and Gintis, 1987, p.131; Anderson,
1993, p.165). They are interested in collectively having an input into what kind of people and
with what culture the economy and the other institutions of society are producing. They are
not asocial and seek to invest in a large number of relationships (families, associations and so
on) both as a good in itself (a sense of belonging)19 and because they believe that this may
improve economic performance, where the latter is not necessarily identified with preference
satisfaction. They not only have preferences as “unexamined wants” but also value judgments
that they have come to after difficult deliberation with not only others but themselves20.
Moreover they spend time in deciding how much time to spend on self-interested activity, and
in what contexts, as opposed to less instrumental forms of behaviour.

17 For theorists such as Anderson (1993) and Taylor (1985) a collective good proper entails that people have a
shared understanding of the good in question, something which is not possible with the homo economicus
assumption.
18 This may seem to conflict with the value of autonomy. But this need not be the case. For as O’Neill (1998) has
argued autonomy may need what he terms a narrative continuity – that is to say a certain amount of stability in
which to be able to act and for actions to have a meaning.
19 They may have even heard that some neoclassical theorists have recently been arguing that this will make
them more happy (Layard, 2003).
No society has ever existed with such people, but then, mercifully, none has existed populated exclusively by *homo economicus*. But elements of the alternative clearly do exist, to varying degrees, in most economies, and to that extent the adoption of the *homo economicus* assumption as an empirical claim is not justified\(^2\). Moreover we cannot rule out that they may become more important in the future. A theoretical framework that ignores such a reality, or even potential, cannot be said to be neutral between conflicting conceptions of the good. And the bias will be all the worse for not being acknowledged.

But is it not the case that neoclassical economics has recently been branching out to encompass a concern with norms and values, taking into account altruistic and reciprocal behaviour? In a recent analysis of neoclassical work in this area, Adaman and Madra (2002) argue that appearances can be deceptive. They argue that much of the work being done on the “Third Sector” - that is between state and market - does try to incorporate reciprocal, altruistic and, in general more cooperative, behaviour but this does not imply at all abandoning the terrain of *homo economicus*. In the first place such behaviour is merely assumed to exist, or to have evolved some time in the past out of self-interest\(^2\). Secondly, the sanctity of exogenous preferences is religiously adhered to – there is no sense in which the various behavioural traits are affected by the institutional setting, of which more later since it is the subject of the third thesis.

But the basic argument that Adaman and Madar make is that the Third Sector, as envisaged in so much of the neoclassical literature they discuss, has very little autonomy. It is not a sector that has its own concerns with different priorities and goals (perhaps on the lines of the alternative we sketched above). It is not just that this distorts certain concepts – thus cooperation is often conceived as just another means to get to your given goals, a different way to exchange (*ibid* p.1059)\(^3\). It is that all norms and values are conceptualised as solving

\(^{21}\) When on the defensive, neoclassical economists are prone to retreat to a support for a rational choice framework which in principle allows for any kind of preference, including that of altruism. This turns the self-interested assumption into a tautological one and it is difficult to see what the predictive power of the theory then is – for after all any outcome can be then be explained by merely attributing the “correct” preference (see Blackburn, 1998, chapter 6).

\(^{22}\) Now it is possible that the origins of social norms that, say, encourage participation in charitable organisations, lie in self-interest. But it is important that this be demonstrated rather than simply assumed (see Hausman and McPherson, 1996, pp.56-57) and it is unlikely to be the case for all norms. For an excellent discussion on the origins of social norms, see Blackburn (1998, pp.191-9).

\(^{23}\) Compare this with cooperation as a process of discovering those goals we can support together, that is investing in group identity (Hirschman, 1985) or learning to act from the perspective of ‘we’ rather than ‘I’ (Anderson, 2001).
Thus the Third Sector is at different times seen in neoclassical theorising as a temporary useful device when markets are as yet undeveloped, as a pathological situation preventing more ‘efficient’ market solutions from developing, as a variant of market exchange and as a supplement when markets cannot exist (ibid. pp.1054-5).

Needless to say such a conceptualisation is far from neutral. For not only does it imply that the first best is to find a market solution (ibid. p.1067). It also makes it difficult to see alternatives that already exist let alone provide alternatives more suited to the second menu of values that we delineated above. This criticism, of course, applies to a whole range of neoclassical theorising from public choice, the extension of the *homo economicus* assumption to the sphere of politics, to the research programme associated with Gary Becker, applying the traditional economic toolbox to a wide range of social issues.

These examples should not be taken to mean that neoclassical bias is only to be found in the boundaries of the traditional concerns of economists. Take the role of incentives in economic theorising. The *homo economicus* assumption naturally leads to an emphasis on monetary incentives as opposed to relying on such factors as loyalty or professional ethos (Sawyer, 1992, p.32). The use of incentives in economics assumes that they are just one more way that individuals can enter mutually beneficial trades within a market economy, and within this discourse incentives ‘take on the positive ethical patina associated with the free market’ (Grant, 2002, p.131). As Grant (2002, p.112) concludes ‘[i]ncentives attempt to circumvent the need for persuasion by giving people extrinsic reasons to make the choices that the person or institution offering the incentive wishes them to make. When incentives are employed, there is no need to convince people that collective goals are good or to motivate them to pursue those goals by appeals to rational argument, personal conviction or intrinsic motivations. Experts and powerful elites can thus direct institutions and shape peoples’ choices without the sort of public discussion and consent that characterises democratic processes of decision making’ (Grant, 2002, p.112).

The argument here is not that the neoclassical approach is particularly prone to bias but that any social science must explicitly engage with values in both its theory and its proposals. Furthermore in this context, economists who are attracted to values that conflict with those of
*homo economicus* are unlikely to make much headway if they adopt the methodological underpinnings of neoclassical economics.

**Thesis Three: Values are endogenous to institutions**

Not only are values important, they are endogenous to the institutional setting. The neoclassical approach fails to see this because in most models when the issue of a variety of behavioural traits is discussed at all ‘the subject is theorized as inserted into, rather than shaped by, the context in which he or she is situated’ (Adaman and Madra, 2002, p.1054). The question of how to decide whether to act as *homo economicus*, *homo reciprocans* or *homo altruist* is never posed because it would challenge some of the most basic methodological tenets of neoclassical economics (*ibid.* p.1069-1970).

Bowles (1998, p.80) provides a review of the endogenous preferences literature arguing that ‘economic institutions may induce specific behaviours – self-regarding, opportunistic, or cooperative – which then become part of the behavioural repertoire of the individual’ (Bowles, 1998, p.80). It is not possible to do justice to all this evidence here, but some examples are provided by way of illustration. Markets are important in framing choices. Thus, for instance, there is evidence, from experiments which have been set up in a game theoretic structure, that an individual’s contribution to public goods and cooperation in prisoner dilemma situations depend very much on the context. That is, the more the environment of the game resembles an impersonal competitive market, the more we get the type of results that economists would expect from agents inspired by market norms and the less we get “other-regarding” behaviour. There is also evidence that markets may undermine our capacity for moral reasoning. Experiments show that those playing a game with little exposure to a dilemma between self-interest and fairness are less able to deal with such a trade-off when they subsequently play a game in which such an eventuality is allowed for in the structure of the game. Markets also act as simplifiers which allow ‘radical reductions in the complexity with which one typically views an assortment of disparate goods’ (Bowles, 1998, p.90; see also Sheffrin, 1978).

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24 This section draws heavily from Tsakalotos (2001b and 2003b).
With respect to the above experimental results, Bowles makes another important observation. That is, since most of these experiments are on the same subject pool, the argument presented is not that markets make individuals more individualistic or self-regarding but rather that they evoke self-regarding behaviour from individuals’ preference repertoire\textsuperscript{26}. Such a conception allows any debate on whether humans are basically self-interested or cooperative by nature to be bypassed.

Markets also affect preferences and values because they ‘provide presumptive reasons why people possess goods they do and prompt some comparisons while inhibiting others’. People have relational preferences whereby ‘the terms on which they are willing to transact depend both on the perceived relationships among the exchanging parties and on related concepts of fairness’ (Bowles, 1998, p.87). Thus as Sunstein (1997, p.17) argues the question of market or state allocation, for instance, cannot be reduced to one of efficiency for other issues are involved ‘whether people have a preference for a commodity, a right, or anything else is in part a function of whether the government has allocated to them in the first instance…the initial allocation serves to reflect, to legitimate, and to reinforce the social understandings about presumptive rights of ownership. The allocation can have an important causal connection to individual perceptions of the good or right in question’.

As Anderson (1993, p.145) argues: ‘[e]very extension of the market thus represents an extension of the domain of egoism, where each party defines and satisfies her interests independent of the others’. And the same goes for the whole range of values associated with \textit{homo economicus} discussed above. The implications are far reaching both in terms of economic performance and equity. Thus the expansion of the market may not have the expected economic results if economic performance depends not just on competition but also cooperation to solve collective action problems that arise in decentralised markets. Indeed there is a large literature on the fact that markets work better because of the types of institutions and associations that promote what Bowles has termed nice traits and which neoclassical models, more often than not, conceive as “rigidities”\textsuperscript{27}. Notice also that common to much of this work is the idea that institutions and associations that may have this beneficial

\textsuperscript{26} This idea can be traced to J S Mill who argued that everybody has both selfish and unselfish interests and that the social ethos affects which of the two will be observed more in practice. On this issue see Cohen (1994, especially footnote 14).

effect on economic performance were not necessarily created, and are not necessarily sustained, because they have such effects, something explored in the previous thesis.

Another implication as I have argued elsewhere is that the existence of endogenous preferences, and values, contributes to the inegalitarian dynamics that are associated with the process of liberalisation\textsuperscript{28}. As liberalisation proceeds people tend to think of themselves as more isolated and the “social ethos” becomes more individualistic. This ethos will underpin greater income and wealth differentials as just part of the way the market happens to work, other alternative ways of organising social life being removed from sight both by the new reality and the theory that supports it.

Consider also the process of introducing market-type mechanisms, such as fees and loans, into British university education\textsuperscript{29}. In part this has been underpinned by neoclassical human capital theory – if education is basically about increasing the human capital of an individual, leading to increased lifetime earnings, why should the individual not contribute more directly to the cost of education? There is a strong image underlying such a conception of asocial individuals trying to confront risk and manage their capital, including human capital. But once flat-rate loans are introduced why stop there? Is it not obvious that Oxford and Cambridge will increase the human capital of the individual more than some other universities? And does this not imply that universities should be allowed to negotiate with their “customers” the fees that are appropriate in particular cases? What we have here is an economic theory informing and transforming a social practice, which will in turn eventually alter the understanding of that practice – a “customer” in education is likely to be a very different social animal from a citizen concerned with education as a collective good.

It is hard to resist the conclusion that economic analysis must be more sensitive to the endogeneity of preferences and values. This just cannot be done within the straightjacket of the positive-normative divide.

**Thesis Four: Economic actors and policies seek to alter or influence values**

\textsuperscript{28} See Tsakalotos (2002).
\textsuperscript{29} I am grateful to Mark Setterfield for bringing this example to my attention.
It takes a great deal of exposure to neoclassical theorising to be blinded to the fact that economic actors and policies often have values as their target. Rather than policies being about the best way to satisfy given preferences, it is often the case that given policies work best if they are associated with a change of values.

Take for example the case of monetary policy. For most non-mainstream economists the solution to the problem of stagflation of the 1970s lay in controlling, or at least mediating, the problem of conflict that lies at the heart of market economies. Two broad strategies were outlined for bringing inflation under control. One lay in a reworking of those institutions that had mediated conflict in the post-war era – that is the type of institutions that Kalecki had predicted would be necessary if capitalism was to be compatible with full employment. The other course was that of monetarism.

But both strategies can be seen as exercises in political economy widely defined. The former strategy entailed the confirmation of the rise in the power of unions, as well as other associations, in the post-war era, and seeking to make such power compatible with high levels of investment. The other sought precisely to weaken those forces by limiting their access to politics as a replacement for markets. But as wise observers at the time noted the latter required, as a condition for its success, either a major shift in power relations including a reduction in the scope of democracy, and/or a change in values to make market outcomes, and inequalities, seem more acceptable. And this has been vindicated. Macroeconomic policy has indeed been easier to carry out in those more liberal economies were market outcomes do have a greater degree of legitimacy, and were economic policy makers have never tired of promoting the values of *homo economicus*.

The same process can be seen at the level of market-orientated microeconomic policies concerned with labour markets, training and investment. Thus Hall (1998, p.12), in his critique of New Labour, argues that it ‘....can and does expend enormous energies seeking to change ‘the culture’ and produce new kinds of subjects, kitted out and defended against the cold wind that blows in from the global marketplace’. He points to the moral discourse of New Labour and the pre-eminence given to ‘self-sufficiency, competitiveness and entrepreneurial dynamism’, lamenting the fact that ‘Economic Man or as s/he came to be

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31 See for instance Hirsch (1978) and Maier and Lindberg (1985).
called, the Enterprising Subject and the Sovereign Consumer, have supplanted the idea of the Citizen and the Public Sphere’ (ibid. p.11). For Hall, even New Labour’s emphasis on education and training ‘...are driven, in the last analysis, less by the commitment to opportunities for all in a more egalitarian society, and more in terms of supplying flexibility to the labour market and re-educating people to ‘get on their bikes’ when their jobs disappear as the result of some unpredictable glitz in the global market’ (ibid. p.12).32

As we have argued neoclassical economics, and the image of homo economicus, has no space for positive freedom, and people determining limits and frameworks in which to operate. But the neoclassical approach seems untroubled by the fact that firms are seeking to influence values all the time33. If it could once be argued that advertising was merely providing information - telling consumers about the nature of the product – this now strikes us as impossibly naïve. Advertising has increasingly focused on proposed lifestyles with attached values. Of course different advertisements are aimed at different audiences but that some common values are being proposed can scarcely be doubted: individualism, autonomy as expressed through shopping, the disappearance of politics and so on34. Moreover there is no hint of the fact that in order to enjoy such goods we may need capacities in order to use them (training for instance) and the appropriate social context or environment (clean air or safe streets for instance)35

If state policy-makers and firms can be allowed to influence preferences and values to such an extent, why should this ability not be extended to the wider community? To some this will sound illiberal and paternalistic. But two points should be remembered. Firstly while public choice theorists, such as James Buchanan, often suggest that they are making the assumptions of homo economicus and given preferences in line with the liberal tradition, it is important to point out that the liberal tradition is far from united in this respect. For instance J. S. Mill argued that ‘the first question in respect to any political institutions is, how far they tend to foster in members of the community the various desirable qualities moral and intellectual’

32 For a critique of European employment policies on these lines, see Tsakalotos (2001a).
33 Nor is the matter only one of advertising. Fones-Wolf (1994) has described the length to which US manufacturing firms in the post-war era went in order to undermine organized labour and the values of New Deal liberalism, through public relations exercises to get labour to associate with the values of “free enterprise”.
35 See Wilber (2003).
Secondly the opposite to no collective or democratic deliberation on placing limits and influencing values is not necessarily that this kind of action is absent in society. The liberal tenets give little protection from rich and powerful individuals and corporations acting in this manner, and this has become increasingly obvious in the more liberal economies (see Ginsborg, 2003). The issue is not whether this kind of activity is permitted but who carries it out, through what procedures and of course who benefits.

Thesis five: The contestability of all values

This thesis follows on quite straightforwardly from thesis four. If economic actors, the state, and economic policies target values then they must expect opposition at this level.

In this context it is easier to see why neoclassicals often misunderstand the opposition to economic policies. For we should remember that ‘…every contradiction is a conflict of value as well as a conflict of interest; that inside every “need” there is an affect, or “want”, on its way to becoming an “ought” (and vice versa)’ (Thompson, 1978, p.356). For marxist historians this has always entailed that the struggle against capitalism has included an opposition to the acquisitive ethos of homo economicus as such ‘for men desire, fitfully, not only direct economic satisfactions, but also to throw off this grotesque “economic” disguise which capitalism imposes on them, and to resume a human shape’ (Thompson, 1978, p.85). The same could be said for the current opposition to globalisation in the manner that it is proceeding. Stewart (1995) for instance has argued that we can understand Canadian opposition to NAFTA, not just on the grounds of whether this would improve efficiency or not, but also in part because of a desire to preserve a less competitive environment. Once more the recent research on happiness suggests that this is quite understandable – stability and a sense of belonging are more important to happiness than growth and income once basic needs have been met (Layard, 2003).

But if opposition will often be at the level of values this does not entail that it will be resolved at that level as well. Thus this thesis brings to the fore the idea that the traditional focus of, especially non-mainstream, political economy, on power is still of paramount importance. Wright (1998) has recently taken up this necessary corrective to the discourse on norms and

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36 For support for the view that such interventionism is in a wide number of cases inevitable and that we can even have “libertarian paternalism” see Thaler and Sunstein (2003).
values. In a critique of Streeck’s notion of ‘beneficial constraints’, Wright argues that the extent to which an economy is constrained will not be just a matter of how these constraints bear on economic performance. This is because the level of constraints is not orthogonal to the power enjoyed by many groups in society. Thus capitalists may quite rationally oppose an increase in such constraints, even if this is associated with superior economic performance, because they fear a slippery slope of workers pushing the economy even further in the direction that they would like to see. Similarly capitalist support for deregulation is also not irrational once it is seen that this diminishes the power of workers.

Promoting certain values is therefore not just about convincing everybody about their superiority. It is often a matter of having the power to push for institutions that embody such values. And to make matters even more complicated it is also the case that winning the moral argument can also independently increase your power to do just that. But in any case there is no reason why a commitment to a moral discourse should have the conservative implications feared by some (see Sayer, 2000). For the role of theory as discussed in the first two theses is not just to reflect social practices but also to inform them and criticise them.

**Thesis six: No value can act as trumps**

Thesis two claimed, and this was developed in thesis three, that characterising societies as carrying out basically the same set of functions is bound to be normatively significant. Neoclassical theorists ignore this because they believe that they are not in fact committed to any such claims, and that what they are committed to at the normative level follows from common sense and uncontroversial notions such as economic efficiency. The fact that there is amongst neoclassical economists such widespread agreement over what counts as success in the economic domain should thus come as no surprise. Thesis six suggests that alternatives to the neoclassical approach need, on the contrary, to be based on the existence of a plurality of values, while, at the same time, seeking to promote procedures and institutions in which these can be debated and acted on.

37 Charles Taylor (1985, pp.94-96) argues that theories can adopt a critical stance towards social practices by pointing to unperceived causal contexts or moral contexts that have been hitherto hidden.

38 See Hausman and McPherson (1996, pp. 43-44) who argue that in this respect the central assumption of neoclassical economists is the identification of welfare with the satisfaction of preferences and what they call the adoption of ‘minimal benevolence’. The latter says that everything else being the same it is better if people are better off. But it is the first assumption that is ethically highly disputable, and their book, which discusses the work of Sen, Rawls and others, goes a long way to undermining it.
It is not as if we can allow the market to determine which institutions, including which norms or values, should prevail. This type of social Darwinism will simply not do. As Stiglitz (1994, p.276) argues, ‘[t]he fundamental point is that there is no reason to believe that market economies “naturally” make the right trade-offs or that, in particular, market economies with more ruthless competition are more efficient than economies in which competition is more gentle. Moreover, since whether a particular trait (species) survives depends on the environment, which is itself endogenous, there is no reason to believe that the system as a whole has any optimality properties’. Thus since preferences are endogenous to economic mechanisms ‘we have fundamental problems even ascertaining what are appropriate criteria for judging evolutionary processes’ (ibid. p.277). And if the arguments presented here so far are sound, it is difficult to see how we could arrive at such ‘appropriate criteria’ without explicitly engaging with values.

Attempting to impose one criterion or value, for instance economic efficiency, in this context is bound to be unsatisfactory. O’Neill (1998, p.141) argues that the market tends to promote a ‘technical rationalism’ with ‘the paradoxical but in the end unsurprising fact that where markets enter into associational spheres there is a tendency to an audit culture that is similar to that of centralised planned economies’. Unsurprising because, as we have seen, alternative values such as cooperation are sidelined. This in line with those who have been arguing that it is wrong to view the lack of markets, and the profit motive, as exclusively responsible for the poor economic performance in planned economies for it is also the case that ‘…Communist society was too monistically rationally organized to be able to produce economically beneficial constraints on the economy and thereby protect and replenish the social supply of confidence, good faith, trust, long-term obligations, ‘work ethic’, and legitimate authority required for economic performance’ (Streeck, 1997, p.209, emphasis in the original).

In a context of a plurality of, often competing, values people have a need not only to determine the time they spend on self-interested activities, but also the right to participate in collective deliberations on the extent of such activities in society as a whole. What I am suggesting is that there is a strong association between attitudes to the fact/value distinction and one’s attitude to the scope for democratic decision-making within the economics sphere. From the neoclassical standpoint the difficulty inherent in all ethical argument, the adoption of “light” criteria of welfare such as Pareto optimality, and the search for value-neutrality
necessarily limit the scope for democratic decision-making. There just is not that much that
can meaningfully be discussed. On the other hand critics of this position are likely to see far
greater scope for democratic procedures. Thus Putnam (2002, p.45), reflecting on the various
obstacles to deliberating on values and ends, concludes ‘The solution is neither to give up on
the very possibility of rational discussion nor to seek an Archimedean point, an “absolute
conception” outside all contexts and problematic situations, but – as Dewey taught his whole
long life – to investigate and discuss and try things out cooperatively, democratically, and
above all fallibilistically’. Sen (1987; 2000) in defending his capabilities approach based on a
subjective understanding of welfare and a wide range of values, argues that such a plurality
should not be seen as a disadvantage for the goal is not to find a technocratic ‘decision
method’ to provide a hierarchy of values to be implemented in all places at all times, but
rather to trust in individuals as reasoning creatures reaching a consensus through discussion in
democratic procedures39.

Finally the fact that no value, or set of values, can act as trumps does not entail the different
proposition that all values are as good as each other, or that there is no possibility of rationally
choosing between them. Economists, and others, working from outside the mainstream have
much work to do to operationalise some of the arguments that have been made. How do you
provide a motivating theory which promote institutions and policies that allow people to
express a range of values to which they are committed while ensuring that this is compatible
with acceptable economic performance? Some progress has been made not least from those
interested in ecological questions who have explored how to make decisions when we do not
assume that the satisfaction of preferences is as all that is at stake40. But it is clearly an area
that is in its infancy. The reason for this may be in part that so many is that so many who are
critical of the mainstream still wish to appear as “scientific” as their mainstream opponents,
and believe that an explicit engagement with values will diminish the scientific value of their
work. If the six theses presented here have any validity this worry is fundamentally ill
conceived and an obstacle to both alternative theory and practice.

Conclusions

39 For a discussion of these issues see Putnam (2002) and Walsh (2003).
It used to be said of the Soviet Union that it would have been better placed to outperform the West if it had stopped trying to run in the same direction – that is sacrificing all other considerations in favour of economic growth. Whatever the merits of that contention for the ex-communist societies, this paper has suggested that a similar argument may hold for political economy. That too often it has sought to outdo the mainstream on the latter’s privileged epistemological position. Of course sometimes theory can accept the building blocks of an opponent’s arguments for the sake of exposition, or in order to show up the limitations of the analysis, as has been argued was Keynes’ reason for assuming perfect competition microeconomics in the *General Theory*. But it is important that this approach is not the dominant one.

To be sure part of the reason that critics have found it so difficult to dislodge neoclassical economics has to do with questions of power, and the role that neoclassical economics plays in underpinning the market economy. That should never be forgotten. But the argument of this paper is that this is not the whole story. Benton (1982, p.468) has argued that the problem lies in the fact that any alternative must, just like neoclassical theory itself, ‘..be well grounded in accepted metaphysics, accepted notions of the nature of self, society, and nature, so that what is presented flows directly from the former in a commonsensical manner’. Abstracting from such notions, and ignoring values, is unlikely to be able to dislodge the dominance of neoclassical economics in the twenty first century.
References


