

METAPHYSICAL PRESUPPOSITIONS OF THE NEO CLASSICAL ECONOMICS PARADIGM

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Abstract

The extent to which neoclassical economics reflects a set of subjective values of Enlightenment thinkers, instead of objective facts, and the context in which it operates are usually neglected. We argue that neoclassical economics, has a two-fold agenda: (i) to provide a technology in order to legitimize capitalist social order according to liberal values and thereby, (ii) justify the liberal ideals of political philosophy. Thus, we strongly reject the claims of its value-neutrality. Liberal society (as legitimized by neoclassical economists) is represented by a model in which each individual exists in an isolated cell of self-interest maximization connected to the rest of society only through *voluntary relationships* based on exchange of goods and services. Self-interested individuation and social harmony are seen as mutually reinforcing and, hence, harmonious. The body is seen as the primary instrument dedicated to the only legitimate objective of accumulation for its own sake. On the basis of such a model, perfect competition finds justification as a system that most nearly meets the desire for accumulation. The formation of government to organize society is undertaken by an infallible general-will of the citizens of a society. The government is supposed to provide a neutral framework within which people can pursue their own preferences based on their own conceptions of the good. The questions of 'right preferences' and 'origin of production technology' are deliberately avoided to obscure the fact that the preference for preference itself (i.e the preference for accumulation) must be prioritized within capitalist order. Policies are advocated to move the actual world to the ideal world of perfect competition.

I: INTRODUCTION

This paper attempts to explain the broader framework within which neoclassical economics has evolved. We argue that it is not the articulation of consumer choice problem which is important for neoclassical economics, rather it has a two-fold agenda: (i) to provide a technology in order to legitimize capitalist social order according to liberal values and thereby, (ii) justify the liberal ideals of political philosophy. Thus, we strongly reject the claims of its value-neutrality. Liberal society (as legitimized by neoclassical economists) is represented by a model in which each individual exists in an isolated cell of self-interest maximization connected to the rest of society only through the *voluntary relationships* based on exchange of goods and services. Self-interested individuation and social harmony are seen as mutually reinforcing and, hence, harmonious. The body is seen as the primary instrument dedicated to the only legitimate objective of accumulation for its own sake. On the basis of such a model, perfect competition finds justification as a system that most nearly meets the desire for accumulation. The formation of government to organize society is undertaken by the infallible *general-will* of the citizens of a society. The government is supposed to provide a *neutral framework* within which people can pursue their *own* preferences based on their *own* conceptions of the good. The questions of ‘right preferences’ and ‘origin of production technology’ are deliberately kept aside. Policies are advocated to move the actual world to the ideal world of perfect competition.

The major objective of this paper is to highlight the link between this neoclassical ideal of social organization and its broader framework, called liberalism. It is argued that this theoretical link is not accidental, but relates closely to an individualistic ideology which systematically eschews questions of moral values regarding right and wrong ends of life. Furthermore, the results presented in neoclassical economics have moral implications and are not purely abstract conclusions. Economics, if, studied in complete abstraction from all human values would be an insubstantial discipline. It is not possible for an economist to maintain that he is merely studying the techniques of adapting limited means to multiple ends without taking account of the *source* and *justifications* of these ends at the first place. Therefore, a paradigmatic statement of neoclassical economics is necessary in order to have a proper appreciation of this school of thought.

II: DEFINING PARADIGMS

The Enlightenment philosophers were of the opinion that religion offers a secondary type of reasoning presuming something as dogmatic, such as its belief system. Science, to them, on the other hand was a methodology whereby we can discover some absolute universal truths without any arbitrary presumption [Kant (1787)]. However, it was until 1960’s when Kuhn (1970) explicitly explained the role of a belief system, (he calls it Paradigm), in every scientific research program as follows: “A *scientific community* cannot practice its trade without some set of *received beliefs* (p. 4)”. These beliefs form the foundation of the “educational initiation that prepares and licenses the student for professional practice” (p. 5). *Research*, to him, is “a strenuous and devoted attempt to force nature into the conceptual boxes supplied by professional education” (p. 5). A *shift* in professional commitments to shared assumptions takes place when an *anomaly*¹ “subverts the existing tradition of scientific practice” (p. 6).

These shifts are what Kuhn describes as *scientific revolutions*—“the tradition-shattering complements to the tradition-bound activity of normal science” (p. 6). A new paradigm requires the reconstruction of the prior paradigms leading to the reevaluation of prior facts, reframing of old problems and finding new pathways for evolutionary change [Henderson (1991)]. This is difficult and time consuming. It is also strongly resisted by the established scientific community. When a shift takes place, “a scientist’s world is qualitatively transformed [and] quantitatively enriched by fundamental novelties of either fact or theory” (p. 7). Paradigms gain their status because they are more successful than their competitors in solving problems. Thus, Kuhn correctly recognizes the revolutionary role of a paradigm in the direction of development and scope of any scientific research. The key reason for this is that no observation can be independent of the conceptual framework, language and theoretical systems of the observer. ‘Neutral’ and ‘objective’ empirical work, where facts speak for themselves is an impossible dream [Hodgson (1988): p. 35-36]. Popper (1959) recognized the importance of theory-bound interpretation of observations as, “they are interpretations in the light of theory” [Popper (1959): p. 107]. Neoclassical economics, being a social science, too is no exception in this regard as it has flourished within a certain type of mind-set about the world and has worked for the promotion of its world view.

II.1: Elements of a Social Science Paradigm

A social science paradigm can be built upon the presupposed answers to two questions. There have been two prominent paradigms in the history of mankind that claim to answer these questions. Table 1 lists the questions along with the answers given by these two major paradigms. Note that the Western paradigm is only a representative of the Humanistic paradigm dating from the antiquity. The Islamic paradigm is taken to be a representative of religious world-view.

Table 1: Structure of a Social Science Paradigm

Questions	Western Paradigm	Islamic Paradigm
1. The Concept of Human Being <i>a. His status in the universe</i> <i>b. Concept of his life</i> <i>c. Telos</i>	<ul style="list-style-type: none"> • Sovereign/Independent/autonomous • Related to this world only • Seeking pleasure/self-fulfillment 	<ul style="list-style-type: none"> • Subservient to Allah • Created by Allah for a specific time in the world, along with being <i>after death</i> (akhirah) • Seeking the approval of Allah by His service
2. Source of Knowledge	Reason and experience	<i>Revelation</i> [specifically in the form of the Holy Quran and <i>Sunnah</i> of the Holy Prophet (SAAW) ²]

It is apparent from the above that the direction of any social science crucially depends on the answers given to these two questions. These questions form a constellation of concepts, values and practices which are shared by a community that forms a particular view of reality according to which the community organizes itself. The first question is related to the conception of the human self while the second is concerned with the epistemological foundations of the conception of the good. The

differences in the sources of acquiring knowledge has resulted in differences of scope and evolution of knowledge within the two paradigms; one seeks to explain the universe in the light of revelation while the other tries to explain it through reason and observation.

The next section elaborates and sets out the main features of the liberal paradigm as articulated by John Rawls (1971). The choice of Rawls as the main expositor of liberalism is supported by the fact that his *Theory of Justice* was the single most important stimulus to the renaissance of the debate on political theory during the 1970s and 1980s. Rawls states this in the preface to his book as,

“Indeed I must disclaim any originality for the views I put forward. The leading ideas are classical and well known. My intention has been to organize them into a general framework by using certain simplifying devices so that their full force can be appreciated” (Rawls: p. viii)

This exposition of the fundamental position of liberals will serve two purposes: first it will reveal the impact of liberal values on the making of neoclassical economics, that is it describes the philosophical foundations of neoclassical economics; and second, it will explain the broader Western paradigm regarding the constitution of society.

III: RAWLS AND THE LIBERAL PARADIGM

There are two ideas at the heart of Rawls’ concept of ‘justice as fairness’: (1) *original position*, and (2) the *veil of ignorance*. “For Rawls to think about what would be a just or fair organization of society is to imagine what principles would be agreed to by the people who were denied knowledge of certain particular facts about themselves” [Mulhall and Swift (1992): p. 3]. The intuition used here is one that links justice or fairness to ignorance. If people do not know who they are going to be in society, then it will be sensible for them to choose fair principles to regulate society. The core question is: What substantive claims about justice does the veil of ignorance embody? The original position aims to model the sense in which it is appropriate that people should be regarded as *free* and *equal* when thinking about justice. To understand this in rather more concrete terms, ask the question, what information does the veil of ignorance exclude; that is what are people ignorant of in their original position? To start with, individuals do not know the type of person (black-white, poor-rich, Muslim-non-Muslim) they are going to be in society once the veil of ignorance is lifted. Moreover, they are also ignorant of their talents and natural endowments. The original position, with this formulation, is intended to capture the idea that differences in capabilities and status should be irrelevant while thinking about justice, and people should be regarded as ‘equal’. Rawls argues that the distribution of these attributes is “arbitrary from a moral point of view” [Rawls (1971): p. 15]. Justice requires that the bargaining should be made under fair conditions, and this is why knowledge of inequalities is ruled out.

The original position also entails that people are ignorant of their own conceptions of the good in order to model the sense in which it is appropriate to regard them as free [Sandel (1982)]. The idea is that in Rawls’s original position people do not know their conceptions of the good, meaning that they do not know what their beliefs are about how they should live their lives, about what makes their life worthwhile. As justice requires that attention should not be paid to the different talents of different members of the society, similarly it requires that no attention be paid to the particular conception of the good held by those individuals.³ The link between freedom and ignorance of the conception of the good goes as follows: To Rawls, the important thing

is not the conception of the good that people have and seeking to reach an agreement as favorable as possible to those particular conceptions, rather people are motivated in the original position by an interest protecting their capacities to “frame, revise and rationally to pursue” such conceptions [Rawls (1971)]. Thus, fundamental importance is given in the Rawlsian scheme to something that lies behind such conceptions, their freedom to decide upon their own conception of the good, to act upon, and to change those decisions [Mulhall and Swift (1992)], in Kant’s terminology, their *autonomy*. By attributing human beings to the pursuit of this highest-order interest and by denying the original position knowledge of their beliefs, Rawls is making the substantive moral claim that, in thinking about justice, what matters is people’s freedom to make their own choices and to change their minds, and not what they choose.

Based on the above description of individuals in the original position, Rawls concludes that society should be regulated by following two principles because they will be agreed upon all such individuals:

- *Basic Liberty Principle:*
Each person is to have equal right to the most extensive total system of equal basic liberties compatible with a similar system of liberty for all.
- *Difference Principle:*
Social and economic inequalities should be arranged so that they are both (a) to the greatest benefit of the least advantaged, and (b) attached to offices and positions open to all under conditions of fair equality of opportunity. [Rawls (1971): p. 302]

The first principle is directly derived from the ignorance of people within original position and is aimed to protect their basic freedom to choose, change and pursue rationally their own ways of life. The second principle derives from the fact that given the ignorance of individuals about their likely position in the social and economic order, it is rational for them to be ‘maximin choosers’, that is to ensure that the worst position is as good as possible. This leads them to support equality and accept inequality only when it helps the worst off position. It is clear that the original position embodies substantive normative claims and the principles that emerge as ‘conclusions’ are to some extent built into the very construction of the thought from which they are ‘derived’. Rawls presumes that men are by nature free to choose a plan of life in a way that puts no antecedent restrictions on the sort of life plans that are chosen [Ansari (1990)]. It is hardly surprising that Rawls ends up with rights to equal basic liberties starting with the presumption that people making the agreement are attributed a highest-order interest in their autonomy [Mulhall and Swift (1992)]. This leaves the question of *why* people should be characterized as Rawls does unanswered.

III.1: Freedom and Subjectivism

The preceding discussion makes the point that the core idea of the Western paradigm, the ideology within which Marginalism has flourished, is ‘*freedom*’. Freedom is the sovereign power of an individual to pursue his own wants in his own way, or in other words, the right of ‘expression for preference’. If it is claimed that people’s highest-order interest is to protect their freedom to choose, one has to accept some other beliefs about the moral values in order to think that this is what is particularly important about people. The right of preference has a logical implication that the individual’s wants can only be concatenated (put together) and not ranked in any order because the emphasis on the individual’s choosing his/her own way of life means that liberals have to believe that such choices are arbitrary expressions of preference; that is value is in the eyes of the beholder. This implies that moral judgments are completely subjective. If no way of life is better than any other, if choices are simply the expressions of individuals’ preferences having no rational

ground to justify claims about their value, then it would be irrational for government to encourage anything but letting people make their own choices. But, at this juncture, the important matter is the *status* of the claim that the state should be liberal. Obviously, if this claim regarding the state is also a subjective expression of preference, then it is self-defeating and incoherent. This is so because if the preference for liberal state is subjective, then the liberal has to accept that the endorsement of liberal state order is without any *rational ground*. When confronted with this problem, the liberals retreat to a more restricted version of the argument claiming that there is a difference between judgments about how people should live their lives, and judgments about how people ought to be treated by one another and by the state [Mulhall and Swift (1992)]. The former is said to be subjective, while the latter is presumed as objective; that is the judgment of the first kind which are subjective gives one an objective reason to leave people free to make such judgments (but only such judgments and no other) for themselves. The position of the liberals depend upon the validity of the distinction between the two kinds of judgments, however, Raz (1986), another liberal, rejects this attempt of differentiating between the two qualitative judgments.

An even stronger idea relating to the relation between liberalism and objectivism is that indeed some ways of life are better than others; however, the framework of liberal rights is necessary for people to make informed and rational judgments about which are which [Mulhall and Swift (1992)]. But it is very important to be clear what this argument, that some ways of life are better than others, implies. It cannot commit one to believe that there is *only single* conception of the good life that is objectively superior to all others. The claim, Raz (1986) explains, that reason can guide us that some lives are worthier than others does not contradict that for each individual there is a plurality of conflicting and incompatible ways of life.⁴ More importantly, the claim that some choices are better than others does not mean that someone else, or an institution such as the state, can *force* someone to live a better life which they have not autonomously chosen. This is perfectly in accordance with, as embodied in Rawls original position, our highest-order interest in making our own choices. It was this Enlightenment shift in thought in favor of individual liberty that made its way in the vision of Adam Smith.

IV: 'VALUE' AND 'SCARCITY': BASES OF MARGINALISM

Neoclassical economics makes two fundamental claims about the social existence of human life: first, there is “scarcity” of resources in all human societies that necessitates competitive individualism and second, market prices determined by interaction of individuals reveal the actual (exchange) ‘values’ of goods and services in the society. Neoclassical economics is not merely a technical discussion of some human actions; rather it provides foundations for the rationalization of a certain type of society as perceived by Walras (1874):

“In fact, the whole world may be looked upon as a vast general market made up of diverse special markets where social wealth is bought and sold. Our task then is to discover the laws to which these purchases and sales tend to conform automatically.”

[Walras, *Elements of Pure Economics*: p.84]

Despite its name, the *essence* of the Marginalist Revolution was not really the mathematical concept of the “margin”, but rather the building up of a theory of value

which was based on the phenomenon of *exchange* rather than production and distribution. William F. Lloyd's (1833) definition of economics as *catallactics* -- the "science of exchange" -- better describes what the Marginalists were aiming at and what Neoclassicism, in its essence, is all about. The essence of the Marginalist Revolution was the novel idea that the "natural value" of a good is determined *only* by its *subjective scarcity*, i.e. the degree to which people's desire for that good exceeds its availability. The Neoclassical notion of *scarcity* is *not* merely that something is "rare", but rather that it is *perceived as rare* by consumers. To take Lionel Robbins's (1932: p.46) famous example, bad eggs may be "rare", but if people do not desire bad eggs, then even one bad egg is already "too many" in their eyes and thus will not have much value. In contrast, if people's desire for diamonds is very great, then in their perception, even a large number of diamonds may be "too few", thus they will command a high price. Consequently, the Neoclassical concept of *scarcity* is quite distinct from the Classical notion: the *subjective* element of desire is an integral part of the Neoclassical story. There are, thus, two essential ingredients of Neoclassical value theory: (1) that the relative values of things arise from their relative scarcity and (2) that subjective desires are an integral part in determining relative scarcity. Both of these notions have an old history predating 1871-4, but they were not always wedded together. Some economists believed that rarity gave rise to value without thinking too hard about whether rarity was a subjective or objective thing.

IV.1: Utility and Value

Value is the quantitative measure of the quality, called *utility*, whereas the measure of utility expressed in terms of a common unit is said to be *price*. Goods and services have utility because they have "a power to satisfy wants",⁵ i.e. to satisfy wants is to change the condition of the person from a lower degree of happiness to a higher degree. The power thus to modify the subjective human condition is utility; "the difference between the two conditions affords the measure of that utility" [Clark (1881): p. 461], that is termed value. Measures of utility are, of course, made by a single independent being; and society as an organic whole is regarded as one great isolated being that measures utilities. "It is society, not the individual, that makes the estimate of utility which constitutes a social or market valuation" [Clark (1881): p. 461]. Therefore, market value is a measure of utility made by society considered as one great separate individual. This Neoclassical story is often captured in diagrammatic form by the idea that *equilibrium prices and quantities* of goods are determined jointly and simultaneously by the demand and supply for those goods, the technology that translates social valuation into a common unit is price. Value and utility are thus treated as inseparable as a measure and that which is measured.

Reason and Self

Where does that utility come from? It is human 'self'. The justification of value as originating from self can be traced to Kantian metaphysical foundations [Ansari (1990)]. To Kant, practical reason involves an unconditional imperative which commands categorically. A categorical imperative must command independently of its context. This is a pure idea of a law: "Act only on that maxim whereby you can at the same time will that it should become a universal law" [Kant (1962): p. 46]. For pure reason to be practical, the individual must be able to determine actions without reference to his desires. The categorical imperative provides the criteria for the validation of these desires. All ethical principles based on natural laws which can be universalized pass this test of the categorical imperative and are, therefore, substantive moral laws. Thus, the requirement of the

universalization in the Kantian framework is that principles should be chosen without reference to any particular value or ideals. Kant assumes that “man exists as an end in himself not merely as a means to be arbitrarily used by this or that will” [Kant (1962): p. 55]. It follows that in this moral order:

- a) Human self determination is the sole basis for ascribing value to moral principles.
- b) All individually validated moral ends are of equal value. Society is merely a concatenation, not an ordering, of these values.
- c) The individual will is an independent source of value.⁶ This is the recognition of the individual’s sovereignty.

Utility: The Sole End for Self

The Pareto Principle often stated as, ‘*Every individual is the best judge of his own welfare*’ is deeply rooted in the metaphysical foundations of Neoclassical economics. However, this criterion is not arbitrarily chosen, it stems as a logical implication of the Western paradigm because, as mentioned by Sen (1970), Pareto criterion has been accepted to be an expression of individual liberty. A brief introduction to Bentham’s Utilitarianism will reveal this fundamental relationship.

The concept of ‘utility’ was first introduced by Jeremy Bentham (1748-1832) who introduced the distinction between individual “hedonic calculation” (maximizing individual utility) as a basis of a *positive* theory of behavior, and social calculation (maximizing aggregate utility) as a *normative* theory of social organization. For Bentham, morals and legislation can be described scientifically, but such a description requires an account of human nature. Just as nature is explained through reference to the laws of physics, so human behavior can be explained by reference to the two primary motives of pleasure and pain; this is the theory of psychological hedonism:

“Nature has placed mankind under the governance of two sovereign masters, pain and pleasure. It is for them alone to point out what we ought to do as well as to determine what we shall do. On the one hand, the standard of right and wrong, on the other the chain of causes and effects, are fastened to their throne.” [Bentham (1789)]

There is, Bentham admits, no direct proof of such an analysis of human motivation but he asserts that, “They govern us in all we do, in all we say, in all we think: every effort we can make to throw off our subjection, will serve but to demonstrate and confirm it” [Bentham (1789)]. Related to this fundamental hedonism is a view of the individual as exhibiting a natural, rational self-interest--a psychological egoism. In his “Remarks on Bentham’s Philosophy” (1833), Mill cites from Bentham’s *The Book of Fallacies* (London: Hunt, 1824: p. 392-3):

“[i]n every human breast...self-regarding interest is predominant over social interest; each person’s own individual interest over the interests of all other persons taken together.”

Fundamental to the nature and activity of individuals, then, is their own well-being, and reason---as a natural capability of the person---is considered to be subservient to this end.

The only ethical principle Bentham accepted was that increasing general happiness is “good”, while decreasing it is “bad”. His moral philosophy reflects what he calls at different times ‘the greatest happiness principle’ or ‘the principle of utility’--a term which he borrows from Hume and , in this formulation, his moral philosophy, then, clearly reflects his psychological view that the primary motivators in human beings are pleasure and pain. Thus, moral philosophy or ethics can be simply described as “the art of directing men’s action to the production of the greatest possible quantity of happiness, on the part of those whose interest is in view” [Bentham (1780)]. Bentham argued that ‘general happiness’ was no more and no less

than the sum total of individual utilities of all members of a society and emphasized the need for equal weights in this summation: no person's utility counted more than another's.

Value and Sovereignty

These comments reveal the reason for the development and adherence of economists to the Pareto-Principle. Neoclassical economists accept the Pareto welfare (the judgment of individuals' welfare should be left entirely in the hands of individuals) as the only moral maxim and Pareto efficiency (that is social contracts governing the exchange of commodities should be such that no individual can improve on his utility at the cost of other) as the only moral principle for the functioning of society.

This discussion has paved the way for the conclusion: the Western paradigm sees the individual as sovereign and attempts to promote a society that fosters this basic value. The conception of "value" is central for any society: every society must have a definitive concept of the good. Society must put some 'value' on the activities and services rendered by its citizens. With God at the centre, the reference for the determination of value is made to God, that is an activity has value because God has given it that attribute. On the other hand, the determination of value must be a function of human 'self' where the individual is placed at the center of society. Sovereignty implies that each individual should have the liberty to determine his own happiness in his own way, which in turn entails reference to the 'self' for the formation of value. The only normative standard for the 'self' is seeking utility which is the intensity of happiness that ultimately creates value. Thus, value is necessarily originated from self-defined pleasure and pain by the sovereign individual. Neoclassical economics advances this fundamental claim of the Western paradigm regarding the determination of value: that is it provides the technology to show that it is the desires of sovereign individuals that ascribes value to products and processes in society.

IV.2: Scarcity: Expression of Freedom

Every elementary book of economics starts with a widely accepted definition of economics which makes the fundamental claim about the scarcity of resources available for any society to satisfy all its wants. In fact, *subjective scarcity* is the crux of the Neoclassical theory of value. Given the objective of welfare maximization, these scarce resources have to be allocated such that they produce the maximum level of satisfaction of wants of human individuals living within the society. Since any single resource can be put to alternative uses, the allocation problem requires it to be used where it produces maximum utility. Thus, wherever scarcity of resources exists, the economic problem of allocating those resources needs to be addressed. The institution which best solves this allocation problem is the 'competitive market'. However, one can realize that this definition presumes liberal values and takes for granted the objectives of what has been termed the 'Western paradigm'. This fact can be brought to light by asking the fundamental question, "Why are resources scarce at all?" The answer to this question is of immense importance because it reveals the underlying relationship between modern economics and the Western paradigm.

The justification of scarcity is based on the interrelationship of two well-accepted propositions in the West: our wants are infinite and, on the other hand, resources are, finite. This mismatch between wants and resources poses the problem of scarcity. Scarcity, in this formulation, is treated as universal because it is imposed on human being by nature. It can be seen that this validation of pre-social rationality

stems from the presumed scarcity of available means; a rational individual is one who uses resources efficiently so as to get the highest level of utility; that is he/she maximizes. There are two questions that can legitimately be raised at this point: Who has determined that wants are unlimited? Should they be unlimited? Such normative questions need to be answered because, after all, if scarcity is created due to wants-means disparity, it can be addressed in principle from two dimensions, (i) either by increasing resources or (ii) by reducing wants. The reason for the acceptance by Neoclassical economists of the first and absolute rejection of the second option is deeply rooted in the Western liberal discourse that was taken at their face value. Scarcity emerges from the notion that the objective of human being on the earth is to satisfy as many wants as possible.

Scarcity and Capital

If the highest-order interest of a person is to prefer what he wants to prefer, any value judgment about the desirability of individuals' preferences will erode the individual's *equal liberty* to choose his own conception of the good. This is because the ordering of wants requires some presupposed principle that is used as a measuring yardstick. The Enlightenment philosophers, as described above, could not afford to propose any rational basis for such choices of ends or conceptions of the good as they are seen as the arbitrary expressions of preferences [Sandel (1982), Taylor (1990)]. The circularity of argument can now be seen as: resources are scarce because wants are unlimited; wants are unlimited because liberal values imply that every individual has the fundamental right to express his wants because he is the sovereign being. Therefore, no legitimate ground exists to put bounds on the pursuit of wants by an individual and, thus, the possibility of accepting the option of reducing wants to meet scarcity is out of consideration under the Western paradigm.⁷ Scarcity of resources is necessary as well as a sufficient condition for the expression of equality and liberty in any liberal society.

Since each individual is in pursuit of his own freedom, it is possible that the freedom of one may erode the freedom of another. Therefore, the question how individual interests can be reconciled with the wider social interest, that is how social order is to be maintained needs to be addressed. The fundamental conflict among individual interests is reconciled through the free operation of the market whereby people with different, but morally equal, preferences come across each other under mutually beneficial social contracts so as to obtain means or resources to satisfy their own preferences respecting those of others. Why should people enter such binding contracts in the first place? The Neoclassical explanation runs as follows: since each individual has different tastes for different units of consumption, including the opportunity cost of supplying inputs, and he has different talents, any single individual, most likely, will not be able to satisfy his own tastes using his specific talents alone. It is for this reason that individuals will gain advantage by specializing in the field of production. As a result, in order to maximize utility, individuals are willing to supply particular inputs for the production of a variety of goods for the satisfaction of the tastes of other people expecting the exchange of goods they desire. Hence, *social relations* are the *relations of exchange* based on voluntary contracts between individuals where everybody feels that there is a personal benefit from their particular role in exchange. Smith speaking of how cooperation between humans is motivated says:

“.....man has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only. He will be more likely to prevail if he can interest their self-love in his favor, and show them that it is for their own

advantage to do for him what he required of them.....We address ourselves not to their humanity but to their self-love..." [*Wealth of Nations*: p. 14]
Given the independence of individuals to make decisions in their own interests, society is seen as the sum total of the individuals who compose it.

The underlying basis for making these social contracts is their capacity to facilitate individuals to accumulate as much resources as possible in order to realize their personal objectives; that is it is their ability to exercise their own conception of the good. Indeed, the sovereignty to pursue one's own objectives could only be exercised with the help of resource accumulation; the more means you have, the more freedom you enjoy to pursue your preferences or wants. Thus, it is the market that becomes the corner stone of society. Or stated alternatively, society becomes a market under such social organization. A *market society* is one where self-interest seeking individuals get involved in the social contract to exchange goods and services in order to accumulate maximum resources to realize their freedom. The mutually beneficial and binding social contracts in the market establish the necessary conditions that lead to the attainment of maximum individual freedom, and this freedom, in turn, can be concretized only through the accumulation of maximum resources. This accumulation for the sake of accumulation is called *capital*. Capital is the pure quantity which is in perpetual, never ending and eternal search of itself. Thus, it is established that capital is the concrete form of freedom, and the maximization of freedom entails maximization of capital accumulation. The '*right to property*' as a fundamental human right is the logical outcome of this chain of arguments. This right means that "means of production", such as labor, raw material, etc., should be owned privately so that people have incentive to enter into the social contract which is the justification of social existence and the essential fabric of society.

However, it is clear see that the absoluteness of individual values, as it is claimed, is rendered incoherent when capital assumes its material form [Ansari (2004)]. If the ultimate objective is the pursuit of freedom, then, as demonstrated above, capital is its material manifestation which, in turn, becomes the absolute value or reference point to evaluate individuals' choices. The desirability of any particular conception of the good depends on its ability to generate capital: the more capital a particular value-conception can accumulate, the higher the value it will command in capitalist members and civil society. Thus, capital accumulation becomes the benchmark in capitalist social order and all social contracts, and hence relations, are justified on the basis of market determination of value. "The dominance of the preference for preference negates all other value claims and the market, through its (accumulative and competitive) rationality, colonizes both individual being and the whole of society" [Ansari (2004): p. 77].

V: KNOWLEDGE IN ECONOMICS: THE HUMEAN POSITION

A broad and longstanding consensus exists among economists about the character of the relationship between positive and normative propositions as well as about the related problem of the appropriate scope of economic expertise in society. Positive economics is supposed to consist of the domain of propositions which in one way or the other have to do with what *is* the case, or what has been the case in the past or what may be expected in the future. Conversely, evaluative or prescriptive or normative propositions are concerned with what *ought* to be done or not done by a government or an individual. These latter types of propositions are believed to be in ultimate sense expressions of subjective personal feelings or opinion that are closed to further argumentation, whether in public or in the person's own mind. Most economists suggest that there is at least some scope for common reasoning on empirical grounds to be brought to bear in normative discussion, making it possible

that some of the disagreements between economists may be resolved objectively. But this process of reasoning on normative issues is bound to become exhausted in discussion once we have reached the 'ultimate values' that different people want to endorse [Friedman (1953): p. 5, Robbins (1935): p. 142-150, Samuelson (1947): p. 219-220, Robinson (1969): p. 99-100, Hayek (1978): p. 297, Schumpeter (1954): p. 805-806, Arrow (1983): p. 13, Blaug (1980): p. 126]. Briefly speaking, the theory of knowledge which has been accepted by most economists in the twentieth and twenty first centuries has made an assumption that while all questions of analysis and evidence can have objectively true or false answers, only some and not all questions of evaluation and prescription can have objectively right or wrong answers [Roy (1989)].

Behind the Consensus and Hume's Moral Scepticism

This consensus among economists is founded on a more general theory of knowledge or epistemology, that may be called '*moral scepticism*', whose most influential exponent has been David Hume (1711-1776), followed by Popper (1962), Stevenson (1937 & 1963) and Hare (1963). While criticizing the dogmatic religious ethics, Hume (1739) showed that it is illogical to try to deduce evaluation and prescription from analysis of description. For our purposes, we follow the influential interpretation of this position of Hume by the philosopher Hare (1952) and apply it to the economic context. This may be termed Hume's First law:

No normative conclusion can be validly deduced from a set of solely positive premises. No normative conclusion can be deduced without at least one normative premise having been made.⁸

It is this dualism between 'is' and 'ought' that is supposed to separate science from ethics, the objective from the subjective and the rational from the irrational in the Western paradigm. Hare interprets Hume's position by asking "will there remain something to be done which is neither logical nor fact-finding but pure evaluation or prescription" after we have "done all we can"? He says yes it is possible, and this can be stated as Hume's Second law:

After every empirical, logical and mathematical question has been answered in an economic problem, there is no further scope for common reasoning to work. If an evaluative statement is made at this point, then it can express no more than a subjective attitude or feeling of the individual economist towards the subject.

This ensures that normative disagreements may be objectively resolved by a measure of common reasoning and evidence but the potential for such reasoning will be exhausted leaving merely a subjective personal sentiment which people may or may not happen to share and which is beyond further discussion [Roy (1989)]. This position of the state of economic knowledge will be referred to as 'Humean'.

Moral Scepticism and Freedom

The adoption of this moral scepticism in the Neoclassical economics may be explained by a desire to seek a shield against dogmatism and tyranny [Roy (1989)].⁹ Economists, being scientists, believe that the choices of the individual agent who is studied by economists, whether as consumer or voter, deserve to be treated with the fullest respect. The Humean scepticism provides the necessary grounds for this kind of respect to individuals' choices and their consequences. It is this scepticism which forms the basis of the widespread belief in Neoclassical economics of the impossibility of interpersonal comparisons of utility. Therefore, economists become moral sceptics because they are committed to the freedom of the individual to form and hold his/her own normative beliefs. They are also committed to the objectivity of science and seek to shield it from being compromised by the forced imposition of the

beliefs of individuals. It is the problem of the allocation of scarce resources between competing ends that is advanced as a central problem in the Neoclassical system. The objective function, that is the relative weights which should be given to the various outputs, is not ultimately for the administrator to decide, but rather to be taken by him as a parameter from an *appropriate authority*. A Humean view of the expertise of economists would be one in which the economist did not question the social objective function but rather took as his task the statement or solution of the formal problem of the allocation of scarce resources between defined ends. The next sub-section examines the problems and paradoxes associated with this Humean theory.

V.1: Paradoxes of the Humean Theory of Knowledge

The major question can be posted as: Is any *objective* knowledge *possible* in this field of inquiry and who should be thought of as possessing such knowledge and how may they be identified? The difficulties are two fold in this regard:

First, the acceptance of Humean moral scepticism for the justification of individual freedom carries an internal contradiction. How can a theory that denies the possibility of moral knowledge be based on a moral purpose? If all moral propositions are ultimately the statements of personal opinion, the defense of individual freedom and the integrity of science must also be matters of mere personal opinion, and the undeclared purpose of protecting freedom by adopting moral scepticism will be internally defeated by that very scepticism itself [Roy (1989)]. Sooner or later, the advice of the expert economists turns out to be an expression of the personal dogmas and prejudices they hold. Popper (1962) has written most frankly on this issue saying that it is impossible to determine ends scientifically. He finds no rational grounds for choosing between two ends. If someone loves violence and you love peace, there is no scientific argument whereby you can prove to him that he is wrong without involving some personal opinion or value judgments. "I frankly confess that I choose rationalism because I hate violence, and I do not deceive myself into believing that this hatred has any rational grounds. Or put it another way, my rationalism is not self-contained, but rests on an irrational faith in the attitude of reasonableness. I do not see that we can go beyond this" [Popper (1962): p. 357-359]. Max Black (1983) replies to Popper on behalf of the violence lover as, "Bravo! You hate violence but I hate argument. You call me irrational but I glory in that title. Like you, I hold that there are no ultimate reasons for my irrationality" [p. 27-28].

Thus, it is not possible without contradiction to start with a set of moral premises and arrive at a conclusion that there cannot be moral knowledge. A theory of economic policy which both assumes a free and open society and basis itself on moral scepticism cannot have anything to say about the objective *why* a free and open society or why market institutions must be preferred to an Islamic society or non-market institutions. Just as the religious scholar says that a good is good only because God says it is good, so the modern economists says that a good is good only because market forces have made it a good. As Arrow (1983) says, "The only rational defense of a liberal position...is that it is itself a value judgment" [Arrow (1983b): p. 67]. Ironically, economists who adopted the Humean epistemological position in reaction to dogmatism come to be endorsing the same dogmatism in the name of 'popular will'--the tyranny of the majority and of individual human rights.

The second paradox is even more fundamental. The sceptic's attack on the possibility of moral knowledge can be extended even to non-moral contexts, such as mathematics, history, psychology, etc., and induction itself; that is *moral* scepticism makes way for *total* scepticism, the position that ultimately there is *nothing* whatsoever that can be objectively known [Bambrough (1979)]. Either all of positive

economics is attacked with as much scepticism as normative economics, or we accept, inconsistently, one and reject the other while both share the same ultimate foundations. Bambrough (1979) has put the matter clearly as:

“So long as the premises used in support of a proposition include any propositions of the same type as itself, a philosophical sceptic, or any other enquirer who is determined to seek the ultimate grounds, is properly dissatisfied, since his question is about how propositions of that whole type are to be validated, and he cannot consistently permit any such proposition to be unproblematic when it occurs among the premises of the argument whose conclusion is of the same type....the grounds offered for a proposition of kind *k* will necessarily be either of kind *k* or not of kind *k*; if they are of kind *k* they may be logically sufficient for the proposition that they are intended to support, but a further question will arise about the validation of the premises themselves; if on the other hand they are not of kind *k* then they necessarily cannot be logically sufficient for the truth of proposition that they are intended to support” [Bambrough (1979): p. 128]

If the is-ought dualism is sufficient to doubt the possibility of moral knowledge, then not only normative economics but all of economics, rather all knowledge, will be lost in the whirlpool of scepticism.¹⁰ Truth can be defined merely by an agreement of opinions; a proposition is true in Neoclassical economics only because economists happened to agree it to be true; if such agreement fails to hold in the future, the proposition will no longer be true. Moreover, there is no way of telling from within this theory who is supposed to be the expert. A Humean has to take the position that there is ultimately no objective distinction possible between knowledge and opinion, expert and layman, science and prejudice. Thus, no morally responsible Neoclassical economist can work without implicitly calling upon ultimate values that are endorsed by what we have called the ‘Western’ paradigm.

Notes

¹ An empirical result is called *anomaly* if it is difficult or if implausible assumptions are necessary to “rationalize” it within the existing paradigm.

² SAAW stands for *Sallalla ho A'laihi Wa Alehi Wa Sallam*, meaning ‘Peace Be Upon Him and His followers’.

³ However, this idea is problematic because if one believes that some ways of life are better or more valuable than others, why should one hold that it makes sense to ignore those beliefs when thinking about justice? This implies that the society should be organized so as to be fair as between someone who believes in the value of life spent pursuing the Will of God and someone who prefers alcohol, loves music etc.

⁴ Thus Raz argues that it is coherent to argue that we can judge the life of an artist to be objectively more valuable than that of a gambler, without being able to judge whether the life of an artist is more valuable than that of a farmer.

⁵ Clark (1881), p. 461.

⁶ See Ansari (1990), p. 22.

⁷ Moreover, ‘maximin rationality’ commits the sovereign individual to the pursuit of unlimitedness of wants (i.e. freedom).

⁸ This may be compared with the rule stated by Hare: “No imperative can be validly drawn from a set of premises which does not contain at least one imperative.” (*The language and Morals*, p. 28).

⁹ Roy (1989) gives an excellent account of the fact that modern civilization which has adopted the moral skepticism of Hume is one born out of the medieval civilizations which were influenced by the authoritarianism of the Church.

¹⁰ For a discussion the application of this total skepticism, see Roy (1989).

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