

Reply by Peter E. Earl to Referee 1 (Andy Denis)

I am very grateful to Andy Denis for his swift and perceptive comments on my paper. The fundamental issue that Andy raises about me not criticizing Frey and Gallus for assuming (like most economists do) that macroeconomics is in essence aggregated microeconomics is one that I fully support. I will deal with this Post Keynesian perspective when I revise the paper. The paper was originally merely intended to be a comment on the behavioural/psychological issues. However, it started to grow more into a regular article without me recognizing that, if it were developing towards that scale, then I should raise this issue rather than limiting myself to the choice-related aspects. Given the importance of the area of research that Frey and Gallus are trying to promote, it is important that it does not get underway in terms of the conventional reductionist view of macroeconomics. By expanding the paper to bring in the Post Keynesian methodological perspective it may help ensure more researchers will think carefully and not simply take the conventional reductionist approach.

I am grateful, too, for the reference to Ken Binmore's views on the use of the preference ordering idea in neoclassical economics and I will incorporate it into the revised version of the paper. It is a good illustration of the 'as if' way of thinking but I suspect (most than Andy seems to do) that many mainstream economists habitually operate in a frame of mind that assumes preference orderings exist and take pretty much the form assumed in their models, because their training leaves them without any other way of making sense of how choices are made. The mainstream probably feel comfortable about their 'as if' view for thinking about a choice made at a moment in time based on preferences 'given' at that moment (I would still want to question whether preferences generally would take the form assumed, or whether choices might instead be based on the use of decision rules and social inputs). However, having assumed that at a point in time a 'given' set of preferences exists, it is easy to slip into assuming that future choices will be made on the basis of the same set, rather than considering how the consumer's basis for taking our decisions changes as time passes in a path-dependent way. It was this latter concern that underpinned what I wrote at the end of the paper and this is very much in line with the Post Keynesian view of economic systems as unfolding in historical time rather than in (reversible) logical time. Taking a 'given preferences' perspective diverts research away from understanding the dynamics of behavior through time and thereby from appreciating how choices can be made in ways that are very different from how they are viewed 'as if' they are made in mainstream models.

The two passages that Andy quotes at the end of his report as being puzzling and possibly suffering from typos are actually exactly as I intended them to be, but I clearly need to spell things out further in the revised version of the paper. The first (about barriers to the taking place of imagined possibilities) is in essence GLS Shackle's version of the infinite regress problem that arises in forming expectations and which is overcome via our cognitive limitations truncating how far we try to figure out what is going to happen. I've written about it at length in my recent book (with Bruce Littleboy) on Shackle in Palgrave's Great Thinkers in Economics Series, so it makes sense to me more

readily than it will to others and I must spell it out more thoroughly in the next version of the paper as part of dealing with Andy's concerns about the limits of what I say when trying to convey the nature and significance of the infinite regress issue.

The second passage that Andy quotes as puzzling is mainly an allusion to what goes on in choice modeling via, say, contingent valuation methods that seek to elicit preferences on hypothetical tradeoffs that consumers may not previously have considered. What I'm suggestion is that in such a situation people may be able to 'come up with' the values being asked of them but these are being derived on the spot and may prove rather poor guides as to how they will choose in related contexts at different points in history. It may be that, as they are asking themselves about tradeoffs they are willing to make, they are doing so in terms of some higher-level given preferences that limit the bounds of what they view as acceptable. However, to take a multi-level view of preferences is quite different from what is normally done and it begs the question of whether the higher-level preferences would take the form typically assumed rather than, say, involving the kind of hierarchy proposed by Maslow. But more generally, I have increasingly come to see choice (as I think philosopher John Dewey did) as a process in which 'making up one's mind' often involves precisely that: constructing a basis for choosing in the situation in question (e.g., we may wrestle with normative questions about what is the right way to choose and what is an appropriate kind of selection to make), rather than simply using an existing preference system to derive a ranking. There is a kind of paradigm shift problem here (and I have been through my own 'long struggle to escape' from the presumption that consumers 'have' preferences): if one has been trained over many years to view choice in the latter way, the idea of people making up preferences to answer survey questions might be hard to get into – even though mainstream thinking is often suspicious about the value of survey-based research rather than that based on published data series. My concern about the way that Frey and Gallus have been anchored may come across more effectively if I discuss anchoring in relation to the notion of paradigms ass barriers to change.

Finally, I must say that the paper was probably at least as 'tantalizing' for me as aspects of it proved to be for Andy: in writing it I have come to have a much clearer idea of how I should proceed when I write my next book on consumer behavior, planned to commence a year from now. Ideally, I would have preferred to delay to that book my discussion of the Frey and Gallus research agenda, but it seemed important to sound some alarm bells now.