

Academy of Management
Annual Meeting
12 August 2013, Orlando

Learning to overcome unintended self-interest

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Rational Choice theorists' main goal is to maximise/optimize. To be able to optimise they make a number of assumptions, among them that **there is no learning** and that they **thus can predict future human action** as man is postulated to be driven exclusively by radical self-interest.

Learning and human action are of course intimately connected: **human learning changes human action**. That is the whole point of educating.

By definition learning cannot be predicted.

200 Year Old Roots: Economics as Social Physics



19th century economists transferred two ideas from physics:

- the rationality principle is a law like Newton's Law of Gravitation
- humans, like atoms following these physical laws, obey the rationality principle

They wanted to better than physicists and biologists: predict *and* explain!
(Newton only predicts, Darwin only explains)

There are numerous serious problems with these axioms:

- it denies the existence of learning, i.e. unknowable theories that change human actions
- it denies the existence of free will
- it denies the existence of chance, of stupidity

“Similarly, anyone proposing the assumption of a given list of all possible forms of human actions, with its implied denial of learning, is caught up in contradictions. For one, if his knowledge was indeed given, this would imply assuming that he already knows everything that he will ever know (otherwise, if he could learn something tomorrow that is not already known today, his list of possible classes of actions could no longer to be assumed to be complete).” (Hoppe 1997: 58)

Predicting future human action is not possible and it is not rational.

„Prediction is impossible in economics“(McCloskey 1983: 487)

Therefore economists‘ predictions must either be *postulates* (totally unscientific according to Bertrand Russell) or they are *normative demands/imperatives* (all humans MUST act like this; also not scientific).

Assuming to know the unknowable is what Nobel Laureate Hayek (1974/1989) called the “pretence of knowledge”, which leads to “charlatanism and worse”.

“The recognition of the insuperable limits to [the economist’s] knowledge ought indeed to teach the student of society a lesson of humility which should guard him against becoming an accomplice in men's fatal striving to control society - a striving which makes him not only a tyrant over his fellows, but which may well make him the destroyer of a civilization.”

Chicago School economists have completed the journey from a pragmatic social philosophy via a natural science to a completely **reality-free formal science**: mathematics.

The price economics pays is that their object of study, the human being, is essentially stripped of his humanity (free will, learning, morality): human behaviour, is emptied of humanity for the sake of being able to model.

In the economic model, free will and learning are replaced by robotic observance of the rational principle: **humans always maximise their self-interest.**

The maximisation of egoism is obviously not, as mainstream economics claims, an ethically neutral maxim. I would call it a deeply *immoral* maxim that is made more dangerous and harmful by being sold as a neutral axiom of a social science *posing* as a natural science.

”

Prediction-Hubris drives out Morality



Smith's *homo economicus sympathicus* was replaced by *synthetic man*.

Bizarre positions are held by the great economists:

Michael Jensen (1994 with William Meckling) claims that it is the *nature of man* to always maximise his own utility (p. 4) and assumes because humans maximise not only money that makes the assumption unassailable (p. 15). This *ethical egoism* is, according to Bernard Williams (2006: 12), a logical impossibility.

It gets bizarre – but nobody notices any longer – when Jensen (2010 with Erhard) proposes "A Value-Free Approach to Values" by *declaring* "integrity" a "positive phenomenon" and therefore not a value.

Economists would do well to read their Adam Smith again: his human was driven mainly by sympathy, the will to exchange things, had a conscience (the "impartial spectator"), and was subject to stupidity and learning.

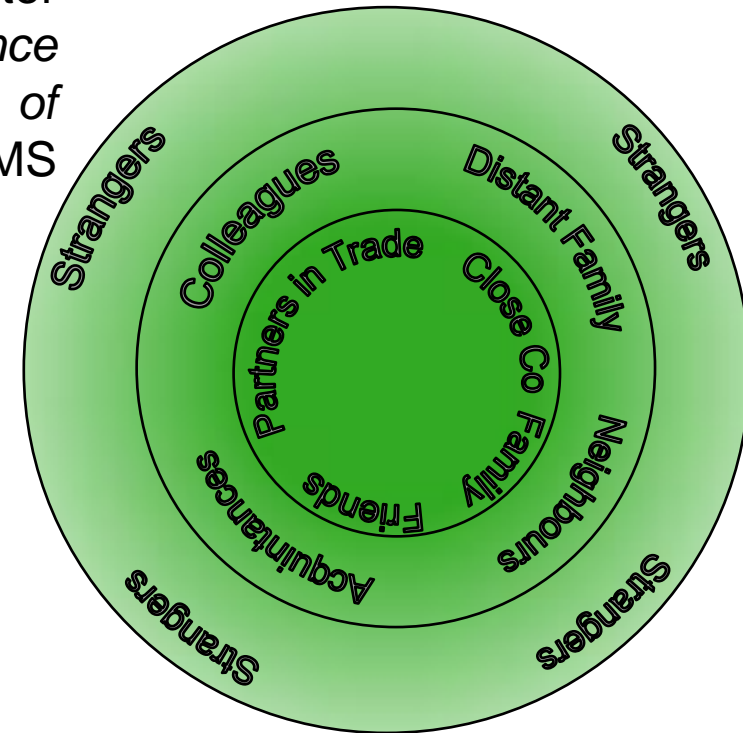
Smithian Business Ethics and Learning: One Example

Smith was a Sentimentalist and keen observer of humans, who believed that people did and should **learn** about the situation in which agents find themselves before passing judgement and then acting. Human action could not be reduced to one principle (selfishness).

Smith concretely argued „that the impartial spectator approves of an *ascending degree of benevolence towards others in direct relation to our knowledge of or familiarity with them*“ (Otteson 2002: 183, TMS VI.ii.1.16)

Compare this to Principal/Agent Theory.

Compare this to your own experience and morality.



Conclusion



The foundations of economics and business are not built „on the cold granite of self-interest“ (Stigler 1982: 136).

Economics is built on far softer stuff: on humans, who need to sympathise with others, who make mistakes, who are subject to chance, who learn. *They are unpredictable*, says Adam Smith.

If humans are unpredictable because they learn and because they are not radical egoists, then Economics as Mathematics **is a dead end**. Like the failing Enlightenment rationalist project (MacIntyre 2007) it needs to be re-evaluated.

But that is difficult: 200 years of ideological reinforcement without opposition (Marxism was even more rationalist) are not just a fad.

Smithian economics and other non-mainstream approaches (libertarianism, Schumpeterian economics) offer alternative views.

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