

Rationalities and their Limits

From “Red Vienna” to Behavioral Economics

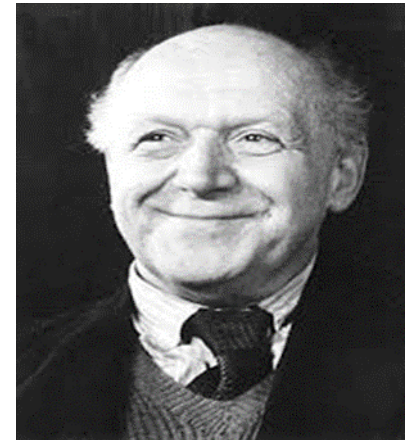
Alexander Linsbichler (University of Vienna)

Young Economists Conference 2019
Wien, 1.10.2019

Alexander Linsbichler

Otto Neurath and Ludwig Mises

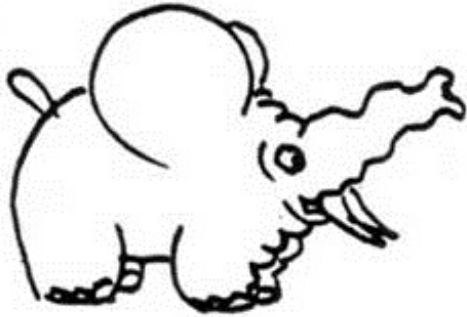
„What is meant by rational economic theory?“ (Neurath 1935)



„Socialism is the abolition of rational economy.“ (Mises 1920)



Otto Neurath and Ludwig Mises



radical physicalism

<->

praxeology

democratic socialism

<->

liberalism

systems of full socialization

<->

calculation problem

1. Contexts

- Late Enlightenment in Red Vienna
- Calculation Debates

2. Neurath on Rationality

3. Mises on Rationality

4. Similarities

- Limits of Rationality
- Information and Knowledge

5. Outlook: Theoretical and Practical Gaps

Viennese Late Enlightenment

(**Stadler 1981**, 2007; Linsbichler 2015; Siegetsleitner 2014; Uebel 1996, 2000)

advancement of science and scientification

public education

to some extent guilty of invoking reason and rationality as a panacea for all political, social, and economic problems

Viennese Late Enlightenment

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advancement of science and scientification

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to some
panacea



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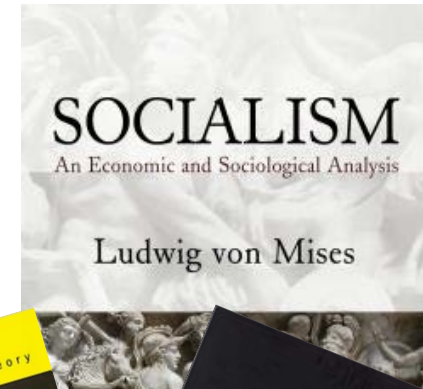
and rationality as a
mic problems

Alexander Linsbichler

Socialist Calculation Debates



Economic Calculation
in the Socialist
Commonwealth
LUDWIG VON MISES



Alexander Linsbichler

Rationality in the Calculation Debates

„Socialism is the abolition of rational economy.“ (Mises 1920)

„What is meant by rational economic theory?“ (Neurath 1935)

Was bedeutet rationale Wirtschaftsbetrachtung?

(Neurath 1935)

“There is much talk in the literature of sociology and political economy about the ‘rationality of modern man in economic life’ [...] the terminology of political economy is poorly adapted [...]. This lack of clarity in the logical situation makes discussion difficult, for it is often unclear whether two researchers who make different assertions are talking about different things, or whether they want to talk about the same thing but are making mutually contradictory statements about it. This confusion is heightened by the fact that sociological theories and specifically theories of political economy are more or less closely connected with the social struggles of the day.” (Neurath 1935, 67)

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Neurath on Rationality

- Instinct, Magical Thinking
- Tradition, Authority, Oracle, Omen
- Pseudorationality
- Scientific Worldview, Rationality, Chance (Dice)

Reflexive Rationalism

Neurath on rationality

„pseudorationalism leads partly to self-deception, partly to hypocrisy [...] The pseudorationalists always want to act from insight and are therefore grateful to anybody who is able to suggest to them that they had acted from insight. [...] The listeners are glad, so to speak, if they can make up their minds in favour of something with a good conscience“ (Neurath 1913)

„Rationalism sees its chief insight in the clear recognition of the limits of actual insight.“ (Neurath 1913)

Neurath on rationality

- fallibilism, ISOTYPE, „unity of science“ (pluralism of methods)
- pluralism of relevant factors
- neglected options, ignored effects (- Hazlitt)
- universal statistics, conditions of life (- Sen)
- utopias
- calculation in kind

„We must, however, realise that in each price system there can be several equally foreseeable possibilities for the individual, among which he has to choose by casting lots. Demand, therefore, would generally be an unambiguous function of all prices [...] and of the result provided by casting a lot.“ (Neurath 1917)

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Mises on rationality

„Action is by definition rational.“ (1933, 33) (cf Rizzo)

Ex definitione rational

“Whoever says that irrationality plays a role in human action is merely saying that his fellow men behave in a way that he does not consider correct. If we do not wish to pass judgment on the ends and the scales of value of other people and to claim omniscience for ourselves, **the statement, “He acts irrationally”, is meaningless,** because it is not compatible with the concept of action.”
(Mises [1933] 2003, 35)

Ex definitione rational

“Instead of saying that irrationality plays a role in action, one should accustom oneself to saying merely: There are people who aim at different ends from those that I aim at, and people who employ different means from those I would employ in their situation.” (Mises [1933] 2003, 36–37)

BUT: (scientific) examination of means

Mises on Rationality – A Problem?

„Action is by definition rational.“ (1933, 33)

„Every step that takes us away from private ownership of the means of production and from the use of money also takes us away from rational economics. “ (1920, 64)

“Socialism is the abolition of rational economy. “ (1920, 23)

Mises on Rationality – A Problem?

„economic calculation as exerted by a capitalist corporation and without which all rationality of action and economizing and all computations would be unfeasible“
(Mises 1933)

Mises on Rationality – Solution 1

Economic action requires economic rationality

Algorithmic monetary maximization is rational:

„The goal of the individual enterprises in the capitalist economy is the maximum gain of money“ (Neurath 1925)

Mises on Rationality – Solution 1

Economic action requires economic rationality.

Algorithmic monetary maximization is rational:

“For Mises any rational decision, beyond the most simple, requires the commensurability of different values. There needs to be a single common unit which reduces the choice between different options to a matter of calculation.” (O’Neill 1998, 115)

“In making that claim Mises is assuming that every choice is implicitly an exercise in economic evaluation.” (O’Neill 1998, 117)

Mises on Rationality – Solution 1

“In choosing between bread and honour, faith and wealth, love and money, we submit both alternatives to one test. It is, therefore, illegitimate to regard the **‘economic’** as a definite sphere of human action which can be sharply delimited from other spheres of action.”
(Mises 1951) (vgl Mises 1940)

“Money calculations have their limits. Money is neither a yardstick of value nor of prices. **Money does not measure value.**” (Mises 1951) (vgl Mises 1912)

Mises on Rationality – Solution 2

- information for the choice of ends:

“If we know precisely how much we have to pay for beauty, health, honour, pride, and the like, nothing need hinder us from giving them due consideration.” (Mises 1951)

Monetary maximization is not the primary goal.

Mises on Rationality – Solution 2

MORE IMPORTANTLY

- choice and discovery of means (given certain ends of production)

**market prices provide unique knowledge for action
(not only choice)**

- indispensable in non-trivial situations
- allow for supplements

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- **Limits of Rationality**
- **Information and Knowledge**

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Similarities

Humility as a Guiding Principle

Limits of Rationality: Negative Enlightenment
(Francis, Dekker) (cf French Enlightenment)

Pseudorationalism of Enlightenment

„In der Verwaltung einer sehr ausgedehnten Gesellschaft gibt es eine gewisse Kompliziertheit [...]: aber **im Grunde ist die ganze Angelegenheit ein einfaches Rechenexempel**, das in genauester Ordnung und Regelmäßigkeit funktionieren kann. [... Nach der Abschaffung des Privateigentums] würde jeder einzelne fühlen, wie sehr er an dem Wohlergehen all seiner Genossen interessiert ist. Die **Wissenschaft des Regierens**, die der Widerstreit so vieler entgegengesetzter Interessen gegenwärtig so sehr kompliziert macht, wird durch das System der Gemeinschaft zu **einer einzigen Berechnung, die kaum irgend jemandes Fähigkeit übersteigt.**“ (Buonarotti 1828)

Humility

„There seems to me to exist a sort of rationalism which, by not recognizing limits of the powers of individual reason, in fact tends to make human reason a less effective instrument than it could be,“ (Hayek, 1964, p. 41)

„...pluralistic solutions looked upon as schemes that give live to as many ideas as possible ...“ (K. Menger, 1934, p. 107)

Similarities

Humility as a Guiding Principle

Limits of Rationality: Negative Enlightenment
(Francis, Dekker) (cf French Enlightenment)

**Providing and Presenting Unique Information for
Action** (for Action, not only Choice)

Information and Knowledge

Framing:

reflexive rationalism; action (not only choice)

Late Enlightenment

ISOTYPE / Viennese Method



Information and Knowledge

Framing:

reflexive rationalism; action (not only choice)

Late Enlightenment

ISOTYPE, Viennese Method



Knowledge for Whom? (cf Sugden 2013)

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Mises's theoretical lacuna

money as a “socio-technical expedient” (“gesellschaftstechnisches Hilfsmittel”) (Neurath)

“Monetary calculation only has meaning within the sphere of economic organization. [...] it cannot be used as a criterion of national wealth and income” (Mises 1920)

“The attempts to determine in money the wealth of a nation or of the whole of mankind are as childish as the mystic efforts to solve the riddles of the universe by worrying about the dimensions of the pyramid of Cheops” (Mises 1949)

Neurath's practical lacuna

“In the capitalist economy every individual enterprise has its money calculation and profit or loss. In the socialist society it is only possible to estimate whether an economy as a whole of a certain structure is to be preferred to another. [...] The distribution of the productive forces follows only from the economic plan, never from the comparison of different individual enterprises; [...] **The place of money calculation in individual enterprises under capitalism is taken by calculation in kind, with its estimation of utility, of the entire economy under socialism.**” (Neurath 1983 (1925b), p 471–472)

Thank you!



alexander.linsbichler@univie.ac.at