

## Individualism and Economic Theory

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ECONOMICS, ONE OF THE OLDEST of the social sciences, is in need of reconstruction. However, in spite of the dissatisfaction with economic thought, there are few attempts toward laying new foundations. The reason for this may be the lack of a basic insight into the meaning of economic thought; therapy is impossible without proper diagnosis. Rationalistic and positivistic thought interprets scientific truth as some kind of conformity between conceptual schemes and reality. Truth is considered as the sole aim of economic science. However desirable it may be to create such an economic science, the reality of economics shows a different picture.

Our culture is distinguished by its emphasis, perhaps overemphasis, on economic activity. Production of goods and acquisition of wealth is not considered as an onerous necessity but as the main purpose of life. Economics moved into the center of thought. Functions which were fulfilled in other societies by mythology, religion and philosophy are, often unconsciously, performed by economic thought. Economics became a substitute for metaphysics and philosophy. One cannot understand the meaning of certain concepts of economic analysis without considering that thought in general performs a function beyond the mere scientific one of explanation and beyond the technological one of controlling reality. Man is subject to the conflicts created by his civilization.

Systems of thought, philosophies and social ideologies perform the function of harmonizing tension-creating conflicts<sup>1</sup> and thereby enable man to bear the burden of existence. Because of the emphasis on economic activity in modern civilization, this function is largely fulfilled by economic thought. Economics has formulated the human ideal of industrial civilization.<sup>2</sup> It has projected this ideal into nature and into the universe. Through its rationalistic and utilitarian assumptions and through its theoretical constructs it has molded human and social reality into the shape needed by an industrial society. Complete understanding of the meaning of economic thought is impossible if one neglects its covert, unconscious attempts to harmonize the conflicts created by industrial civilization.

### I

THERE IS HARDLY any idea more deeply rooted in modern thought than the

<sup>1</sup> E. Fromm, "Man for Himself," New York, Rinehart & Co., 1947, Ch. III.

<sup>2</sup> This term will be used instead of the propagandistically corrupted term "capitalism".

belief in the individualistic character of our civilization. This individualism, however, is onesided because it tends to develop only certain aspects of the human personality while repressing others. It permits only the development of those human faculties which correspond to the rationalistic and acquisitive ideal of industrial society. The uniqueness, the spontaneity and the freedom of the total personality is hampered in its development. A conflict between the "real self" and the "social self," imposed by industrial society, is inherent in our culture.<sup>3</sup> The opposition against "capitalism" and the dissatisfaction with economic thought have both their roots in this basic conflict. Economic theory has developed the basic tenets of economic "individualism" in its models of the free competitive enterprise system; but far from being exclusively individualistic it has in many respects tried, unconsciously, to eliminate the individual from its world outlook. Thereby it reflects the anti-individualistic aspects of modern culture.

The origin of western culture was accompanied by the discovery of the individual in the European Renaissance and Reformation.<sup>4</sup> This period was dominated by the dynamic ideas of individualism, manifest in Machiavellian politics, in the art of the Italian Renaissance, in the plays of Marlowe and Shakespeare.<sup>5</sup> A new and previously unknown interest in the human personality arose. The Italian poet Petrarch glorified it for the first time. Thus, modern civilization was born under the star of an individualism which encompassed the totality of human nature. But this meteor-like emergence of individualism came to an end through the rise of industrial civilization. It is one of the tragic aspects of modern history that man discovered himself only to lose the fruits of his discovery; as soon as the individual was liberated from the fetters of medieval restrictions he had to lose his autonomy in the "iron cage" of modern industrialism.<sup>6</sup> The original individualism of the Renaissance was distorted into industrial individualism which permits the self-realization of the individual only in the field of economic activity and within the framework of the industrial organization of modern society. Industrial society channeled the energies of the individual in the direction of economic success and material gains as ends in themselves. The crippling of individualism by the acquisitive ideal was accompanied by the suppression of the self-realization of the person-

<sup>3</sup> E. Fromm, "Escape from Freedom," New York, Farrar and Rinehart, 1941, p. 116ff.

<sup>4</sup> J. Burckhardt, "The Civilization of the Renaissance in Italy," New York, Macmillan, 1921.

<sup>5</sup> W. Dilthey, *Weltanschauung und Analyse des Menschen im 15. und 16. Jahrhundert*, Leipzig, 1929, p. 16ff.

<sup>6</sup> Max Weber, "The Protestant Ethic and the Spirit of Capitalism," New York, Charles Scribner's Sons and Greenberg Publ., p. 180.

ality in other spheres of human life like sex, enjoyment of the senses and suprarational ideals. This situation has been vividly described by Erich Fromm:

In modern society man has become the center and purpose of all activity . . . what he does he does for himself, the principle of self-interest and egotism are all powerful motivations of human activity. . . . Yet much of what seemed to him to be *his* purpose was not his, if we mean by "him" not "the worker," "the manufacturer," but the concrete human being with all his emotional, intellectual and sensuous potentialities.<sup>7</sup> . . . In capitalism economic activity, success, material gains, become ends in themselves. It becomes man's fate to contribute to the growth of the economic system, to amass capital, not for the purposes of his own happiness or salvation, but as an end in itself. Man becomes a cog in the vast economic machine . . . a cog to serve a purpose outside of himself.<sup>8</sup>

Thus the individualism of modern man consists of his freedom to conform to the culturally determined ideal of the economic man. This ideal is characterized by the duty to work, to accumulate capital. The duty of "earning of more and more money combined with the strict avoidance of all spontaneous enjoyment of life,"<sup>9</sup> and of continuous exertion in the service of economic production.

Max Weber has shown that the idea of a duty of the individual toward the increase of his capital represented a peculiar ethic, and cannot be regarded as a basic instinct of human nature. The spirit of modern capitalism

. . . takes on the character of an ethically colored maxim for the conduct of life. Although this ideal is colored with utilitarianism, something more than mere garnishing for purely egocentric motives is involved. . . . Man is dominated by the making of money, by acquisition as the ultimate purpose in his life. Economic acquisition is no longer subordinated to man as a means for the satisfaction of his material needs. . . . It is thought of so purely as an end in itself that from the point of view of the happiness of, or the utility to, the single individual, it appears entirely transcendental and absolutely irrational.<sup>10</sup>

This mode of conduct required from the individual living in our industrial society is not a "natural" outcome of his needs and desires. It is an attitude which runs counter to some basic human inclinations. Once established, of course, the hard necessities of economic survival enforced the

<sup>7</sup> Fromm, "Escape from Freedom," p. 109.

<sup>8</sup> *Ibid.*, p. 110.

<sup>9</sup> Max Weber, *op. cit.*, p. 52.

<sup>10</sup> Max Weber, *loc. cit.*, and "General Economic History," New York, Scribners & Greenberg Pub., Ch. XXX.

adaptation of people to this then unavoidable mode of life. At its inception, however, it met with fierce resistance and with the most intense ethical disapproval because it was contrary to all ethical notions entertained in ancient times and during the Middle Ages.<sup>11</sup> But this resistance against the capitalist attitude is not only a matter of the past. It was always present as a subconscious undercurrent and provided the motivation for the opposition against the system. The dissatisfaction with the type of man that the industrial system requires is one of the main causes of discomfort in our civilization.

It is often assumed that the basic conflict of our time is the one between socialism or communism on the one hand and free enterprise capitalism on the other. Yet both systems require that the individual devote himself to the aims of material production. Work for the sake of capital accumulation is the goal under communism as well as under capitalism. The legal difference between working for public and working for private capital accumulation is psychologically much less important than usually assumed. For the individual who earns his living as a dependent employee—and this is the fate of the large majority of the people today—it matters little whether he works under the command of public or of corporate bureaucracy. In both systems the individual is pressed into an economic matrix and becomes a part of a large economic and social organization, a cog in the process of production. Thus, a conflict arises between the deep-seated tendencies of the individual to be really free, to realize all of his potentialities, to live a full life, to be a complete and real person—and the procrustean forces of modern industrial society, capitalist and communist alike.

## II

CERTAIN ASPECTS OF ECONOMIC THEORY cannot be understood without this psycho-cultural background. The tendency of industrial civilization to eliminate the individual in its totality and to press it into the matrix of acquisitive ideals is reflected in economic theory. It tries to facilitate life under such a system by creating models of economic reality from which these conflicting features are absent in order to harmonize in thought the conflicts between an individualistic philosophy and a "collectivistic" social reality. Economic theory is one of the intellectual instruments which enable modern man to live within his culture. In the following we shall discuss certain economic concepts in which these trends are most obvious:

<sup>11</sup> See Max Weber, *op. cit.*, p. 56.

the quantifying and mechanistic approach to economic phenomena, the rôle ascribed to the individual in the models of pure competition and the postulates of rationality and omniscience.

*Quantifying and Mechanistic Method.* Any attempt to prove that economic theory has taken its cue from the physical and mathematical sciences seems superfluous. To a rationalistic age the natural sciences and mathematics appeared as the only way to intellectual certainty. "Descartes, the fountain source of modern culture, manages to conceive of man purely in terms of thought, nature in terms of mechanics and to find no organic unity between the two. . . ."<sup>12</sup> Economics, a typical manifestation of modern civilization, forms a bridge between the two by combining a rationalistic view of man with a mathematical and mechanical interpretation of his actions. Thus, a peculiar mixture of rationalism and mechanistic naturalism results in the elimination of the individual in its totality from the intellectual constructs of economics.

The mechanical interpretation of nature and society developed in the seventeenth and eighteenth centuries together with the technology of manufacturing of early capitalism which was based almost entirely on mechanics.<sup>13</sup> The method of production and the method of thought showed similar characteristics. The mathematical and mechanical approach to natural and human phenomena eliminates qualitative differences. Already in the seventeenth century the natural sciences were at a loss to tackle the problem of change of qualities into each other. Mechanics and mathematics are concerned with homogeneous quantities.<sup>14</sup> If quantitative methods are applied to human, especially economic behavior, the uniqueness of the human individual in its totality is eliminated in thought. By interpreting human nature and action according to the rules of mechanics and mathematics, the individual in his freedom, uniqueness, and autonomy is removed from the sphere of economic and social phenomena.

This intellectual tendency reflects the cultural development of the period. The seventeenth and eighteenth centuries experienced the change from the unconditional individualism of the Renaissance to the economic individualism of industrial society. The individual was on the way to becoming a cog in the machine of production. Thus the total individual had to be eliminated also in socio-economic thought.

<sup>12</sup> R. Niebuhr, "Nature and Destiny of Man," New York, 1947, Vol. I, p. 20.

<sup>13</sup> For this and the following see: F. Borkenau, *Der Uebergang vom Feudalen zum Buergerlichen Weltbild*, Paris, 1934, Ch. I.

<sup>14</sup> In respect to mathematics see, Boulding, "The Role of Mathematics in Economics," *Journal of Political Economy*, Vol. 56, No. 3 (June 1948), p. 188.

This process is quite obvious in the approach of the classicists and of Marx to labor. The qualitative differences in human creativeness are of a heterogeneous nature due to the uniqueness of the human personality. They do not fit into the mechanistic and quantified world outlook of the period of rising capitalism. Thus, the qualitative differences between skilled and unskilled labor had to be obliterated and reduced to quantitative differences. Skilled labor was measured in terms of unskilled labor time.<sup>15</sup> This interpretation parallels the changes in the methods of production and the change in attitudes. "The development from the medieval type of work to the modern methods of manufacturing consisted in replacing the qualitatively distinguished, traditionally regulated, often artistically refined type of labor by the quantification of labor and its dissection into simple movements in order to accomplish precision and speed."<sup>16</sup> This made calculability of costs possible.

The abstraction from qualitative differences and from the uniqueness of things and individuals took place in production and in social and natural philosophy at the same time. Descartes and Hobbes tried to prove that all natural processes can be explained mathematically and mechanistically. All qualitative differences were reduced to quantitative ones. Our sensory experiences which show us qualitative differences between things had to be interpreted as having no objective reality. Hence the nominalistic character of modern science.<sup>17</sup>

Natural and social science and philosophy perform in this case a psychological function by projecting the social and economic conditions into nature. Society and the cosmos are interpreted as conforming to the methods of production and the value-attitude systems of the existing civilization. The social and economic order is represented as being rooted in the nature of things. It is important to notice that there was no direct purposive interconnection between the natural sciences and the methods of early manufacturing in the seventeenth century.<sup>18</sup>

Both, the sciences and manufacturing techniques, can be interpreted as emanations of the basic attitudes of the times. They reflect each other; their relationship is not one of sub- and superstructure. The whole cul-

<sup>15</sup> Ricardo, "Principles," Everyman's Library, Ch. I, Sect. II, p. 11ff. Marx "Capital," Modern Library, Vol. 1, Bk. 1, Ch. I, Sec. II, p. 51: "Skilled labour counts only as simple labour intensified, or rather, as multiplied simple labour, a given quantity of skilled being considered equal to a greater quantity of simple labour."

<sup>16</sup> Borkenau, *op. cit.*, p. 7 (translation mine).

<sup>17</sup> *Ibid.*, 10ff.

<sup>18</sup> *Ibid.*, p. 5.

tural trend leads to the same result: to eliminate the uniqueness, the totality, the spontaneity of the human personality. This is accomplished by the following common traits of thought and of social institutions: a) abstraction from qualitative differences; b) reducing all magnitudes, natural as well as social, to quantitative terms, thus; c) making interrelations between things and human beings calculable; d) representation of natural and social processes in quantified mechanical terms thereby eliminating spontaneous individual action from the thought constructs of nature and society; e) atomization of the universe and of the social world as a necessary concomitant of a quantified and mechanized outlook.<sup>19</sup>

This is the heritage which economics took over from the early period of industrial development and which it has never forsaken. Economists have never abandoned the idea that their science has to be patterned after the model of mechanistic physics in spite of the fact that modern physics has moved away from the mechanistic approach.<sup>20</sup> Economic literature abounds with analogies and comparisons drawn from astronomy, physics and mechanics.<sup>21</sup> "In pure mechanics we explore the implications of the existence of certain given properties of bodies. In pure economics we examine the implications of the existence of scarce means with alternative uses."<sup>22</sup> "It is the nature of every change in the universe known to science to have 'final' results under any given conditions. . . . Every movement in the world is, as can be clearly seen to be, a progress toward an equilibrium. Water seeks its *level*, air moves toward an equality of *pressure*, electricity towards a uniform *potential*, radiation towards a uniform temperature, etc."<sup>23</sup> These are manifestations of a naturalism which compares human beings and human action to non-human phenomena, thereby denying the spiritual and intellectual uniqueness of the individual, his spontaneity and his freedom.

The way in which equilibrium is supposedly established is described by economic theory in analogy to mechanical processes. Equilibrium is the result of quantified mechanical forces. The whole theory of maximiza-

<sup>19</sup> Cf. A. N. Whitehead, "Science and the Modern World," New York, Pelican Mentor Books, 1948, ch. III.

<sup>20</sup> A. Loewe, "Review of Sombart's, *Die Drei Nationaloekonomien*," in *Weltwirtschaftliches Archiv*, Vol. 36 (1937), p. 149ff. A. N. Whitehead, *op. cit.*

<sup>21</sup> Sombart has piled up a considerable number of quotations to prove this point, see, *Die Drei Nationaloekonomien*, Leipzig, 1930, p. 122ff.

<sup>22</sup> L. Robbins, "The Nature and Significance of Economic Science," London, Macmillan, 2d ed., 1938, p. 83.

<sup>23</sup> F. H. Knight, "Risk, Uncertainty and Profit," New York, 1921, p. 17.

tion<sup>24</sup> represents a mechanical and quantitative framework for a supposedly psychological approach to economic conduct. The individual, assumed to be perfectly conscious and rational, balances opposing psychological forces in a mechanical fashion. The intersection of marginal curves establishes a point of equilibrium as two opposing forces bring about a result in mechanics. No sphere is left for the freedom and the spontaneity of the human personality, eliminated in thought by the mechanical interpretation of individual economic action and the distintegration of human relationships into quantitative functions. Quantities of money and goods, even of human labor, are moving and changing in automatic and mechanical response to the change in other quantities according to the laws of mathematics and in analogy to the laws of mechanics. The whole economic cosmos is represented as a mechanical and quantified system of weights, levers and pulleys where every motion causes a change in the position of every magnitude.

The hidden meaning of this method is very well indicated in a passage from Pareto:

Thanks to the use of mathematics . . . this theory rests only on one fact based on experience, that is on the determination of the quantities of goods which constitute indifferent combinations for the individual. The theory of economics acquires in this way the rigidity of *rational mechanics*. It deducts its results from experience without any intervention of metaphysical entities (like utility, ophelimity). . . . *The individual can vanish from the scene.*<sup>25</sup>

With the triumphant cry, *l'individu peut disparaître*, Pareto reveals the unconscious tendency of economy theory: to eliminate the individual from its models of the economy. This is partly a reflection of the collectivistic trend in our civilization and partly a reaction to the plight and the tensions to which the liberated individual is subjected in our society. Through its mathematical and mechanistic approach, economic theory performs a socio-psychological function. By representing the economy in such a light that spontaneous and free individual action and decision seem to be

<sup>24</sup> We are concerned here with an examination of the socio-cultural background of certain concepts of economic theory. There are many straws in the wind that the theory of maximization is tottering in its foundations and that economists are abandoning the mechanistic approach in favor of one which takes into consideration psychological and social realities. Cf. Boulding, *op. cit.*, p. 194ff. and also the discussion on the marginal productivity theory in *American Economic Review*, March 1946, p. 63; June 1946, p. 358ff; Sept. 1946, p. 519ff; March 1947, p. 135ff; June 1947, p. 375ff; Sept. 1947, p. 552ff; p. 645ff; *Quarterly Journal of Economics*, Feb. 1945, p. 280; *Journal of Political Economy*, Oct. 1947, p. 450ff.

<sup>25</sup> *Manuel d'Economie Politique*, III, p. 36, 51, quoted from Sombart, *op. cit.* p. 135, translation and italics mine.

superfluous and hopeless and contrary to the nature of things, it relieves man of the burden of acting against the commands of industrial society. It facilitates life in this society by representing it as inevitable. It removes the burden of freedom by showing that man does not have any freedom in the existing economic system. If man is forced to act by mathematically and mechanically working laws which operate independent of his own individual decision he is relieved of the burden of freedom and of its concomitants, isolation and aloneness. Thus, economic theory is a true reflection of the trend of our civilization. The isolation of the individual in industrial society is removed; he is shown as integrated into a mechanistic and quantified system. He becomes a figure, a cog, a part of a mechanism and he is made to believe that he can safely live in integration within an impersonal, calculable, social machine.

*The Individual under Pure Competition.* The powerlessness and insignificance of the individual in modern economic society is also reflected in the rôle assigned to it in the models of pure competition. If one reads the definitions of pure competition with an ear for the psychological undertones, one will find there a correct description of the situation of the individual in a competitive economy.

Each economic unit (household or firm) is so small relative to the market that it exerts *no perceptible influence* on the prices of the things it buys and sells.<sup>26</sup>

Perfect competition prevails when the demand for the output of each producer is perfectly elastic. This entails first, that the number of sellers is large, so that the output of any one seller is *a negligibly small proportion* of the total output of the commodity.<sup>27</sup>

Pure competition has already been defined as involving (1) a relatively large number of buyers and sellers, (2) a perfectly standardized product. The first diminishes the influence of any one in the general market situation to *negligibility*; the second, by identifying completely the product of a single seller with those of his competitors, *diminishing any measure of control over his own price as distinct from the general market price* which control might exist by reason of buyers preferences for one variety of goods over another.<sup>28</sup>

The Paretian Type I behavior where the individuals "accept the market prices as they are, and do not try to modify them directly,"<sup>29</sup> adopted in

<sup>26</sup> Stigler, "The Theory of Competitive Price," New York, 1942, p. 21.

<sup>27</sup> Joan Robinson, "The Economics of Imperfect Competition," London, 1938, p. 18.

<sup>28</sup> E. H. Chamberlin, "The Theory of Monopolistic Competition," Cambridge, 1942, p. 16. (All italics mine).

<sup>29</sup> V. Pareto, *Economie Mathématique*, Encyclopédie des Sciences Mathématiques (Paris 1911) tome I, Vol. IV, p. 623, quoted from Triffin, "Monopolistic Competition and General Equilibrium Theory," Cambridge, 1940, p. 55.

these definitions, stresses the negligibility, the smallness, the insignificance of the individual in a free competitive market. The individual market participants cannot influence the market conditions by their own actions if they act as individuals. Prices have to be accepted, they are mere parameters of action. The demand curve is perfectly elastic and horizontal. Behind this abstract and precise sounding formula of the horizontal demand curve a whole world outlook is concealed.

It means that the individual in industrial society cannot control his economic fate, that he has to accept it, that he is nothing but an insignificant grain of sand, one among millions, exposed to the vicissitudes of market fluctuations. His hopes and his life goals may be frustrated by events of which he has no knowledge and which he cannot influence. All this is reflected in the models of pure competition although it is concealed, unconsciously, behind mathematical and "scientific" terminology. It is not easy to understand how a purely competitive state could ever have been represented as a pattern for an individualistic society. Sure, such a state would prevent power of man over man. But it would subject everybody alike to the domination of an impersonal market mechanism, expose everybody to uncontrollable forces and prevent everybody from leading a secure mode of life in which all the potentialities of the individual could be developed.

If socialism and communism have been characterized as the nationalization of poverty, a purely competitive society can be characterized as a socialization of insecurity and economic helplessness. However, the models of pure competition perform a socio-cultural function by reflecting the ideals of industrial society. Pure competition is supposed to be beneficial in two respects: it reduces prices and it leads to an "optimum allocation of resources." Thus, the individual living in our industrial civilization is shown by this model that, in return for his insecurity and for his submission to impersonal market forces, he will receive economic compensations. The model thus becomes an instrument of adaptation to the ideals and institutions of industrial society.

*Economic Rationalism.* The postulate of rationality is one of the basic assumptions of economic theory.

Economic analysis may be truly said to deal with "conduct" in the Spencerian sense of acts adapted to ends. It assumes that men's acts are ruled by conscious motives. The conclusions of economic theory must in general be admitted subject to the qualification, insofar as economic activities are *rational or planned*.<sup>80</sup>

<sup>80</sup> Knight, *op. cit.*, p. 52.

Economics makes possible rationality of choice. For rationality of choice is nothing less than the choice with complete awareness of the alternative rejected.<sup>31</sup>

Rationality is connected in economic thought with *maximization*. "A unit of decision is said to act rationally when its objective is the maximization of a magnitude."<sup>32</sup> Thus, the concept of rational behavior assumes an economic coloring. Rational behavior means conduct motivated by the goal of maximization of money income, wealth and economic advantages. The assumption of rationality reduces the human personality to one of its parts, the conscious reasoning ego; and it presses reason into the service of economic acquisition. This approach is a heritage of the age of reason.

The period of enlightenment and utilitarianism believed that all social institutions are a creation of reason.<sup>33</sup> Nature and reason were coördinated concepts. Man was believed to be able to recognize by his reason the laws of nature and of society, factual and normative laws. This creed was embodied in economic thought and philosophy and carried over into the nineteenth century. Its optimism "was based on a triple conviction: 1) that the pursuit of the good was a matter of right reasoning; 2) that the spread of knowledge would soon make it possible for everyone to reason rightly; 3) that everyone who reasoned rightly would act rightly."<sup>34</sup>

Thus, the philosophy of growing industrialism elevated rationalism to the dignity of an ideal. However, in doing so it exaggerated rationalism and interpreted everything, man, society and the universe according to this ideal. All irrational, unconscious, spiritual elements in man, society and nature were denied and eliminated from the intellectual scene. The totality of human existence was dissected, and only a part of it was acknowledged. This intellectual process paralleled the social process. Industrial society molded the individual into a profit calculating mechanism. Accordingly, rationalistic philosophy submerged the individual into the universalities of rationalistic thinking and economic theory represented it as a maximization machine.<sup>35</sup>

Economics always remained a child of rationalism. The subjective

<sup>31</sup> Robbins, *op. cit.*, p. 152.

<sup>32</sup> O. Lange, "The Scope and Method of Economics," *Review of Economic Studies*, Vol. XIII/1, No. 33 (1946/47), p. 30.

<sup>33</sup> Hasbach, *Die Allgemeinen Philosophischen Grundlagen der Politischen Oekonomie*, Leipzig, 1890.

<sup>34</sup> E. H. Carr, "The Twenty Years Crisis," London, 1946, p. 24.

<sup>35</sup> This violation and repression of parts of the personality called forth a reaction against this exaggerated rationalism in the form of romanticism and in anti-rationalistic movements: Schopenhauer Nietzsche, Bergson, Freud.

value concept of the Austrians can be regarded as a mild symptom of psychologism in economic thought, but it was safely enclosed in the rationalistic framework of marginal calculus. However, the general decline in the rationalistic credo of our civilization manifests itself in economic thought in the slight reality value attributed to the postulate of rationality.<sup>36</sup> The rationalistic models are interpreted as methodological devices, as hypothetical, heuristic principles. Their unrealistic character is openly admitted. The rationalistic ideal has become diluted and is demoted to a mere box of tools. Thus, a hidden doubt in its validity is unconsciously expressed. The enlightenment really believed in the purely rational character of man, nature and the universe. Modern man and consequently modern economics has abandoned this belief.

The use of rationalistic models as ideal types or as instruments of analysis represents a last bastion of exaggerated rationalism. Why are these models retained in spite of the recognition of their lack of realism? Because they still perform a socio-cultural function. We have to assume that man is rational and that his rationalism leads him to act as industrial civilization requires him to act if we want to be able to live under the present economic system. The belief in perfect rationality and in the maximization principle is necessary to make life under the industrial system intellectually tolerable.

The repressed aspects of human personality are continuously knocking at the door of our consciousness. They strive for realization. They cannot attain it, because under the present system personality traits which do not conform to the rationalistic and acquisitive ideal of modern industrialism cannot be developed successfully. The constructs of economic theory help to silence these disturbing forces. They tell the individual: you are as industrial society wants you to be. You are a completely rational conscious being, whose main purpose in life is the satisfaction of known, permanent needs which are satisfied by industrial production. You are trying to maximize utility by maximizing your money income. The mode of life which industrial society imposes on you is what you really want. This can be proved by the laws of economic conduct derived by economic analysis from irrefutable premises. The aims of the individual are represented as identical with the aims of industrial civilization. Economic theory comforts the individual who is torn apart by the conflict between

<sup>36</sup> Knight, *op. cit.*, p. 52; L. Robbins, *op. cit.*, p. 93ff; Max Weber, "The Theory of Social and Economic Organization," T. Parsons trans., New York, Oxford University Press, p. 107.

economic rationalism demanded by society and the desire to develop all the potentialities of his personality.

The uneasiness of modern man in respect to the acquisitive ideal and its gradual disintegration is reflected in the tendency of economic theory to avoid a discussion of *ultimate values* by assuming "randomness of ends."<sup>37</sup> Economic theory does not enter into an examination of ends and of their relations to each other. It is not concerned with ethical values. Ends are accepted as given.

So far as we are concerned our economic subjects can be pure egoists, pure altruists, pure ascetics, pure sensualists. . . . Our deductions do not provide any justification for saying that caviar is an economic good and caviar a disutility . . . individual valuations . . . are outside of the sphere of economic uniformity . . . from the point of view of economic analysis, these things constitute the irrational elements in our universe of discourse.<sup>38</sup>

Thus, modern economic analysis refrains from an investigation of why people act as they act. Value attitudes and decisions are left on the outside. The sphere of economics, restricted already to conscious deliberate behavior, is further restricted by the exclusion of value judgments and decisions from the content matter of the discipline. This procedure could be interpreted as modest self-control and as a prudent limitation of the boundaries of science. However, abstraction is not merely a deliberate decision. It is often propelled by unconscious motives. What the human intellect abstracts from is usually something which bothers the conscious human ego; one abstracts from unwelcome thoughts and impulses.<sup>39</sup>

The abstracting tendency of modern economics in respect to values and in respect to the why of human decisions on ends represents an uneasy conscience about the ultimate ends on which economists implicitly base their analysis. It is not true that economics does not enter into the question of ultimate values. It accepts the ultimate life goals of industrial civilization: work and acquisition of wealth as ends in themselves. It tries to hide value statements behind statements of fact.<sup>40</sup> The value-attitudes of industrial society are included in the basic psychological assumptions of economic theory. The assumption of rationality and the principle of

<sup>37</sup> T. Parsons, "The Structure of Social Action," New York, McGraw Hill Book Co., 1937, p. 59ff.

<sup>38</sup> L. Robbins, *op. cit.*, p. 106.

<sup>39</sup> S. Freud, "The Problem of Anxiety," trans. by H. A. Bunker, New York, 1936, ch. VI.

<sup>40</sup> G. Myrdal, *Das Politische Element in der National-Oekonomischen Doktrinbildung*, Berlin, 1932.

maximization contain implicit value judgments.<sup>41</sup> By assuming that individuals and firms aim at the maximization of utility and profits these aims are ultimately accepted as values.<sup>42</sup> By clothing these value judgments in the form of factual statements the individual in industrial society is unconsciously deceived about the value character of these assumptions.

This type of procedure has already been used by the classics. "Every individual is continually exerting himself to find the most advantageous employment for whatever capital he can command."<sup>43</sup> This famous statement is the implicit or explicit basis of the theory of economic conduct up to the present time. What Adam Smith should have said in order to bring out the hidden implications of his dictum is this: according to the value-attitude pattern of industrial society every individual *is supposed to exert himself* in the continuous search for economic advantages. If people do not move around lured by higher wages, if capital does not continuously change its form of investment in search of higher profits, if every employee does not try to get ahead of every other employee—the system cannot work as it is supposed to work.

This mode of life implies continuous exertion, an inhuman amount of flexibility and mobility, the renunciation of human ties with our fellow man and our habitation, and a hostile competitive attitude towards others. This attitude is contrary to human inclination. In order to make it acceptable this mode of life has to be represented as being natural and therefore unavoidable. By making use of the rationalistic and scientific attitude of the times, economics tries to make the acquisitive attitude acceptable by describing it as a natural trait of man and as a fact. Thus, it serves as an instrument of molding the individual according to the cultural pattern of industrial society.

*Omniscience.* The anti-individualistic character of some economic theories manifests itself also in the use made of the concept of omniscience or perfect knowledge. Perfect knowledge is one of the assumptions "which it is sometimes convenient to postulate"<sup>44</sup> in order to arrive at a model of a perfect state or of perfect competition and without which

<sup>41</sup> H. Hartman, "On Rational and Irrational Action," in: *Psychoanalysis and the Social Sciences*, New York, 1947, Vol. I, p. 368.

<sup>42</sup> Doubts have been raised recently as to the applicability of the profit maximization principle, even in the case of corporations. See Rothschild, "Price Theory and Oligopoly," *Economic Journal*, Sept. 1947, p. 299ff; Reder, "A Reconstruction of the Marginal Productivity Theory," *Journal of Political Economy*, Oct. 1947, p. 450ff.

<sup>43</sup> A. Smith, "The Wealth of Nations," Cannan ed., Vol. I, Bk. IV, Ch. II, p. 419.

<sup>44</sup> Robbins, *op. cit.*, p. 94.

equilibrium would be impossible.<sup>45</sup> What interests us here is the hidden attempt to eliminate the uniqueness and the freedom of the individual through this assumption. ". . . with uncertainty absent . . . it is doubtful whether intelligence itself would exist in such a situation; in a world so built that perfect knowledge was theoretically possible, it seems likely that all organic readjustment would become mechanical, all organisms automata."<sup>46</sup>

The assumption of perfect knowledge leads to a picture of society as a world of automatic, mechanic, soulless, intelligence-less robots. Man, in his totality, with his freedom and uniqueness, is killed—the individual can vanish from the scene. The individual is robbed of some of his essential aspects and eliminated from the chain of natural causation. Perfect knowledge removes the freedom of will and the freedom of individual action which creates the uncertainty and the indeterminateness in the cosmos.<sup>47</sup> We can be certain only if we cease to be human beings. We can either live and err, or die and have certainty and peace. Thus, the intellectual hallucination of omniscience in the models of perfect competition removes us from the scene as concrete human beings and thus "liberates" us from all responsibility and necessity for free action.

It is a concomitant to what has happened to the individual in modern industrial society in which he has been reduced to a state of "automaton conformity."<sup>48</sup> "The individual ceases to be himself; he adopts entirely the kind of personality offered to him by cultural patterns; and he therefore, becomes as all the others are and as they expect him to be. The discrepancy between the I and the world disappears and with it the conscious fear of aloneness and powerlessness. . . . But the price . . . is high; it is the loss of his self."<sup>49</sup> Modern industrial society, through its mass organizations, through its giant urban agglomerations, through the many pressure agencies for social conformity, through education, newspapers, advertising and radio and through explicitly applied or threatening social ostracism has formed modern man into an automaton character. The marketing attitude, so widespread in our civilization, consisting in "the experience of oneself as a commodity and of one's value as exchange value,"<sup>50</sup> is a powerful instrument for the establishment of conformity and automatism in modern society.

<sup>45</sup> Knight, *op. cit.*, p. 272.

<sup>46</sup> *Ibid.*, p. 168.

<sup>47</sup> Knight, *op. cit.*, Ch. VII, esp. 220ff.

<sup>48</sup> Knight, *ibid.*

<sup>49</sup> Fromm, "Escape from Freedom," p. 185ff.

<sup>50</sup> Fromm, "Man for Himself," p. 67ff.

If "success depends largely on how a person sells himself on the market,"<sup>51</sup> he has to adapt himself to the demands of the market, that is of society. The life goal of the modern individual, material success, requires his conformity and adaptation to the vicissitudes of the market. Thus, modern man is constantly forced to conform, prohibited from deviation from the social norm, and repressing the character traits which do not fit into the general pattern. Modern civilization, all popular notions to the contrary notwithstanding, creates common matrices of thought, feeling and willing. We are forced to talk, act and live in ready-made patterns imposed upon us by education and by the constant pressure of the organs of "public opinion." The tendency not to differ from the others, to look and think and talk like everybody else is a general characteristic of our culture. The "omniscient automaton" of economic theory is an intellectual projection of a real social situation. The fact that in this intellectual hallucination automatism is combined with the elevation of man to the rank of an all-knowing deity shows that modern man is not happy in his rôle of a conforming robot. He needs the consolation of a compensatory fantasy to be able to bear his fate.

## III

THE PRECEDING DISCUSSION raises the question: what is this real self which we have opposed to the social self? If personality and character structure are only a social product as modern anthropology and sociology are inclined to believe, what is the psychological locus of this real personality? It cannot be denied that a conflict between the demands of the environment and aims of the individual "exists" as a basic psychological experience. This conflict can, perhaps, be explained by the fact that the human individuality is a composite of many parts. It is a "fruit of both nature and spirit."<sup>52</sup> It is composed of biologically determined drives on the one hand and of an observing, integrating, conscious ego on the other. Man is also a social product because every individual has absorbed the social ideals of his society. They become part of his own character structure.

Thus, man is a unity in the manifold; none of his parts, nature, reason, spirit, internalized social norms, exhaust the human personality; he is all these elements together. No culture ever encompasses the totality of the human personality. Culture is an abstraction from some aspects of human existence. No civilization is a complete mirror-image of human reality; some aspects are ignored, and others emphasized. Thus, cultures disinte-

<sup>51</sup> *Ibid.*, p. 60.

<sup>52</sup> Niebuhr, *op. cit.*, Vol. I, p. 54.

grate because of the burden they impose upon the human personality by suppressing certain trends of the personality. The suppressed parts clamor for realization. A process of secular repression and of reappearance of the repressed features takes place. The strength of these forces first suppressed and then reappearing undermines the institutional and ideological structure of the cultural institutions by which the repression is performed.

In modern civilization the conscious deliberate and rational side of the personality is stressed, perhaps overstressed, and the irrational and supra-rational aspects are neglected. Modern civilization is lopsided in its emphasis on rationality, especially on economic rationality. The modern ideals of complete rationality, continuous work and the accumulation of capital and wealth as ends in themselves lead to a very strenuous mode of life. The history of modern civilization could be described as a process in which the irrational and non-economic trends in the human personality revolt against the dominant economic rationalism, and, thus, undermine the existing system.<sup>53</sup>

Economic thought is a link in this chain of events. It reflects and projects the cultural ideal of industrial civilization. It tries to amalgamate the goals of the individual with the requirements of this civilization. In its growing abstractness and in the growing doubts about the validity of its findings the disintegration of the ideals of industrial society find their reflection in thought. The meaning of economic thought cannot be understood without insight into its psychological background. With such insight, however, economic thought can serve as a barometer to gauge the atmosphere of the times.

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<sup>53</sup> Schumpeter's theory of capitalist disintegration because of the self-destructive forces generated by capitalistic rationalism seems to uncover another aspect of this development. See "Capitalism, Socialism and Democracy," 2d ed., New York, 1947, esp. Chs. XII, XIII.