Homo Oeconomicus: Useful Abstraction or Perversion of Reality?

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Grounded upon a theoretical basis, this paper draws into a fundamental critique of a key assumption made in most economic theory, and that is the constructed homo oeconomicus or economic man. This paper conducts this evaluation by delving into the beginning of the economic man and its common applications in the field of economics. Then subsequently discussing its advance from its origins in the writings of Smith and Mill to the modern day. Following this the argument will considering two key criticisms of economic man through both behavioural and feminist economists, before lastly evaluating the potential alternatives we can use instead of the economic man in the context of an increasingly complex, diverse and globalised economic landscape.

Introduction

Nine years before The Wealth of Nations, the English economist Sir James Steuart wrote: Were everyone to act for the public, and neglect himself, the statesman would be bewildered (Steuart, 1767: 221; cited in Brockway, 1993: 26). In the same way that Steuart s statesman prefers self-centred constituents as he believes their behaviour to be predictable in any situation, so too do economists predict the behaviours of their most ubiquitous theoretical construct, economic man[1]. This self-maximising being, postulated initially by Adam Smith and fleshed out more thoroughly by Mill and his successors, was intended as a tool to generalise the complexity of human behaviour into a coherent economic science (Monbiot, 2016). Ha-Joon Chang articulates the common neoclassical conception of economics as a study of rational choice […] made on the basis of deliberate, systematic calculation of the maximum extent to which the ends can be met by using the inevitably scarce means (2014: 20). The dual assumptions of rational choice and maximisation are encapsulated in the homo oeconomicus construct, and both have attracted much debate and criticism throughout the colourful history of economic thought.

Proponents of the homo oeconomicus construct assert that, far from representing an inappropriate simplification of reality, the model makes possible economic analysis and provides a necessary distillation of fundamental behavioural truths (Hinnant, 1998). Indeed, Robert Lucas stated that the assumption of homo oeconomicus rational choice capacities provide the only engine of truth we have in economics (1987, p. 108; Nelson, 1995). However, homo oeconomicus has long been a thorn in the side of the economic discipline with critics castigating its crass reduction of human nature to a single propensity for material betterment in the form of monetary gain (Hinnant, 1998). Throughout the twentieth century many academics began vocalising their doubts as to Economic Man s continued saliency, and entire schools of thought emerged to problematize its ontologisation and universalisation of behaviour (Brown, 2015). With the coming of the heterodox schools, behavioural economics, and global economic instability in the new millennium, this critical stream became a flood, and homo oeconomicus as traditionally conceived was widely discredited. It is broadly accepted, as this paper will demonstrate, that without a concerted revision, the traditional construct of homo oeconomicus leaves the economic discipline under threat of complete obsolescence.

This essay first establishes the traditional conception of economic man and how it is commonly applied in the field of economics. Then the development of the concept will be traced, from its origins in the writings of Smith and Mill to the modern day. Criticisms of economic man levelled by both behavioural and feminist economists will be considered, before finally assessing potential alternatives to homo oeconomicus in an increasingly complex, diverse and globalised economic landscape.

What is Homo Oeconomicus?

According to Screpanti, Zamagni, and others, homo oeconomicus is reducible to three basic axioms: atomism, egoism, and rationality. Atomism means that the economic agent is an individual whose preferences are formed without the external influence of others preferences. Egoism refers to the idea that individuals are steered exclusively by their own preferences, seeking to maximise only their own welfare. Subjective rationality means that the individual is endowed with perfect and complete knowledge, an unlimited capacity for calculating the best means of achieving his ends (2005: 463). In this way, traditional economic theory de-emphasises the emotions, beliefs, and values that are not directly observable in human conduct, yet which arguably underpin all human experience. Brockway takes quite a dim view of economic man in the following passage:

"*[Economic man] is possessed by one idea: his own material gain. He is a fanatic. He is a madman. He is selfishness incarnate. He is a self-contradictory role model for the newly liberated. Wherever standard economics faces a problem, it looks to economic man for the answer*" (1993: 9).

Joseph Schumpeter characterised Economic Man as the hedonistic computer, […] fleeing from pain and seeking satisfaction (1914: 87; Roncaglia, 2006). Undoubtedly, homo oeconomicus has proven a useful heuristic in modelling market mechanisms, consumer behaviour, and broader schema of international trade, capital markets and investment decisions. However, it is also apparent that this framework of human behaviour omits the reality of flaws, imperfect information, and motivational complexity. A real-life embodiment of homo oeconomicus is an almost certain impossibility for no-one is perfectly omniscient, objective or judgement-free. Even the earliest economic thinkers acknowledged this fact. However, that homo oeconomicus is not reflective of reality did not deter countless thinkers from building, upon this foundational assumption, many comprehensive mainstream theories of political economy. Consequently, the economic discipline was left open to serious academic criticism and attack when its predictive capacity began to falter.

The Development of Homo Oeconomicus

The definition of Economic Man has changed considerably throughout the centuries, as traditional society, where man was merely a factor of production, evolved into a modern society that witnessed the birth of the individual (Brzezicka & Wisniewski, 2014)[2]. Roncaglia argues that the classical notion of economic man can trace its origins back to the Latin idea of paterfamilias, the male head of a Roman household (2006: 236). Hobbes, in Leviathan, formalises the idea of the individual as singularly self-advancing, motivated only by calculations of competitive positioning and survival (Brown, 2015).

Yet it was Adam Smith who provided the first broad articulation of human motivations in the context of political economy. Regarded as the first systematiser of economic principles (Morgan, 2006), Smith developed a simplified theory of human behaviour to underlie the theoretical advancements made in his treatises. In The Theory of Moral Sentiments, he wrote that:

"*Every man is, no doubt, by nature, first and principally recommended to his own* *care… (1759: 82).Yet Smith allows for two limits to the free pursuit of personal interest, namely the administration of justice, and crucially, sympathy for fellow human beings: Society […] cannot subsist among those who are at all times ready to hurt and injure one another."* (1759: 86).

Thus Smith s Economic Man shows himself to be a complex mixture of instincts, motivations, and preferences, wherein self-interest is a necessary motivation but by no means a sufficient depiction. Smith s abstraction thereby does not constitute a fully-functional model man, from which rigid economic doctrines can be constructed. Certainly, individual motivations can be linked with particular outcomes (i.e. prudence and investment), but it is impossible to trace the full outcome of each of the character traits on their own because they interact with many other characteristics and circumstances. Smith s fictional character has economic motivations with causal power but lacks the determinative singularity that gives later iterations of Economic Man their rigor. (Morgan, 2006).

A far more conscious narrowing in the characterization of economic behaviour came with John Stuart Mill s creation of a character explicitly restricted in his emotional range to economic motivations and propensities (Morgan, 2006). In On the Definition of Political Economy, Mill describes economics as concerned with man solely as a being who desires to possess wealth, and who is capable of judging the comparative efficacy of means for obtaining that end (1836: 137). Yet even here Mill appears to express an aversion to reducing human motivation to the simple desire for wealth, hence his introduction of two antagonistic counter-motives: an aversion to labour, and the desire of… costly indulgences (1836: 138). Thus Mill limits the universality of his assumption of egoism. These allowances that enable his models to better reflect human behaviour foreshadow the weaknesses that would be highlighted in the humanoid abstraction, homo oeconomicus. Indeed, in a gesture that is prophetic of the later debates on Economic Man, Mill declares, "Not that any political economist was ever so absurd as to suppose that mankind are really thus constituted but because this is the mode in which science must necessarily proceed" (1836: 139).

Moving from the Classical to the Marginalist School, homo oeconomicus morphed into an abstraction increasingly remote from reality. The portraits of Bentham and, later, Jevons were inspired by the moral principle of utilitarianism. Their theories constitute a decisive shift away from Mill s Man s desire for monetary wealth, towards a computing machine that maximises a mono-dimensional magnitude of utility (Morgan, 2006; Roncaglia, 2006). While Bentham explicitly framed human motivation in terms of utility maximisation (hedonism) and self-interest (egoism), Jevons stressed that utility is an abstract relation between object and person, rather than a property intrinsic to an object (prioritising marginal utility above total utility) (Screpanti & Zamagni, 2005; Roncaglia, 2006). Thus, Jevons paints economic man as a calculating consumer, [...] defined in psychological terms that are fundamentally unobservable yet causally powerful in the larger economic system (Morgan, 2006: 10). The conceptualisation of utility was a significant advance in the development of homo oeconomicus never before had the motivations of human actions been mathematised in such a way, however intangibly. Jevons created a new portrait of calculating man who uses such mathematics to determine economic decisions concerning how best to maximise utility, thereby taking the characterisation of economic behaviour into the laboratory of mathematics (Morgan, 2006: 11).

It is this stage in the development of homo oeconomicus that Roncaglia highlights as a pivotal crossroads. He expresses concern that economic thought set a course of deviation from the laborious progress of a social science that endeavours to take into account the complex nature of human beings... forking off along the path of economics built on the model of physical sciences at the price of substituting the real world with a fictitious one-dimensional picture (2006: 292). In what could be considered as a wrong line in the history of economic thought, the abandonment of the rich subtlety of the Smithian notion of the economic subject in favour in favour of Jevon s calculating actor represents a seachange in the conception of the individual in economics, the repercussions of which are still being felt to this day.

Economic Man in Neoclassical Thought

With the coming of the Neoclassical School and 20th century economists, the psychology of homo oeconomicus all but disappears, and his rational characteristic is used interchangeably with automated, computerized, and insensate (Morgan, 2006). Let us recall the definition of economics from this essay s introduction: a study of rational choice [...] made on the basis of deliberate, systematic calculation of the maximum extent to which the ends can be met by using the inevitably scarce means (Chang, 2014: 20). This definition is reflective of the dominant view in Neoclassical economics, that economics is the science of choice, and these choices are made by individuals assumed to be rational, omniscient, egoistic, and endowed with unbounded cognitive powers (Chang, 2014). Neoclassical economists such as John Bates Clark and Alfred Marshall attempted to model an ideal social order in terms of a general economic equilibrium, achieved through the interactions of atomistic, egoistic, and rational actors in a marketplace (Screpanti & Zamagni, 2005).

Indeed, mid-20th century neoclassical economics stopped short of attempting to theorise individuals choice calculus or motivations, but supposed that, however arrived at, the choices of individual economic actors were uniformly rational. Thus, rational Economic Man becomes a tautology. Neoclassical economists focused almost exclusively on outcomes rather than causes, and rarely made claims about the underlying individuated preferences and cognitive processes that give rise to actions. This is seen in Samuelson s theory of revealed preferences, which concerns itself exclusively with revealed behaviour as opposed to the motivations thereof. (Morgan, 2006; Brzezicka & Wisniewski, 2014)

Ultimately, the ubiquity of homo oeconomicus as a theoretical abstraction peaked in neoclassical economic thought. Through Smith s model of human behaviour and Mill s articulation of a robust Economic Man , to Jevon s calculating Man and Neoclassicism s rational actor, portrayals of Economic Man became radically less reflective of reality.

Criticisms

For centuries, economists and social scientists have questioned the assumption of self-interested maximisers that forms the bedrock of conventional economic epistemologies (Chang, 2014). By reducing the totality of human experience to the desire for wealth (Hinnant, 1998) - be it monetary or utilitarian attempts to generalise choice motivations have been met with increasing dissent. At a fundamental level, the obvious diversity of human life across time, space, class, gender, occupation, etc. would imply the existence of an infinite number of rational goals beyond the mere accumulation of wealth (McMacken, 2016). In Human Action, Ludwig von Mises delivered the following damning assessment of homo oeconomicus:

"According to this doctrine traditional or orthodox economics does not deal with the behaviour of man as he really is and acts, but with a fictitious or hypothetical image. […]. Such a being does not have and never did a counterpart in reality; it is a phantom of a spurious armchair philosophy. No man is exclusively motivated by the desire to become as rich as possible; many are not at all influenced by this mean craving"(1949, Sect. I.II.130).

In this colourful passage, von Mises encapsulates much of the censure heaped upon homo oeconomicus as the construct grew in influence. Beyond this primary critique, heterodox schools of have emerged that more systematically invalidate conventional expositions of homo oeconomicus, rendering its usefulness almost completely beyond salvation.

The Behaviouralist Critique

In the late 20th century, behavioural economics introduced positive rather than a normative psychological model to explain economic phenomena (Brzezicka & Wisniewski, 2014). The emergence of behavioural economics as a robust sub-field can be primarily attributed to the work of Richard Thaler and Dan Ariely, who set about to explain anomalies in mainstream economics, for which Economic Man offered no explanation. Behavioural economists proposed that human nature is filled with countless inherent deviations from rational choice that prevent the optimisation of self-interest (Brzezicka & Wisniewski, 2014). For instance, they argue that commonly people demonstrate other-regarding behaviour beyond altruistic tendencies toward family members and basic principles of reciprocity. This contravenes the assumption of homo oeconomicus self-interest. Furthermore, humans often act irrationally when calculating odds or investment value, often with catastrophic consequences take the 2008 sub-prime mortgage crisis in the United States and the Irish property market crash - two of countless instances of economic irrationality (Thaler & Sunstein, 2008; Dubner, 2015). This leads the field of behavioural economics to delineate between homo oeconomicus (Thaler s Econ) and homo sapiens, arguing that the former is a relic of theoretical economics, unrelated to the real world (Thaler & Sunstein, 2008: 15; Brzezicka & Wisniewski, 2014: 359).

The Feminist Critique

Like any science developed within human communities, economics is, at least partly, socially constructed. It is a product not only of objective truths but of human limitations and biases. In her paper Feminism and Economics , Julie Nelson condemns the implicit male-gendering of Economic Man as a theoretical tool which privileges traditionally masculine characteristics of dispassionate reason, rationality, and self-interested calculation above more traditionally feminine traits of emotiveness, altruism, and dependence. Mainstream constructions of homo oeconomicus, she claims, neglect social and emotional dimensions of human behaviour, and this represents a serious limitation of mainstream economics rather than an indication of academic rigour. Instead, Nelson advocates a conception of human behaviour that encompasses traits associated with all genders (1995: 136).

Wendy Brown, in Undoing the Demos, draws attention to the family-individual conundrum presented by homo oeconomicus. Put simply, this is the question of whether the family or the individual is the proper unit of analysis of a human world conceived as competing units of self-subsistent capital - the world of homo oeconomicus. Brown claims that the individual freedom presumed by

Economic Man pertains only to those who freely operate in the domain of market freedom, and not those who perform unwaged work or activity within markets. Thus the story of homo oeconomicus is not one of families or women, but of a social positioning long associated with male breadwinners (2015: 101). According to Brown, homo oeconomicus is a subject portrayed from a masculinist, bourgeois viewpoint, one nourished by sources and qualities themselves not featured in the story (103).

It is clear from the two feminist critiques presented above that the generic homo oeconomicus is, indubitably, masculinist. Economic Man omits both the characteristics normatively associated with womankind, as well as the reality of the gendered division of labour and female lived experience. And so the question arises: when a theoretical construct, propounded as objectively universal, fails to account for the lives and labours of half humanity, can one continue to rely on its usefulness and applicability?

Conclusion: A Future for Economic Man?

For better or for worse, ours is not the world of homo oeconomicus, but of homo sapiens. The assumptions of human rationality, self-interest, and atomism were useful in the development of economic theory, but Economic Man s failure to keep pace with a rapidly changing world economy have rendered him, in his traditional form, a much-maligned relic of a bygone era (Brzezicka & Wisniewski, 2014). Off course, all theories require some degree of generalisation, but in their foundational assumption of Economic, the dominant economic theories have strayed too far in their simplification (Chang, 2014). As demonstrated by this paper, by shifting economics from a moral to a mathematical science, mainstream economists became the agents of their own academic destruction (Yoon, 2016). Economic Man s anthropological reductionism was unable to predict, grasp or theorise economic afflictions plaguing modern society, such as inequality, environmental decay, unemployment, exploitation, and alienation (Screpanti & Zamagni, 2005).

Nowadays, although the neoclassical model that emphasises the importance of homo oeconomicus remains a mainstay of undergraduate economics classes (Dubner, 2015), rational choice models more broadly are undergoing major revision. Thaler and, separately, Kahneman have considered the idea of bounded rationality , a school of thought which takes rational Economic Man as the benchmark ideal, and then analyses what might happen to model outcomes if he were not so perfectly rational (Morgan, 2006). In reducing homo oeconomicus boundless information processing capacity, introducing emotions and cognitive limitations to account for anomalies, a more realistic understanding of human ability and motivation can be derived (Kahneman, 2003; Thaler & Sunstein, 2008).

Certainly, efforts are being made to adjust homo oeconomicus to contemporary environments (Brzezicka & Wisniewski, 2014), and gradually models are being formulated that may eventually result in Economic Man representing a realistic concept, as well as a useful theoretical archetype (Morgan, 2006). Yet, as it stands, it is without question that homo oeconomicus has long lost its validity. This paper has charted, through a historical assessment of its development, as well as a consideration of various critiques and expansions, how Economic Man can only be viewed as a perversion of reality, and how it has lost all semblance of functionality as an adequate theoretical shorthand. For the progression of economic inquiry, and the reputation of economics as a discipline, the outdated axioms of homo oeconomicus must either be drastically reformed or abandoned altogether.

To conclude with the remarks of Screpanti and Zamagni (2005: 514): We do not know where this scientific revolution will lead us. But we do know what we are leaving behind. And we believe that overcoming homo oeconomicus reductionism is a necessary step in anticipation of the reconstruction of an economic science of which we must not be ashamed.

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1 Hereafter referred to interchangeably as homo economicus

2 The demands of brevity necessitate limiting the discussion of the history of the development of homo oeconomicus to a small number of core scholars. Of course, other great economic theorists were instrumental in moulding this abstraction for their own purposes (not least Ricardo, Weber, and Knight), yet a full discussion of their interpretations of homo oeconomicus unfortunately fall beyond the scope of this paper.