

INTRODUCTION

Introduction to the symposium on institutional analysis, market processes, and interdisciplinary social science

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Abstract

Heterodox economic approaches such as Austrian economics and market process analysis rely upon a less formalistic approach to rationality than neoclassical frameworks. We argue such looser formalism provides a unique opportunity for interdisciplinary engagement to investigating and understanding social institutions, outcomes and complex phenomenon. This introduction briefly summarizes the contents of this invited issue as effective examples of such interdisciplinarity.

Key words: Austrian economics; interdisciplinary; market process

The rational choice theory aims to explain human behaviors and social outcomes by starting from the basic assumption that individuals act in pursuit of their own self-interest. Self-interest need not be synonymous with selfishness. In so far as self-interest is subjectively defined, such may naturally encompass others regarding behavior and or weighted preferences for the long run and socially cooperative outcomes. Self-interest implies simply that people respond to incentives. Humans will choose more of something that they value when costs are lower, and they will choose less when costs are greater. Comprehending complex social processes and outcomes is thus a matter of understanding the interactive and systemic patterns of how different incentive structures influence tradeoffs across perceived opportunity sets of diverse decision-makers.

It is unclear when or by whom the first construction or application of rational choice theory took place, as its existence and application can be seen as far back as ancient philosophy (See [forthcoming 2022](#)). But the classical political economy took a quantum leap forward in exploring the substance and implications of rationality (in the 18th and early 19th centuries). By assuming that all human beings share a common capacity for rationality, Smith (1776) emphasized how political rules shaped personal incentives, guided human choices, and ultimately explained the patterns of divergent social outcomes across national contexts.

Intellectual historians Levy and Peart (2008) refer to Smith's approach as 'analytical egalitarianism,' as it essentially overturned the previously dominant, ethnocentric and white colonialist explanations for the wealth and poverty of nations. By assuming that all human beings share an equal capacity for practical reasoning, classical economists conceptually isolated the potentially causal influences from public policies and social institutions apart from the relatively immutable traits of human agents.

The late 19th and early 20th centuries bore witness to the emergence of several challenges to this core assumption of a common form of human rationality. Various eugenic theories tried to ground differences in human behavior in genetic, especially racial, predispositions (Leonard, 2017). Keynesianism raised direct and significant challenges to the primary assumption of human rationality *tout court*. The optimistic view of a self-regulated market economy, comprised of adapting rational

agents, were less appealing amidst the harsh realities of the great depression. Keynes (1936) insisted instead that human actors were unreliably governed by 'animal spirits.'

Furthermore, in the wake of the Keynesian revolution, the economics profession of the mid to late 20th century took a hard turn towards mathematical formalism and quantification. This shift had significant conceptual and practical consequences for the interpretation of rationality within the neoclassical paradigm. In mathematical terms, rationality became synonymous with equilibrium and optimization, and in turn, irrationality became defined as any and all deviations therefrom. In this view, anything short of strict utility maximization is perceived as irrational and inefficient by definition.

Mainstream economics, whether arguing for market failure or market efficiency, placed behavioral assumptions about human agents at the foreground and moved substantially in the direction of institutionally antiseptic forms of analysis. From the vantages of some academic disciplines, especially sociology and behavioral psychology, this formalized economic agent, homo-economicus, seems a lifeless automaton – devoid of any personal soul, moral compass, family network, or sense of place, culture and historical experience. Thus, many fields outside of economics, harbor a deep skepticism and even animosity towards the rationality assumption and its applications.

On the other hand, valuable research contributions have been cultivated via arbitrage across economics and behavioral psychology and across economics and sociology. Behavioral economics took the prominent findings surrounding human cognition and forced neoclassical economists to recognize a variety of contexts wherein individual agents systematically choose in apparently irrational or systematically biased patterns (Rabin, 1998). Economic sociology also inspired a sort of expansive updating to the neoclassical framework. Granovetter (1973) and Swedberg (1990) turned early identifications of 'social capital' into a progressive research program leveraging social network analysis. As a result, current models of rationality typically contain a more sober acknowledgement as to the limits of calculative cognition and the potentials for behavioral bias. Contemporary discussions regarding economic value also tend to entail a broader understanding of subjective utility beyond pecuniary wealth and traditional capital assets. Notions of 'ecological' or 'conditional' rationality (Smith, 2003) are more prominent amongst today's economists over strictly formalized visions of hyper calculative efficiency robots.

These hybridized research programs are not without shortcomings. Many behavioral studies have not endured consistent replication attempts (Hantula, 2019), and despite the productivity and reception of economic sociology and rational choice theory therein, many non-economists retain deep skepticism of economic rationality.

Not all forms or purveyors of economic analysis remain rigidly committed to mathematical formalism and its associated version of rationality as quantitative optimality. Thus, some traditions including but not necessarily limited to Austrian economics, market process analysis, comparative political economy, and new institutional economics have traced and leveraged a consistent and alternative understanding of rationality from Classical economics to today. To broadly generalize these fields, rationality is seen less as a static mathematical benchmark and more as a motive force with an iterative and dynamic relationship to social institutions.

The mathematical conception of rationality that reigned in 20th century formal economics requires a variety of stringent assumptions, including the localized and temporal perfection and completion of knowledge and that preferences have a very particular form. In contrast, the alternative view of rationality described by Mises (1949 [2010]) and Buchanan (1999) among others, and exemplified in work such as North (1990) or Ostrom (1990), overtly relaxes many of the supposedly perfect knowledge assumptions of rationality to instead identify choice procedures whilst also coping with imperfectly informed and ill-defined property rights arrangements. When rationality is understood as a mere descriptor of purposeful human choices, social outcomes are understood as the mechanisms behind institutional development, adaptation, and long-run social evolution. Rationality in this vein, simply means responding to incentives and acting according to the available information as it is relevant

to available alternatives. The world persistently churns through second-best scenarios as opposed to idealized optimal equilibriums.

In this symposium, we invited scholars with relevant research experiences to investigate a potential union between the more cultural and anthropological disciplines such as behavioral psychology and sociology on the one hand, and the less formalized models of rationality common across heterodox approaches such as Austrian economics and other traditions on the other.

Whitman's (2021) paper embraces this challenge most explicitly. As titled, his manuscript attempts to map out and explain the parameters of an overtly 'Austrian Behavioral Economics.' Rather than emphasize the oppositional policy inferences across traditional Austrian and behavioral economics, Whitman outlines five foundational principles of Austrianism (subjectivism; methodological individualism; process, discovery and entrepreneurship; knowledge problems; and spontaneous order) and explains their relevance and applicability to behavioral social science.

Choi and Storr (2021) co-authored the piece, 'The market as a procedure for the discovery of whom to not trust' applies a market process approach of rationality and strategic decision making to understand the formation and effects of distrust. Their contribution exemplifies the complementarity between non-formalist methods and non-formalist subject matters, as non-quantifiable trust exists as a non-priced and non-market-based social resource.

Kaminski (2021) and Carvalho (2021) both leverage game theory to conduct a comparative political economy. Carvalho, 'set[s] out a... model rooted in Austrian economics and cultural evolutionary theory, called the 'experimental society.' He notes that the convenient elements of this openly rational approach to experimental processes avoid the sticky equilibrium dynamics where meritocratic norms induce explosive but unstable conditions of economic mobility and meritocracy. Kaminski similarly explains the usefulness of rationality and game theory methods for understanding the particularly informal institutional norms of prison inmates. He shows how game-theoretic tools can inform a spontaneous order account of the formation of institutions governing prison life.

We interpret the studies included herein as mild support for the unique potentials of interdisciplinary research. Austrian economics and market process approaches tend to have a broader understanding of rationality than orthodox neoclassical frameworks, and such affords convenient opportunities for engagement with other social disciplines. Whereas quantitative formalism is needed to operationalize the rationality assumption common in neoclassical models, studies such as these demonstrate the potentials of interdisciplinary engagement to leverage more diverse methodological approaches and investigate less quantifiable and more informal social subject matters.

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