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Behavioral economics: implications for economic theory and policy[☆]

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Abstract

The concerns of behavioral economics are considered in the context of the decentralized, private ownership market economy. Modes of adaptive economizing behavior are outlined and their implications for augmenting the classical paradigm outlined. The role of viability mechanisms that indirectly and adaptively coordinate producers and consumers out of equilibrium is emphasized. The destabilizing nature of the creative intelligence and adaptive economizing transforms the world. The example of internal combustion, its effect on agriculture and transportation and the corollary use of resources provides a timely example.

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Rational man's stone of Sysiphus is to think the possible, form his values, to plan. His respite comes with the act. He observes himself, collects his rewards and punishments, and renews himself for the next intellectual struggle, the next leap of faith.¹

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¹ "Rational Choice and Economic Behavior", *Theory and Decision*, volume 1, p. 249, 1971.

1. Introduction

When I first began writing and speaking about adaptive economizing and economic dynamics almost fifty years ago, I thought I had pretty much discovered the last word on the subject. In the meantime, as I elaborated on various aspects of the overall perspective, I discovered that other scholars had already been or were currently in the process of articulating their own versions of similar ideas. This occasion, however, is, I believe, the first time I have been given the opportunity—as the last speaker—to actually have the last word on the subject. I want to thank Mark Pingle and those who helped him put together this interesting conference for giving me that honor. Behavioral economics consists in (i) identifying general characteristics, rules, or principles of economic behavior based on direct observation and inquiry; (ii) constructing models based on these characteristics; (iii) determining the extent to which behavioral models approximate observed behavior; (iv) the use of models to generate scenarios of future behavior that may be influenced by policy instruments or exogenous influences. In contrast to the position represented by Milton Friedman's 'as if' proposition, to the behavioral economist the realism of a model's assumptions or axioms is as relevant as that of its implications.

Obviously, however, the very act of identifying general characteristics involves abstraction and decomplexifying the details of everyday experience in all its manifold variety. One does not escape the methodological problems inherent in this process by taking the behavioral point of view. In this talk I want to touch on some of the problems that have arisen in my own attempts to advance the behavioral approach. These involve (i) the abstraction process; (ii) the behavioral content of the classical/neoclassical and contemporary macro concepts of a market economy; (iii) augmenting that content with concepts of adaptive economizing; (iv) exploring implications of the behavioral approach for understanding economic change in the world economy.

2. Abstracting and decomplexifying

The fundamental problem of any theoretical science is to identify, isolate or synthesize salient features of experience that make it possible to reduce the complex movements of phenomena into systems of cause and effect. This task is one of abstracting and decomplexifying experience so we can think about reality. We can, however, think about just so much, so we decomplexify to suit our needs, to satisfy our aesthetic sense, to facilitate our plans of action.

Regardless of our motivation, it is only in terms of such systems that the dynamics of experience can be understood, communicated unambiguously, and subjected to the demands of logic. In no other realm of inquiry is the difficulty inherent in this task greater than in economics. Individuals interact among themselves and within hierarchies of organizations that interact among themselves, all of which interact with the biological and physical world. The theoretical economist is faced with systems within systems within systems. Moreover, our fundamental atoms have imagination: the ability to create images of things that do not exist and stories of events that have not happened. They have the potential to design and carry out actions that embody those created images in new artifacts that transform those

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