RATIONAL HUMAN CONDUCT AND MODERN INDUSTRIAL SOCIETY

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Economic science continues to base its analysis of the economic process upon the assumption that human beings are "economic men" whose behavior tends to be consistent with their objective of making the best possible use of scarce resources. The significance of this assumption for economic theory can hardly be overestimated. It has shaped the entire technique of economic analysis. In fact, the economist's belief in tendencies towards, and his search for levels of, equilibrium in the competitive economy can be understood only in the light of the assumption of the "economic man" and the rationality of his conduct. Even the practical arguments which economists have sometimes advanced in support of an economic policy of laissez-faire can be presented, as Sidgwick showed so convincingly, as mere deductions from the premises of rational human conduct "not requiring any wide study of social phenomena" and business practices.[1] Indeed, it is difficult to imagine what would remain of the impressive system of theoretical conclusions of modern economics if the assumption of rational human conduct had to be abandoned. It is the purpose of the present study to re-examine the validity of the assumption of rational human conduct for the interpretation of modern industrial society.

I

As a first step towards such a re-examination, it is essential to outline the ideological origin of the assumption of rational behavior. The almost universal acceptance of hedonistic theories of human conduct in classical economics, can be understood only in the light of the general political situation which prevailed in Europe and America prior to, and for several decades after, the anti-mercantilistic revolutions which occurred at the end of the 18th century. In opposition to the political and economic paternalism of the absolute state, hedonistic psychology advanced the revolutionary idea that the greatest happiness of the greatest number could be achieved if men were free to do as they pleased. In a society of

[1] "Thus, it may be argued first that from the universality of the desire for wealth, from the superior opportunities that each individual has, as compared with any other person, of learning what conduces best to the satisfaction of his wants, and from the keener concern he has for such satisfaction, any sane adult may be expected to discover and aim at his own economic interest better than government will do this for him. Then, this being granted, it may be argued, secondly, that consumers in general . . . seeking each his own interest intelligently, will cause an effectual demand for different kinds of products and services, in proportion to their utility to society; while producers, generally seeking each his own interest intelligently, will be led to supply this demand in the most economic way, each one training himself or being trained by his parents for the best rewarded, and therefore, most useful, services for which he is adapted." See H. Sidgwick, *The Principles of Political Economy*, (Third ed.). (London: Macmillan and Co., 1901, p. 29.)

free individuals, it was held, the natural egoism of human beings would induce everybody to obtain the maximum of individual felicity. By assuming, furthermore, that the interests of individuals and groups within society do not fundamentally conflict with one another, it was easy to conclude that the maximization of the well-being of individuals coincided with the optimum of social or general welfare.

The particular manner in which individuals were believed to obtain a maximum of individual felicity consisted in the avoidance and diminution of all "pains" on the one hand, and the augmentation of all "pleasures", on the other. Bentham, in "his effort to introduce exact methods into all discussions of utility,"[2] put this principle of common-sense utilitarianism merely into an appealing and apparently precise form. His so-called "calculus" is nothing but a proposal for a quantitative computation of the values of all pleasures and those of all pains in terms of their "intensity", "duration", "certainty", "proximity", and "extent".[3] Bentham was well aware of the difficulties involved in such a computation. In fact, he made it quite clear that the calculus could not be strictly pursued previously to every human act, or to every legislative or judicial operation. Nevertheless, he thought that the principle of the calculus might, at least, always be kept in view.[4]

According to Bentham, the calculus was applicable to pleasure "whether it be called good... or profit... or convenience or advantage, benefit, emolument, happiness and so forth; and to pain whether it be called evil... or mischief, or inconvenience or disadvantage, or loss, or unhappiness and so forth."[5] If this enumeration indicates that Bentham by no means conceived of "pleasure" and "pain" in a physical sense only, his full realization of other than purely "materialistic" motives of human conduct can easily be ascertained from his qualitative distinction between various "pleasures" which included, in addition to the pleasures of wealth and possession, the pleasures of skill, amity, power, piety, benevolence, as well as the pleasures of a good name and those dependent on association, etc.[6] However, all these "common pleasures", except perhaps those of benevolence, are, as Bentham puts it, "self-regarding"[7], i.e., they spring from the universal principle of self-interest.

The classical economists of the 19th century reduced this heritage of quantitative egoistic hedonism to further simplicity for purposes of their theoretical investigations. While never formally accepting the hedonistic calculus, they considered and recognized, of all the "simple pleasures" of the utilitarian system, only the "pleasures of wealth" as the dominating and most typical motives of human conduct in economic matters. Bentham's calculating utilitarian, who

[2] W. C. Mitchell, "Bentham's Felicific Calculus", reprinted in *The Backward Art of Spending Money and Other Essays*, (New York: McGraw Hill Book Co., 1937,) p. 180.

[3] J. Bentham, *An Introduction to the Principles of Morals and Legislation*, (Edition of the Oxford at the Clarendon Press, 1907), p. 29.

[4] *Ibid.*, p. 31.

[5] *Ibid.*, pp. 31–32.

[6] *Ibid.*, p. 33.

[7] *Ibid.*, p. 41.

sought the maximization of *all* pleasures became the rational "economic man" whose action was moved exclusively by the desire for gain and possession. Of course, it was never thought that human beings were guided exclusively by the desire to accumulate a maximum of material possessions. After all, the economists of the 19th century were learned philosophers and psychologists who knew full well that human behavior was influenced by a number of other factors than those which moved the "economic man". They were fully aware of the importance of altruistic motives and disinterested action in human behavior. Perhaps they did not completely realize the complexity of human motivation, but they cannot be accused, as Dickinson rightly points out, of a ridiculous blindness to ideal motives.[8] However, they held that none of the altruistic and other possible motives were of such typical and general significance as the desire of wealth, and that, therefore, it was legitimate to disregard them, or at least to give them secondary consideration only, particularly in the initial stages of economic analysis.[9]

II

Idealistic opponents of hedonism have attacked the "economic man" assumption on the grounds of its apparent crude materialism, which, in their view, gives only a distorted and unreal picture of human motivation.[10] The crux of the matter is, however, whether economic analysis would gain in realism if it gave more consideration to altruistic motives and disinterested action. For example, would economic theory become more realistic if it assumed that entrepreneurs, under a system of private property and free enterprise, are moved by the desire to render services to others, to make sacrifices for the community and to live a life of contentment in poverty? To put the question in this way is to answer it. In fact, one can hardly think of any better personification of the rational economic man than the modern business corporation. Even more consistently than the

[8] Z. C. Dickinson, *Economic Motives: A Study in the Psychological Foundations of Economic Theory, with Some References to Other Social Sciences.* (Cambridge: Harvard University Press, 1922.) p. 79.

[9] Finally, it must not be overlooked that without the simplifying assumption of the economic man and the rationality of his conduct, the classical economists could not have established their work on a scientific basis. For scientific generalizations in economics are possible only if human behavior can be assumed to be sufficiently regular and determined by relatively simple motives. As J. Robinson pointed out, if "individuals act in an erratic way only statistical methods will serve to discover the laws of economics, and if individuals act . . . from a number of complicated motives, the economist must resign his task to the psychologist." See *The Economics of Imperfect Competition*, (London: Macmillon and Co. 1933), p. 6. See also A. Marshall, *Principles of Economics* (London: Macmillan and Co., 1936), pp. 25–28.

[10] The critics were especially successful in refuting the idea and possibility of the hedonistic calculus. However, as already pointed out, Bentham's quantitative approach to accurately measuring pleasures and pains does in no way constitute an essential element of the general theory of hedonistic psychology. The latter bears about the same relation to the hedonistic calculus as that existing between the fundamental idea of marginal valuation in general and certain recent attempts to introduce quantitative precision into the discussion of economic valuation by nice calculations of infinitesimal degrees of utility.

small-scale manufacturer of early capitalism, the corporation, aided by refined methods of cost accounting and market research, concentrates all its efforts on the maximization of profits and private wealth.

Closely related to the problem of profit maximization as the primary motive of business activities is the question of whether business men can reasonably be said to be able to achieve their aim. Indeed, economic theory has always assumed not only that the entrepreneur desires to maximize profits but also that he actually is able to pursue business policies consistent with this end. Such ability to maximize profits would appear to presuppose a knowledge of future developments which is not always possible, at least not in a dynamic economy. Under constantly changing conditions it is, for instance, not possible for the entrepreneur to forecast with any degree of accuracy either future cost of production or product prices. Furthermore, in a world characterized by mutual interdependence of all economic phenomena, and a high degree of substitutability existing among practically all economic goods and services offered in markets, even the most refined methods of statistical observation can hardly be expected to reveal the elasticity of demand for the commodities produced and sold by the individual firm. The same is true with respect to the elasticity of supplies of the raw materials and labor which the firm requires for its productive activities. As a result, "even the most up-to-date businesses have only the vaguest notion of what kind of demand curves they have to deal with".[11] Under these circumstances, it is at least doubtful whether the individual entrepreneur can still be presented as being able to arrange his affairs in such a way as to produce at the highest profit combination or in the technical language of modern economics, at the point of equality of marginal costs and marginal returns.[12]

Economic theory usually meets these doubts as to the producer's ability to maximize profits by explaining that the latter is, at least, able to approach the optimum combination by a process of trial and error. "We need not imagine," Mrs. Robinson points out, "that he—the individual producer—is able to plot the demand and cost curves throughout their length, but merely that he can see whether selling a little more of his product than he does at present will increase or decrease his net gains. As long as marginal revenue exceeds marginal cost, there will be a tendency for him to increase output, and as long as marginal revenue falls short of marginal cost there will be a tendency for him to contract output . . . "[13]. With this qualification, it seems to us, the assumption of the "economic man" and the rationality of his conduct is typically correct, at least in so far as the behavior of the *entrepreneur* is concerned. As a legitimate simplification for purposes of theoretical analysis, this assumption has contributed materially to our understanding of the business man's actions and decisions in the analysis of which classical as well as modern economic theory is primarily interested.

[11] J. Robinson, *op. cit.*, p. 56.

[12] Under conditions of duopoly, oligopoly and product differentiation, the general difficulty forecasting future cost and product prices is increased rather than reduced, due to the fact that in these cases the reaction of sellers upon the decisions of their competitors with respect to output or price tends to become highly unpredictable.

[13] J. Robinson, *op. cit.*, pp. 56–57.

III

However, with the gradual abandonment of objective theories of value in favor of the subjective approach of Menger, Jevons, Walras and their predecessors, economic theory had to pay more attention to behavior of the individual consumer. Indeed, the individual's problem of utilizing limited resources for the satisfaction of competing wants soon became the point at which economic theory started its interpretation of the mutually interrelated processes of consumption and production. In this undertaking, nothing seemed more natural to the new generation of economists than to base their analysis of consumers' behavior on the same general assumption of rational economic conduct which had proved so successful in the analysis of the productive process.

In fact, the question whether this assumption—although typically correct with regard to the average entrepreneur—might possess much less validity with respect to the individual consumer never arose, because economics had already adopted a purely behavioristic attitude. Economics, it was argued, does not have to concern itself with controversies as to the fundamental motives of man's action, but takes human behavior for granted. In other words, it was said to take "as premises only what men are actually seen to do, and consequently, is not involved in psychological disputes as to why they act".[14] This attitude is generally based upon the conviction that there is no other alternative than to accept the consumer's choice as final evidence of what contributes best to his general welfare. Only the individual himself, it is asserted, is able to evaluate the relative importance of his competing wants and, consequently, there is no objective way of telling how to maximize one's well-being. Consequently, the individual's choice must always be assumed to serve his ends in accordance with the relative importance which he attributes to them. By virtue of his preference, the individual's behavior not only is rational in the sense of being consistent with his chosen ends, but at the same time maximizes his well-being. Indeed, the "economic man" becomes surprisingly non-committal, presenting himself simply with these words: "I may behave one way and I may behave another, but what is that to you? You must take my choices as you find them; I choose as I choose and that is all you really need to know."[15]

This non-committal attitude toward the consumer's behavior so characteristic of modern economics is often defended on the ground that any positive evaluation of the consumer's conduct would involve the evaluation of "ends" of human activities and therefore can have no place in the scientific analysis. This was the position Max Weber took, in his famous essays on objectivity in the social

[14] Z. C. Dickinson, *op. cit.*, p. 13.

[15] J. M. Clark, "Socializing Economics," reprinted in *Preface to Social Economics*, (New York: Farrar and Rinehart, 1936,) p. 9. H. Kyrk presents the same circular reasoning in her comments on the familiar explanation that it is the first principle of all choice to gratify our most intense desires first. "But what are our most intense desires? Simply those that are satisfied first." See H. Kyrk, *A Theory of Consumption*, (Boston: Houghton Mifflin, 1923,) p. 137.

sciences[16] to which L. Robbins refers as follows: "Economic analysis is *wertfrei* in the Weber sense. The value of which it takes account are valuations of individuals. The question whether in any further sense they are *valuable* valuations is not one which enters into its scope."[17] In the same sense, Mises speaks of the "subjectivity of the science of human conduct which takes the valuations of all acting human beings for granted; it maintains complete neutrality toward such valuations and does not itself pass value judgments on human aims and ends. . . . It is this subjectivity of our science which at the same time accounts for its objectivity; its readiness to accept valuations of individuals as basic data not subject to any criticism, raises our science above partisanship and political struggles and makes it a science not based upon any *Weltanschauung* or system of morals; in other words, its subjectivity makes it objective, *wertfrei*, unbiased, universal and simply 'human'."[18]

Although it is not the purpose of this analysis to discuss the fundamental problem of a value-free objective social science,[19] it should be pointed out that neutrality toward human wants makes sense only as long as it is confined to the field of theoretical inquiry and interpretation. However, if we derive conclusions in full neutrality and use them as a basis for practical arguments in favor of, or against a particular course of action, we carry our assumed neutrality beyond the pale of theoretical analysis into the field of practical policy where it has no place. For, practical policy requires and is necessarily based upon an evaluation of, and discrimination between, different ends, i.e., the very opposite of neutrality. As pointed out above, the importance of the assumption of rational human conduct has never been confined to the field of abstract inquiry and analysis. For, theoretical conclusions arrived at on the basis of this assumption have been used again and again as practical arguments in favor of a policy of non-interference with private economic activities. In other words, economists often failed to see the limitations of their conclusions for the formulation and conduct of public policy. No wonder, therefore, that governments in so many instances were unable to heed their advice.

IV

In reality, the position of the consumer in modern society differs in a number of ways from that of the entrepreneur. Whereas the latter is usually able to measure precisely, that is, in monetary terms, the relative profitableness of

[16] Max Weber, "Die Objektivitat sozialwissenschaftlicher und sozialpolitischer Erkenntnis" and "Der Sinn der Wertfreiheit der soziologischen und ökonomischen Wissenschaft" reprinted in *Gesammelte Aufsätze zur Wissenschaftslehre*, F. C. B. Mohr: (Tübingen, 1922,) pp. 146–214 and pp. 451–502. See especially pp. 149–152.

[17] L. Robbins, *An Essay on Nature and Significance of Economic Science*, (London: Macmillan and Co., 1940) p. 91.

[18] Translated from *Nationalökonomie, Theorie des Handelns und Wirtschaftens*, (Genf: Edition Union, 1940) pp. 15–16.

[19] For a stimulating discussion of this question, see Ch. A. Beard, "Memorandum on Social Philosophy," *Journal of Social Philosophy*, Vol. V, No. 1, pp. 7–15, esp. pp. 14–15.

alternative courses of action, the consumer's capacity to compare the results obtainable from different choices is much more limited. He is unable to judge the quality of the goods and services of a highly complex civilization and his ignorance of the physiological requirements of his physical and mental well-being stand in sharp contrast to the entrepreneur's usual expertness in appraising the relative usefulness and economic productivity of available materials and available factors of production. Still other considerations arguing against the likelihood of "reasoned choices" on the part of the consumer can be found by examining human behavior in the light of modern psychology. There seems to be fundamental agreement among psychologists of different schools that the behavior of human beings is influenced and determined by a complex mixture of instincts, emotions, passions, impulses, habits and prejudices and a complicated interaction of customs, conventions, fashions, mass-suggestions and other modes of persuasion. Hardly any of these factors is conducive to rational choice. Indeed, many of our instincts, habits and customs have lost their positive functions. As long as man's general environment changed only slowly, he could perhaps rely upon his instincts and habits originally developed in the slow process of his adaptation to the world around him. But, in a world of rapid economic and social changes, with business conditions, incomes, selling techniques, commodities, etc., shifting from year to year and even from month to month, the average consumer frequently finds himself wholly unprepared and completely unadapted to new situations. Having no other alternative, he follows old established behavior patterns, which, in most cases, solve the new problems only inadequately, if at all. In any event, there seems to be no basis for the belief that human beings, guided by instincts and habits as some sort of "unfailing intuition" are able to find the best solution of their economic problems.

Further elements of irrationality in the behavior of consumers are revealed if one considers the various "modes of persuasion" through which the social and institutional environment influence the individual's behavior. Psychologists and sociologists have analyzed these influences repeatedly, without, however, inducing economists to reconsider their assumption as to the economic rationality of the consumer. Among others, Cooley examined the influence which the well-to-do classes have over the expenditures of the poor. "As people of leisure and presumptive refinement they (i.e., the richer classes) have prestige in forming those conventions by which expenditure is ruled."[20] As a result of this "class control" of consumption, "we see . . . cooks and shop girls dress in imitation of society women and . . . clerks mortgage their houses to buy automobiles".[21]

Even earlier than Cooley, Veblen called attention to, and analyzed, the psychology behind all those "methods of demonstrating the possession of wealth" through which the individual consumer wishes to impress neighbors and other

[20] C. H. Cooley, *Social Progress*, (New York: Scribner, 1918) p. 304. See also J. H. Hobson, *Work and Wealth: A Human Valuation*, (New York: The Macmillan Co., 1916) pp. 140–141.

[21] C. H. Cooley, *op. cit.*, p. 304.

transient observers.[22] The "conspicuous expenditures" and, indeed, all "conspicuous consumption" must be considered as an expression of the irrationality of consumers' behavior, at least, if we are willing to appraise consumers' choices from a more objective and less non-committal point of view than that which underlies traditional economic theory.

However, the greatest obstacle to any rational behavior of the consumer is probably the fact that human preferences can be, and actually are, to an ever-increasing extent, influenced by sellers and other persons with a commercial interest in the consumer's choice. In this connection, it must be noted that modern competition has become more and more "monopolistic". In contrast with the conditions prevailing during the 19th century, when numerous small competitors exercised only a negligible influence over the supply and prices of largely homogeneous commodities, production in many fields tends to be more and more concentrated in the hands of a few competitors. Under such conditions, it is not only profitable but essential for the entrepreneur to engage in various kinds of sales-promotional activities. In fact, under conditions of monopolistic competition, the commercial survival of each competitor depends upon his ability to increase the demand for his particular product and to make it as inelastic as possible. To this end, the seller must convince the consumer of the special qualities, whether real or imagined, of his products as compared with those of his competitors. If this is correct, i.e., if the entrepreneur's survival depends upon his ability to create and maintain a demand for his "differentiated" article, he can hardly be expected to abstain from making exaggerated and even misleading claims as to the superiority of his particular article or brand. In short, the farther we move away from the competitive system of early capitalism to the monopolistic conditions of the 20th century, the more solidly entrenched becomes the institution of advertising and sales promotion[23] in the economy.

Various arguments have been advanced to defend the assumption of rational human conduct in an era of almost unrestricted sales promotion. Thus, it has been pointed out that advertisements perform certain "educative" functions insofar as they describe for the consumer the use and desirability of available commodities together with their quality and prices. Along similar lines, economists have distinguished between "informative" and "competitive" advertising[24] justifying the former as a means of increasing the consumer's knowledge and disapproving of the latter as merely a method "of transferring the de-

[22] T. Veblen, *The Theory of the Leisure Class*, (New York: The Modern Library, Inc., 1931), pp. 97–98.

[23] As used in this context, the term "sales promotion" includes the promotion of brands, trade marks and fashions; it refers to the use of price appeals, installment sales, free deals and contests; and finally, it may take the form of misrepresentation "such as exaggerated or unfounded claims, misleading terminology, deterioration of quality, misrepresentation of quality and obscure pricing". See C. S. Wyand, *The Economics of Consumption*, (New York: The Macmillan Company, 1937), p. 272.

[24] A. Marshall distinguished between "constructive" and "combative" advertisements. See his *Industry and Trade*, (London: Macmillan and Co., 1919), pp. 304–307.

mand for a given commodity from one source of supply to another."[25] As a matter of fact, it cannot be denied that imperfect knowledge on the part of consumers as to available commodities and their respective qualities and prices makes for inelastic demand; advertising that offsets this ignorance offers greater opportunities for competition although always at an additional cost which must be covered by the price.[26] However, it should not be overlooked that the first and only purpose of advertising and all other sales-promotional activities is to sell; in some cases, this purpose is served by offering the consumer truthful and detailed information, helping him make a more reasoned choice of commodities. But in the great majority of cases, selling efforts play upon the buyer's susceptibilities; as Chamberlin puts it, they "use against him (the buyer) laws of psychology with which he is unfamiliar and therefore against which he cannot defend himself, which frighten or flatter or disarm him—all of these have nothing to do with his knowledge. They are not informative; they are manipulative."[27]

Similarly, the commercial promotion of brands and trademarks—an integral correlate of advertising—is not necessarily helpful to the consumer. While doubtless contributing to uniformity and standardization—although rarely according to scientific specifications—brands and trademarks often give the commodity a "fictitious individuality" preventing "the consumer from comparing it with competitive products of identical composition. He—the seller—diverts attention from the weight, the quality and the price of the article he is selling, to the shape, size, the color of the package in which it is housed. Through his advertising he creates a reputation for this package which is intended to take it out of competition."[28] Instead of describing, brand names, in many cases, misrepresent the branded commodity; instead of assisting the consumer, their great number confuses him.[29] Moreover, habits and customs often tend to bind the consumer to inferior or deteriorated brands.

[25] A. C. Pigou, *The Economics of Welfare*, (London: Macmillan and Co., 1932), p. 196.

[26] E. Chamberlin, *The Theory of Monopolistic Competition*, (Cambridge: Harvard University Press, 1933) p. 119.

[27] *Ibid.*, pp. 119–120. Another serious student of the matter comes to similar conclusions: ". . . advertisements are not written to help people make a reasoned choice of commodities, they are written with the object of inducing them to buy particular things, and they naturally exaggerate the uses and merits not only of the commodity but of a particular make of the commodity. Moreover, the vast majority of advertisements do not confine themselves to pointing out the uses of commodities; they make the appeal not to the reason but to the emotions, of the consumer. Suggestion, reiteration, attractive illustration—these are all devices to induce people to buy the article without making comparisons or calculations. They certainly do not assist his judgment as to the relative satisfactions to be obtained from different commodities or add to the relative satisfactions to be obtained from commodities and leisure." D. Braithwaite, "The Economic Effects of Advertisements," *Economic Journal*, 1928, vol. XXXVIII, pp. 19–20.

[28] C. Wilcox, "Brand Names, Quality and Price," *Annals of the American Academy of the Social Sciences*, vol. 173, May 1934, p. 81.

[29] See Hearing before the TNEC (May 1939) Part VIII, *Problems of the Consumer*, pp. 3309–3328. According to estimates of G. K. Burgess, former director of the U. S. Bureau of Standards, there are as many as 10,000 brands of wheat flour, 4,500 brands of canned corn, 1,000 brands of canned peaches, 1,000 brands of canned salmon, 1,000 brands of canned peas, 500 brands of mustard, and 300 brands of pineapple. See S. H. Slichter, *Modern Economic Society*, (New York: Henry Holt and Co., 1931), p. 553.

In the light of the foregoing considerations, it seems to be more than questionable to assume that man's desires are the expression of his own personality. Instead, our preferences and especially our cultural wants are continuously being molded by outside forces and persons interested in the outcome of this process. In contrast with the conditions under early capitalism, business today is concerned not only with the production of commodities for the satisfaction of consumers demand, but with the creation and direct "manipulation" of the latter "guiding general instincts into particular channels and focusing general wants into the desire for particular objects."[30] If the individual consumer ever enjoyed the strategic and directing position which economic theory has attributed to him, he most certainly has lost it in our times. Today, "what every man brings into the world of markets and trading is not wants . . . but merely the raw material out of which wants are fashioned."[31] Of course, the individual consumer may still be said to satisfy his wants in the order of their intensity; indeed, "he still buys what he thinks is most desirable but getting him to think as he does has been the job of millions of sellers. . . . "[32] To some extent, therefore, consumer's choices and behavior patterns may be said to reflect merely the relative advertising skill and financial strength with which different producers and sellers are able to direct their respective sales-promotional campaigns.

V

In the light of the above considerations, it is not surprising to find that consumers' desires often deviate from objective standards of what is desirable and essential. Perhaps the most alarming evidence of the fact that actual consumption and individual choices have ceased to be in fundamental harmony with objective requirements of human health and efficiency, can be found in the field of nutrition. Practically all recent investigations into this problem have revealed the widespread existence of serious deficiencies in the state of nutrition of large masses of consumers if compared with such objective standards as are available at the present stage of our knowledge in these matters.[33] It is true, these deficiencies are due to a marked degree to the fact that large numbers of consumers in all countries receive incomes which are insufficient to command

[30] J. M. Clark, "Economics and Modern Psychology", reprinted in *Preface to Social Economics*, *op. cit.* p. 116.

[31] *Ibid.*, p. 100. In this connection it is, perhaps, significant that Schumpeter's analytical scheme of economic evolution is based upon the assumption "that all change in consumers' tastes is incident to, and brought about by, producers' action". In other words, Schumpeter considers cases of consumers' initiative in changing their tastes as negligible and untypical enough to disregard them in economic analysis. See *Business Cycles*, (New York: McGraw Hill Book Company, 1939), I. pp. 73-74. Another economist who, with J. M. Clark, recognizes "the obvious fact that the wants which an economic system operates to gratify are largely produced by the working of the system itself" is F. H. Knight, *The Ethics of Competition*, (New York: Harper and Brothers, 1935) p. 46.

[32] C. S. Wyand, *op. cit.* p. 431.

[33] Of course, there is no general norm of nutrition; different amounts of calories, proteins, minerals and vitamins are required by human beings under different conditions of age, occupation and general environment. But it is precisely these requirements of an adequate diet under different conditions which are known and fundamentally agreed upon by physiologists.

goods and services deemed, by the respective standards, as essential for the maintenance of health. At the same time, however, it was revealed that a substantial number of consumers, though enjoying sufficient income, nevertheless suffer from defective consumption because they spend their money in an ill-considered manner. Thus, the International Labor Office, as early as 1935, in a study of the problem of nutrition in its relation to health and social policy in various countries, pointed out that "the facts brought to light . . . undoubtedly indicate that there is widespread malnutrition among various sections of the population of different countries. Such malnutrition, however, is not always an indication either of poverty or of ignorance. It may be the result of carelessness or indifference."[34] As regards the state of nutrition of workers in particular, the report summarizes the results of the investigations as follows: "Large numbers of the working population not only in impoverished or depressed areas but even in the most advanced industrial countries are inadequately nourished. Such malnutrition and undernourishment are not the result merely of temporary dislocation due to an industrial depression, though a depression usually has an aggravating influence. It is a condition found among many employed workers in times of normal business activity."[35] While attributing such mal- and under-nourishment primarily to low income or lack of purchasing power, the report, nevertheless, emphasized that "inadequate and insufficient nourishment among workers is due in some measure to an ineffective use of available income owing to ignorance of nutritive values, inability of the poor housewife to make the best use of her money, etc."[36]

The result of several years of careful investigation carried out on an international scale under the auspices of the Health Organization of the League of Nations points in the same direction: "Ignorance of the principles and main features of the modern science of nutrition is one of the commonest causes of deficiencies in nutrition. . . . Ignorance is prevalent not only among the poorer classes of the population where it aggravates the ill-consequences of lack of resources: investigations made in the wealthiest countries have revealed the fact that defective, inadequate or ill-considered nutrition exists, and that even among the wealthier classes there is ill-considered nutrition due to inadequate knowledge."[37] Undoubtedly, similar methods of analysis would reveal the same state of ill-considered choice in other fields of human consumption.

Equally alarming, although perhaps less tangible in its implications, is the general cultural impoverishment to which an increasing number of social scientists are calling attention. Partly a result of sales promotional efforts, and partly also in response to the demand of great masses of consumers, an increasing share of productive energies is devoted to the creation of products which are not only of inferior quality but "incapable of satisfying any but the most super-

[34] International Labor Office, *Worker's Nutrition and Social Policy.* (Geneva: Studies and Reports, Series B, No. 23, 1936) p. 5.

[35] *Ibid.*, p. 166.

[36] *Ibid.*, p. 166.

[37] League of Nations. *The Problem of Nutrition*, Vol. I, Interim Report, (Geneva: 1936) p. 21.

ficial desires."[38] As Beckerath put it "the consumer, through the efforts of producers and dealers, is driven towards an increasing unrest and superficiality in the conduct of life. The culturally and ethically valuable sense of harmony in the surroundings and the clothing of man is in danger of being lost, together with his personality. It is replaced by an entirely impersonal striving for sensational change. . . . "[39] A similar cultural impoverishment is concealed behind much so-called "scientific" work and pseudo-artistic creations in literature, radio and cinema; it reflects itself in a serious degeneration of tastes and an enslavement of mankind to dubious standards of consumption which economic analysis can hardly afford to disregard much longer.[40]

VI

In the light of the foregoing analysis, it becomes evident that the traditional acceptance of consumers' preferences as the sole and only measure of what contributes best to their well-being fails to serve any scientific purpose. Indeed, in a world in which man's desires are determined by a complex mixture of ignorance, emotions, habits, prejudices, as well as various modes of persuasion and sales-promotional efforts, the economist's neutrality towards consumers' "ends" tends to defeat his search for philosophical truth. Under modern conditions any non-committal attitude which takes as premises only what consumers are actually seen to do, without inquiring into the forces which mold their preferences and desires, can only produce non-committal, if not misleading, conclusions of little practical significance.

Once this non-committal attitude is abandoned, the assumption of rational conduct of the consumer becomes untenable even as a simplification for purposes of theoretical analysis. The average consumer is unable to make rational choices and thus to maximize the want-satisfying power of his limited-income resources. This is not to say that consumers' behavior is completely unreasonable or foolish. Of course, the individual consumer is still struggling to get as much as possible for his money. But his ignorance, the complexity of present civilization, environmental factors and sales-promotional efforts in modern economies frustrate many efforts of the consumer to achieve his aims. It is these factors which make it seem necessary to abandon the assumption of rational behavior of the individual consumer and with it the theoretical and practical conclusions which economic theory has deduced from it. To outline the consequences of such a step both for economic theory and practice is the purpose of the concluding part of our analysis.

VII

The abandonment of the assumption of rational human conduct with respect to the individual consumer would make it necessary for every economist to study

[38] C. S. Wyand, *op. cit.*, p. 434.

[39] H. V. Beckerath, *Modern Industrial Organization*, (New York: McGraw Hill Book Co., 1933) p. 192.

[40] One of the few economists who have shown concern over this deterioration of our wants is F. H. Knight, *op. cit.* pp. 51–52 and pp. 74–75.

the forces which influence human wants in modern industrial societies. Instead of taking consumers' desires for granted and treating them as data, economists will have to devote much more attention than hitherto to the study of human conduct. As a result of such an analysis, it might well be found that the forces which influence the consumer are so manifold and his behavior so irregular that the use of any simplifying assumption as to his conduct could only lead to a distortion of reality and would make any analysis and interpretation of the economic process unrealistic and misleading. Moreover, such a study of human behavior would reveal that the average consumer plays a much more passive role in modern economies than traditional and modern economic theory usually attributes to him. Changes in his preferences originate in his environment rather than in himself. As a matter of fact, Schumpeter's assumption "that all change in consumers' taste is incident to, and brought about by, producers' action"[41] constitutes a much more realistic approach to the problem of consumers' conduct than a theory which attributes to the consumer a directing position in the economy. In fact, in a world in which producers' activities are not limited to the supply of commodities but are directly concerned with the "creation" of demand, it is at least doubtful whether the analysis of market values (price) in terms of fundamentally independent supply and demand schedules and curves can be expected to yield realistic results.

Furthermore, the abandonment of the assumption of rational conduct of the consumer, would make it impossible to interpret his behavior as tending toward some kind of individual equilibrium approaching the optimum solution of his economic problem. This interpretation makes sense only as long as we accept consumers' preferences as the only and final evidence of what contributes best to their well-being. It is this non-committal attitude—as we have pointed out—which deprives the theoretical conclusions of modern economics of much—if not all—significance for the formulation of judgments on practical policy. In other words, if economists wish to bridge the gap that continues to exist between economic theory and economic practice, they cannot merely take consumers' wants for granted, but have to face the task of evaluating and appraising human desires in terms of objective standards. Of course, this is not to suggest that economists ought to become physiologists, busying themselves with the elaboration and formulation of scientific standards of human consumption. What is needed, however, is a greater willingness on the part of the economists and the social scientists in general to take notice of and to assimilate to their reasoning a number of recent advances in our knowledge of the physiological requirements of human health and efficiency.

Any evaluation and appraisal of consumers' wants will have to be based upon some classification of human desires, for example, according to whether they arise out of physiological needs of the human organism or whether they answer less essential impulses reflecting merely the individual's passive reaction and subordination to mass-suggestion and other influences emanating from his social

[41] J. A. Schumpeter, *op. cit.*, vol. I, p. 73–74.

environment. Numerous classifications of human wants advanced by different economists might be used at least as a starting point for further investigations. While always open to objections on some grounds, such classifications would at least demonstrate how misleading it is to consider all human wants indiscriminately as "ultimate ends." Indeed, certain wants might easily lose their so-called "ultimate end" character and turn out to be "means" towards the attainment of such conditions of human existence and survival serving merely as a basis for the normal development of the higher and cultural aspirations of the human race.

In any event, it need hardly be emphasized that the evaluation of human preferences and consumers' desires exceeds the limits of all traditional economic analysis. Indeed, any such appraisal transgresses into ethics and the realm of general social philosophy. However, it would be unjustified to conclude therefrom that the evaluation of consumers' wants must always remain a subjective one, and that any policy based thereon must of necessity become an arbitrary control of consumption. On the contrary, recent advances of our knowledge have provided us with objective and generally accepted standards of consumption, especially with respect to problems of nutrition. Moreover, it is precisely the existence of such objective standards which makes the evaluation of existing preferences not only possible but also tolerable by furnishing a considerable safeguard against the danger that a policy of guiding consumers' choice based upon such an evaluation might degenerate into "tyranny and log-rolling."[42]

For, there should be no doubt that the practical inferences to be drawn from our analysis point towards the need of improving the present "backward art of spending money", as W. C. Mitchell once characterized the average consumer's inability to make the best possible use of his limited income. This goal can be reached only by means of a public policy designed to guide consumers' desires and preferences in accordance with such scientific standards of human health and efficiency, as are generally agreed upon by experts. Such a policy implies an extension of government regulation into a field which, so far, has been relatively free from state intervention. It is the tragic merit of the Second World War that it emphasizes the dangers which result especially from a state of faulty and inadequate nutrition not only for the health and productive efficiency of the individual, but also for the defense of the nation. In fact, it is only since 1939 that the need for a public policy designed to aid and educate the consumer in maintaining proper dietary standards has been widely recognized. Determined efforts in this direction have been, and are still being, made in all belligerent countries. Our analysis points to the conclusion that a public policy of consumers' guidance has a permanent place in any system of government regulation even after the passing of the war emergency. The purpose of such a policy is not to provide for absolute rationality in human behavior but merely to encourage and stimulate reasonable conduct. It implies "a belief that the rational

[42] J. M. Clark, "The Basis of War-Time Collectivism," *American Economic Review*, vol. VII, 1917, p. 790.

elements in men ought to be encouraged and their reasoning faculties be developed to the fullest possible extent."[43] The means to be employed in order to achieve this end are education, persuasion and suggestions offered by disinterested persons and agencies instead of high-pressure advertising and sales promotion of the commercial type.

Brought up in the tradition of classical economics and influenced in their reasoning by the idea of the individual's rationality and his sovereignty as a consumer, economists may be reluctant to face these facts. They may evade the issue by questioning the validity of objective standards or by branding their adoption for purposes of public policy as an attempt to establish a dictatorial control of consumption. Or, they might take the position, like the economists of the 19th century, that the main task before us is to increase the efficiency of the productive system and that the solution of all other problems depends upon the improvement of the art of creating goods and services. This argument however, overlooks the fact that if consumers' desires are no longer in harmony with, or even are opposed to, their needs, "then the more efficient their system of production becomes, the more harm they will do themselves."[44] Indeed, under such conditions, "an efficient industrial system promotes national deterioration rather than well-being."[45] In any event, if against better knowledge we operate our economy on the assumption that the individual is the best judge of his general well-being, superficial and ill-considered consumption is likely to continue to be the common phenomena that it is today even among the wealthier classes in the wealthiest countries.

[43] G. D. H. Cole, *Europe, Russia and the Future,* (New York: The MacMillan Company, 1942) p. 94.

[44] T. N. Carver, *Principles of National Economy,* (Boston and New York, Ginn and Co., 1921) p. 45.

[45] *Ibid.*, p. 45. Horkheimer gives expression to the same idea when he writes: "It is obvious that man may be materially, emotionally and intellectually impoverished at decisive points despite the progress of science and industry. Science and technology are only elements in an existing social totality, and it is quite possible that, despite all their achievements, other factors, even the totality itself, could be moving backwards, that man could become increasingly stunted and unhappy, that the individual could be ruined and nations headed toward disaster." See "The Social Function of Philosophy," *Studies in Philosophy and Social Science*, Vol. VIII, 1939, p. 327.