INTRODUCTION

It will at first seem ironic, in the light of a later career-challenging orthodoxy, that Professor José (Pepé) Encarnación’s origins are thoroughly mainstream. He was born on 17 November 1928 in a Manila that was still the small town of the country’s social and intellectual elite, shortly before large-scale in-migration transformed it irreversibly into an anonymous mega-city. His parents were mainline Tagalog, the dominant and most urbanized language community; both were connected with prominent and well-known families. Viewed more closely, however, these beginnings were not incongruous, and Pepé Encarnación’s openness to what is new and unorthodox is not far-fetched. His father’s province, Cavite, was the seat of the Philippine revolution for independence at the turn of the century. (His first cousin, Nemesio Prudente, would be jailed under the Marcos regime for the alleged armed partisan activity.) Relations on his mother’s side trace themselves to José Rizál, a namesake. This, after all, has not been the first time (think of Keynes) that those who are thoroughly immersed in the mainstream, and who have not needed to struggle for legitimacy, have also been the first to gain the confidence and self-assurance to question it.
Pepe Encarnación’s lifelong connection with academe, the University of the Philippines (U.P.) in particular, was both obvious and direct. His father, the elder Jose Encarnación was a physician and professor on the medical faculty of the University of the Philippines (then in the City of Manila proper), and the young Pepe led a life close to the campus and revolving around the University and its activities. As the eldest child among three, Pepe was accustomed to the deference and allegiance of his siblings, tempered by the stern discipline of his father.

High school was interrupted by war and the Japanese occupation. His father’s assessment that the war would soon end and that therefore any schooling under enemy occupation would be futile, since it would be invalidated-proved too optimistic. The war dragged on and, with the evacuation of Manila, the younger Encarnación ended up spending three years in the province in a self-study of the classics, particularly Plato and Aristotle. This was upon hindsight, arguably a better education than he could have gotten anywhere in the country other than the circumstances. Barely escaping death as a teenager in a massacre of all able-bodied men of his village by a retreating enemy, he returned to school at war’s end, older and more precocious than most of his peers.

Pepe Encarnación took his first degrees in philosophy (B.Phil. and M.Phil.), and a teaching career was almost inevitable. He was soon part of a circle of bright young instructors on the University of the Philippines department of philosophy with a common interest in the ideas and programme of Bertrand Russell. "Working like a dog," pounding first-course logic into undergraduates, the instructor Encarnación nonetheless quit enjoyed the reputation of enfant terrible. He was brilliance combined with looks and physique, with the obvious self-assurance of one who would not suffer fools among students, colleagues—or even his superiors.

In 1958 his first publication appeared in the philosophical journal Mind, a small note on the Liar Paradox. There he argued that was one author considered an exception to Russel’s theory of types was in fact not so. In method tone, the insistence on precision, logical consistency, and a fair interpretation of the work of others would foreshadow many of his later contributions in economics. In the meantime, of course, all this was high theory in the province and the first publication by any member of the philosophy faculty in a reputable international journal. The young instructor was palpably surprised and dismayed by the lukewarm reception it received from his seniors. This circumstance would do much to determine his decision to change fields.

At the same time, the type of bold philosophical inquiry going on in the department was ill-suited to the ruling tastes and politics of the times. Bertrand Russell’s atheism and open admiration for socialism were, after all, well known. By illogical extension, his local adherents and admirers were suspect in the eyes of both government and religious authorities, during a time the Philippines was undergoing the throes of its own version of McCarthyism.

At the beginning of the 1950s, the university decided to send a number of its younger faculty members on foreign scholarships to develop faculties in other fields. Fittingly for what the ancients regarded as the queen of sciences, a good number of those who later became the country’s leading scholars in the social sciences came from the brilliant but troublesome young men of the philosophy department. Understandably, however the philosophy department found it difficult to withstand this loss and still has to regain its former glory. At the same time, whether by accident or design, it cannot have failed to have been a source of satisfaction to a few in authority that the irreligious and difficult young philosophers were sent away to involve themselves in what were thought to be less dangerous pursuits. His other colleagues were sent off on scholarships to study psychology, sociology, and other social sciences: Encarnación left for Princeton to study economics
Economics and Princeton were different, but not foreign. After all, following Russell, mathematics was merely applied logic, and economics at the time was still in the first blush of its love-affair with mathematical technique. Mathematics did need to be learned, but then again, it was nothing foreign to one who had already glimpsed the foundations. There might be larger and smaller nuts, but none impossible for a logician to crack. Upon hindsight, the confidence Pépe Encarnación has always felt in his grasp of the purely formal and logical aspects of a problem has certainly allowed him to concentrate on studying what mattered most: economic sense.

Of his stay in Princeton, Pépe Encarnación has always had only the fondest memories. One of the lasting impressions Princeton left on him as a student was the "publish-or-perish" rule, emphasized by his adviser Professor W. J. Baumol. It was a dictum Pépe would carry home and impress on his colleagues and students. The pressure in Baumol's class, it was said, had been so great that, as a result, fully a quarter of the students had published before finishing graduate work. Pépe's first economics publication (1958) was a note clarifying the meaning of "consistency" between Say's Law and the Cambridge equation. He had spotted a flaw in the usual proofs of inconsistency. This was the logician still at work; language and conventions might be different, but underneath, mistakes were still mistakes in whatever guise.

While in the United States, he married Patricia Kearney, a bright and creative art historian with whom he has four children. Having completed his studies, he returned to the Philippines with his wife (by freighter!) to resume his teaching career. At home, a wave of nationalism and student unrest had begun to sweep the campuses, especially the U.P. Through most of this, however, Encarnación would remain largely aloof, immersing himself in research and publishing instead. His first spate of publications came thick and fast. His reputation at university was now less that of an enfant terrible and increasingly that of a precocious eminence. Students stood in awe (at times in fear) of the intellectual authority of the stern young professor with an athlete's physique, a flair for dress, and uncompromising academic standards.

The idea most identified with Professor Encarnación is, of course, hierarchical or lexicographic preferences. The concept was already contained in his dissertation at Princeton (1960), which posed the following question: in planning investment, what are the goals governments seek to achieve? He noted that criteria for investment, as variously stated and practised, differed according to the preferences or priorities of governments. Objectives were patently multiple, and there was a problem of how to interpret or elicit government priorities at any given time. He formally described what was in essence a gradient interpretation of the weights in a government's utility function but in the end proposed a "quasilexicographic" formulation of government's preferences, a concept that up to that point was apparently lacking a genealogy. He argued that in planning investments, governments would in practice attend to goals successively, e.g., first employment, then consumption, and finally savings (or growth).

Later, his first postulative (as distinct from his critical or diagnostic) economics article (Encarnación. 1964) appeared, a lexicographic interpretation of Baumol's notion of the sales-maximizing firm. Baumol had maintained that firms were observed to maximize sales—or in dynamic context, growth—subject to profits not falling below a certain level. In essence, therefore, the pursuit of profits was a first priority but only up to a point, typically in order to keep shareholders content. Beyond that point, however, sales became the overriding concern.

The observation that the firm pursued different multiple objectives was really part of a broad emerging unorthodox.
tradition that questioned the neoclassical "blackbox" view of the firm as global profits-maximizer. Basing themselves on a strong empirical tradition, economists such as Hall and Hitch, Berle and Means, Herbert Simon, Cyert and March, Nelson and Winter, and subsequently Oliver Williamson, observed that, contrary to the neoclassical presumption, managers and entrepreneurs did not maximize profits but instead followed other "rules of thumb," such as mark-up pricing, sales or market-share maximization, etc. These observations led to two branches of inquiry: first, it became clear that in the modern corporation, there was no complete congruence of interest between shareholders and managers, and that this was one source of the existence of multiple, sometimes changing and conflicting objectives in the firm. This branch would be revived in later years and become the basis for theories regarding the internal organization of the firm, e.g. the problem of agency (e.g. Jensen and Meckling 1976) and more generally transaction costs associated with various forms of governance (Williamson 1975, 1985). 3

The second branch of the literature that emerged, however, was a questioning of the limits of actual decision-making itself. Quite apart from the internal organization of the firm, the prevalent use of "rules of thumb" that were at most locally optimal was seen to pervade all decision-making situations. Rules of thumb were an interaction between endemic uncertainty (as distinct from risk) and the limited human data-processing capacity. Important developments of these have been Herbert Simon's concept of "satisficing" and "bounded rationality" as distinct from global optimizing; Richard Day's concept of "cautious suboptimizing"; and Nelson and Winter's "evolutionary adaptation." Hence the second stream of inquiry, to which Encarnación belongs, sought a more fundamental understanding of the decision process itself.

3Encarnación, however, has never emphasized the idea of a potential conflict among different groups within a firm. He has always tended to view institutions as going concerns and, for this reason, paid less attention to the problem of how the multiple objectives became established in the first place.

Encarnación was increasingly convinced that the principle of lexicographic ordering pervaded all choice situations. The idea was straightforward and, more importantly, corresponded with the manner in which people ordinarily described the way they made decisions. The objects of choice—goods, actions, or prospects—manifested certain characteristics that were the real points of interest. In the language of the early utility theorists, goods fulfilled certain distinct "wants" or "needs." But the importance of each characteristic (or set of characteristics) accorded with a definite hierarchy of priorities. An alternative \( x \) is superior to another, say \( y \), if it scores higher on a more important characteristic, even if \( y \) is better on lower priority ones. The color of a prospective car is probably less important than its price, so one would pick a price-worthy car with the wrong color, over one whose color was preferred but whose price was inappropriate. Similarly, \( x \) would be preferred to \( y \) if they tied on the most important criteria, but \( x \) was better on a less important one. If two cars ranked the same in terms of price, then color would be the decisive factor in choice.

The lexicographic idea also seemed ideal in capturing the fact that in many important decisions, some criteria loomed largest and could not be "traded off" against others. In many contexts, choices involving physical safety and survival, honesty, or integrity, are absolute imperatives, demanding minimum levels to the exclusion of all other criteria.

More succinctly, let the vector \( u(x) = [u_1(x), u_2(x), ...] \) represent the \( s \)-scores \( u_i(x) \) of an alternative denoted by \( x \) on the various characteristics or criteria \( i = 1, 2, ..., \), arranged in decreasing order of importance. Define \( u(y) \) similarly. Then \( x \) is better than \( y \) if the first nonzero component of the vector difference \( u(x) - u(y) \) is positive. The term "lexicographic" refers to the fact that dictionaries also order words by their successive components, i.e. letters. (The mathematician Hausdorff had first used the term in 1914 in a formal context to describe the ordering of decimal numbers.) In economics, lexicographic preferences first entered the literature as an aberration: Debreu in 1954 cited
lexicographic preferences as an instance where real-valued utility functions failed to exist. But for Encarnación what was initially regarded as a curiosity increasingly seemed to be the general case.

Encarnación obtained important sources of support and vindication for this idea: the first he discovered in Nicholas Georgescu-Roegen's classic 1956 article "Choice, utility, and measurement," which showed how the original ideas of the founders of utility theory (especially the Austrians) were diluted by the modern representation of utility as a catch-all function. Georgescu-Roegen argued that consumer choice was to be understood as the successive attention to satiable wants, arranged according to a definite hierarchy. He found further support in John Chipman's classic article of 1960 on the foundations of utility, which concluded that "utility, in its most general form, is a lexicographic ordering, represented by a finite or infinite dimensional vector ...." Preferences may be ordered along the real line only if the additional "Axiom of Archimedes" is accepted. This strongly suggested that both formally and in the evolution of thought, vector-valued preferences were the more general class and real-valued utility the special case. What was incomprehensible was how the majority of the profession could persist in the widespread employment of what was, at bottom, merely the special case.

The standard objections fell into two categories. Even if the structure of preferences were indeed lexicographic, it was argued, the only ever observable criterion would be the first (Houthakker 1961). Behaviourally, therefore, agents would act as if they had been maximizing a real-valued function, namely the first component of the vector $u(x)$. Encarnación supplied an answer to this in a small but important note (1964) recalling and developing the notion of "thresholds introduced by Georgescu-

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4 Let $X$ denote the choice set, $I$ an indifference relation defined on $X$, and $UI$ the set $X$ partitioned into indifference classes. The requirement for preferences to be representable by a real-valued function is that $X/U$ be order-dense.

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Roegen: each want in its turn, is finally satiable, and this fact causes attention to turn to the next want in the hierarchy.

This same thinking was also to be found in Herbert Simon's idea that behaviour was "satisficing," rather than maximizing. If $u_i(x)$ represents the degree of achievement in criterion $i$ when in possession of $x$, a threshold level $u_i^*$ may be defined corresponding to a satisficing level. The novel idea is that further increases in $u_i$ beyond $u_i^*$ do not matter. The importance of an alternative $x$ with respect to the $i$th criterion may then be written as $u_i(x) = \min(u_i(x), u_i^*)$. Hence, ordering wants or criteria in decreasing order of importance, define the vector $v(x) = [v_1(x), v_2(x), ...]$. Then in the familiar vector comparison, $x$ is preferred to $y$ if the first nonzero component of the vector difference $v(x) - v(y)$ is positive. The point is that, unlike simple lexicographic ordering, higher-order components of $v$ come in consideration, since, beyond a certain point, alternatives are equally satisfactory with respect to more important priorities. To differentiate it from the canonical example of lexicographic preferences, Encarnación called this structure an "$L^*$-ordering," which has been associated with his name ever since.

The second typical objection was actually related to the first. Are there in fact phenomena that cannot be described just as well by assuming that behaviour follows from a real-valued utility function? To answer this objection adequately, however, would require investigating actual behaviour that could not be represented other than by lexicographic ordering. What has been remarkable in this connection is the growing literature on experimental tests of the subjective expected-utility theory (EU). Experiments and examples following the famous early ones by Allais (1953), Ellsberg (1961), such as those of Tversky and Kahnemann, Loomes and Sugden, Machina, etc. demonstrated behaviour that in many cases represented substantial violations of EU theory. Hey (1991:92) who gives a recent survey of the gamut of experiments in expected-utility theory points to the growing tentative consensus that "no one theory explains everything."
For Encarnación, however, the paradoxes in choice theory based on EU came as no surprise but rather as a vindication somewhat overdue. That the criteria for judgement apparently often change simply points to the oversimplification involved in seeking to reduce the basis of choice to a single function; it merely showed that preferences must be represented not by one but by several criteria in turn.

In 1965 his description of the structure of the lexicographic choice under uncertainty was straightforward. Let \( x = (x_1, \ldots, x_n) \) be a set of prospects that may be realized under various states of the world \( 1, \ldots, n \), with corresponding probabilities of being realized, \( 0 < p(x_k) < 1, k = 1, \ldots, n \), and \( \Sigma_k p(x_k) = 1 \). Define \( \pi_i(x, u^*_i) = \Pr(\pi_i(x) > u^*_i) = \Sigma_k p(x_k) \) where \( u_i(x_k) > u^*_i \) for all \( k \). Then \( \pi_i(x, u^*_i) \) is the probability that \( x \) fulfills the \( i \)th criterion, \( i = 1, 2, \ldots \). Further let \( \pi^*_i \) be a satisfactory level of probability of this happening. An \( L^* \)-ordering under uncertainty may then be given by \( v(x) = [u(x), \pi^*_i \min \pi_i(x, u^*_i), \pi_i^*] \). Again, \( x \) is preferred to \( y \) if the first non-zero element of the vector difference \( v(x) - v(y) \) is positive. In essence, \( \Pr(\pi_i(x) > \pi_i(y)) \) may be interpreted to mean that \( x \) is evaluated only for those of its possible realizations \( x_k \) where \( u_i(x_k) > u^*_i \). A direct descendant from this family is the idea of “lexicographic safety-first,” which was later found fruitful in applications modeling the risk aversion of farmers (e.g. Roumasset 1976; also Roumasset, this volume).

A more general presentation is possible, however. Let \( w_i = w_i(x, p(x)) \) be the \( i \)th utility from a vector of prospects \( x = (x_1, \ldots, x_n) \) which has associated probabilities \( p(x) = (p_1(x_1), \ldots, p_k(x_n)) \). Note that the criterion function \( w_i \) depends explicitly not only on \( x \) but on the probabilities associated with \( x \). One may then define \( w_i^* \) as the satisficing level of \( w_i \) and proceed to define lexicographic preference in the customary manner, with \( v(x) = [w_1(x), w_2(x), \ldots] \) and \( v_i(x) = (w_i(x, p(x)), w_i^*) \) for all \( i \). It is straightforward to reproduce expected utility as a particular case by defining some primitive utility function \( u(\cdot) \) that depends only on the individual \( x_k \). In this case, one may write \( w_i(x, p(x)) = \sum_k p(x_k) u_i(x_k) \), where \( u(x) = [u(x_1), u(x_2), \ldots] \), and set \( u_i^* \) sufficiently high to obtain SEU. If other criteria were allowed to come into play, on the other hand, different possibilities arise. For example, for some \( i \), \( w_i \) may depend only on the probability of ruinous levels of \( x \) or on the maximal values of \( x \).

Encarnación used a form of this in a 1987 article in an ambitious attempt to reconstruct and explain all the apparent “paradoxes” in choice theory. Apart from lexicographic comparisons the new element introduced into the structure was the notion of significant differences in the values of criterion functions. Choice between two uncertain alternatives \( x \) and \( y \), he suggests, turns on whether they differ significantly on the following lexicographically arranged criteria: (1) expected value, (2) the possibility of a large loss, (3) the possibility of maximal gain, and finally (4) expected value once more. Unlike his earlier 1964 formulation, however, this one allows for intransitivity.

Interestingly enough, similar questions regarding the foundations of choice theory have been taken up again in recent years (e.g. by Sen 1993, Anand 1993 and Sugden 1985). The abovementioned questioning of subjective expected utility theory, for example, has merely continued from the past. This is hardly surprising, since the kinds of questions raised in the 1960s failed to be resolved satisfactorily, but were rather brushed aside as minor aberrations in the otherwise triumphant march of “positive economics.” But as economics and economists have become more established and less paranoid about proving themselves, they have been more willing to pose awkward questions. (It has been scarcely noticed that Samuelson 1983 said in this regard, for example, that he had less doubts regarding subjective expected utility theory.)

In more recent garb, the resumption of some of these doubts has taken the form of “context-dependent” preferences. The general pattern is formally captured by the following canonical
example: when the set of feasible choices consists solely of \(x\) and \(y\), the individual prefers \(x\) to \(y\). But when the choice is between \(x\), \(y\), and \(z\), \(y\) is preferred to \(x\). The implication for subjective utility theory is immediate. A simple but pointed example is as follows: in general, you would rather read newspaper \(x\) than newspaper \(y\), which is also available, and you would rather read \(x\) a newspaper than do without one (alternative \(z\)). But if only \(x\) were available, you would rather read no newspaper at all. The "sure-thing principle" requires that if \(u(x) > u(y)\), as posited, then

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\theta u(x) + (1 - \theta) u(z) > \theta u(y) + (1 - \theta) u(z)
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where \(\theta\) is the probability of \(z\) occurring. But "context-dependent" choice would allow for the opposite to occur as well, simply because the preferences defined over the set \(S\) differ from those defined over \(T\), even if the latter contains the former. In this and similar traditions, therefore, observed behavior which received theory brands as "irrational" turns out to be fully comprehensible. It is not behavior that is "irrational"; it is received theory that is unreasonable.

Apart from the theory of choice, Professor Encarnación's interests have ranged far and wide to cover such fields as econometrics, demography, growth theory, and macroeconomics. His work on demography is particularly interesting in suggesting some econometric results on classificatory variables and the modeling of regime changes, similar to the regime-switching techniques made subsequently fashionable by disequilibrium theory. But the greater part of Professor Encarnación's theoretical work—certainly that part he seems to value most—has been devoted to attempts to demonstrate the fecundity and wide application of the idea of vector-valued utility, a concept that Encarnación (in the words of Richard Day in this volume) "almost single-handedly defended and developed." Through the years, a succession of papers of his has followed which have sought to elaborate the usefulness of lexicographic preferences in various contexts. The most important ones have included papers on reconstructions of explanations of paradoxes of choice (1987); consistency of choice (1984, 1993); consumer theory (1990); portfolio choice (1991); arbitration (1986); and group and social decision-making (1983, 1992), among others.

Considering his major involvement with theory, Professor Encarnación's insistence on the need to begin from observed behavior is interesting. Economists often wear the blinders of normal science and tend to work on problems only their existing theories can solve, while neglecting inconvenient questions and phenomena that do not fit their framework. Encarnación, by contrast, has always been uncompromising in insisting that it is theory that must adjust to reality, not the other way around. On a broader scale, this is in fact the principle underlying his persistent championing of the lexicographic cause; the conclusions reached by real-valued and expected utility are markedly inapplicable to many aspects of reality. Similarly in the choice of questions to put forward, the most important method is not merely to pose questions that are logically possible, but more important, to understand what is observed.

Some hint of this view is found in his article "Social values and individual choices" (1983). The tribute and (inverted) reference to Arrow's classic (1963) book is obvious. This notwithstanding, Encarnación indirectly suggests that the paradox of social choice is something of a false problem, for organizations and societies do in fact engage in social choices, many of which do not degenerate into the traps that had caused Arrow's apprehension. The reason, he argued, was that in fact, groups could be presumed a priori to have a set of common values that prevented cycles. What he thought important was not the demonstration that logical contradictions would prevent a democracy that possessed all the "desirable" qualities; more important was to understand how actual governments could and did survive. The gentle point being made was that it is not theory's principal role to depict why things could not exist, but how and why they did.
On one occasion, one of the editors of this volume expressed some marvel over the negative result by Debreu, Montel, and Sonnenschein that market demand functions may not be "well-behaved" even if individual demand functions were (Shafer and Sonnenschein 1985). Characteristically, Encarnación replied that, on the contrary, it was more important for economists to find out why most observed market demand functions were in fact well-behaved, notwithstanding the negative theoretical results. For a person given over mostly to theoretical work, Professor Encarnación, it will surprise many to know, has consistently advocated the view that economics is mainly an applied and empirical science. He has always regarded it as an unfortunate trend that increasingly "mathematicians have invaded the discipline." This is mostly because of the temptation to generate problems that may be formally interesting or novel but with thin content or little appeal to economic intuition. A "model," in mathematical logic, is merely an interpretation of a formal language; the latter may exist even apart from its interpretation, or application. In the social sciences, on the other hand, "models" are valid only to the extent that they correspond plausibly to reality.

Still and all, and notwithstanding Encarnación's own hard work, it must be conceded that the idea of lexicographic ordering has thus far failed to become a serious formal rival to rules based on standard expected utility. Understanding the profession's slow and lukewarm response to alternative viewpoints such as lexicographic preferences is revealing, and is probably sufficient in itself to warrant a separate study in the evolution of thought. This is, of course, not the occasion to do so. It should simply be pointed out that in the case of lexicographic preference theory, at least on the face of it, there seem to be no issues of a purely ideological or methodological nature involved. The notion of lexicographic preferences is a branch of neoclassical theory in its insistence on rationality, methodological individualism, even subjective optimization. If anything, it differs from the latter only in that it takes the call for "positive economics" to heart and takes observed behavior seriously. In the same manner that studies of identical twins dispose of intervening factors such as genetics, a comparison of the differing fortunes of orthodox real-valued and vector-valued preferences would probably reveal less about economic theory itself than about the sociology of economics.

No doubt sheer inertia in the profession has been a most important factor. Dogmengeschichte is replete with seminal ideas that have been pushed to the side, simply because they have not been expressed in a manner to which the majority of the profession has been accustomed. For this same reason, in the period before the discipline was mathematized, Carl Menger's literary exposition of subjective value theory was more influential than the mathematical presentations of Walras and Jevons. Some economizing is undoubtedly at work: if the bulk of the profession has already made large sunk investments in certain tools, retooling will usually be viewed as costly or risky (think of the likely objective function of young Ph.D.s up for tenure) without the likelihood of large payoffs in the form of significantly different propositions. At the margin, therefore, only so much adjustment and innovation in methods is likely to be undertaken as is needed to explain "significantly different" phenomena. There are good reasons to suspect, therefore, that at any one time, economic theory does not push itself up to the frontier of what is explainable.

It is also tempting to think of sociological or at least circumstantial reasons. Owing largely to his conscious decision to make a career in his own country, and partly to his rejection of the peculiar rigors of Philippine travel formalities (including a stubborn refusal to appear personally to apply for foreign visas)

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6 This observation applies not only to events that Kuhn calls "paradigm-shifts" but to what he would call the progress of "normal science" as well.

7 This would be true of any science, even the "hard sciences." But it is likely to be even more of a problem in fields where the pressure for empirical verification is not as compelling, nor the criterion for falsifiability as unambiguous.
Professor Encarnación’s communications with the profession in the rest of the world have occurred almost entirely through the journals. His trips outside the country have been comparatively rare, the only extended ones being to Stanford, where his hope of collaborating with Arrow failed to materialize, and to Wisconsin, where he formed enduring ties with a kindred spirit, Richard Day. Professor Day’s own work on “cautious suboptimizing” was fully parallel to Encarnación’s own thinking, and Day and Robinson (1973) would subsequently publish an important paper setting out sufficient conditions for the kind of continuity required by general-equilibrium for demand and supply correspondences generated by lexicographic preferences.

All things considered, the extent to which Professor Encarnación’s work is known outside the Philippines is remarkable. One may wonder, of course, how much larger a hearing he would have obtained if he had instead chosen to “do” the circuits of major economics conferences, collaborated with other prominent colleagues, and so on. Some personal elements will be involved as well, not the least of which is Professor Encarnación’s distaste for either self-promotion or solicitation in the matter of ideas. This is reflected in his writing style, which is beautifully austere and concise, with a hint of delight in understatement. In a similar vein, his graduate students will attest that Encarnación has never imposed his own ideas, but has rather always fairly and fully presented those contrary to his own, leaving students to judge the relative merits for themselves. His is the proud attitude of an older school that did not talk down to anyone, but did not bow for anyone else either.

Outside observers may perhaps find curious the high esteem with which Professor Encarnación is held in his country. His efforts notwithstanding, after all, the idea of lexicographic preferences may still be regarded as something exotic, not the least in the Philippines, where problems of development tend to dwarf the finer points of choice theory. Such a view fails to take into account his profound influence on the development of the economics profession in the Philippines, however. Directly or indirectly, Encarnación as teacher has exercised his influence on several generations of Filipino economists over the past three decades.

The decision to stay and develop the economics profession in his country was clear from the start, interesting offers from abroad notwithstanding. Soon after his return, he had been sought for recruitment by a foreign university. He admits to a foolishness upon hindsight in not rejecting their offer outright but rather quoting a reservation price that had seemed exorbitant to him at the time. To his dismay, however, this price was matched. In a bind, he sought help from then U.P. president, Carlos P. Romulo, and the latter obliged by ordering him to wire the foreign university, to the effect that he, Encarnación, would be unable to accept the offer at the last moment, upon orders by “General Romulo” who had directed him to start the Ph.D. program in economics for the university. The device worked.

Until the mid-1960s, economics in the Philippines had barely extricated itself from management and finance. The economics faculty was merged with those teaching business administration. In the public perception, the distinct relevance and contribution of economics as a discipline was even more vague, with lawyers, businessmen, journalists, and other sorts of what Keynes called “practical men” all presuming themselves equally qualified to give advice on and to make economic policy. This was soon to change, however, as Encarnación and the first batch of professionally trained economists returned to the country to constitute a critical mass for the profession, and a demand for quality economic research and policy advice began to arise, initially from official agencies. A watershed of sorts was marked by his review of an existing local economics textbook written by

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*This is extended in Day’s excellent contribution to this volume. Encarnación was also associate editor of the *Journal of Economic Behaviour and Organisation*, with Day as editor.*
the older school. This “review” consisted of nothing more than a list of the eccentric (to put things kindly) economic definitions from the book. The reviewer Encarnación then simply dispatched those with the withering conclusion that the authors had been too modest in their claim of not wishing to add anything novel to economic theory.

By necessity, Pepe Encarnación’s generation of professional economists had to plunge into almost all fields simply because the dearth of people prevented any narrowing of specializations. As a result papers followed, authored or co-authored, that dealt with monetary theory, public finance, growth, investment programing, econometrics, population and demography, all in relation to development. A number of these were simply thrust upon him by circumstances, and some topics were obviously closer to his heart than others. In reading any of these papers, however, the qualities of careful attention to data and well-considered judgement consistently shine through, the hallmark of the true scholar and professional.

Pepe has always been the emblem of the academic ethos. The excitement he derives at a discovery is contagious. His knack for putting a finger on the core of the issue is uncanny. Once after the usual U.P. School of Economics Friday Seminar, Professor James Roumasset was excitedly detailing the subtleties of computable general equilibrium analysis. Pepe raised his eyes to the ceiling and with a smug smirk blurted out “witchcraft.” This was the classic Pepe deliciously brief, clinically correct and supremely confident. Age has not dimmed his curiosity, and he has never had to draw from past triumphs for intellectual authority.

Petulness and partiality are common pitfalls among academic institution-builders. The malaise typically sets in when research work has long ceased and one’s authority hinges on political maneuverings and financial considerations. The inevitable result is a diversion of energies and rankle in the ranks over favors unearned. No fortress can long endure with its defenders at each other’s throats. Pepe, however, never allowed triviality or unfair preference to cast their shadow during his watch, a good part of the reason his moral authority was never undermined. He pursued fairness almost to a fault and did not shy away from ruthlessness to attain it. As Shakespeare so aptly put it, “Nothing so encourages sin as mercy.” For fools and for sloppy logic, the younger Pepe simply had no mercy. Vintage Encarnación has even less.

Now and in the future, Professor Encarnación’s chosen path will continue to raise profound questions about the proper role of an economist in a less-developed country. His example breaks the pattern of scholars from developing countries who win international renown for theoretical contributions only as expatriates, and whose adult connections with their native countries extend little beyond circumstances of birth or a post-eminent desire to assist the old country. This rule, of course, is no accident: after all, high theory should not be expected particularly to flourish in the periphery. It is therefore the view of “practical men” that the pursuit of theory and excellence in the periphery is something of a misguided choice, a use of resources that rubs against the grain of comparative advantage. Not only does the rareness (and difficulty) of Pepe Encarnación’s example suggest this, it would also seem supported by positive experience.

Developing-country economists in situ who do manage to catch the world’s attention have almost always been associated with positions of policy influence in countries enjoying episodes of economic success. Some obvious examples are C.C. Tsiang and T.C. Liu, who bucked the intellectual tide of import substitution in the 1950s and made export promotion the engine of Taiwan’s economic miracle. Rolf Ludders and the “Chicago Mafia” played a similar part in Pinochet’s Chile in the late 70s, political objections to that regime notwithstanding. Indonesia too had its Berkeley Mafia. Domingo Cavallo in Argentina may
be another credible candidate to this exclusive club. Much, much earlier, in postwar and economically prostrate Germany, Ludwig Erhard and his colleagues from Freiburg brandished the view of the soziale Marktwirtschaft with astounding success. When such events do occur, the rest of the world typically demands no further evidence that academics can and do at times contribute substantial value-added. Such positive examples do seem to suggest the way for the majority of academics to concentrate on policy and be co-opted into policy-making.

Unfortunately, however, achievements of this sort and of such visible proportions are themselves rare exceptions rather than the rule. In practice, the majority of academics called on to serve policy in developing countries will likely have little more to show for it than an additional line in their vitae, some fond memories of close encounters with the high and the mighty, and possibly a subsequent comfortable job with a multilateral agency. In less developed countries, such career-paths no longer raise eyebrows and are well accepted, perhaps even envied. That such circumstances may fulfill the individual professional’s ends (including subjectively altruistic ones) is not in question; what is at issue is whether it can stand as a prescription, an existential “ought.” For, in the meantime, even as academics may accept government positions for their own objectives, the state may proceed according to a dialectic quite its own.

Governments will pursue their own objectives in recruiting academics, only part of which is an honest search for expertise and knowledge. Another part will be dominated by the equally important imperative of legitimization. The premium for an academic derives from his being widely perceived to be the advocate of the fair, the consistent, and the (constrained) best. There is at least an initial suspend of public disbelief that the academic could consent to being a mere pawn of vested interests. Academic economists have an additional role in this respect, owing to an LDC government’s need to work on a second audience, namely external lending agencies who need reassurance that the moneys they advance will be used as promised. In this context, the glitter of economics Ph.D.s from prestigious U.S. universities—not to mention shared interests in squash and Rose Bowl match-ups—can and does disarm even the sternest loan officers. It thus becomes easy for academics to slip into the comfortable role of manservant or handmaid.

Serviceable as he is, however, the academic in government cannot be too inflexibly committed to standards of scholarly merit, lest he prove to be a nuisance, or—with sufficient obduracy and public support—even a threat. This is especially likely for those whose professional reputations precede and exceed the derivative splendor of a bureaucratic position. Mindful of this danger, governments do not often recruit academics at random: the candidate must share the dominant ethos (good or ill); he or she must understand why being out-of-play on matters at the edges is justified by being in-play on matters at the core, as well as accepting the leadership’s shifting definition of what is at the “core” and what is on the “edge.” Of course, since information and quality control are imperfect, mistaken appointments do at times occur; but even here the damage can be minimized by a simple quarantine and the forced “voluntary” resignation. Faced with such prospects, it is no wonder that, notwithstanding undoubted examples of clear value-added by academics as policy-shapers, many who experience the true joys of a scholar’s life view the prospect of getting sucked into the policy maelstrom with deep unease.

Many of these apprehensions will sound arcane in developed societies and economies where politics and social divisions are less extreme. In such circumstances, the choice between pursuing truth (however this may be subjectively perceived) and serving the powers-that-be is one that is much less of an existential struggle, considerably less taxing morally. Then people may indeed move freely between faculty lounges and halls of power without closing doors.
This was not the case, however, for a good part of Pépe Encarnación’s stewardship. Where the state is far from being the disinterested Leviathan and is more of an arena of patronage and plunder, there is good reason to think an academic’s best contribution may be found in academe itself.

Under such circumstances, however, even a retreat into academe does not totally end existential choices. The potential and actual exercise of freedom in an academic milieu may be viewed with suspicion by a state sensitive to criticisms of its own legitimacy. At this point, either political correctness may be rudely enforced, or academe may be insidiously co-opted. At the University, after the initial repression of the early 1970s, the wooing of the academe began in the form of numerous new special-purpose institutes and financially rewarding consultancies. The arena of debate then shifted from ideas and discoveries to power and privilege. As a science professor moaned at the time, “Science in the Philippines is 90 percent politics.” Even worse, the texture of debate itself deteriorated. The new methodological credo was aptly summed up by yet another scholar: “These are the conclusions upon which I will base my facts.” Especially where scholastic traditions are porous, academe is always in danger of succumbing to the dominant ethos. Through control of the purse strings and the investiture of revolving-door ministerial positions, the state may slowly recreate the University in its own image.

Ironically, however, not only political co-option by the state threatened academe and helped along the collapse of scholarship but, to a lesser extent, resistance to authoritarian tendencies as well. As opposition to government became more widespread in the mid-1980s, it became possible and expedient to soften the borders of intolerance for loose scholarship to accommodate political zealotry. Once lines have been drawn for a political showdown, a clear show of partisanship may at times appear more important or urgent than correct reasoning and a careful consideration of the facts.

A university actually leads a dual life, as ecclesia and agora. The agora encourages and thrives in logodiversity and debate. The ecclesia, however, has only intolerance and contempt for heedless argument and for persuasion by any other authority than reason and evidence. The academe needs both. Without free discourse, disciplined reason and logic become mere affectations. Without disciplined reason, on the other hand, free debate becomes a babel of tongues, superficially entertaining but ultimately a huge waste of time. For a time, fear and autocratic patronage, on the one hand, and a contrarian populism, on the other, made for a strange elixir that further weakened the academic ethos. It was in this double eclipse of the academe that the economist as academic in Pépe Encarnación shone most brightly. His imperative was and still remains preserving and nurturing the seeds of scholarship threatened by creeping politicization.

Pépe Encarnación’s relationship to politics during this long and difficult period will seem enigmatic to those unable to appreciate the priorities he considered truly important. Those merely looking in from the outside will either dismiss him as being politically naïve or aloof, on the one hand, or a willing party to co-option, on the other. The situation was, in fact, far more complex. For most of this period, Pépe Encarnación made it a point to keep his political opinions to himself for a simple reason: to preserve the School of Economics and the quality of its work. On several occasions, he succeeded in fending off attempts to subsume the School’s research agenda to external “direction” of any sort, or to turn the School into an institute of official consultants, advocates, and firefighters. This was a prodigious task, considering the government’s sway over university budgets.

To protect the standards and integrity of the School of Economics, he was not beneath using his charm, wit, intellectual and social influence, or even somewhat disingenuously playing the role of a detached scholar, too lost in the mists of
theory and academic matters to know much of practical affairs. In that earlier period, he walked a tightrope between allowing the faculty the intellectual freedom it needed and preserving the School from outside retaliation.

In 1984, after the assassination of Benigno S. Aquino, a group of faculty members signed and published what became known as the “White Paper,” a critical report, subsequently widely publicized, that analyzed the mistakes and abuses of economic policy-making under authoritarianism. Soon after, however, the School’s performance and budget were up at some meeting with government functionaries, and the rankling criticism of government policies by the “White Paper” was inevitably brought up. At that point, Pêpe Encarnación as dean maintained that the offending report was signed only by a minority of the School faculty. He was, of course, technically correct: the faculty at the time consisted of twenty-one members, and the ten signatories were one shy of a majority. What he conveniently neglected to mention of course was that he, Pêpe, had in fact participated most actively in all the discussions and the writing of that report and fully shared the assessment it contained, although he ultimately did not sign it.

To what end? Ultimately, to maintain academic integrity and standards, and safeguard the survival of the institution. In essence, Pêpe saw the need to suppress his own preferences to preserve the integrity of the institution; in a difficult situation, he felt, he could not afford publicly to have his own opinions. In the end, of course, even this enforced prudence in the institution’s behalf could not withstand the strength of his own beliefs or the pressure of events. In the period leading up to the 1986 EDSA Revolution, a threshold was exceeded, and Pêpe participated fully and openly in the University’s mobilization, an unprecedented event which surprised many of his colleagues. Even today he feels proud of having bought his first pair of athletic shoes since decades, for the sole purpose of joining a march to EDSA.

In the meantime, before that, owing in no small measure to Pêpe’s efforts, the School was preserved. If the world was intolerant, the School provided (and still provides) a haven for the pursuit of inquiry and the co-existence of the most diverse trends of thought. Neoclassicals, new classicals, Marxists, Keynesians, and neo-Keynesians, institutionalists, and plain eclectics found a home in Encarnación’s strange academic menagerie. Though an enigma to the outside world, Pêpe Encarnación’s aims and priorities were never in doubt among his colleagues at the School. He placed no demands for conformity, only for excellence. Where the status quo no longer regarded standards and rigor alone as bankable, or even necessary, Pêpe relentlessly pushed his people to seek self-reaffirmation and vindication in international scholarship. An existential nuance was attached to the phrase, “Publish or perish” which he learned from Baumol’s class and took to heart. This was a lifeline Pêpe himself valued highly, and he led by example. His frequent admonition to aim at standards set by the refereed journals had a larger social significance, namely to imbue his faculty with a sense of worth that transcended the perks and power of a position of influence.

It has always been Pêpe’s deepest conviction that it is academic institutions and the search for knowledge they nurture that truly endures. Though its dominance may seem interminable, the latest fad, vested interest, or political expediency that holds politicians and “practical people” in thrall is always bound to pass. It is for that reason that the integrity and continuity of the academe must be preserved, for the day it can come into its own. It takes time and foresight, far beyond seeing the exigencies of the moment, for the value of this to be appreciated. “Next year in Jerusalem” was for a thousand years only a dream kept alive by true believers—a pipe dream to others. At the height of Nazi power in Germany, soziale Marktwirtschaft was the antithesis of the pervasive regulatory and command environment then prevailing. Who then could say if and when the country would
ever emerge from its moral and cultural hibernation? Perhaps not till the end of the thousand-year Reich. But the fires were stoked quietly, constantly, indeed foolishly it then seemed. When finally Nazi Germany collapsed, however, "social market economy" provided the vision and the roadmap to an economic miracle. At that point, Erhard and his fellows knew exactly how to proceed.

What has been said of Samuelson may also be said of Encarnación: he did not found a school of thought; instead he founded a real school, the U.P. School of Economics, the institution he would lead as dean for two decades from 1974 until his retirement in 1994. Through that time, the School would acquire a faculty with a reputation for quality teaching and solid and independent-minded scholarship. It would be superficial to measure Professor Encarnación's influence as a teacher simply by the following his particular ideas have gained, as, say the "Austrian School" or the "Chicago School" may be associated with particular approaches or ideas in economics. Instead, his students and colleagues have learned things that are much more fundamental and valuable: high moral principles; a striving for excellence in scholarship; basic fairness; generosity; and a quiet, pragmatic commitment to improving people's lives. It is these lessons, if any, that are to be learned from Encarnación's "school" of economics. In this sense, the school Pépe founded is an anomaly. In ethos, in procedures, in standards, it is "in" a developing country but not quite "of" it, as currently constituted. Such is Pépe Encarnación's legacy as an economist and academic: he belongs not only to the Filipino but to the world.

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