Gimmickry of neoclassical economics | The Express Tribune

Abbas Moosvi June 27, 2022

At the heart of neoclassical economic theory is its fundamental unit of analysis, the rational actor

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At the heart of neoclassical economic theory is its fundamental unit of analysis, the rational actor. This individual, it is purported, behaves in a manner that maximises their utility: a series of calculations are being made at any given point to advance one's self interests in a myopic, opportunistic and instrumental — i.e. with a specific goal in mind — manner. Almost the entirety of the discipline is premised on this basic assumption, which is patently false.

The sociologist Max Weber saw means-ends rationality as one of four kinds: the others being affective (actions shaped by emotions), traditional (behaviours passed down from generation to generation), and value-rational (having to do with morals, principles, and ethics). As a discipline, economics wanted little to do with these complexities — and indeed proceeded to operate under the pretence that they were irrelevant.

Deriving inspiration from the likes of Ayn Rand, Friedrich Hayek and Milton Friedman, economists took a grand leap of faith: arguing that not only is means-ends rationality the only legitimate one, but that it is also intrinsically linked to positive societal-level outcomes. Naturally the implication here was that government intervention be minimised so as to allow the 'free market' to flourish.

The validity of these claims were never demonstrated empirically — but because they were convenient ideas to preserve the status quo, the political economy of knowledge production soon kicked in: with large amounts of funding from big corporations and 'philanthropies' funnelled into generating research that would attempt — through mathematical models, econometric abstractions, and randomised controlled trials — to defend the perspective. This was a miserable venture that hardly anyone understood and was upheld by the system of 'peer review' in academia, which constricted views deviating from established schools of thought.

This narrow, tunnel-vision approach came to dominate the discipline and in turn public policy, particularly since the 1980s — to the point that it began being imposed in top-down fashion via ‘technocrats’ — alleged experts, identified by their allegiance to the regressive doctrine. Thus the ideology of neoliberalism was born, dedicated to capturing the state apparatus and reducing it to a tool for deregulation, privatisation, and laissez-faireism. Any forces that rejected these objectives were clamped down upon: including student/labour unions, farmer associations, and more.

The irony should not be missed: on the one hand, economists declared individual citizens as ‘rational agents’ but on the other had no objection to their exclusion from the decision-making processes that affected their lives. When it came to protecting the interests of propertied circles, government intervention was, all of a sudden, totally fair game!

Neoliberalism then defined the strategic orientation of international financial institutions, serving as the basis for ‘structural adjustment programs’ in the Global South. Vulnerable countries were extended loans in exchange for the transformation of their key institutions into facilitators for big capital, opening up economies for multinationals to set up shop, access cheap labour, and redirect profits back to headquarters in the West.

This was particularly harmful for post-colonial countries, which were already moulded to privilege a certain class for ease of governance. These individuals, who rarely represented the will of their people, mindlessly accepted all conditionalities in exchange for personal gain. Resources thus continued to be extracted from South Asia, Sub-Saharan Africa, and Latin America via an intricate system of neo-colonial collaboration between local and foreign elites — existing to this day.

Tying all this back to Weber, who identified that ‘bureaucracy’ is not a bug but a feature of the capitalist system, there is an urgent need for economists to break free of their silos, engage with other disciplines, and adopt a holistic, multipronged and context-specific approach that is not tainted by outdated modalities. Business as usual will simply not suffice.

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