

**Rationalizing Decisions:**  
*Economists' Perspectives on Human Behavior*

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## Introduction

In recent years, contemporary economic theory<sup>2</sup> has come under increasing fire for its portrayal of how individuals make decisions. Various people in the media have expressed some of this sentiment. In the wake of Internet-related euphoria and the subsequent bankruptcies and stock devaluations around the turn of this century, journalists articulated discomfort with the depiction of individuals as rational decision makers capable of knowing and subsequently doing what is in their best interest. Recent bankruptcies of large companies, with Enron representing the most notable example, have only increased criticism of modern economic theory. In one commentary on Enron, journalist Robert Kuttner claims “The deeper scandal here is ideological. Enron epitomized an entire philosophy about the self-cleansing nature of markets.” While he questions a range of currently accepted theories, specific fault is found with the depiction of the individual and the consequences to society. “The dominant strain of economics...has been teaching undergrads and journalists that there is no such thing as the public interest. Efficient outcomes are just the aggregation of selfish private interests (*Businessweek*, 20).” While economic theory asserts the possibility that individuals may not adequately fulfill some public needs, as in the case of the free rider problem, it considers the idea of a ‘public good’ beyond the bounds of private interest alien to its core doctrine.

Louis Uchitelle takes another tack in the New York Times, finding cases where economic theory does not seem to explain familiar phenomena. For example, “when it comes to saving for retirement, Americans are not rational.” Americans realize that they save too little, but do not adjust their spending habits. He denies that economic actors ‘rationally’ consult their time preferences. Such inadequacies of savings are one of the examples he identifies as instances where economic theory does not explain the real world. “Standard economics allows for none of these quirks [of human nature]. [Economic theory predicts that,] over a lifetime, people rationally save an optimal amount. Confronted with the reality that people do not save enough, the mainstream has

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<sup>2</sup> The technical term for modern economic theory is neoclassical economics. In this paper I also refer to neoclassical economics as the current orthodoxy and as modern economics.

no solution (2002).” Due to its limited attention to the reality of human decision-making, contemporary economic theory is unable to explain many economic actions undertaken regularly by individuals. Uchitelle applauds growing interest in behavioral economics, a relatively young specialty that examines some of the contradictions between mainstream economic theory and real-world observations.

A brief exposition of modern economics’ depiction of economic man is useful in understanding the criticism of these journalists. Generally, only graduate level textbooks in microeconomics discuss the foundations of the contemporary micro-economic model and the rationale for the depiction of the economic actor. In one such textbook, David Kreps explains how the economic agent behaves as follows:

“The presumptions that (1) the consumer at each point in time has coherent preferences over overall outcomes; (2) she believes at each point in time that these preferences will not shift with time or circumstances; (3) she is smart enough to work out the consequences of her choices, so she can find an optimal strategy according to her preferences assumed in (1); and (4) the second presumption is correct in the sense that the consumer subsequently carries out the optimal strategy she is assumed to find. (143-144).”

These ‘tenets of neoclassical economics’ require further explanation. The first states that, given two market baskets, “consumers can decide whether they prefer the first market basket to the second, whether they prefer the second to the first, or whether they are indifferent (Mansfield, 50). The coherence of the preferences is a reference to the rationality of the consumer. The economic agent’s preferences are logically organized in an understandable fashion. The third says that the economic actor maintains the ability to coherently define preferences regardless of complexity: altering the number of goods in a basket or the number of baskets available will not affect the economic agent’s faculty for evaluating which choice is preferred. The second is a refined statement of what Kreps refers to as the “incanting of *ceteris paribus* (112).” Neoclassical economists assume that only the independent variable(s) explicitly studied change over the course of the model – anything else is considered to remain constant from the start of the model (or in more advanced forms, a linear forecast may be drawn from past data). Depending on how this tenet is stated, it can be interpreted to mean that an individual’s preferences are constant throughout time, or that the individuals are aware of how they will change in the future (due to age or other circumstances).

Criticism directed at this assumption has caused neoclassical economists to respond in various ways. Kreps' statement is already a refinement: an older version of the postulate would probably state that the economic actor's preferences *are* constant, a stronger assertion than that the agent believes them to be constant. Kreps' modification implies that, since the economic actor believes preferences do not shift, he or she will behave as if they were constant – the resulting action is identical. Modern economists generally “assume consumers taste remains fixed throughout the course of the model (Mansfield, 66).” The economic actor has complete faith in his or her ability to discern the optimal market basket (which symbolizes not only goods, but all possible expenditure of resources – including time, energy, thought, etc.). This choice will not change during the course of the model, and the economic agent will fulfill the fourth postulate by following through and picking the choice defined as best.

In addition to the propositions explicitly stated by Kreps, a few other postulates are also essential to neoclassical theory. First, “the consumer always prefers more of a commodity to less (Mansfield, p 50)” and more choices to less. Also, consumers rationally maximize the utility provided by their actions. “Utility indicates the level of enjoyment or preference attached” by a consumer to a given option (Mansfield, 54).” A consumer's preference for a particular market basket is equated to the utility he or she receives from it – the utility perceived in an option corresponds to what it actually provides. Implied in this is the idea that consumers have complete knowledge of the options available to them and know and can measure their relative worth. The idea of rationality in the neoclassical sense is also wrapped up in these general ideas. The consumer will individually choose the option that offers the greatest utility. Outside institutions, such as tradition, societal pressure, and religious/moral beliefs are not found to have significant influence beyond that already incorporated in the model. In addition, individuals choose solely to satisfy their self-interest – alternative motives such as altruism represent a means of gratifying pride or other methods of maximizing an individual's utility, they are not an end in themselves.

Behavioral economists explicitly question these assumptions. But to what extent is this question really new? Is the mainstream's heavy reliance on 'selfish' behavior only a recent development? My reading suggests that prominent economists in the past held

extremely varied views on human nature, and used these views to construct their economic theories. This paper will examine the different understandings of human action in the writings of Adam Smith, Jeremy Bentham, Thorstein Veblen, and John Maynard Keynes. Each of these authors had considerable impact in shaping the social policy dialogue of their time, and their ideas continue to impact contemporary discourse. Neoclassical economists consider the works of Smith and Bentham as forerunners to contemporary theory. On the other hand, Veblen and Keynes directly criticized neoclassical theory, and their ideas are in opposition to the current orthodoxy. After examining the behavioral theories of these authors and the context in which they were written, I will reflect on the apparent implications of my findings for contemporary economics.

### **Adam Smith (1723-1790)**

Adam Smith, a product of the Scottish Enlightenment, developed his own version of moral philosophy that reflected the commonly held notion of the Newtonian order of nature (Spiegel, 225). This order implied a faith that all of Creation is meant to serve Good. Smith's ideas manifest themselves differently in his two seminal books, which vary both in their focus and their approach to human decision-making. *The Wealth of Nations'* main goal is to define how a nation may improve its material wealth. It places emphasis on how Great Britain at the time could improve its condition by decreasing government activity in the private economy and allowing individuals to direct resources in ways they consider most efficient. While Smith proposes how to improve wealth, he does not equate a better material condition with a higher level of happiness (utility). *The Theory of Moral Sentiments* stresses how man should act to ensure his well-being and that of society. Less focus is placed on material matters, and Smith alternates between describing mankind in general and the ideal that a reasonable man will strive to achieve. While Smith idealizes his description of the individual to some extent in both works, he does not hypothesize an abstract economic agent.

Smith's explanation of human action emanates from his development of the impartial spectator. To Smith, individuals naturally feel sympathy for one another. As spectators, they observe both the joy and the hardships of their fellows, and by putting

themselves in the others' position, sympathize with them to a limited extent (ToMS, 23). By impartially judging the actions of others, an individual naturally considers other people's degree of prudence. Individuals attempt to judge their own choices in the same fashion by considering the apparent prudence of their actions to an imaginary impartial spectator. Smith agrees with neoclassical economists that individuals are driven by self-love (which is related to self-interest). However,

“If he [the individual] would act so as that the impartial spectator may enter into the principles of his conduct, which is what of all things he has the greatest desire to do, he must...humble the arrogance of his self-love (ToMS, 83).”

An individual's desire for the approbation of society causes the conscience, represented by the impartial spectator, to moderate decisions otherwise undertaken to satisfy self-love. Thus, cultural norms play an important role in decision-making.

This process also causes the individual to become concerned with the public good. Through the independent spectator, individuals realize that they are but one among the multitude in society (ToMS, 83). In addition to sympathizing directly with the agent (the person being observed) and the person or thing being acted upon, “when we consider such actions as making a part of a system of behavior which tends to promote the happiness...of the society, they...derive a beauty from this utility (ToMS, 326).” An action's benefit to society increases the sympathy it generates for the actor. Since individuals factor into their decision-making the sympathy a deed will generate, they will consider the potential benefit to the public when choosing a course of action.

This in itself is not altruism, but reinforces natural tendencies to do good. According to Smith, individuals “are pleased, not only with praise, but with having done what is praise-worthy (ToMS, 115-116).” The individual does not require society's sympathy for praiseworthy action to be seen as worthwhile – the impartial spectator needs only to perceive the action as appropriate for the actor to undertake it. Neoclassical economists could reason that action that does not directly serve an individual's wants is undertaken in order to receive praise or other forms of recognition. Activity of this nature may also have other beneficial consequences, but this is only a positive externality to self-interest seeking behavior. However, action that goes unnoticed and provides no direct utility for the individual undertaking it besides the personal approbation of doing

what is 'right' or 'good' cannot be understood by neoclassical descriptions.

Incorporating Smith's depiction of human action would require a fundamentally different characterization of the individual.

The idea of a greater good appears throughout *The Theory of Moral Sentiments*. Smith describes a conflict between "passive feelings [that] are almost always so sordid and so selfish" and active principles that are "so generous and so noble." Smith believes that "reason...the man within, the great judge and arbiter of our conduct," teaches individuals "the propriety of resigning the greatest interests of our own, for the yet greater interests of others (ToMS, 137)." A reasonable person does not act purely out of self-interest. At the same time, the passions play an important role in causing an individual to undertake rational action. The irascible passions enable humans "to despise all dangers in the pursuit of what was honorable and noble...the irascible part of our nature is in this manner called in to assist the rational against the cupiscible (ToMS, 268)." To Smith, rational thought causes people to undertake "honorable and noble" action. Based on his other statements, a rational individual's decision-making would consider the benefit to society and perhaps even place it above personal utility. On the other hand, neoclassical economists deem only self-interest seeking behavior rational, and believe the invisible hand will generally satisfy the public good except in the case of market failure. Smith's concept of rational action differs significantly from that of neoclassical economics. Smith's includes normative statements that define what is appropriate. While neoclassical economists consider their model of an economic actor as objective and universal, Smith's emphasis on the impartial spectator, whose judgment is partially based on society's norms as a foundation for action, seems to deem a model that abstracts from cultural variation untenable.

Smith's concept of an 'invisible hand' also seems divergent from that described by modern economists. "The most common [modern perception] seems to be that the invisible hand...makes the self-seeking of each person work to the benefit of others as well as of himself (Grampp, 444). However, Grampp claims "Smith did not say that a man who acts in his own interest is led by an invisible hand to act also in the interest of others." According to Grampp, the use of this statement in *The Wealth of Nations* is meant as an attack on mercantilist government legislation that attempted to alter the

capital investment received by a particular industry. Smith believed that repealing such legislation would encourage domestic trade, cause more capital to remain at home, and therefore increase the power of a nation. One purpose Smith had in writing the book was a refutation of the mercantilist idea that foreign trade was superior to domestic trade and had a greater effect on a nation's power. According to Smith, domestic trade is superior since both ends of a transaction receive the benefit of it. The invisible hand appears in that, with the reduction in barriers to trade and an increase in domestic transactions, more capital remains in the home nation and is then available for its defense (Grampp, 446). Self-interest is a valid pursuit if conducted in a just and reasonable fashion, and may operate in the public interest, but neither the market nor any other agency guarantees this. Smith's invisible hand does not cause self-interest seeking individuals to automatically satisfy the public good.

Some descriptions of individuals in *The Theory of Moral Sentiments* are problematic when compared to *The Wealth of Nations*. In *The Theory of Moral Sentiments*, "happiness consists in tranquility and enjoyment (341)." However, "every man...[acts with] uniform, constant, and uninterrupted effort...to better his condition." Furthermore, this is "the principle from which public and national, as well as private opulence is derived (WoN, 343)." Smith reconciles these statements, finding that the principle to improve one's condition "seems to arise from over-rating the difference between one permanent situation and another." This is caused by "the influence of any of those extravagant passions." A person under their influence "is not only miserable...but is often disposed to disturb the peace of society (ToMS, 149)." Although the desire to improve one's condition leads to greater opulence in society, it does not necessarily improve individual or social happiness. On the contrary, it has the potential to decrease it. Neoclassical economists relate happiness, in the form of utility, to the size of an agent's market basket. To Smith, while the desire to improve one's condition is natural, an excess of this desire causes "the misery and disorders of human life," while "a well-disposed mind may be equally calm, equally cheerful, and equally contented (ToMS, 149)" without greater opulence. Smith agrees with neoclassical economists that the desire for a larger market basket creates greater opulence, but does not believe that this opulence necessarily translates into happiness.

In *The Wealth of Nations*, Smith describes morality in terms relatively satisfactory to neoclassical economists.<sup>3</sup> To Smith, two types of morality exist: an austere form adopted by the poorer classes, and a liberal system used by the “people of fashion.” The latter adopt their system because they can afford to, while the former realize that such a lifestyle would be ruinous (794). This fits fairly well into modern theory – economic agents choose bundles that will maximize utility over their time horizon. The wealthier classes can afford more leisure and opulence than the poorer classes. Smith’s depiction of morality results from the different budget constraints faced by the two classes. However, Smith does not consider this representation to be universal. In fact, he introduces his chapter on public debt by discussing private debt and the occasional appearance of a tendency to live outside of one’s means (WoN, 907). While Smith does not consider this a common occurrence, it does deserve mention. On the other hand, the abstract economic agent of neoclassical models never takes such cases into account.

While uncertainty plays a prominent role in the decision-making process discussed by Smith, the problem of lack of knowledge receives greater attention. Smith shows considerable concern for “the gross ignorance and stupidity which, in a civilized society, seem so frequently to benumb the understanding of all the inferior ranks of people (WoN, 788).” Smith would surely consider the “inferior ranks” unable to identify the options available to them and lacking the cognitive ability to discern the optimal choice from the alternatives that they do discern. Smith’s description seriously violates Krep’s third postulate and the idea of perfect knowledge.

Smith’s concern with the population’s welfare displays his belief that an individual’s choice driven only by self-interest often fails to maximize utility.

“The man whose whole life is spent in performing a few simple operations...renders him incapable...of forming any just judgment concerning many even of the ordinary duties of private life...His stationary life corrupts the courage of his mind...[and] the activity of his body (WoN, 782).

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<sup>3</sup> ‘Morality’ in Smith’s time was defined in broader terms than used today. Smith’s use of the term encompasses both ideal philosophical and the realistic psychological elements. To him, the moral science included idyllic, utopian standards, achievable principles intended to improve individuals and society, and even depictions that strove to describe individuals as they are. Generally, philosophical (what today would be labeled moral) and psychological discussions of that time period were inextricably bound: the psychological understanding shaped what was morally possible, and the moral perspective influenced the author’s psychological reading.

The lifestyle of an individual can even cause them to lose the ability to make ordinary judgments. Furthermore, this condition will afflict the entire working poor unless government takes action to prevent it (782). Smith considers a perceived deficiency in martial skills as another critical fault in his contemporary civilization. He calls “a man incapable of defending...himself” a coward who “evidently wants one of the most essential parts of the character of a man.” Besides providing a resource to the nation, the martial spirit “prevent[s the]...mental mutilation, deformity and wretchedness (WoN, 787)” caused by cowardice. Smith questions the individual’s ability of fulfilling basic requirements to happiness without external assistance.

Both of Adam Smith’s works discussed here contain the idea of an inherent, natural order to human action. The self-interest-seeking behavior described in *The Wealth of Nations* will not only provide the individual greater wealth, but also promote economic growth and social opulence. However, larger market baskets are not the only component to happiness in Smith’s individual, and a more nuanced description is spelled out in *The Theory of Moral Sentiments*. This latter volume clearly states Smith’s belief in a right and wrong that factors into human decision-making, and describes a wider set of motivations to human action of which self-interest is a subset.

### **Jeremy Bentham (1748-1832)**

Jeremy Bentham, a contemporary of both Adam Smith and David Ricardo, lived through a time of significant growth in economic thought. Enlightenment philosophy dominated the thinking of this period, and Smith’s *Wealth of Nations* rose to prominence in political economy. While political economy was not Bentham’s primary interest, his insights into behavioral theory attracted significant attention during his life and had a considerable impact on the later development of economics (Speigel, 341). This discussion will thus focus on Bentham’s portrayal of human behavior.

#### *Pain and Pleasure*

With the publication of his *Principles of Morals and Legislation* in 1789, Bentham develops a distinctive theory of human action. While Smith juxtaposed self-interest’s ability to create markets and encourage efficiency with the impartial spectator’s

role in governing decision-making, Bentham suggests that the matter was simpler because “nature has placed mankind under the government of two sovereign masters, pain and pleasure.” They “alone point out what we ought to do (Bentham, 1).” The conjecture that pain and pleasure are the underlying factors in all human action ran counter to the Enlightenment ideal of virtuous action that sacrificed personal gratification for goods considered more important such as moral improvement.<sup>4</sup> Bentham considered this perspective wrong-headed, and believed that the principle of pleasure and pain encompasses all decision-making, including any concept of the moral. As Bentham believes the principle of utility an accurate description of human decision-making and considers its hedonistic foundation perfectly acceptable, his principle was both positive and normative. Bentham’s development of utilitarianism, derived from these fundamental ideas, would profoundly influence the field of economics.

After beginning with the claim that pain and pleasure do and should govern human action, Bentham explains utility based on this presumption. Bentham defines “the *principle of utility*” as “that principle which approves or disapproves of every action whatsoever, according to the tendency which it appears to have to augment or diminish the happiness of the party whose interest is in question (Bentham, 2).” An individual maximizes utility by ensuring that actions undertaken produce the greatest net utility. In the same fashion, the utility of a community is maximized when the net utility of its members is greatest. “The community is a fictitious body...the interest of the community...[is] the sum of the interest of the several members that compose it (Bentham, 3).” While he observes that no ‘greater good’ outside of individual utility exists, Bentham does not suggest that an individual’s utility maximization necessarily is consistent with that of the community. In *The Psychology of Economic Man*, he states “every human being is led to pursue that line of conduct...[that] will be in the highest degree contributory to his own greatest happiness, whatsoever be the effect of it, in relation to the happiness” of others (Bentham in Stark v. 3, 421). Conflict between an individual’s and a community’s interest is not only possible, but likely.

This conflict plays out in all members of society. “The mind of every public man is subject...[to] two distinct interests: a public and a private (428).” An individual’s

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<sup>4</sup> See Kant or Wollstonecraft

private interests are those derived directly, and the public interests are those received circuitously through society. As certain “instances exist where it is necessary to put a constraint on inclinations (427),” Bentham does not seem to feel that utility maximization by individuals will always yield the highest good for the community. Bentham cites security (which includes liberty) and equality as examples of this type of public good. While public intervention might cause individuals to lose the ability to obtain some of their pleasures, basic levels of security, liberty, and equality provide a net benefit to society. Since individuals realize that their happiness can be augmented directly when the community’s utility increases, they have a motive to desire a better society. However, the utility provided to any one person by a betterment of the public interest is small, and individuals are therefore not capable of sacrificing their relatively larger private interests to those of the public (429). The best hope for increasing any human being’s inclination to support the public interest is to bring private and public interests into harmony. As ideal legislation maximizes a society’s net utility but individuals are incapable of working directly towards this end, legislation must create a framework that causes individuals to serve the public interest by maximizing their private utility.

No matter whether provided by public or private means, Bentham states that a good can only be understood in terms of pain and pleasure. While conflicts between an individual's and a community’s interests may occur, the good of the community is measured simply as the net sum of the utility enjoyed by the members that compose it. Bentham finds “that the happiness of individuals, of whom a community is composed...is the end and sole end which the legislator ought to have in view (Bentham, 24).” Legislation will effectively improve society only if it augments its citizens’ ability to secure happiness, which Bentham equates with pleasure. Bentham’s discussion of the sources of pain and pleasure, and of how individuals value them, is aimed at explaining how legislation should be designed. One goal common to many of Bentham’s statements is to change the perception of morality among legislators and convince them to adopt a utilitarian understanding.<sup>5</sup> He equates ‘good’ and ‘evil’ with ‘pleasure’ and ‘pain,’ and

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<sup>5</sup> Bentham describes utilitarianism as a moral theory, but one that is pragmatically based on human behavior, not abstract ideas.

discounts the idea that virtuous behavior occurs when an individual sacrifices his or her desires to some greater good.

“The pleasures of a good name are the pleasures that accompany the persuasion of a man’s being in the acquisition...of the good will of the world...these may likewise be called the pleasures of good repute, the pleasures of honor, or the pleasures of the moral sanction (Bentham, 35).”

To Bentham, individuals undertake certain actions in order to serve their desire for reputability, one of his sources of pleasure and pain. A positive moral sanction feeds into the pleasures of a good name (35), and ill repute into its corresponding pain (39).

Bentham’s description of the moral sanction is part of a detailed discussion of how individuals experience pain and pleasure. Bentham defines pleasure and pain as ‘interesting perceptions.’ These interesting perceptions materialize in complex and simple forms. The simple interesting perceptions are basic pain and basic pleasure. Complex interesting perceptions take the form of multiple types of pleasure, multiple types of pain, or some combination of the two (33). After defining pain and pleasure and discussing its basic composition, Bentham then identifies the various types: The several simple pleasures are the pleasures of sense, wealth, skill amity, a good nature, power, piety, benevolence, malevolence, memory, imagination, expectation, association, and relief. In general the types of pains correspond to the pleasures. The several simple pains are the pains of privation, the senses, awkwardness, enmity, an ill name, piety, benevolence, malevolence, the memory, the imagination, expectation, and association (14). In laying out these categories for pain and pleasure, Bentham hypothesizes an inclusive list of the motivations for human action.

Bentham continues with a detailed discussion of the nature of the various types of pain and pleasure, and in the process creates a psychological structure for understanding the fundamental causes of human decision-making. Every decision made by an individual is prompted either, in the case of the simple interesting perception, by one of these pains and pleasures, or, in the case of the complex interesting perception, some combination of them. Bentham adds additional refinements throughout the text. For example, benevolence and malevolence are “extra-regarding” because the utility they generate is based on “the existence of some pleasure or pain of some other person (41).”

All other pleasures and pains focus on the self, and are thus self-regarding. Bentham's taxonomy of the types of pain and pleasure is a key element of his utilitarianism.

Understanding the types of pain and pleasure, while interesting, provides only a limited insight into human behavior. In order to create a practical theory, Bentham adds a concept of human motives to his description of pain and pleasure. A motive is "any thing that can contribute to, give birth to, or even to prevent any kind of action (Bentham, 97)." The interesting perceptions, in their various combinations, manifest themselves as motives to define human action. "The action of a thinking being is the act either of the body, or only of the mind: and an act of the mind is an act either of the intellectual faculty, or of the will." The motives of the body emanate either from the senses or from instinct (such as lust). As the intellectual faculty simply provides understanding and does not influence external acts, it is incapable of creating pleasure and pain and thus has no direct effect on utility.<sup>6</sup> Bentham is primarily interested in the motives derived from the will. "Motive refers necessarily to action. It is a pleasure, pain, or other event that prompts action (99)." Therefore, supposed motives such as avarice, indolence, or benevolence are figurative – they do not directly cause pleasure or pain, and are not the primary motive of any action. (This seems contradictory with Bentham's use of benevolence as a cause of pleasure/pain.) "For a man to be governed by any motive, he must in every case look beyond that even which is called action; he must look to the consequence of it." Individuals use their perception of an action's consequences to speculate about the utility any action will create. This expected utility provides the motive for undertaking any activity. Bentham identifies two types of motives: in esse, those which emanate from an external catalyst; and in prospect, those that come from internal speculation. The latter especially seem to be derived from the understanding provided by the intellectual faculty, though it is the interpretation of this understanding that leads to the motive as the intellectual faculty plays no direct role in formulating a motive. Bentham theorizes that a rigorous understanding of human action is based on pain and pleasure's ability to motivate an individual's decision-making.

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<sup>6</sup> Bentham seems to ignore the intellectual faculty's relationship with imagination, which is capable of causing pain and pleasure despite the fact that it does not necessarily influence external action.

## *Defending Utility*

Bentham, likely in response to criticism of utilitarianism, repeatedly attacks the concept of a universal Good and Evil. “Strictly speaking, nothing can be said about good or bad (87).” These terms should be used only to describe what increases or decreases utility, but other moral systems confuse their use by postulating that innately good or bad actions exist. “Pleasure is in *itself* a good...setting aside immunity from pain, the only good; pain is in itself an evil...else the words good and evil have no meaning (102).” Only pleasure and pain are innately good and evil; any other application is either founded on this understanding or false.

According to Bentham, the principle of utility encompasses all other moral theories. While he admits that proof of his theory is impossible, he finds this acceptable because “that which is used to prove every thing else cannot itself be proved (Bentham, 4).” As this argument is somewhat circular, he then goes on to prove that any other reasonable moral theory can be understood in terms of the principle of utility. To Bentham, reason and reflection only work to serve an individual’s desire. Even “admitting any other principle...to be a right principle...for a man to pursue...let him [a critic of the principle of utility] say whether there is any such thing as a motive that a man can have to pursue the dictates of it (Bentham, 7).” Though other moral theories are possible, they are either based on the principle of utility or absurdly idealistic. Only the principle of utility accurately describes how decision-making occurs. In *The Philosophy of Economic Science*, Bentham illustrates this point by describing a situation where an individual hesitates between buying a bottle of claret and feeding a starving family. The individual’s indecision signifies that both options provide the same utility, and are thus equally good to the individual. “I beg a truce of our man of sentiment and feeling while from necessity...I speak...a mercenary language (Bentham in Stark v. 1, 117).” While this situation is perhaps repugnant, Bentham believes that it realistically describes observable behavior – something he finds lacking in other theories. Bentham’s utilitarianism is a natural outgrowth of his understanding of human decision-making.

Since action described as virtuous is in essence undertaken to serve the principle of utility, Bentham’s theory encompass the concept of morality. However, he repeatedly finds it necessary to emphasize morality’s subservience to pain and pleasure. “The

circumstances of moral, religious, [and] sympathetic sensibility...appear to be included (49).” In addition, “a man’s moral sensibility may be said to be strong, when the pains and pleasures of the moral sanction show greater in his eyes (Bentham, 50).” Bentham does not deny that virtuous activity takes place, but disagrees with the notion that individuals undertake activity to serve anything but personal interest. While most individuals contain “an ordinary share of benevolence (90),” he defines this pleasure as “resulting from the view of any pleasure supposed to be possessed by the beings who may be the objects of benevolence (36).” Individuals do at times endeavor to be virtuous, but only as a means of increasing their own happiness through the pleasures derived through the moral sanction, benevolence, or other sources.

Bentham’s understanding of human nature complicates his description of human behavior. “In the general tenor of life, in every human breast, self-regarding interest is predominant over all other interests put together (Bentham in Stark v.3, 421).” Bentham consistently states that individuals’ decision-making is governed by the desire to serve their self-interest. When discussing interest, it is to “be taken in its enlarged sense: i.e. according to each man’s perception of...his most forcibly influencing interest (424).” In defining interest, Bentham differentiates between the association with wealth used in contemporary parlance and an older meaning described by Albert Hirschman in *The Passions and the Interests*.

“When the term “interest” gained currency...its meaning was by no means limited to the material aspects of a person’s welfare; rather, it comprised the totality of human aspirations, but denoted an element of reflection and calculation with respect to the manner in which these aspirations were to be pursued (32).”

Hirschman’s description of interest’s original meaning parallels Bentham’s idea of interest “in its enlarged sense.”

While he states that the pursuit of interest is the sole motivation of human action, Bentham does not believe that individuals’ necessarily undertake utility maximizing decisions. “Prone is the human mind to the making of hasty and imperfectly grounded inductions on the field of physical science, it cannot be much more so in the fields of

psychology and ethics (Bentham in Stark v.1, 94)<sup>7</sup>.” Individuals often act rashly. Also, as all of the elements of calculation are not directly observable, they – by necessity – make decisions without fully understanding the situation. In addition, “in the making of the calculation, the judgment is...liable to be disturbed and led astray...by original intellectual weakness, by sinister interest,” and by various types of prejudice (95). The passions, prejudice, and lack of intellect often prevent individuals from always making the best decisions. Bentham’s understanding of human nature in regard to man’s perception of his interest leads him to posit that, while individuals’ seek to maximize their utility, they are not always successful.

Bentham describes individuals as imperfectly rational actors who seek to maximize their net pleasure by following the dictates of self-interest. Bentham considers this interest not to be purely hedonistic, but to encompass all possible sources of pleasure and pain. A theory of human behavior, he says, must be based on the principle of utility or fail to serve any practical use. Bentham considers contemporary theories of human behavior to be either unwittingly based on the principle of utility or abstract absurdities that bear little relationship with the real world. In his claim that any theory must bear a close relationship with reality, Bentham would likely share Uchitelle’s criticism of modern economics’ failure to describe everyday occurrences. At the same time, he would probably consider Kuttner’s criticism of economics’ description of individuals as selfish to be foolishly idealistic. To Bentham, any understanding of human decision-making must rest on the assumption that an individual’s behavior is driven almost exclusively by the desire to maximize utility.

### **Thorstein Veblen (1857-1929)**

Thorstein Veblen was an enigmatic person known for his scathing wit and profound analysis of society. An economist by employment, Veblen drew from many social sciences, such as anthropology and psychology, and heavily from the discipline of biology, to develop his theories. With the 20<sup>th</sup> century development of definite boundaries between these fields, many of Veblen’s works are difficult to place in

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<sup>7</sup> Bentham vacillates between describing utilitarianism as a moral or ethical theory and a psychological theory. In some cases, he seems to synthesize the two. As the principle of utility is the only reasonable

contemporary academic discourse. His focus on the interaction between institutions and individuals probably locates his concerns best between economics and sociology. The success of Veblen's first book, *The Theory of the Leisure Class*, has ensured that he remains of interest to economists since its publication in 1899. This discussion of Veblen will center on his description of how society's dynamic institutions and the individuals affected by them asymmetrically shape each other through time.

At the center of Veblen's argument is his concern for society's failure to reach its highest potential state of well-being, and what he sees as neoclassical economics' woefully inadequate ability to address the 'true' reasons for this shortcoming. Veblen decries neoclassical economics' depiction of 'homo economicus', and instead proposes a multidisciplinary approach to understanding human action. Veblen's use of theories from many disciplines suggests a belief that the multiple perspectives they provide are necessary to portray human behavior accurately. Still, the interaction between the individual and institutions is central to Veblen's understanding of the motivation behind individuals' decision-making.

### *Institutions*

Veblen's conception of institutions forms the basis for his analysis of human decision-making. He draws mainly from anthropology, psychology, and biology to create his theory of how institutions develop, adding his own insight and polemical flair. Recall that debates sparked by the publication of Charles Darwin's *Theory of Evolution* still dominated intellectual discussion at the end of the 19<sup>th</sup> century, and various competing metaphors of evolution affected a spectrum of other disciplines' understanding of human behavior. "...in the late 1880's and early 1890's there was a widespread opinion that social and biological phenomena...were closely related to economics in some manner (Hodgson, 170)." Thus, Veblen's fourteen year long tenure at the University of Chicago, beginning in 1892, was an especially important opportunity for him to absorb the various doctrines and discuss them with his colleagues, such as biologist Jacques Loeb and psychologist William James (173). This interdisciplinary

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portrayal of human action possible, any ethical or moral theory must be based on it.

intellectual stimulation had a critical impact on the formation and strengthening of Veblen's ideas.

Veblen wrote *The Theory of the Leisure Class* during a time of great debate among those supporting Darwin's views and the more Lamarkian ideas of Herbert Spencer (Hodgson, 172). "Veblen had a sophisticated understanding of biological theory...and he applied its metaphor to socio-economic evolution (171)." Veblen leaned towards Darwinist theories, but he pulled from both sides of the debate. For example, while he disagreed with the Lamarkian notion of cultural identities that are passed on genetically, his conception of science reflected Spencer's influential idea of synthetic philosophy – a "synthesis of philosophy, psychology, sociology, and other disciplines (172)." "Veblen wanted science to provide critical insight into the course of evolution, not become a tool to control it (Ross, 213)." In order to develop his conception of a social science based on evolutionary theory (which at that time was influential to some degree in other social sciences), Veblen came to conceive of "the individual in both biological and socio-economic terms (Hodgson, 176)."

Veblen uses his version of social evolution to discuss both individuals and social institutions. For example, he finds that "In the organic complex of habits of thought which make up the substance of an individual's conscious life the economic interest does not lie isolated and distinct from all other interests (116)." Here, Veblen continues his long running critique of economics for abstracting human behavior from reality to the point where he feels it becomes irrelevant. While Veblen's biological allusions reflect the parlance of his time, they also exhibit his perception that a biological understanding of the individual is needed in economic theory. For instance, he states: "Under the guidance of the later biological and psychological science, human nature will have to be restated in terms of habit (221)." These disciplines did not offer all the answers he sought, but they provided valuable tools for understanding human action and promised much more in the future.

## *Anthropology*

Veblen's interest in anthropology is significant in his writing. "A number of Veblen's ideas... were in many ways identical to the mainstream view of anthropologists (Mayhew, 235)." The most obvious example, at least to modern sensibilities, is Veblen's discussion of race. Veblen identifies the importance of the "life history of racial stock" on an individual's decisions and the "temperament belonging to the dominant ethnic element" in the evolution of institutions (108). Toward the end of the 19<sup>th</sup> Century, "ethnicity and race were assumed to be essentially the same (Mayhew, 236)." Veblen argued that race molds the habits of thought of various peoples. In one instance, he refers to the 'dolicho blond' taste for lawns. Veblen considers "the ethnic types of today...variants of the primitive racial types (218)." However, he seems to lean more to the theory that traits are passed down through enculturation rather than biologically – though some of his analysis supports the latter possibility as well. In Veblen's defense, "the racial analysis...was also a part of the anthropology of the 1890's (Mayhew, 236)." Veblen's inclusion of racial/ethnic discussion is important because he finds that "the situation, including the institutions...will favor the survival and dominance of one type of [ethnic/racial] character" who will shape future institutions "in his own likeness (189)." The racial proclivities of society, and especially of the dominant leisure class, define the evolution of social institutions and the behavioral patterns of the greater society. These societal patterns play a significant role in shaping individual tendencies.

The other main anthropological theory that Veblen brings to his writing is an anthropologically influenced 'stages' description of historical development. This theoretical approach to explain the development of human society was a main tenet of the historical/evolutionary school in anthropology (Mayhew, 235). Although his historical description of human development is unique and independent of mainstream anthropology, Veblen does use anthropology's stages theory to describe the evolution of institutions and draws from anthropological methodology to support his arguments.

Veblen's anthropological understanding formulates the role of tradition and habit in his theories. Habit, rather than hedonistic or utilitarian principles, combines with the emulative drive (discussed below) to comprise the underlying cause of individual action

(Veblen, 106). Veblen rejected other prominent possibilities because they did not include an evolutionary explanation of the origin of their behavioral assumptions (Hogdson, 175). Instead, “Veblen saw instincts and habits as the dynamic basis of human nature (176).” Habit also plays a critical role in defining institutions. “The institutions are...prevalent habits of thought with respect to particular relations and particular functions of the individual and of the community (Veblen, 190).” Furthermore, “the institutions...that is to say the habits of thought...have been elaborated in and received from the past (191).” In an ever-changing environment, this presents individuals with a challenge, as they “are never in full accord with the present (191)” and thus constantly trying to adapt. Just as the evolutionary development of institutions signifies that contemporary institutions are shaped by those of the past, individual action, molded by present-day institutions, is linked to the past.

#### *From Invidious Comparison to Conspicuous Consumption*

Veblen synthesized ideas present in biology, anthropology, and economics, and added his own unique stamp. The most fundamental social convention discussed in *The Theory of the Leisure Class* is the notion of invidious comparison. In the first chapter, Veblen describes how, as society develops from a primitive, peaceable stage to war-like barbarism, it attains a predatory tradition and begins undertaking activities he labels as ‘exploit’ (7-11). Exploit is best described as harvesting resources from the surrounding environment through hunting and fighting. This gains preeminence among the more mobile males, who leave farming and household duties to the female population (15). During war, males steal women from the enemy’s population, causing through this coercive marriage the first private property. Before this, property was held communally. However, the trophy wife was never shared. Eventually the concept of ownership extends to other spoils of war, and then beyond (23-24). Ownership thus develops from the distinction attached to wealth rather than for its intrinsic value (26). The distinction created by wealth leads to “the struggle [that] is substantially a race for reputability on the basis of invidious comparison...(32).” Countering the neoclassical assumption that an individual prefers leisure to labor, Veblen finds that man has a “propensity for purposeful activity (33)” which leads to an “effort directed to or resulting in a more

creditable showing of accumulated wealth.” As society advances, invidious comparison, the desire to improve ones “showing of accumulated wealth,” comes to drive human behavior.

From the tenet of invidious comparison, Veblen develops the theory of conspicuous leisure and conspicuous consumption. Conspicuous leisure appears further along Veblen’s stages model of societal evolution, once economic growth has allowed a leisure class to form. Rather than undertake leisure for the direct utility it provides, as neoclassical economists suggest, Veblen finds that it mainly serves “as a means of gaining the respect of others (38).” The leisure class is forbidden from engaging in productive labor, and instead must undertake conspicuous leisure to show society the extent of its wealth and power. Eventually, conspicuous leisure becomes possible to so many that it begins to fade as a sign of reputability (148), and is replaced by “conspicuous consumption of valuable goods [as] a means of reputability to the gentleman of leisure (75).” Waste of time and material are seen as equivalent, but conspicuous leisure is difficult to display in the larger, more mobile societies of ‘advanced’ cultures, so conspicuous consumption becomes preferred (85-87). Veblen eventually replaces ‘consumption’ with ‘waste,’ and finds “the standard of living of any class, so far as concerns conspicuous waste, is commonly as high as the earning class will permit (112).” Invidious comparison causes individuals to devote all resources beyond (and sometimes including) those needed for sustenance to improving their status, a status designated through the utilization of conspicuous waste. The law of conspicuous waste even sets the boundaries of taste. The more obviously wasteful usage or method stands the better chance of survival (166). Due to the distinction applied to wealth that has survived from the predatory stage of civilization, individuals choose to sacrifice their personal well being to augment their pecuniary standing in society.

Veblen also describes vicarious consumption and vicarious leisure as a direct outgrowth of the conspicuous variety. Veblen classifies wives, children, and servants – anyone other than “the economically free and self-directing head of the establishment,” as agents of vicarious leisure (58-59). The ‘head’ is unable to spend enough time and money to display his pecuniary stature fully, and therefore must rely on “a derivative leisure class, whose office is the performance of a vicarious leisure (59).” The other

members of the household and servants are still exempt from productive labor, but their leisure and consumption are not for their own pecuniary gain, but rather to augment the stature of the head of the household. Veblen is particularly harsh in discussing the proscribed role of women in this system. In the leisure class – and any household which aspires towards it – women are merely an ornament to their husband, and are forbidden from any productive effort. Veblen’s characterization of the family puts him in line with feminist positions of a much later period (Jennings), and represents some of the sharpest polemical writing in *The Theory of the Leisure Class*.

### *Workmanship and Labor*

Two other institutions that play a prominent role in Veblen’s behavioral theory are the ‘instinct of workmanship’ and ‘irksomeness of labor.’ These concepts appear in *The Theory of the Leisure Class*, and are fleshed out in *The Instinct of Workmanship and the Irsomeness of Labor* (1914). At one level, these two ideas are contradictory. Veblen uses the instinct of workmanship to counter neoclassical claims that humans “were naturally averse to the useful effort that produced their own sustenance (Jennings, 203).” In one incarnation, this instinct is “an abiding sense of the odiousness and aesthetic impossibility of what is obviously futile (Veblen, 93).” Natural selection would only support a species able to provide its own sustenance efficiently through labor, and Veblen’s analysis of relatively ‘primitive’ civilizations reinforces the view that, if anything, the human species has a natural proclivity to useful effort.

On the other hand, the irksomeness of labor is a relatively recent development in human society. This concept can best be understood as a corollary to conspicuous consumption. As the development of predatory traditions during the barbarian stage of civilization leads to greater emulation and a desire for trophies from the chase and raid, a sense of indignity is imputed onto ‘productive work,’ causing individuals to develop a sense of labor’s irksomeness (16-17). During this stage of civilization, the demands of pecuniary emulation dominate, causing the superior class to abstain from productive work and instead employ themselves in reputable careers (36-40). What Veblen labels as productive work is left to slaves and later peasants.

The instinct of workmanship is reinvigorated when civilization develops to the 'handicraft era' and productive effort can lead to greater reputability (Broda, 136). During this stage, those in inferior pecuniary classes find "acquisition and emulation is possible only within the field of productive efficiency and thrift, [and] the struggle for pecuniary reputability will...work out in an increase in diligence and parsimony (36)." With the handicraft and merchant era, individuals have the ability to improve their lot and those not already part of the leisure class are motivated to undertake productive effort in order to attain a superior standing. Veblen performs a remarkable synthesis of these conflicting concepts, as "purposeful effort comes to mean...effort directed to or resulting in a more creditable showing of accumulated wealth (34)." The instinct of workmanship gains respect in its own right, and in more developed societies, even the leisure class finds it necessary to undertake "purposeful activity that shall at the same time not be indecorously productive (94-95)." In modern societies, the irksomeness of labor overrides the instinct of workmanship only in the superior pecuniary class, and other classes engage in productive effort in order to maintain or improve their pecuniary standing.

### *The Individual*

Stuart Chase argued that Veblen's "man is not a logical animal, particularly in his economic activity (xii)." Veblen probably would have challenged this characterization of his theory, which is likely a simplification of his claim that individuals are generally logical within the confines of social institutions, but these institutions may force activity not in the best interest of the individual or society. On the other hand, Veblen strongly opposes attempts to theorize abstractly a 'homo economicus' to represent all individuals. "Taken in the aggregate...this human subject is more or less variable (189)." Individuals are marked more by their differences than their similarities, and thus "'economic man' whose only interest is the self regulating one and whose only human trait is prudence is useless (241)." While Veblen does envision the individual as having the power to shape his or her surroundings, people are in many ways cultural products of institutions, and the diversity of the human kind, not just preferences, must be addressed by economic theory. Indeed, this diversity is a wellspring of economic activity.

While Veblen paints a bleak picture of individuals continuously attempting to adapt to constantly changing economic forces and pecuniary pressures (196), he still hopes for progressive changes that will lead to superior institutions. "...modern economic institutions fall into two roughly distinct categories – the pecuniary and the industrial (229)." Pecuniary employment tends to preserve predatory traits, and industrial activity the instinct of workmanship (233). As these two forces are contradictory, "pecuniary efficiency is on the whole incompatible with industrial efficiency (241)." The instinct of workmanship, which is more likely to be found in relatively "mature communities (226)," causes the collective interest to impact individual action for the first time since the beginnings of civilization. "Collective interest is best served by honesty, diligence, peacefulness, good will, and the absence of self seeking (227)." On the other hand, self-interest seekers display opposing traits to the detriment of the community (228). As pecuniary employment tends to preserve the negative predatory traits, and industrial employment the positive traits through the instinct of workmanship (233), Veblen calls for greater freedom from "pecuniary stress" to increase the likelihood of a "reversion to a non-invidious temperament (338)." While he does not state exactly how to enact such a policy, in doing so individuals will once again act in their own and society's best interests.

### *Veblen's Mark*

Veblen's writing calls for economics to incorporate a new understanding of the individual and the relationship between social institutions and economic life. Veblen found neoclassical economic theory and its abstract treatment of the individual unable to meet this need, and criticized this doctrine in his 1898 essay *Why is economics not an Evolutionary Science* (Hodgson, 179). Instead, "under the guidance of the later biological and psychological sciences, human nature will have to be restated in terms of habit (181)." Economic theory's understanding of the individual must reflect the findings of these sciences. This understanding must be directly connected to contemporary society (Ross, 217). Veblen describes an incredibly complex economic man who is concurrently shaped by and shaping social institutions. Human decision-making is motivated primarily by the particular manifestation of institutions, which also form the

boundary of acceptable action, in the individual. For economics to address human behavior adequately, Veblen feels it must understand the evolutionary development of institutions and their interactions with individuals.

### **John Maynard Keynes (1883 – 1946)**

John Maynard Keynes, perhaps the most prominent economist of the 20<sup>th</sup> Century, made his mark on economic theory with his departure from neoclassical economics. While he was raised in, and accepted, orthodox theory for much of his life, he exhibited a dramatic shift with the publication of *The General Theory of Employment, Interest, and Money* in 1936. His theories, which culminated in this book, “offered answers to the burning questions of the time which conventional economics left largely unresolved (Spiegel, 597).” In his writings, Keynes suggested a more complex view of both the individual and society than that provided by neoclassical economics. Many components of *The General Theory* reflect this view, and Keynes’ political writings also suggest a complicated, psychological conception of human nature. Combined, these works show that Keynes intended his economic theory to take into account more completely a complex view of the individual.

#### *Responding to the Neoclassical Orthodoxy*

In his essay *The End of Laissez-faire*, Keynes discusses the historical background of contemporary economic theory, and finds that its foundation is not based on sound principles. Keynes’ criticism of what he considers invalid assumptions about the individual inherent in the current theory causes his own views to become discernible. He finds that the laissez faire tradition sprang out of the individualism of the Enlightenment, with “the purpose of promoting the individual...to depose the monarch and the church (CW, 273).” The original intent of laissez faire ideology was not directly to further economic well-being, but to free man from the impositions of the monarchy and the Church. Keynes establishes laissez faire as a philosophical doctrine that had served a specific purpose in the past, but whose current acceptance is an anachronism.

Once the laissez faire doctrine successfully won freedom for the individual, why did its influence persist? Various proponents used different arguments. “Bentham

reached the...result by pure reason...[finding] the greatest happiness of the greatest number is the sole rational object of conduct (CW, 273).” Keynes’ objection to Bentham’s reasoning is that ‘rational’ thought does not necessarily provide happiness. Also, it is not “true that self-interest generally *is* enlightened; more often individuals acting separately to promote their own ends are too ignorant or too weak to attain even these (CW, 288).” Rational reasoning is capable of leading to a false conclusion, and is based on an individual’s values that might contradict those of society. To drive his point home, Keynes mentions “the sage man’s [Hume’s] cynical corollary: ‘Tis not contrary to reason to prefer the destruction of the whole world to the scratching of my finger...” and finds that “reason is and ought only to be the slave of the passions (CW, 274).” Mankind is not and should not be driven by a reasoned pursuit of utility maximization, but is rather characterized by his passions, which reason attempts to satisfy better.

Another source of support for neoclassical ideology is Social Darwinism. Social Darwinists believe that “free competition had built man...Socialistic interferences became...impious, as calculated to retard the onward movement of the mighty process by which we ourselves had risen (CW, 276).” The sarcasm in Keynes tone speaks for itself: he held little regard for these propositions. Current social practices that Social Darwinists were striving to maintain did not evolve due to competition, but resulted from the concerted action of many individuals. Veblen’s writings had already examined how institutions can become outdated, useless, and even harmful to the society that is perpetuating them. Keynes did not believe that humans could individually be counted on to make the changes necessary to reform outdated practices for the benefit of the community. Furthermore, he found fault in a key tenet of Social Darwinism that “there must be no mercy or protection (CW, 282)” for those less fortunate. In his denunciation of Social Darwinism, Keynes finds individual self-interest seeking unacceptable as a normative criterion.

### *The Imperfect Individual*

Keynes claimed that economists stayed with accepted theory “because it is the simplest, and not because it is the nearest to the facts (CW, 282).” To Keynes, reality is too complicated for the optimal public good to be achieved simply by independent

individual action. Any new doctrine must take these complexities into account. One such difficulty, man's lack of rationality in social terms, was already mentioned. A variety of other complexities in human behavior that Keynes thought missing from contemporary economics must also be addressed by any new policy. First, it needs to be recognized that, at best, "each individual will discover what amongst the possible objects of consumption he wants most by the method of trial and error (CW, 283)." If utility is to be maximized, consumers must have complete knowledge of the optimal way to satisfy their wants. However, a process of trial and error describes a situation where consumers are guessing how to satisfy their wants, and includes instances "when ignorance prevails over knowledge (284)." The assumption that utility is generally maximized also requires that producers be aware of consumers' desires, and how best to fulfill them. What Keynes refers to as 'classical' economics dismisses such concerns by claiming competition will straighten out any short-term inefficiency. However, this dismissal "depends on a variety of unreal assumptions...[including] that the processes of production and consumption are in no way organic [and] that there exists a sufficient foreknowledge...(284)." Economists consider these complications to be special cases, but Keynes disagrees. Keynes' biological allusion describes markets as evolving, reactive, and driven by psychological tendencies of individuals such as uncertainty and the herd mentality. As "many of the greatest economic evils of our time are the fruits of risk, uncertainty, and ignorance (291)," economic theory must have the capability to deal with these complexities that are the rule, not the exception, of economic reality.

Though individual desires and the social good are not identical, economic theory – in its desire to promote the general good – should serve as a medium to reconcile these contradictory goals. According to Keynes, economists have understood this for some time. Alfred Marshall's "most important work" shows that the "private interest and social interests are *not* harmonious (CW, 282)." In addition, "the cost and character of the competitive struggle itself (285)" often harms many for the betterment of a few. Furthermore, Keynes identifies a desire, at least in the societies of Europe, "for arranging our affairs in such a way as to appeal to the money-motive as little as possible (293)." Here, Keynes describes a need for economic theory to address issues that are generally seen as exogenous to economics. Orthodox doctrine states that the "money motive" is an

indispensable incentive for efficiency and utility maximization, and does not examine other possible consequences of this motive. While Keynes admits that this motive might be necessary in the short run, he questions its long-term usefulness once economic conditions no longer require significant labor to satisfy individuals' needs. "The cure lies outside the operation of individuals; it may even be to the interest of individuals to aggravate the disease (CW, 292)." Action undertaken by individuals is unlikely to adequately prepare society for this adjustment. Economics, which would be redefined once the problem of scarcity is resolved, must play some role in addressing it.

While he finds that individuals, stricken with doubt, ignorance, and selfish motives, act out of often misguided self-interest, Keynes does not dispute the existence of other motives. Government, in its desire to ensure social progress, is justified in seeking to "engage men's altruistic impulses in the service of society (CW, 290)." Keynes envisions a significant role for government in directing human action. In *Can Lloyd George Do It?*, Keynes mentions government's ability to "facilitate and inspire (113)" by providing productive activity (employment) for the population, thereby prodding it out of the "attack of economic pessimism (321)" discussed in *Economic Possibilities for Our Grandchildren*. Keynes reiterates this in *The Means to Prosperity*, finding "our predicament [the Great Depression]...comes from some failure in the immaterial devices of the mind, in the working of the motives which should lead to the decisions and acts of will (335)." A main purpose of these essays seems to be to encourage the population to rise out of the lethargic slump that currently dominated its activity. Keynes' focus on psychological tendencies represents a break from past economic theory.

### *Behavioral Analysis*

Though Keynes's behavioral perspective generally remains in the background of his economic theory, he does directly address some characteristics of human nature, the most prominent of these being the money motive. Keynes refers to this in almost every essay dealing with individual decision-making. In *A Short View of Russia*, he questions the social respectability granted moneymaking in England, and looks favorably on Lenin's intention that "the career of money-making...will simply not occur." Instead of condoning self-interest seeking behavior, society will grant approbation for labor directed

at serving the community (260). While doubtful that Lenin will achieve this result, Keynes does speak positively of Lenin's desire to increase the force of altruistic motives. *Economic Possibilities for Our Grandchildren*, the most utopian of Keynes' essays, describes a world where the material wants of individuals have been satisfied (321). When this comes to be, the love of money will finally be treated as a "semi-pathological" propensity, with those suffering from it receiving psychological therapy (329). To Keynes, "the moral problem of our age is concerned with the love of money (*Russia*, 268)." The money-motive is a natural propensity, but one exacerbated by Western civilization. Keynes places such significant importance on this particular motive because he blames much of the Great Depression upon it. One of the more significant reasons stated in *The General Theory* for deficient demand is the individual's need to satisfy "pure miserliness i.e. unreasonable but insistent inhibitions against acts of expenditure as such (108)." Keynes does not consider this 'semi-pathological' motive to be the worst of evils – "it is better that a man should tyrannize over his bank balance than over his fellow citizens (374)." However, modern society tends to exacerbate this proclivity that humankind – in an ideal world – would be better off without.

Keynes alludes to negative "pecuniary motives" and "social approbations" in *A Short View of Russia* (259-260), but goes into greater depth in *Economic Possibilities*.

"The needs of human beings...fall into two classes—those needs which are absolute in the sense that we feel them whatever the situation of our fellow human beings may be, and those which are relative in the sense that we feel them only if their situation lifts us above...our fellows (326)."

The latter of these two basic needs might be insatiable, but Keynes believes the absolute needs can be satisfied – and likely will be within a few generations. The latter need can best be described as a pecuniary motive, and Keynes displays a similar disdain for it as Veblen. Also like Veblen, Keynes describes individuals as facing great stress in adjusting to society. Indeed, Keynes thought that "growing pains of over rapid changes" between one economic period and another were contributing to the economic slump (321). In the end, economic growth provides the possibility that scarcity will cease to exist. Still, Keynes thinks "with dread of the readjustment of the habits and instincts of ordinary man (327)." Individuals' will find it difficult to adjust to these changing circumstances and give up propensities such as the pecuniary drive and the habit of

productive effort. Keynes' individual here is a habitual creature driven largely by externally constructed motives.

Keynes' understanding of human behavior influences the break he makes with accepted economic doctrine in *The General Theory*. Expectations based on imperfect knowledge and reflecting the possibility of a mob-mentality that Keynes likely witnessed in equity markets appear throughout and in his view have a profound impact on human behavior. When discussing motives, Keynes places significant importance on the role of social forces in influencing individual decision-making:

“the strength of all these motives will vary enormously according to the institutions and organization of the economic society according to habits formed by race, education, convention, religion, and current morals, according to present hopes and...the established standards of life (109).”

In addition, Keynes uses psychology repeatedly to explain economic activity. He finds that the rate of interest is a highly psychological function (202). Also, “the amount that the community spends on consumption depends...partly on the subjective needs and the psychological propensities and habits of the individuals composing it (90).” However, under normal circumstances, these subjective factors are fairly stable. Due to this consistency in human behavior, “the propensity to consume is a fairly stable function...the amount of aggregate consumption mainly depends on the amount of aggregate income (96).” The socially-driven proclivities of individuals form the foundation of Keynes' consumption function. Keynes' treatment of investment, the other main component of effective demand, also relies on psychological phenomena. *The General Theory's* main departure is its claim that investment is not governed by historical trends or current conditions, but expectations of the future. “The marginal efficiency of capital is here defined in terms of the *expectations* of yield and of the *current* supply price of the capital-asset (136).” Individuals make investment decisions based on the expected yield of capital in relation to the rate of interest. As human understanding of the future is imperfect, psychological factors play a large role in influencing expectations. Demand then is composed of fairly stable consumption and unstable investment. Both of these components are explained by economic theories that take into account the psychological proclivities of individuals.

In a similar fashion, the supply of capital is largely driven by individual preferences and propensities. As income not devoted to consumption is saved, the marginal propensity to save is intrinsically related to the marginal propensity to consume. Keynes' use of 'propensity' describes his belief that individual saving and consumption are stable psychological dispositions influenced by social institutions. On the other hand, individuals' liquidity preference is often far from stable. "Liquidity-preference is given by a schedule of the amounts of his resources...which he will wish to retain in the form of money in different sets of circumstances (166)." In addition to holding cash to cover expected transactions, "the existence of *uncertainty* as to the future rate of interest (168)" causes individuals to hold more or less cash to cover possible needs in the future. Also, just as "the marginal efficiency of capital is fixed...by the market valuation as determined by mass psychology, so also expectations as to the future of the rate of interest as fixed by mass psychology have their reactions on liquidity preference (170)." This 'mass psychology' causes individuals to speculate about the differences between short and long-term interest rates and hold more or less cash as a result. Due to this speculation, the interest rate's "actual value is largely governed by the prevailing view as to what its value is expected to be (203)." Expectations and uncertainty are again seen as greatly influencing individual's economic activity. Keynes' call for government to take a greater role in giving the economy direction rests on his belief that governmental action can influence the propensities of individuals that induce economic decision-making.

Keynes' economic doctrine is founded on his view of the world, which is also based in part on normative ideas such as a strong concept of the good and a vision of a desired direction for human history. Much of Keynes writing is in response to "the accepted classical theory of economics...[because] its tacit assumptions are seldom or never satisfied, with the result that it cannot solve the economic problems of the actual world (378). According to Keynes, economic theory must incorporate both the impact of humanity's irrational side, and the possibility that an individual's rational decision-making is in opposition to the public good. Also, Keynes seems skeptical that the principle of self-interest alone describes an individual's choices and actions. Keynes' moral science clashes with utilitarianism, and in *Economic Possibilities* he envisions a time when "we shall once more...prefer the good to the useful (CW, 331)." Humanity

will better restrain undesirable propensities such as the money-motive, and, with scarcity resolved, “man will be faced with his real, his permanent problem—how...to live wisely and agreeably and well” and “cultivate into a fuller perfection the art of life itself (328).” Keynes demands that economics, as a social science, prepare individuals for this eventuality and support policies that will promote ‘good’ human behavior.

## Conclusion

The most significant works, by contemporary standards, of each of the authors discussed in this paper were intended primarily as a challenge to an accepted doctrine of the time. Adam Smith’s *Wealth of Nations* condemned mercantilism. The utilitarianism described in Jeremy Bentham’s *Principles of Morals and Legislation* was intended as an alternative to other theories of moral philosophy such as that found in Smith’s *Theory of Moral Sentiments*. Thorstein Veblen attacked most of society’s accepted norms in *The Theory of the Leisure Class*, and in other writings was especially vociferous in his critique of neoclassical economics. John Maynard Keynes introduces his *General Theory* by stating his disagreement with the norms of ‘classical’ (what today would be termed neoclassical) economics. In addition, Smith, Bentham, and Keynes had specific political goals, and directed at least some of their writings to support these aims. Considering the diversity of their circumstances, one common thread among their discussions of the individual immediately becomes apparent: though they all describe decision-making differently, each of these authors had a more nuanced view of human behavior than the assumptions of neoclassical economics. Whether governed by an impartial spectator, pain and pleasure, the pecuniary and emulative drives, or psychological propensities, these economists all discuss human behavior as being extremely complex and far from uniform.

### *The Authors in Dialogue*

Though Smith’s writings do not reflect Veblen’s general dissatisfaction with social standards, a parallel exists between Smith’s impartial spectator and Veblen’s emulative drive. When describing the standards that the impartial spectator uses to judge any action, Smith relies on the ethical norms of society. Veblen, approaching human

decision-making from a strikingly different perspective, agrees that these norms play a large role in directing human action. Smith seems perfectly content with granting society this attribute. Veblen, on the other hand, is highly critical of the decisions driven by social pressure. However, greater similarity appears when the actual norms they approve and disapprove of are compared. Veblen approves of the ‘honesty, diligence, peacefulness, good will, and the absence of self seeking’ associated with the instinct of workmanship. Considering Smith’s discussion of the good and moral, his impartial spectator would generally rely on similar norms. Regarding negative norms, Smith finds that the impartial spectator also approves of “emulation (TOMS, 50).” As “the man of rank and distinction...is observed by all the world” and the wealthy man “glories in his riches, because he feels that they naturally draw upon the attention of the world (51),” the primary reason that individuals’ desire to improve their riches and status is not to receive a greater quantity of utility, but to enhance their reputability. Though Smith draws upon self-interest to promote economic efficiency, he often criticizes this motivation’s capacity to encourage extreme behavior, and does not consider it the sole basis of decision-making.

Keynes also disapproves of an excessive emphasis on self-interest, especially when it manifests itself in the desire to accumulate money. Much of Keynes description of the individual is consistent with Veblen’s theories. Veblen states that almost all human decision-making is governed by the emulative drive for pecuniary gain. Keynes divides human wants into three categories – the finite, basic needs such as food and shelter, the insatiable desire to accumulate in a manner similar to Veblen’s invidious comparison (both described in *The General Theory*), and the demands of the imaginative life – enjoyment of life after the basic needs have been met (discussed in some of Keynes more philosophical essays). In addition, Keynes attributes the economic slumps of his time in part to individuals’ inability to adjust to the changes in the social fabric. While he does not go as far as Veblen’s claim that individuals, mired in outdated institutions, are always attempting to adapt to constantly changing norms, the similarities in the two authors’ description of individuals’ interaction with society are striking. Keynes likely knew of Veblen’s ideas and may have incorporated them in his own theories.

Bentham's claim that hedonistic impulses are the sole motivation of human action in many ways isolates him from the other authors discussed. A significant portion of his *Principles of Morals* is a direct refutation of Smith's focus on sympathy in *The Theory of Moral Sentiments*. By contrast, Veblen and Keynes, in their criticism of neoclassical economics, place themselves in opposition to Bentham's utilitarianism, as interpreted by marginal economics a century later. Though Smith rejected the utilitarianism found in Hume, he still considered self-interest one of many motivations for human action. On the other hand, neither Veblen nor Keynes differentiates between self-interest and utility. Veblen completely dismisses the idea that utility maximization governs decision-making. Keynes admits the power of selfish motives, but replaces the more developed utilitarian idea of economic man with a psychological conception of the individual. While Bentham would likely have some reservations about how his theory was later applied, utilitarianism did eventually become the orthodoxy to which later discussion of human behavior in economics was directed.

### *The Art of Economic Science*

Bentham's discussion of political economy in the unpublished *The Philosophy of Economic Science* puts him in opposition to later conceptions of utilitarianism and the economic orthodoxy it produced. In this work, Bentham seeks to connect elements of philosophy with political economy. In the process, he describes economics in an unusual manner. "There is no determinate line of distinction between *art*, on the one hand, and *science*, on the other (Stark v.1, 82)." Something is "apt to be considered art" when, "in proportion as that which is seen to be *done*, is more conspicuous than that which is supposed to be *known*." The reverse relationship generally results in a study being called science. When discussing economics, Bentham often refers to "the art and science of political economy (93)." As a social science, political economy lies fairly close to the demarcation of these two "fields of thought and action (81)." Bentham considers economics a knowledge-based understanding, but its subject matter requires it to have strong ties to what is done in the real world. As his criticism of other moral theories came from his belief that they had no basis in reality, Bentham intends that utilitarianism form the foundation of an economic theory easily reconcilable with actual human

behavior. In contrast, “the conclusions of mathematicians, though always mathematically just, are not unfrequently physically false: that is, they would be true if things were not as they are (119).” Bentham opposes the use of mathematical theories that do not accurately describe reality. While he might have been sympathetic with the neoclassical description of human behavior, he would not consider this theory justified if it were unable to describe decision-making accurately.

The later dissemination of these writers’ theories is often accompanied by increased simplification of their descriptions of human behavior. Of course, some change is natural as later economists adapt the original theories to differing circumstances and evolving social norms. The authors’ theories were based on their understanding of the world, but they also are prescribing a moral theory they considered appropriate. From Smith to the present, discussion of human behavior has incorporated individuals’ use of a rational faculty. However, the authors’ ideas of “the rational” were founded upon the moral theory they adhered to. In addition, each author discussed the limitations of rationality. These authors conceived economics differently than the discipline’s current mainstream. They believed that economics is not only supposed to explain human behavior from an economic perspective, but also to provide insight into how to direct it better. The authors studied did not develop their theories only to portray the economic actor more accurately, but also to advance their sense of what social norms regarding individual action will further the social good.

### *Implications*

While the assumption of neoclassical economics that human behavior is solely driven by self-interested utility maximization currently receives nearly unanimous support from the discipline, the situation was far different in the past. As Hirschman explains, the social approbation granted to self-interest seeking developed from the hope that this ‘vice’ would restrain more serious evils. In the moral philosophy of writers such as Hume and Bentham, self-interest seeking becomes an end in itself, and loses the negative connotation previously associated with it. As time passed, this motivation also becomes increasingly linked to the desire to accumulate wealth. However, for much of the past few centuries, this view was far from universally accepted either in society or

among economists. Economics' reliance on 'selfish' behavior is not a recent development, but only in the past few decades has the discipline shown widespread support for this assumption. While behavioral economics' efforts to develop a more nuanced understanding of human behavior in economics is a significant departure from the contemporary orthodoxy, it is only slight compared to the complex views of Smith, Keynes, and Veblen. These thinkers felt that economics must be based on a rich understanding of psychology.

Many economists admit that inaccuracies exist in their predictions of decision-making, but insist that the assumptions they use are the best available and necessary if any insight into economic behavior is to be observed. If this is the case, then is Bentham's concern that economics accurately describe human behavior, and Keynes', Veblen's, and Smith's complicated descriptions of decision-making simply a manifestation of an older economics lacking today's mathematical rigor? The authors discussed were not only developing models to describe human behavior, but were also promoting their sense of what type of human behavior is desirable. The modern concept of science requires a detachment from subjective norms such as these and an objective desire to better understanding. Even if current doctrine can be detached from its subjective origins, can it achieve this modern scientific ideal? A study by Robert Frank, Thomas Gilovich, and Dennis Regan suggests otherwise. After running a number of studies to test the effect of teaching the self-interest model on cooperation among individuals, they "found evidence consistent with the view that differences in cooperativeness are caused in part by [self-interest oriented] training in economics (170)." This study suggests that economics' description of decision-making influences the behavior of the individuals that study it. If this is the case, then the objective goals of the discipline cannot be divorced from the subjective norms that surround various understandings of human behavior, and the science has a responsibility to address the implications of accepting its underlying assumptions.

Smith, Bentham, Veblen, and Keynes were not overly concerned with such a separation, and developed theories based on what social norms they thought good. These authors saw economics as not only a discipline seeking to explain human behavior better, but also a means to direct it better. They all described individuals in a complex manner

intending to account for a wider range of human action than the current orthodoxy. My reading suggests that the economists discussed in this paper, if alive today would desire a more nuanced understanding of the individual, call upon economists to discuss explicitly the implications of their current assumptions, and perhaps encourage a search to discover better social norms – whatever they may be.

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