

Comment

Sirens or hobgoblins, consistency depends on the context



John Kay

Consistency is the first siren of beauty. The claim is made by John Cochrane, professor of economics at the University of Chicago, in a blistering response to Paul Krugman's critique of modern economics. A little over the top perhaps. It is not consistency that takes our breath away when we see the Taj Mahal or the Mona Lisa.

But Prof Cochrane correctly identifies consistency as the most prized virtue in economic reasoning. If I am faced with the same menu of options, I will always make the same choice. This is the premise on which rational choice models are based. Such models not only dominate economics but have been widely used across the social sciences.

Consistency is not what is ordinarily meant by rationality. If I commune daily with the fairies at the bottom of the garden, I am consistent but hardly rational. Still, even if consistency is not sufficient for rationality, surely it is necessary?

I am not so sure. It is not often that we are faced with exactly the same menu of options. But sometimes it seems we are. We go to the same restaurant on successive nights, and the waiter presents the same menu. Is it irrational to choose a different dish?

The defender of rational choice theory has an easy escape from this paradox. We act in line with some higher-level preferences – perhaps we have a taste for variety. But this style of explanation is hopeless. Anything we do must reflect our real preferences, otherwise we wouldn't

have done it. By its success in describing everything, such an argument explains nothing at all.

And yet similar arguments are widely used. Many articles and theses purport to explain why behaviour that is plainly foolish – such as becoming a heroin addict or buying dotcom stocks for many times what they are worth – is nevertheless, in some convoluted sense, rational. Paul Samuelson, the great economist who first put the assumption of consistency at the heart of economic argument, rightly dismissed these exercises with the most devastating insult in science: they are not even wrong.

But the real difficulty is deeper, as elaborated in a recent book by Roman Frydman and Michael Goldberg. When knowledge is imperfect, there is no objective way to determine whether two situations are the same, or different. If I felt like eating beef on Wednesday and lamb on Thursday, is this because I was inconsistent or because the two occasions were in a sense different?

Our imperfect knowledge means we see similarities where there are differences and differences where there are similarities. Anthony Eden believed there was a close analogy between the choices Britain faced when appeasing Hitler in 1938 and those posed when Nasser seized the Suez canal in 1956. "It's not like tulips," enthusiasts said during the dotcom bubble; but perhaps it was.

Different people will assess the same necessarily incomplete information in different ways, and the same person may assess the same information in different ways at different times. What we do depends on the social context in which we receive information and make decisions. And there is nothing irrational about such behaviour in the sense in which the word rational is used in the dictionary; amenable to reason, and consistent with the available evidence. Only if that evidence is complete, and perhaps not even then, does that evidence point to a single answer.

True irrationality lies in failing to perceive this sensitivity to context. Eden failed to recognise how much the world had changed between 1938 and 1956; the people who believed "this time it's different" when they inflated the bubble in 1999 were to discover that although it was different, in the sense in which they meant it, it was not.

I am constant, you are stubborn; I am flexible, you are dogmatic; I am principled, you are ideological; I am pragmatic, you are opportunistic. The injunction to be consistent is used to scold but not to help us live. Perhaps Ralph Waldo Emerson expressed a better perspective than Cochrane's: "A foolish consistency is the hobgoblin of little minds."

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