

## Subjective Rationality and Trust

(On Social Sciences and the Euro crisis; an economist's perspective)

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Mostly building on work presented at Max Weber Programme (MWP) lectures and conferences during its first seven years, I question the common divide between the natural and social sciences. Once the differences are properly understood, the scientific method is basically the same: *a systematic interplay of induction and deduction*. At the core of this discussion is the distinction between *objective* and *subjective rationality* (in turn based on the distinction between *risk* and *uncertainty*). *Objective rationality* – such as the *rational expectations hypothesis* – is not justified by (empirical) *induction*, but by the needs of (logical) *deduction* in social science models. Nevertheless, the interplay of *induction* and *deduction* can be enhanced, without losing its systematic character, by properly considering: *i*) the learning process by which individual agents and societies achieve higher levels of rationality; *ii*) different forms of reasoning and learning (e.g. rule-based vs. case-based), and *iii*) weaker forms of rationality. In this perspective, the process of learning by agents, and of societies, parallels the evolutionary process of scientific knowledge. Furthermore, I show how *objective rationality* and *trust* can be related. *Power* – and not properly accounted interests – can destroy *trust*, as they can disrupt *learning*; an important lesson for social norm-institutional design. I illustrate the discussion with examples from 'The Great Confusion' (the Euro crisis) and from the design of the MWP.