PRESION WITHIN REASON
FROM ACTIONS TO MARXIAN PRACTICE

by
Yanis Varoufakis

No. 161  AUGUST 1991

ABSTRACT

This paper examines the theoretical implications of the a priori definitions of rationality and freedom which permeate orthodox economics in particular and the liberal discourse in general. Based on a Negelian critique of historicist approaches to the meaning of liberty and reason, it focuses on the incommensurable problems that a praxis inflicts upon game theory, contractual theories of justice and rational choice Marxism. It considers the postmodern critique and the method of deconstruction but concludes that the meaning we seek is best gleaned through Marx’s conception of praxis.

National Library of Australia Card Number 9803160 39146
Freedom within Reason: From Axioms to Marxian Praxis

I

Does being free mean that we are not unfree and are we rational if we are not irrational? If liberty and rationality are notions not dissimilar to those that nature throws out, then their definition is possible by means of negation provided they and their opposites are mutually exclusive. In the same way that a substance is organic if it is not inorganic, a woman will be thus declared free if she is not unfree or a deed rational if it is not irrational.

An initial criticism of this definition may throw the spotlight on its absolutism. A person can find her environment to be more or less oppressive or act in a manner that displays elements of irrationality without being downright stupid. Indeed, even economists have argued that the problem with their discipline is that it does not recognize degrees of irrationality or unfreedom. In the case of the latter, economic models have been castigated for their failure to capture the loss of autonomy due to unequal wealth or property rights, and in the case of the former they have been criticized for making unrealistic assumptions concerning the ability of agents to think clearly.

To illustrate the above and motivate the forthcoming second criticism, suppose we have a field enclosed by a fence. Inside we have freedom or rationality and outside we have their opposites acting to get in but prevented from doing so by the fence. Orthodox economic theory in particular and liberalism in general are completely taken by this type of metaphor. The tentative criticism identified in the paragraph above suggests that the demarcation of freedom and rationality from tyranny and senselessness may not be so neat. Parts of the fence have caved in and there is a grey area in which the two concepts live in an uneasy symbiosis with their opposites. The mixing is not complete as there are inner defences that do not allow the barbarous outsiders a complete walk-over, but it is serious enough to warrant studies of bounded rationality (in the context of limited computing ability) and of degrees of liberty (in terms of distributive justice). No doubt these amendments accommodate the initial criticism by conceding that some tension between rationality and liberty on the one hand and irrationality and unfreedom on the other must be entertained. At the outset social theories are built upon the assumption that the fence is intact and then, once the social world is better understood, the assumption is relaxed and new insights are sought as the fence begins to baulk. Nevertheless, the spatial paradigm is at the centre of such theory.

The second criticism is more profound as it rejects the very possibility of understanding rationality and freedom in terms of naturalistic metaphors. Both notions demand not only a physical capacity to act freely and rationally but also that the agent has reached a certain level of social development and is conscious of these notions. And this is the rub. Before I can do something with my freedom of
speech I must have something to say. If my faculties permit me to attain my objective, I must have an objective before my action is deemed rational. Moreover, I must be wise in the way I choose my objectives. By contrast the naturalistic perception of which the focused field is one example, is far less demanding. To gain another such metaphor, the main condition for a satellite to break loose from a planet's gravity is that its vectorial speed exceeds a certain threshold - either its speed exceeds the threshold or it does not. Though we may say that the satellite has been set free if it does, we must be careful not to mistake the metaphorical resemblance between this freedom and the freedom of human agents for something more profound. Nor should we succumb to the temptation of identifying the efficiency with which targets are reached with rationality. The former is an adequate rule to use in ballistics but quite inappropriate as an inclusive guide to rational behaviour.

Unfortunately, the naturalistic definition of Reason and Liberty seems correct because our language permits associations between the notions such as 'free-fall' and 'free-speech'. The danger comes from our tendency to accept analogous definitions for concepts whose analogy springs from the common metaphor our minds utilise in order to attain comprehension. If the analogy is epiphenomenal, it is likely to cause serious confusion. For instance, the conditions that must hold before the phenomenon of an object travelling through the ether is definable as a 'free-fall', can be described without reference to the object itself. In other words, 'free-fall' is definable a priori. In contradistinction, the phenomenon of 'free-speech' is not. Any attempt to construe it without reference to the determinants of what a person has to say, is pregnant with the danger of describing an instance where a voice synthesiser recites a speech randomly selected from its memory banks as a manifestation of free speech. Similarly, although we can specify a priori measures of the speed with which a computer performs a calculation, it is impossible to do likewise in the case of humans without returning to the terribly narrow instrumental rationality of neoclassical economics. It translates that the attitude towards a priori and axiomatic definitions of liberty and rationality is a crucial aspect of the ensuing social theory. I will be arguing that to define these notions a priori is to dehumanise and impoverish social theory.

In this paper I focus on the implications of this dehumanisation of social theory. By naturalising the meaning of rationality and freedom, bourgeois thought achieves two things: first, it imposes its own perception of the two notions on all people and at all times, and second, it paved the way to a celebration of their loss. The former obtained as axiomatic definitions were put into place which, although philosophically weak, turned the bourgeois urge to accommodate into the major determinant of what it means to be rational and free. The latter resulted from the discontent caused by the repercussions of the axiomatic approach. By denying their substantive meaning, the naturalistic definition of our two notions strengthen the hand of those who wish to claim that the loss of abstract theories of rationality and freedom is a blessing in disguise. If the naturalistic path led some to this conclusion, should bourgeois thinkers worry or will they take this postmodern twist in their stride? On the one hand, they will feel threatened because their positivist models will no longer be presentable as positive analyses of the social world. On the other hand, the postmodern reaction to naturalism is functional to bourgeois thought if the postmodern revelation that the latter has no clothes is a better disguise of its nudity.

Finally, the paper concludes that if we are to reclaim freedom and rationality we need to distance ourselves from the axiomatic definitions which are based on ontologically static binary oppositions between notions and their opposites. Moreover, we must also resist the siren's of Rational Choice Marxism (RCM) and postmodernity and turn to old fashioned dialectical materialism. However, our arrival at dialectics must complete a journey of removal and not just a journey home. Rational Choice theory may be incapable of enlightening the meaning of rationality or free choices, but it does illuminate the way in which bourgeois thought generates insurmountable internal contradictions. Postmodernity may fail to expose the folly of bourgeois naturalism without debunking progressing thinking, but it does point to a tendency toward naturalism by those who have been sloppy with their dialectical reasoning. There is a lot to learn from the ability of bourgeois theory to undermine itself in order to frustrate the development of a progressive social science.

II

If one is to define rationality before anything, is said about the human subjects who will then be endowed with it, one is forced to adopt instrumental (meaningful) rationality. For if Kantian or Hegelian rationality is to be admitted, one would have to know the societal values surrounding agents and their history before discussing their Reason. Some argue that although instrumental rationality is insufficient (in that it needs to be supplemented by other forms of reason), it can still offer some useful local explanations when the preferences of agents, as well as their environment, are stable and there is a unique solution to their choice problem. They cite examples when a particular social situation places agents in circumstances describable by a prisoner's dilemma and demonstrate how instrumental rationality leads agents to act in a self-defeating manner. If one is more ambitious, one can go further and develop an argument in favour of collective action as an instrument for changing the objectives of individuals and thus transforming prisoner's dilemmas into games conducive to superior social outcomes. But given that this transition is not analyzable in terms of instrumental rationality, is this more than a restatement of what Hobbes, Hume, Rousseau and Marx have already debated in splendid prose? I think not. If the invocation of a priori rationality is to be commended for its analytical ability, a lot more explanatory power is required.

The foremost advocates of a priori definitions are, not surprisingly, neoclassical economists. When asked to produce evidence that genuine and original social explanation can be procured as a consequence of models based on a priori definition of rationality, they quickly present us with the notion of the Nash equilibrium. For the uninstructed, suppose you are involved in a strategic situation
in which you are compelled to make a choice. However, the outcome of your choice depends not only on what you choose but also on what others choose. In cases where none of your choices is dominant (that is, is best regardless of what others do), what you ought to choose critically depends on what you think that the others think that you think...ad infinitum. The Nash equilibrium is what game theory has to offer as a way out of the infinite regress.

Interestingly, this relatively recent neoclassical exploit has attracted attention from theorists whose agenda is quite different. Rational Choice Marxists (RCMs) have argued that the analytical power of the Nash equilibrium should be harnessed by progressive social scientists in order to dissect social relations and establish a micro-foundation for historical studies of social change. According to Jon Elster, for example, the Nash equilibrium offers a way of understanding complex social interaction with a simplicity reminiscent of the irrelevance with which Alexander the Great approached the Gordian knot. By contrast, Ellen Meiksins Wood is concerned that RCMs assume the structures that need to be explained and that, by the time the Nash equilibrium is called upon to deliberate as to which is the best choice of the rational actor, there is very little left to explain.

Unlike as it may seem, there is an implicit consensus between neoclassical economists, RCMs and critics like Wood who have an intrinsic disdain for attempts to illuminate history by focusing on the decisions of individual or collective agents in a rational-choice framework. The consensus concerns the capacity of the Nash equilibrium to explain how agents will behave given their objectives and environment. Maynard Keynes and RCMs might agree about the value of developing such explanations if the price that has to be paid is a neglect of classical Marxism, but she does not challenge the proposition that, given objectives and environment, an a priori definition of rationality can yield such explanations. Similarly, RCMs are prepared to accept wholeheartedly the usefulness of tools like the Nash equilibrium even if they wish to put them in the service of heterodoxy.

In this section I want to agree with Wood but also to take her repudiation of the rational choice paradigm further by challenging the above consensus. For it is not only that rational choice theory assumes most of what it tries to explain (as Wood correctly remarks) but that, even after it has made its assumptions, it explains very little, if anything at all. The cause for this failure is the impossibility of a sensible a priori definition of rationality and its main repercussion is that we can no longer confidently expect to know what a rational agent will do even if we know her objectives and the precise environment in which she functions. The best way of illustrating the argument is by means of a simple game.

Neoclassical game theorists recognize that not all social interactions (in their language, games) have clear-cut solutions. If there exist more than one equilibrium strategies (or actions), it is unclear what a rational actor will do. Indeed, an increasingly large collection of papers is trading on the multiplicity of equilibria and the resulting need for selecting between them. RCMs have been made aware of this difficulty and some have constructed elegant analyses of collective action and evolution based on the non-uniqueness of equilibrium solutions. However, this recognition is founded on the belief that in social interactions where there exists a unique equilibrium, the outcome is an open and shut case. It is a belief that cannot be sustained simply by assuming rationality and, thus, it is a belief that must be deflated.

Consider a heuristic game where the working class is pitted against capitalists and where both sides have two strategies at their disposal. Strategies range from the cooperative (within capitalist conditions) to the combative. The workers’ second strategy is to struggle for a higher portion of the surplus without attempting to overthrow capitalism while their third strategy is openly to contest the bourgeois state and its property relations, etc. The revolution. Capitalists on the other hand must choose between retaining a liberal-democratic environment, enforcing anti-labour legislation which bars strikes and, lastly, calling in the military thus discarding the liberal-democratic cloak of legitimacy altogether.

Before the reader despair at the above description, let me confirm that it is meant as an entertaining rather than an historically useful example. Nevertheless, it serves its role of revealing the problem with conventional rational choice theory admirably. Since equilibrium game theory is supposed to give answers based entirely on payoffs and a priori rationality, game theorists would happily liberate my choice of labels for the various strategies. Similarly, RCMs cannot afford to do likewise in view of their adoption of the analytical tools of game theory in precisely this context. As for the rest, I plead that they bear with me a little longer.

<table>
<thead>
<tr>
<th></th>
<th>Liberal Democracy</th>
<th>Ban strikes</th>
<th>Military Repression</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capitalists</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cooperative</td>
<td>1</td>
<td>10,100</td>
<td>5,90</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>10,100</td>
<td>5,90</td>
</tr>
<tr>
<td><strong>Workers</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Struggle for</td>
<td>2</td>
<td>50,50</td>
<td><em>15,80</em></td>
</tr>
<tr>
<td>higher portion of surplus</td>
<td></td>
<td></td>
<td>2,70</td>
</tr>
<tr>
<td>Revolution</td>
<td>3</td>
<td>*150,50</td>
<td>10,10</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>-10,9</td>
</tr>
</tbody>
</table>

Table 1
In Table 1 we have a typical game where no strategy is dominated—that is, each strategy is rationally playble depending on the agent's belief. For instance, if workers believe that capitalists will choose strategy 1, then their best response is ‘revolution’ (strategy 3). If they anticipate that capitalists will introduce anti-union legislation (strategy 2), their best action is to intensify the struggle within the capitalist framework (strategy 2). We mark the best responses of the row player with a plus sign and those of the column player with a minus sign. Quite clearly, workers will act according to what they think that capitalists think that workers will expect capitalists to...

This is a good example of the type of analysis to be found in Rational Choice theory. If the choices of players are to be rational, they must be based on expectations rather than played at random. The problem is how to choose the right expectations. Game theorists observe that there exists only one outcome which results from choices which confirm the expectations that support them: outcome (15, 80) where both sides have chosen their second strategy. Workers would only play 2 if they expected capitalists to play 2 and vice versa (observe the coincidence of the plus and minus signs at that outcome). It so happens that at (15, 80) both of these expectations are confirmed. Moreover, (15, 80) is the only outcome that confirms both players’ expectations—that is, it is an equilibrium.

So what, one may rightly ask? What if (15, 80) qualifies as the Nash equilibrium by being the only solution which confirms the expectations of both agents? This observation is of analytical value only if we believe that rational agents gravitate towards choices that invariably make them feel vindicated viz. their expectations after history has unfolded. If we believe, as we should, that social interaction can lead to instances where rational agents regard decisions they have made (something chess masters often do), then the discovery of a unique Nash equilibrium sheds no light on this problem. Yet rational choice theory axiomatically imposes the condition that rational agents must have expectations that are always confirmed by history. Based on this assumption, rational choice theory goes on to build the magnificent castles that are to be found in the prolific game theoretical literature. Unfortunately, they are built on sand as there is no reason why rationality ought to engender symmetry. Let us make not mistake here; the only way one may take (15, 80) to be the unique solution is if one assumes that agents choose ex ante in a way that their expectations are confirmed ex post. Put bluntly, rational choice theory can select one solution as the solution if and only if it assumes away the most important aspect of strategic interdependence, namely the uncertainty in the mind of players about whether their conjectures are good ones or not.

To give a start for the alternative outcomes that may eventuate, consider the following train of thought that will lead workers rationally to initiate a ‘revolution’:

“We will rebel (strategy 3) because we expect capitalists to choose their ‘liberal-democratic’ strategy (Strategy 1). If they knew that we contemplated ‘revolution’, they would of course choose to suppress it (Strategy 3). However, we think that they expect us to be fearful of this possibility and to cooperate for this reason. Hence, we think that they do not anticipate a revolution, as they are confident that we dread the prospect of a crushed revolution (that is, outcome (10, 80)). They will therefore, believe, choose the liberal-democratic road. Hence our best course of action is to rebel.”

Will their expectation that capitalists are about to choose the ‘liberal-democratic’ strategy be confirmed? Perhaps, but not necessarily. The condition for this to occur is that capitalists think as follows:

“We pursue the ‘liberal-democratic’ road because we anticipate that the working class will ‘cooperate’. The reason why we expect this is because we believe that they fear that we are about to unleash a military coup (strategy 3) expecting that they will rebel. And why do they think that we expect them to rebel? Because they think that we fear that they believe that we will play liberal in which case we should expect them to rebel.”

If the above capture the two sides’ thoughts, then outcome (15, 80) will appear as the result of perfectly rational choices. That one of the two sides (in this case the capitalists) will eventually realize that its conjectures were false, is a normal byproduct of social conflict. The important point here is that, since there are different consistent trains of thought which support each and every outcome in this game (including the equilibrium), an a priori definition of rationality cannot by itself elucidate this game. Even though the structure of payoffs (that is, the social context according to Wood) is given and there is a unique equilibrium, there is no plausible theory of what will happen. Rational Choice theory can narrow outcomes down only if it imposes the condition of symmetry. But then it should be referred to as Symmetry Choice Theory and RCMs, if they remain committed to the Nash equilibrium, should become Symmetry Choice Marxists.

III

Fencing irrationality out in genuinely strategic situations does not work. The a priori assumption that players are rational needs to be augmented by an illegitimate requirement concerning their conjectures if it is to produce a solution. Nor does it work in defining freedom as the moral space which is kept clear of unfreedom. Those who have tried to define liberty in negative/autarchic terms (e.g. Robert Nozick 1974) either feel the need to transcend their own definition at some level (see Isaiah Berlin 1959) or end up with what Robert Paul Wolff (1989) refers to as a conception of rights and liberty which would “immobilize us all, making us much like a bizarre gathering of morally uncreative rights freaks, lovely to look at, but unable to lift a finger for fear of encroaching on one another’s moral space”.

Freedom as a concept is thus brought to us by a spatial metaphor whose roots can be traced in the openness of territories to keep trespassers at bay. In this sense it is a metaphor that lends itself to the pure exchange paradigm to be found at the heart of liberal contractualism. To be free is thus to make rational choices
The market becomes the arena in which freedom prevails, not because it promotes non-intervention by one on the other, but because it sets the scene for the dialectic of recognition between agents. Before a social encounter takes place, an imposition of naturalistic conditions for rights, freedom and rationality turns such concepts into impediments to human subjectivity. It is the predicament of naturalistic liberalism that, in its effort to offer an ahistorical definition of the ultimate human goods, it disowns with the subjectivity that makes those goods important. If a market exchange is therefore seen as nothing more than an exchange which leaves the agents wealthier but ontologically identical as before, then the contract cannot have any moral weight. Hegel shows that the commitment of agents to honour contracts forged at the market place develop precisely because they have rights which are not their private property and which cannot be sold freely. If freedom was definable strictly by the voluntarism of buying and selling, then every aspect of human subjectivity ought to be a commodity. In that case, no contract would have moral authority for the same reason that the slave cannot offer the master meaningful recognition as long as slavery entails complete subjugation. We must conclude that the moment we accept that human subjectivity is shaped by social interaction, freedom is not possible prior to socialisation. This insight complements the thought from the previous section that the process which shapes agents' perception of gains and of each other also shapes their normative expectations which trigger particular trains of thought and rational decisions

Of course, one can remain a liberal without rejecting the proposition that freedom must be important for non-voluntaristic reasons and also that rational action is irreducible to instrumental procedures. Following the lead of J.S. Mill, John Rawls (1972) accepts the argument that private contracts must derive their legitimacy from nowhere other than further private contracts, and suggests that the way forward is to establish whether free and rational agents would accept the principles under which society is to be organised. In an ingenious twist whose purpose is to retain the naturalistic a priori definitions while augmenting them with public rights, he invents the veil of ignorance behind which agents will decide which societal principles are legitimate and suitable as a social contract. He argues with great elegance and skill that it is because of a priori freedom and rationality in the original position that the socialisation of agents of which the legitimacy of the market obtains, materialises. Of course, the proof depends on accepting the original position in which pre-political agents can begin rationally to socialise without knowing their political roles.

The irrepressible problem here is that the moral legitimacy of pure exchange as a guarantor of freedom relies entirely on the choices made by agents before the market exchanges commence. Before the social context is collectively chosen behind the veil of ignorance, it must be demonstrated that the final choice was made after all potential alternatives were considered. Unfortunately, even the most imaginative of peoples cannot transcend their societal readiness and consider in a vacuum alternatives that history has not yet shaped. As Bob Sugden (1989) puts it in a related debate, "the belief that one ought to follow a convention is the product of the same process of evolution as the convention itself."

Ancient Athenians, it
asked to consider alternative socioeconomic organisations behind Rawls' veil of ignorance, would have probably come up with a social contract involving some form of slavery. This would not make slavery a characteristic of civil society with uninterrupted legitimacy throughout history. It took the praxes of Sparta and countless others to forge a sustainable perception of a slavery-free society. We must therefore conclude that the Rawlsian defence of a priori fails to banish slavery from the definition of freedom and rationality. In other words, it fails to support the possibility of sensible axiomatic definitions.

The moment we accept that agents need to recognise themselves in others' eyes before they gain the subjectivity and self-consciousness which makes freedom possible, the social terrain becomes the locus of human actualisation. In capitalism, it is the freedom of individuals as property which promotes their mutual recognition and thus development. Hegel endorses capitalist market relations not because they respect human freedom and rationality (a la Hobbes and Locke) but because they are the culmination of a historical process which creates freedom and rationality. However, Hegel must show that market relations are truly based on reciprocal recognition of social actors before his commendation is accepted. In the market for apples and oranges, there is little doubt that there is no systematic force working against such recognition of self by other. It is in the market for labour that things become tricky. Marx writes in Volume 1 Chapter 10 of Das Kapital:

In the market, as the owner of the commodity 'labour-power', the worker stood face to face with other owners of commodities, one owner against another owner. The contract by which he sold his labour-power to the capitalist proved ... that he was free to dispose of himself. But when the transaction was concluded, it was discovered that he was not free, that the period of time for which he was to sell his labour-power was the period of time for which he is forced to sell it, and that in fact the vampire will not let go while there remains a single muscle, a nerve or drop of blood to be exploited.

In a society whose wealth is produced in a market in which the seller of human labour finds himself most of the time, unable to indulge in reciprocal recognition with the buyer, Hegel's moral description of the marketplace breaks down. How can the dialectic of recognition proceed when production is based on the non-market exchange that ensues the labour contract? Once the worker enters production, the market paradigm evaporates and the extractive power that Hegel saw markets as putting an end to, returns with a vengeance. Any society incorporating a wage system cannot, according to Hegel's own principles, be genuinely free.

C. B. Macpherson (1973) revamps the naturalist definition of freedom by arguing that, instead of defining freedom as the requirement that one must consent to anything that is taken from them, they should define it as one's freedom not to consent to such a transaction. Presented with a contract from a potential buyer who wants something from us, the litmus test of the purity of the exchange is whether we have the option to say 'no' and not whether we actually say 'yes'. One is free to turn down a contract provided one has alternatives. If my alternative to signing a declaration passing all of my property to the supplier of a glue of water (while on the verge of collapse in a desert) is dehydration and death, then such a contract is hardly a case of reciprocal recognition a la Hegel. One must have alternatives before one is free. And since what constitutes a reasonable feasible set of options is historically determined, all that Macpherson's definition has done for the moment is to restate Hegel's opposition to axiomatic definitions. However, it does offer us the opportunity to go further.

If capitalist social relations are marked by an incomplete market for labour, then one wonders why workers are prepared to enter such a market. Are they not free to choose? Macpherson's conception of freedom emerges as relevant since they may be doing this not because of their freedom to agree but because of their unfreedom to do otherwise. Moreover, by agreeing to enter such a market, they give away the right to be part of continual market relations. From the moment they sign the contract, the rest of their working experience is not at all a market relation between them and the capitalist. As a social organisation, capitalism encourages workers to give up public rights which they must have if they, as well as the capitalist, are to achieve the mutual recognition which, according to Hegel, is a prerequisite for freedom in society. Of course the only reason why workers systematically give up their capacity to participate in the miracle of the dialectic of recognition, is that this is their only access to means of production. The private ownership of the means of production may endow capitalists with extractive power over the workers but, in Hegelian eyes, both exploiters and exploited miss out on becoming free.

IV

If the above is correct, a priori rationality fails to point out the rational choice in strategic circumstances, and specific socio-economic environments do not confer freedom if freedom is to be construed in terms of an axion. This is the point of departure for Hegel and Marx who see both reason and liberty as byproducts of the historical process. It is also the point of departure for postmodern writers like Michel Foucault, Jacques Derrida and Jean-François Lyotard who have been arguing that the reason we fail to discern the rational choice in section II is because of the emptiness of the signifier 'rational'. The weakness of our language is responsible for creating the need for a demarcation between rationality and irrationality along the lines of a naturalistic paradigm (recall the fence) when, as Foucault (1967) puts it, we ought to abandon the search for meaning of terms that have none and recognise that there is plenty of 'Reason in Madness'. As for freedom, hiding behind fences that supposedly guarantee our negatively defined liberty, is futile. It is so because the metaphor of the fence is no more than a figure of our language which requires such metaphors in order to formulate concepts but is immediately hijacked by those metaphors and therefore loses its access to meaning.

Postmodernists do not stop there. Enchanted by their attack on linguistic metaphors, they proceed to devour Hegel's perception of history which, in their eyes, is no more than a parallel with a discontinuous river majestically proceeding
towards the sea of emancipation and reciprocal recognition. They accept no metanarrative, they do not acknowledge any large social configurations (such as classes in Marx), and they see history as a chain comprising of different versions of the present. As for the exploitation identified by Marx, they would comment wryly that after all we are all oppressors and we are all oppressed in the same way that, in the context of rational choice, we all playfully indulge in motivated actions that are at once irrational and rational. Postmodernists interpret the loss of naturalistic and the inevitability decompositional of the silly metaphors underpinning a priori definitions. Moreover, they celebrate this loss and warn against any attempt to re-establish what it means to be free and rational.

Even though the postmodern position may seem neutral vis-à-vis the Hobbes/Locke versus Hegel/Marx conflict, its denial of the possibility of transcending the present (either temporally or theoretically), protects any current socio-economic status quo from a progressive diachrony. However, there are elements of postmodernity which enable a more sophisticated pursuit of the Marxist project hinted at in the previous section, if only for keeping Marxists on their toes. Too often in the past we tolerated blanket explanations of historical phenomena by those who hid their ‘subjective’ conditions behind certain linguistic forms. We were told that the reason why the working class in Britain failed to become a ‘class for itself’ was that the ‘subjective’ conditions were not there. Perhaps they were not, but this is not an explanatory theory. Explicated in the schematic metaphor of progress based on a unidimensional passage from changes in means of production to class changes in social relations, we tolerated the development of authoritarian regimes in Eastern Europe hoping that, eventually, the process of industrialisation would magically remove authoritarian political institutions and, thus, that socialist democracy would flourish.

Christopher Norris (1985) singles out the method of deconstruction of metaphors from the rest of the postmodern battery and argues that Marxists can find it useful. If what he means is that Marxists ought constantly to question the appropriateness of their metaphors and to worry about the possibility that the metaphor may have been rendered inadmissible by some historical twist, he is correct. On the other hand, the work of Derrida has been done for him by Hegel and Marx. It was Hegel who focused on the contest between theory and narrative by criticising Kant for having elevated ideas to an a priori status when their true status is distinctly transient. And it was Marx who castigated the metanarrative dwelled upon by philosophers, arguing that there are no immutable absolutes, no spiritual beyonds and that every absolute represents a mask justifying exploitation of humans by humans. Although we do not need Derrida to tell us what Marx had already elaborated (that is, that philosophical abstractions in themselves have no value or precise meaning), if Derrida invites us to return to the roots we neglected for so long, then so be it.

The problems of truth-seeking and of defining liberty and rationality, have two things in common. First, they are both seen as illegitimate by postmodernists, and second, they are solved simultaneously by Marx. Ironically, if postmodernism's contribution is simply to insist that transcendental solutions are illusionary, it finds unexpected support from Marx who leaves little room for confusion when writing:

"The question whether human thought can arrive at objective truth is not a theoretical but a practical question. It is in praxis that man must prove the truth, that is, the reality, the existence, the power of his thinking. The dispute over the reality or non-reality of thinking isolated from praxis is a purely scholastic question" (Theses on Fuerbach II in Marx 1984).

"The problem of knowledge in the abstract is a false problem. Abstract logical consistency theory divorced from social activity and practical evaluation, have no value whatsoever. The essence of man is practical, and the essence of society is praxis - acts, course of action, interaction. Separated from praxis, theory vainly comes to grips with falsely formulated or insoluble problems, bogged down in mysticism and mystification" (Theses on Fuerbach VIII in Marx 1984).

Defining praxis as activity vis-à-vis other humans, Marx seizes Hegel's argument, namely that freedom and Reason are hollow in the absence of praxis, and relates social theories which seek truth in an historical vacuum. When agents encounter complex interactions (eg. Table 1) which Aristotelian logic is unable to solve single-handedly, they transcend their pre-political nature. Reason becomes dialectical and overserves a process of rationality creation which co-determines the individual's perception of rewards and the rules of rational choice. It is a process that is characterised as much by logic as it is by experiments with alternative rationalities. And it is a process that Rational Choice Theory, loyal to its naturalistic metaphors, cannot keep up with. Similarly for societies. As feudalism was about to vanish following the praxes of individual agents, suddenly it became intelligible as a socio-economic organization and furnished us with the post-French revolution concept of liberty. Knowledge of Reason and freedom was attained as a result of human social activity and is obscured by a priori, axiomatic definitions.

In this vein, the melange of praxes that constitute history becomes the determinant of meaning. On the level of the private, the dialectic describes the creation of perceptions and the actions that follow such perceptions. These actions interact on the perceptions that caused them, give shape to the web of socially shared beliefs and are determined by it continually. Within this social framework, freedom is to be attained when social relations are in place which permit the Hegelian dialectic of recognition to function fully. But how can the self recognize the other when they meet at the capitalist market for labour in which one of the two loses her capacity to be a sovereign person? As long as social relations systematically restrict the options of certain groups or strata, the rest will be endowed with extractive power which ensures the impossibility of genuine freedom for the exploited as well as for the exploiters. Of course we have all oppressed and we have all been oppressed at some stage of our lives, that the crucial point is the presence of systematic patterns of exploitation built into relatively primitive social relations. The structure of such social relations feeds into the constitutions of unfreedom rendering constitutional, or axiomatic, liberty symbolic of what is unattainable under the existing socio-economic organisation if Reason is the product of history as Hegel would claim, then capitalism sets limits within which freedom cannot breathe.
Notes

1. See for instance Martin Hollis' (1987) description of the cunning with which Reeson contrives to lead most individuals to social context once agents acquire a social dimension.

2. Susan Hartmann and the (1984a) argue the case for retaining instrumental rationality without relying on it exclusively. On a similar note, Allan Carlin (1990) insists that local explanations with given objectives and social structures are not to be scorned. Indeed, he sees in them the main contribution of Rational Choice Marxism and invokes them as a mechanism against those who argue that any use of instrumental rationality for the purposes of historical explanation is illegitimate - eg. Ellen Mandelkes (1989).


5. I admit that this may be an unfair comment in that Wood (1990) has accused John Doner for having his hand held by "the ... demanded by the ... conceptual demands of neoclassical economics". This sentence can be loosely interpreted to refer to the criticism of rational choice theory advocated in this section. On the other hand, Wood (1990) identifies the problem with rational choice theory in its inability to specify "... the social structures which set the limits of what is reasonable and preferable in any given context...". It is my view that rational choice theory, even if it has a perfect understanding of these structures, may be incapable of capturing the 'reasonable and preferable' choices. It is not that I dispute Wood's conclusions - it is that I wish to augment it.


7. Some RCMs (eg. Jon Fierer) will protest that I paint in classes as social actors. Other members of this priesthood (eg. Allan Carlin) will be happy with this depiction. Nevertheless, I think that both sides have something to learn from this game. As important since how the terms used in this is misleading concerning the extent to which it is rationality that motivates the equilibrium outcome. If some RCMs do not like the description of the players, they are free to call them Jack and Jill.

8. It is easy to see that at any other outcome one of the two sides has expectations that have been proved wrong. For example, take in the outcome (50, 50) - the case where there is a revolution while the capitalist class tries to retain its dominance by seizing to the democratic institutions and processes. For the workers to rebel they must have expected capitalism to play its liberal strategy. At outcome (50, 50) this expectation has been proved correct. However, capitalists will only play that strategy if they expect workers to cooperate. Thus, at (50, 50) capitalists will have regretted their decision as it was based on an expectation that was proved to be erroneous.

9. Recall that this is a static game - it is played once and players choose their strategies contemporaneously. So, no significant argument in favour of a convergent between beliefs and actions is possible here in view of the absence of time. Gattner theories follow the analytic-synthetic method and build concepts such as the Nash equilibrium in a static framework before moving on to dynamic settings. John van Atten and Olav Morgenstern (1944), the founders of game theory, wrote:

'We repeat most emphatically that our theory is thoroughly static. A dynamic theory would unquestionably be more complete and therefore preferable. But there is ample evidence from other branches of science that is futile to try to build one as long as the static theory is not thoroughly understood.'

The influence on these pioneers of natural science is evident. Unfortunately it is an influence that leads them astray since rationality, the motivating force behind human actions, unlike natural forces, is conceptually only within a social context. It is the argument of the paper that attempts to build a sound static theory of rational choice is futile. Moreover, the dynamic theory built upon any such static theory is bound to inherit the problems of its foundations.

10. This is so in strategically interesting circumstance where no strategy of any player is dominated.

11. I have already presented a wordy version of how the workers can rationalise a decision to rebel. The following table offers the formal proof that all strategies of each side can be supported by a rational train of thought. W and C stand for the workers and the capitalists while b and c denote the verbs 'believe' and 'choose' respectively. Note that the equilibrium outcome occurs when workers and capitalists form thoughts A and B while the outcome (50, 50) follows thoughts A and C.

<table>
<thead>
<tr>
<th>Workers' choices and their supporting thoughts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy 1: W1 = 1</td>
</tr>
<tr>
<td>because WCB = 3</td>
</tr>
<tr>
<td>because WCbW = 2</td>
</tr>
<tr>
<td>because WCbC = 1</td>
</tr>
<tr>
<td>because WCbCW = 2</td>
</tr>
<tr>
<td>A1</td>
</tr>
<tr>
<td>A2</td>
</tr>
<tr>
<td>A3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Capitalists' choices and their supporting thoughts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy 1: C1 = 1</td>
</tr>
<tr>
<td>because CBW = 1</td>
</tr>
<tr>
<td>because CBW = 2</td>
</tr>
<tr>
<td>because CBW = 3</td>
</tr>
<tr>
<td>because CBW = 1</td>
</tr>
<tr>
<td>B1</td>
</tr>
<tr>
<td>B2</td>
</tr>
<tr>
<td>B3</td>
</tr>
</tbody>
</table>

12. There is a view by some that there are two neoclassical offerings for the taking. One is the equilibrium theory which I discuss here while the other is a Bayesian theory (for a recent text see Skyrms 1990). The former seeks solutions that rational play should generate and then assumes that rational agents will assign a zero probability to any action by their opponents which does not comply with the equilibrium outcome. The reason given for this assumption is the assumption of rationality. The Bayesian approach is somewhat different. Initially, agents are allowed to assign any subjective probability to the various actions of their opponents. Then, as they think about the game (or as the game progresses in repeated games), their prior beliefs are augmented through this process of rational deliberation until an equilibrium strategy is reached. Although these two theories do not always yield the same result, there is an impressive degree of convergence to the same conclusion. This is so because of reliance on the same a priori definition of rationality. In the case of the equilibrium theory of games, the solution is arrived at because the theorist assume that all ex ante expectations will be confirmed ex post. While in the Bayesian story there is no such hidden assumption (often referred to as the 'no hidden' assumption - see Aumann 1987) that agents are only allowed to do different things if they have different information or objectives. Thus both stand of neoclassicism birth the most important aspect of strategic uncertainty by imposing symmetry. By doing so, they struggle in an implausible assumption to do the dirty work that their
One wonders whether Rational Choice theorists are aware of this weakness of equilibrium analysis. I believe that these are two brilliant examples of motivated theoretical slip-ups. In a revealing passage by Robert Aumann (1987), a pillar of game theoretic orthodoxy, we find an acknowledgment that the symmetric axiom (i.e. the Harsanyi doctrine) is problematic. However, Aumann hastens to add that: “Economists feel that this kind of analysis is sometimes justified by recognizing that rationality does not confound symmetry is too inobvious for practical use, and side-steps the more economic issues”. I can only infer from this hasty statement that the theoretical problem is noted but ignored because it is too inconvenient.

13. The usual rejoinder to any criticism of Rational Choice theory is that there are refinements and extensions to the core in unison with that which accommodate the criticism. However, I believe that this constitutes an illusion escape route. In Varoufakis (1991) I show that every refinement or extension of equilibrium theory (e.g. the introduction of state and forward-looking agents – in technical terms ‘game perfection’, asymmetric information and sequential or Bayesian equilibria etc.) is founded on the notion of equilibrium as outlined here. If the foundation is rotten, it takes more than ingenuity to build a robust explanatory structure.

14. Seyla Benhabib (1984) adds that for Hegel “from the standpoint of exchange no characteristic of individuals is relevant apart from the fact that each owns a certain property desired by the other.” There is an interesting parallel here with the so-called Harsanyi doctrine mentioned in the previous section. In game theory, it is assumed that rational agents will behave in exactly the same way if they face the same payoffs and are fed the same information. This can be interpreted as an extension of the bourgeois/positivist assumption that it is only property endowments that make social actors different.

15. See Nozick (1974) for an example of the uses to which the Lockean provision is put.

16. i.e. if market exchange is “…something embodying merely a common will and resulting from the arbitrariness of parties united into a state” (Hegel in the Philosophy of Right).

17. In his Philosophy of History Hegel writes: “Rationality, taken generally and in the abstract, consists in the thoroughgoing unity of the universal and the particular. Rationality, concrete in the state, consists in the degree of the content is concerned, in the unity of the objective freedom and subjective freedom; and (b) so far as its form is concerned, in self-determining action on laws and principles which are thought to universal.” We see in the above how Hegel blends rationality and freedom in a continuously flowing whole which is none other than history with the state as its culmination.

18. By this I mean that the buyer purchases labour power and receives labour (whose value exceeds that of labour-power) because the nature of exchange which is now partly market based.

19. Game theorists may claim that if we want to incorporate history into the analysis all we have to do is to turn to evolutionary game theory (EGT). No doubt EGT has some interesting insights to offer regarding the evolution of conventions, habits etc. However, it does so only by assuming away Darwinian functionalism while assuming that the individual’s perception of her objectives (and of herself) is frozen. Its functionalism distances it from Rational Choice theory while its reliance on an unchanging human agency divorces it from history. See chapter 8 of Varoufakis (1991) for more on the contest between the evolutionary and historical explanations.

20. In the Grundrisse, for example, Marx makes it clear that men and women produce their rationality as they create the rest of their lives.

21. Derived note that “no border can be guaranteed inside or out”. Every border marks a difference which, though real, ought not to be confused with a denomination which has the power to define what it separates.

22. Elsewhere – see Varoufakis (1991) – I show how choices that according to game theory must be irrational can be given a rational interpretation, and how a paradigmatic narrative superior to anything game theory can come up with (though inherent to a dialectical narrative).

23. Ryan (1984) notes: “The turn against theory in the name of first order narrative explanations is a part of the process by which such interests are shielded from rational critique”.

24. Sagarin (1990) shows how non-equilibrium choices can be constructed as mutations that may prove to be evolutionary stable.

25. In a recent paper Varoufakis et al (1989) write, “The power of the equilibrium method derives from its ability to abstract from the complicated dynamic process that includes equilibriums and to abstract from the historical accident that initiated the process. Quite clearly, the ambition of game theorists is to rid themselves of history by distilling all the historically relevant information into their equilibriums. My argument is that their equilibriums are analytically impoverished tools because of the mutuality of the task bestowed upon them by those who seek historical explanations.”
References

Aumann, R. (1987)
Correlated equilibrium as an expression of Bayesian rationality, Econometrica, 55,1-18

Benhabib, S. (1983)

Berlin, I. (1958)
Two concepts of liberty, reprinted in Four Essays on Liberty, Oxford University Press

Rationalizable strategic behavior, Econometrica, 52,1007-28

Carling, A. (1990)
In defense of Rational Choice: A reply to Ellen Meiksins Wood, New Left Review, 184, 97-109

Derrida, J. (1973)

Derrida, J. (1978)
Writing and Difference, London: Routledge and Kegan Paul

Elster, J. (1982)
Marxism, functionalism and game theory, Theory and Society, 11, 453-82

Elster, J. (1986a) (ed.)
Rational Choice, Cambridge University Press

Elster, J. (1986b)
Making Sense of Marx, Cambridge University Press

Social norms and economic theory, Journal of Economic Perspectives, 3,99-117

Foucault, M. (1967)
Madness and Civilisation, London: Tavistock

Friedman, M. (1962)
Free to Choose, Melbourne: Macmillan

Hargreaves-Heap, S. (1989a)
Rationality in Economics, Oxford: Basil Blackwell

Hargreaves-Heap, S. (1989b)
Towards a Post-Keynesian Welfare Economics, Journal of Post Keynesian Economics, 12

Hegel, G.W.F. (1931)
The Phenomenology of Mind, translated by J. Baillie, London

Hegel, G.W.F. (1942)
Philosophy of Right, transl. T. Knox, Oxford: Clarendon

Hegel, G.W.F. (1953)

Holms, M. (1967)
The Cunning of Reason, Cambridge University Press

The Postmodern Coalition: A Report on Knowledge, Manchester University Press

Macpherson, C.B. (1973)
Democratic Theory in Retrospect, Toronto

Marx, K. (1865,1894)
Capital I and III, London: Lawrence and Wishart (1972)


Marx, K. (1964)
Early Writings, New York: McGraw-Hill

Norris, C. (1985)
Context of FACILITIES: Philosophy and Theory after Deconstruction, London: Methuen

Anarchy, State and Utopia, New York: Basic Books

Rawls, J. (1972)
A Theory of Justice, Harvard University Press

Marxism and Deconstruction: a critical articulation, John Hopkins University Press

Skyrms, B. (1990)
The Dynamics of Rational Deliberation, Harvard University Press
Spontaneous order, *Journal of Economic Perspectives*, 3, 118-25

Sugden, R. (1990)
Convention, Creativity and Conflict, in Y. Vourcufakis and D. Young (eds.),
*Conflict in Economics*, London: Harvester-Wheatsheaf

Van Huysk, J., Battalio, R., and R. Bell (1990)

Vourcufakis, Y. (1991)
Rational Conflict, Oxford: Basil Blackwell

Vourcufakis, Y. (1991b)
Postmodern challenges to game theory, mimeo

von Neumann, J. and O. Morgenstern (1944)

The derivation of the minimal state, in J. Paul (ed.), *Reading Nozick*, Oxford: Basil Blackwell

Rational Choice Marxism: Is the game worth the candle?, *New Left Review*, 177, 41-88

111 L. Ermini
112 P. Groenewegen
113 V.B. Hall, T.P. Truong & V.A. Nguyen
114 V.B. Hall, T.P. Truong & V.A. Nguyen
115 P. Gill
116 G. Kingston
117 V.B. Hall & D.R. Mills
118 W.P. Hogan
119 L. Ermini
120 P. Groenewegen
121 H.C. Black & N. Dalton
122 J.P. Hogan & L.C. Sharp
123 G. Mills
124 L. Ermini
125 E. Kiernan
126 P. Gill
127 E. Kiernan
128 S. Lahiri & J. Sheen
129 S. Mangrounas-Heap & Y. Vourcufakis
130 J. Sheen
131 E. Jones
132 S. Lahiri & J. Sheen
133 P. Gill
134 W.P. Hogan
135 Y. Vourcufakis
136 L. Ermini
137 S. Zia
138 D.J. Wright

The Limits of Systems Control Theory in Economic Policy-Making; July-October 1988
Neo-Classical Value and Distribution Theory; The English Speaking Pioneers; September 1988
An Australian Fuel Substitution Tax Model; ORAMI-LFT; October 1988
Responses to Oil and Coal Shocks, in an Australian Short-Run Fuel Substitution Tax Model; October 1988
Social Justice and the Low-Paid Worker; October 1988
Theoretical Foundations of Constant-Proportion Portfolio Invariance; October 1988
Is Medium Temperature Solar Thermal Power Viable for Australia? Some Preliminary Results; November 1988
Insider Information and Market Adjustment; November 1988
Reinterpreting a Recent Temporally Aggregated Consumption-Cap Model; December 1988
Kapstein's Solution of the Bargaining Problem: Some Generalisations and Extensions; December 1988
Prudential Regulation of Bank Ownership and Control; January 1989
The Reform of Australian Aviation; June 1989
Translating Consumption and Measurement Errors in the Permanent Income Hypothesis; June 1989
Is Austerity Necessary?; July 1989
Labour Market Flexibility - To What End?; August 1989
Financial Reform: A Perspective; September 1989
On Optimal Dumping; September 1989
Multiple Reputations in Finitely Repeated Games; October 1989
International Monetary and Fiscal Policy Cooperation in the Presence of Wage Inflexibilities; October 1989
Has the Post-War Boom Reckoned?; October 1989
A Risk Averse Price-Setting Monopolist in a Model of International Trade; October 1989
A Target-Wage Dilemma: Some Consequences of Incomplete Information; December 1989
New Banks in Australia; December 1989
Modelling Rational Conflict: The Limits of Game Theory; February 1990
Shock Persistence in Australian Output and Consumption; March 1990
Strategic Investment, Competition and the Independence Result; March 1990
International Technology Transfer with an Information Asymmetry and Endogenous Research and Development; April 1990
Working Papers in Economics Published Elsewhere


Copies are available upon request from:
Department of Economics,
The University of Sydney,
N.S.W. 2006, Australia.
112 P. Groenewegen  
NeoClassical Economic Theory. 1870 to 1910  
Aberdeen Economics. 22(4) October 1990

113 V. B. Hall,  
T. P. Tranou &  
V. A. Nguyen  
Australian Economic Review. 87(1) 1989

114 V. B. Hall,  
T. P. Tranou &  
V. A. Nguyen  
Australian Journal of Business and Economics. 21(12). December 1989

115 F. Gill  

116 G. Kingston  

117 V. B. Hall &  
P. A. Ng  
Pacific and Asian Journal of Economics. 21(2). December 1989

118 W. H. Hogan  
Abacus. 25(2). September 1990

120 P. Groenewegen  
Flatlining the Tax Rate Scale: Alternative Scenarios and Policy Implications. (eds.) J. C. Wood  
and R. Kevorkian. 1, 1-31. 1990

122 W. H. Hogan &  
I. G. Sharpe  

123 C. H. Hogg  

126 F. Gill  
The Australian Quarterly. 61(4). 1989

128 S. Lahiri &  
J. Shen  
The Economic Journal. 100(400). 1990

131 C. J. Karfakis  
Applied Economics. 23. 1991

134 C. J. Karfakis  
Journal of Money, Credit, and Banking. 22(3). 1990

158 W. H. Hogan  
Economic Papers. 10. 11. March 1991