

Dosi, Giovanni; Roventini, Andrea

## Article

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Intereconomics

*Suggested Citation:* Dosi, Giovanni; Roventini, Andrea (2016) : The Irresistible Fetish of Utility Theory: From “Pleasure and Pain” to Rationalising Torture, Intereconomics, ISSN 1613-964X, Springer, Heidelberg, Vol. 51, Iss. 5, pp. 286-287,  
<https://doi.org/10.1007/s10272-016-0619-6>

This Version is available at:

<https://hdl.handle.net/10419/191174>

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Giovanni Dosi and Andrea Roventini

# The Irresistible Fetish of Utility Theory: From “Pleasure and Pain” to Rationalising Torture

This note briefly examines the path that the economics discipline has taken since adopting the assumption that human behaviour is exclusively driven by utility maximisation. This view has prevented the full comprehension of most economic phenomena and has spread to other social disciplines, occasionally leading to results either ridiculous or tragic, such as using utility theory to rationalise torture. Such academic absurdity must be ended.

Possibly the worst turn which economics as a discipline has taken was adopting Bentham's theory of utility as the exclusive driver of economics and human behaviour at large.<sup>1</sup> The maxim is that “there is no right and wrong, just pleasure and pain”. And indeed, even “pleasure” in this theoretical framework is reduced to mere material rewards: Sex, drugs, and rock and roll do not motivate the utility-maximising agents of Bentham's theory.

Of course, the founding fathers of the discipline knew better. Adam Smith – often quoted but never read by contemporary economists – knew much better than most. He had a rich taxonomy of drivers of behaviours in which “utility” – roughly approximated by his notion of “prudence” – played a relatively minor part.<sup>2</sup> Other relevant “pagan” and “Christian” drivers ranging from love to honour, from charity to dignity, played a major role in characterising what human beings do, even in the economic sphere.<sup>3</sup>

Nonetheless, the utility reduction has been a fundamental device in the development of standard microeconomics and, in turn, is the basic apparatus of contemporary “microfoundations” of macroeconomics. The founding fathers of contemporary economics, such as Kenneth Arrow, were well aware of the roughness of such an approximation, but it seems the

followers are egregiously ignorant of it. In particular, given the subtle transformation in contemporary times of *normative* Ramsey-type models into *positive* ones,<sup>4</sup> the effects of every policy are often assessed according to some mysterious welfare function which (almost) always collapses into the utility function of a representative agent.<sup>5</sup>

Indeed, all the evidence turns out to show that the approximation is wrong, even in an economic context in which “utility” could be given a clear meaning, e.g. maximising profits. Overwhelming evidence shows that economic agents and organisations utilise routines and heuristics hardly reducible to the max of anything.<sup>6</sup> And even in very simple experimental contexts, departures from the prediction of the max-U rationality are the norm.<sup>7</sup>

Come as it may, a significant part of the economic discipline has not only proudly neglected such evidence, but also continues to try to use the max-U interpretative lense well outside the economic domain. Gary Becker has been a pioneer in that respect. The “economics of crime”, “the economics of religion”, “the economics of culture” and “the economics of marriage”, among others, have become respectable fields of the economic drive to master all domains of human behaviour. In that respect, the pretentious claims of most economists to be rigorous “scientists” as opposed to the scholars of other social disciplines is akin to the beliefs of Western European colonisers who thought that Indians and Africans had no soul and thus were not human beings. Given the absurdity of the para-

1 J. Bentham: An Introduction to the Principles of Morals and Legislation, 1789, Dover Publications.

2 A. Smith: Theory of Moral Sentiments, Oxford 1759, Blackwell's.

3 See also D.N. McCloskey: The Bourgeois Virtues: Ethics for an Age of Commerce, Chicago 2006, University of Chicago Press; and D.N. McCloskey: Bourgeois Dignity: Why Economics Can't Explain the Modern World, Chicago 2010, University of Chicago Press.

4 F.P. Ramsey: A Mathematical Theory of Saving, in: Economic Journal, Vol. 38, No. 152, 1928, pp. 543-559.

5 For an overview of the pitfalls of such fiction, see A. Kirman: Whom or What Does the Representative Individual Represent?, in: Journal of Economic Perspectives, Vol. 6, No. 2, 1992, pp. 117-136.

6 See M.D. Cohen, R. Burkhart, G. Dosi, M. Egidì, L. Marengo, M. Warglien, S. Winter: Routines and Other Recurring Action Patterns of Organization: Contemporary Research Issues, in: Industrial and Corporate Change, Vol. 5, No. 3, 1996, pp. 653-698, among others.

7 For a critical survey of some of the evidence, see G. Dosi, L. Marengo, G. Fagiolo: Learning in Evolutionary Environments, in: K. Dopfer (ed.): The Evolutionary Foundations of Economics, Cambridge 2005, Cambridge University Press, pp. 255-328.

Giovanni Dosi, Scuola Superiore Sant'Anna, Pisa, Italy.

Andrea Roventini, Scuola Superiore Sant'Anna, Pisa, Italy.

digm, the best response should have been to simply ignore them. As Bob Solow once put it in reference to two prominent neoclassical economists, Lucas and Sargent:

Suppose someone sits down where you are sitting right now and announces to me that he is Napoleon Bonaparte. The last thing I want to do with him is to get involved in a technical discussion of cavalry tactics at the Battle of Austerlitz. If I do that, I'm getting tacitly drawn into the game that he is Napoleon Bonaparte.<sup>8</sup>

But unfortunately, the profession did not take up Solow's wisdom, and one has now professional journals full of very fancy math and sophisticated econometric analyses on every angle of human activities based on the max-U of something. Often this type of exercise boils down to some ridiculous triviality. For example, the mainstream economic profession has recently discovered that:

A basic fact about babies is that it takes both a woman and a man to make one. Implied in this fact is that some form of agreement between mother and father is required before a birth can take place. In this paper, we introduce this need for agreement into the economic theory of fertility choice. In particular, we provide empirical evidence that agreement (or lack thereof) between potential parents is a crucial determinant of fertility; we develop a bargaining model of fertility that can account for the empirical facts ...<sup>9</sup>

Economists have also been able to formalise and empirically test a signaling model of rational lovemaking.<sup>10</sup> The list of such research examples could be very long indeed.

Moreover, the max-U principle jointly employed with the anthropomorphisation of economic aggregates has been especially terrible for macroeconomics. Notwithstanding the Panglossian claim that macroeconomic policy is becoming more of a science, mainstream DSGE models spectacularly failed not only in forecasting the Great Recession, but also even in explaining it and in providing any useful policies.<sup>11</sup> Even worse, such models provided legitimacy to the blood-and-tear policies imposed by the IMF, especially in Latin America, and

more recently by the Bundesbank and the European Commission (e.g. the Fiscal Compact) on the rest of Europe.<sup>12</sup>

While all this is scientifically shameful and ridiculous, it is not a crime, at least not in any sense as defined by our criminal codes. However, this cancer continues to spread. Since there is no "right or wrong", what about the violation of human rights if it is in the "utility" of some agent – be it the state or perhaps some Mafia boss or a paramilitary group engaged in ethnic cleansing? Here economic theory provides some sophisticated help. Consider this abstract from a recent paper by Baliga and Eli:

We study torture as a mechanism for extracting information from a suspect who may or may not be informed. (...) We analyze a dynamic model of torture in which the credibility of these threats and promises is endogenous. (...) We use our model to address questions such as the effect of enhanced interrogation techniques, rights against indefinite detention, and delegation of torture to specialists.<sup>13</sup>

Or consider this insightful contribution from Mialon et al.:

... we have a formalization of the observation in Rejali (2007) that reliance on torture typically makes an agency sloppier in its other preventive work and leads to agency "deskilling." If legalizing torture reduces the agency's preventive effort, it can reduce security, and it is more likely to do so if the attack threat is higher. Moreover, it reduces welfare if the costs of torturing the innocent are sufficiently high ...In this extended context, there are conditions under which the agency's optimal torture policy is to use torture in strong-evidence cases whether or not torture is legal in strong-evidence cases.<sup>14</sup>

This, we think, has surpassed the borders of criminal activities. And if one considers that the referees and editors have all agreed to publish such papers, we are probably in the realm of organised crime. Would any pharmacology journal accept a paper titled something like "The effectiveness of drug X, administered to prisoners under different feeding conditions in Dachau"?

The whole scientific community should loudly tell them to stop, and while we are at it, we can also try to eradicate the primary source of the metastasis.

8 See A. Klammer: *Conversations With Economists: New Classical Economists and Opponents Speak Out on the Current Controversy in Macroeconomics*, Lanham 1983, Rowman & Littlefield Publishers, p. 146.

9 M. Doepke, F. Kindermann: *Bargaining over Babies: Theory, Evidence, and Policy Implications*, NBER Working Paper No. 22072, 2016, p. 1.

10 H. Mialon: *The Economics of Faking Ecstasy*, in: *Economic Inquiry*, Vol. 50, No. 1, 2012, pp. 277-285.

11 G. Fagiolo, A. Roventini: *Macroeconomic Policy in DSGE and Agent-Based Models*, in: *Revue de l'OFCE*, Vol. 124, 2012, pp. 67-116.

12 J.-P. Fitoussi, F. Saraceno: *European Economic Governance: The Berlin-Washington Consensus*, in: *Cambridge Journal of Economics*, Vol. 37, No. 3, 2013, pp. 479-496.

13 S. Baliga, J. Ely: *Torture and the Commitment Problem*: accepted Review of Economic Studies, published online 27 February 2016.

14 H. Mialon, S. Mialon, M. Stinchcombe: *Torture in Counterterrorism: Agency Incentives and Slippery Slopes*, in: *Journal of Public Economics*, Vol. 96, No. 1-2, 2012, pp. 33-41, here pp. 34.