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Article

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COVID-19 and the end of the rational illusion - Economics and management beyond rational decision making

Ynte K. van Dam, Markus Will

The COVID-19 pandemic has been framed as a classic example of a Black Swan that for many players in society came as a complete surprise (Platje, Harvey, Rayman-Bacchus 2020). This framing can be disputed, because a pandemic of this magnitude, though not COVID-19 specifically, was predicted as being waiting to happen (Taleb 2007). The apparent complete surprise that a disaster that is waiting-to-happen actually happens reveals how available information on disasters-to-be is systematically ignored (Van Dam, Webbink 2020). The Black Swan of COVID-19 turned out to be a black elephant in the socio-economic room: impossible to miss, but everybody pretends it is not there (Will 2020).

One may or may not wonder whether the ability to ignore inconvenient information is a human faculty or a global socio-economic systemic deficit. Either way the tendency to ignore threatening information has repercussions for theory construction in economy and management. Classical and neoclassical economy are based on fully informed rational decision making. Behavioural economics has relaxed this assumption and is based on bounded rationality and incomplete information, but still assumes that an economic actor uses the information that is available and accessible. Strategic management, as well as risk and business

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continuity management are based on rational decision making. And last but not least the ever prevalent theory of planned behaviour in consumer psychology assumes rational beliefs are formed based on available information. Neither economics nor management nor consumer decision making is prepared to handle the intentional denial of information at the behest of maintaining business as usual.

In the mathematical representation of systems ‘information’ is defined ‘input that results in behavioural change’. Though this may be true in a purely mechanical sense, it reduces the issue of ‘rational behaviour’ to a meaningless tautology: people act rationally upon available information because if they fail to act this proves the absence of information. A more promising approach is widening the scope to encompass various sources of conflicting information. The critical information will fail to induce behavioural change if it is countered by information that nobody appears to act upon it or by organisational pressures to ignore inconvenient information (Alvesson, Spicer 2012; Davis, Luthans 1980). This opens the way to motivated reasoning and the active construction of desired information out of the plethora of available inputs (Bayes, Druckman 2021; Kunda 1990), a process that has been streamlined and automatised by the major social media and search engines of the internet. Apparently rational action boils down to finding acceptable explanations for one’s economic behaviour (Van Dam 1997). All in all people are better at finding plausible reasons for what they do, than at doing what they have good reason to. In this respect at least “human behaviour is less complex than most psychologists had hoped for” (Nuttin 1975: 216). Examples of non-rational and non-cognitive models are, e.g., radical behaviourism in psychology or cybernetics in management. Radical behaviourism has long rejected unobservable mental phenomena as explanantia of behaviour (Skinner 1974) and likewise cybernetics has offered managerial models that are based on observable behaviour only (Beer 2002). Nevertheless the application and acceptance of these models in economics (Lea 1978, 1981), marketing (Foxall 1986, 2001), and management (Cammaert 1984; Espinosa Porter 2011) has been limited.

This special issue originates from an invitation to any kind of original contribution and/or reflection to the topic of non-rational and non-cognitive theory in economics and management, related to sustainable development, COVID-19 or

plain human stupidity. The first three papers presented in this issue answer that invitation in complementary ways. One focuses on the improvement of micro-economic management by a change in the system. One focuses on improving macro-economic policy by a change of the system. And one argues that the system cannot be changed at all.

From a micro-economic perspective Gospodarek (this issue) discusses managerial strategy in a highly uncertain real world. Based on an appropriate model of reality the gap between intended and actual consequences of a selected strategy should be minimal. Combining systems theory and game theory the author presents a research programme that promises to minimise the gap between managerial intentions and strategic consequences.

From a macro-economic perspective Duckers and Rogers (this issue) challenge the rationality of reducing economic calculations to monetary terms. The authors show that economic accounting of return on investment and cost-benefit accounting regains relevance by choosing the correct unit of measurement. So the economics of energy policy should be measured in return on invested energy rather than return on invested money. This still fails to take into account the external costs of (especially fossil) energy extraction, but it may deter policy schemes that cost more energy than they deliver or save.

From a philosophical perspective Kampen and DeVita (this issue) challenge the idea that either the socio-economic system or the purpose of that system can be changed in any meaningful way. This notwithstanding, in an afterthought they suggest some room for optimism.

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