

## **The Normative Foundations of Social Theory: An Essay on the Criteria Defining Social Economics\***

All economic theorists believe their theories to be oriented toward explanations of human economic behavior. And since human beings are always and everywhere found only in social groups, all economic theorists use the words “social” and “society” in their theories. Therefore, on the most superficial, empirical level, it would seem that all economic theory is social economics.

If a distinction is to be made between social economics and non-social (or asocial, or antisocial) economics—and I believe that such a distinction is both useful and important—then the criteria for judging what constitutes social economics must be made explicit. In this essay I shall briefly state what criteria seem most useful to me. On the basis of these criteria, I shall argue that utilitarian economics, as represented in contemporary economics by the neoclassical school, cannot be called social economics, while the theories of Veblen and Marx can properly be labeled as social economics.

### **The Relationship Between The Individual And Society**

A general conception of the relationship between the individual and society underlies all theories of human behavior, whether or not the conception is explicitly stated. Differences of opinion about this relationship can generally be reduced to differences of opinion about what constitutes “human nature.” At one extreme is the opinion of those theorists who believe that the essential features of human nature are either metaphysically or genetically given and fixed. Such theorists generally assume (either explicitly or implicitly) that these essential features are empirically observable in all societies, in all places, and in all times. In their theories economic behavior can be studied equally efficaciously, and will yield identical conclusions, whether one studies such behavior in ancient Greece, Medieval Europe, nineteenth century tribal economies which were untouched by North Atlantic culture, contemporary American capitalism, or that of an isolated, mythical Robinson Crusoe not living in any society at all. Obviously, in such theories differences in social structures are of little if any importance in understanding human behavior. These theories cannot, in my opinion, be called social theories. They are theories of the behavior of every individual in every society. Such behavior is presumed to conform to certain principles independently of social institutions or social forces.

At the other extreme is the opinion of those theorists who believe that there is no human nature. In this view human beings are totally, absolutely and infinitely malleable. They are fully and deterministically “created” by the society of which they are a part. Presumably, in these theories, if we find two societies having no important institutions or patterns of socialization in common, then the individuals who are the products of these societies will have no important, essential features in common. Superficially, it would appear that these theories are, above all else, social theories. Such theories cannot, however, be properly called social theories. This is because when we speak of social theories, we are speaking of theories of human societies, not ant colonies, bee hives, wolf packs, nor collections of amorphous, totally malleable entities which have no common defining features. If the logic of such theories is pushed to the extreme, we are left with no definable essence of humanness, and hence no criteria for defining human beings, and hence no criteria for defining, much less evaluating, human societies.

The conception of human nature underlying social economics, then, must lie somewhere between these two extremes. It must not posit or assume a fixed, empirically observable human nature, and it must not assume that human beings have no nature, but are merely the amorphous, malleable “stuff” which preexisting society molds into its own building blocks. The appropriate

answer, it seems to me, is to accept the Aristotelian notion that human beings do have a universal essence that defines their nature in all times, all places and all societies, but that the human essence must be defined in terms of potentiality and not in terms of empirical actuality. Just as the potential of being a mighty oak is inherent in an acorn, so there can be a universal norm of a fully developed human being that represents the potential of any given human being.

The analogy can be extended: Just as the acorn must have a complex set of proper environmental conditions in order that its potential become fully actualized, so must human beings. If no sentient, conceptualizing, knowing being had ever observed an acorn that had totally and completely fulfilled all of its potential, such potential would still exist and still be integral to an adequate conceptualization of the precise, essential nature of an acorn. The case is no different for human nature. The fully developed actualization of everything potential in human nature need not be fully understood or empirically observed in order for us to conclude that such a potential development is inherent in being human, and constitutes an important part of the essence of human nature. We have sufficient empirical evidence to warrant this conclusion, for acorns or for humans, if we can isolate universal internal and environmental needs for which differing degrees of satisfaction or fulfillment create the possibilities for differing degrees of development, or actualization of potential.

I shall argue that there are such universal human needs which if adequately fulfilled make possible the full development of human potential. Furthermore, many of these needs are social by their very nature and the only means by which people can satisfy most of their universal needs are social means. Therefore, one cannot study human beings and their development without studying social organizations and social processes; and one cannot study or evaluate social organizations and social processes without studying the essential nature of human needs, the means by which they are satisfied or are not satisfied, the consequences of such satisfaction, partial satisfaction or failure of satisfaction, and the degree of, as well as the consequences of, human malleability.

The view that there are no universal human needs, at least beyond those physiological needs which humans share with all animals, is the consequence of scientific empiricism. I have argued elsewhere, and due to space limitations cannot repeat the argument here, that nearly all meaningful economic theory (and, indeed, I believe all theory) rests on certain rationalistic foundations.<sup>1</sup> A large number of influential psychological theorists—including, among others, Carl Jung, Alfred Adler, Karen Homey, Erich Fromm, Carl R. Rogers, G. W. Allport, and Abraham Maslow—have concluded that no amount of simple, direct empirical observation can furnish an adequate scientific foundation for a theory of human behavior. Certain first principles, all of these theorists agree, must come from introspection and immediate intuition. In order to obviate the usual (and quite erroneous) empiricist critique of rationalism, it must be added that all important theorists in the rationalist tradition have been concerned to explain empirically observed reality, and generally agree that no theory can be defended which cannot account for those empirical observations which might appear to contradict the theory.

Maslow, for example, began his scientific career with an empiricist approach to comparative and experimental psychology, biology, and neurophysiology. He soon found that empiricist “fact grubbing,” or “reliable statistics,” could never furnish the foundation for a theory of human behavior. He found that empirical “averages” of data about human behavior were (1) based upon statistical categories for the importance of which empiricism offered no defense, and (2) quite arbitrarily and erroneously regarded as “norms” of human behavior. He found that only introspection combined with a study of “exceptional” people from different cultural backgrounds could furnish an adequate scientific foundation for a theory of human behavior.

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<sup>1</sup> See Hunt 1977, and Hollis and Nell 1975 for a further defense of this view.

I have chosen to briefly discuss Maslow because he is one of several important social scientists who have advanced considerable theoretical and scientific analyses and evidence for the existence of a variety of universal human needs, the fulfillment of which are necessary conditions for the actualization of human potential. And it is only these universal human needs and the universal developmental potential which their satisfaction serves to actualize that constitute the essence of human nature.

Empirical observation alone will never definitively establish such a human nature. There are three reasons for this. First, universal human needs are quite unlike animal instincts. Human needs are not manifested as rigidly nor as uniformly as animal instincts. And, in fact, not infrequently there is no easily or immediately recognizable manifestation of some of these needs in some people or in some cultures. Second, although the basic needs are common to the entire human species, they are only felt as conscious desires through the medium of a cultural environment and its attendant socialization of the individual. These conscious desires may be such that their satisfaction leads to a total or only a partial fulfillment of the underlying need; or they may be such that their satisfaction contributes nothing to the underlying need. Third, the means of satisfying conscious desires, and hence of fulfilling, partially fulfilling, or failing to fulfill the underlying human needs, are almost entirely cultural or social in nature. Thus the particular means of satisfying human needs may differ substantially from society to society. Moreover, the means by which a particular society fulfills one need may be such as to systematically preclude the fulfillment of other needs.

Maslow has made a hierarchical classification of human needs. Because he recognizes that he is dealing with the needs associated with human potentiality rather than the more superficial conscious desires associated with human actuality in a particular society, he is cautious about claiming any definitive finality for his classification. He makes the more modest claim that the human needs in his scheme are “more ultimate, more universal, more basic than the superficial conscious desires” (Maslow 1954: 102) felt by particular people in a particular society.

Maslow’s scheme includes five levels of human needs. The lowest level consists of the physiological needs for nutriment, water, sleep, exercise, sex, shelter, protection from the elements of nature, etc. The second level consists of the needs for safety and security. These two lowest levels of needs must be at least partially fulfilled in order to assure physical survival.

Maslow’s purpose for arranging needs in an ascending hierarchy is to explain a most significant finding of his research. He has found that a failure to fulfill lower level needs will generally block or thwart the fulfillment of higher level needs. Indeed, in some cases the failure to fulfill lower level needs may result in a failure even to feel any conscious desires associated with higher level needs, regardless of the nature of the socialization process. Of the first two levels of needs, Maslow says “undoubtedly these physiological needs are the most prepotent of all needs” (Maslow 1954: 82). If these needs go unfulfilled, then at the level of conscious desire “all other needs may become simply non-existent” (Maslow 1954: 82).

The third level of needs consists of “belongingness and love needs.” These include the needs for the type of emotional warmth, love and affection which are unconditionally given to a person simply by virtue of being whom he or she is, and not as a reward for performance, nor as a quid pro quo in an exchange or purchase. In our capitalist society, Maslow has found that “the thwarting of these needs is the most commonly found core in cases of maladjustment and more severe psychopathology” (Maslow 1954: 89).

The fourth level of needs consists of the needs “for mastery and competence, for confidence in the face of the world, and for independence and freedom” (Maslow 1954: 90). Also included in this level of needs are the needs for self-esteem and for social esteem. Healthy self-esteem can only be gotten through the development of a person’s creative abilities, through mastery,

competence and confidence. And healthy social esteem can only be based upon others' recognition of the same qualities which give one self-esteem. That is, healthy esteem must be based upon "deserved respect from others rather than external fame or celebrity and unwarranted adulation" (Maslow 1954: 91).

The highest level of the hierarchy of human needs consists of the needs for esthetic beauty and knowledge as ends in themselves. Maslow's research has led him to the conclusion that conscious desires which reflect these highest human needs will generally not emerge unless the individual has experienced, at least partially, "the prior satisfaction of the physiological, safety, love, and esteem needs" (Maslow 1954: 92).

Although human needs are hierarchical in terms of the order of, and possibilities for, their fulfillment, each need ultimately has an autonomy and a necessity if actualization of full human potential is to take place. Therefore in Maslow's view the ultimate need of a human being is a moral need. This need is categorical and unconditional, and is expressed by Maslow in this way: "What a man can be, he must be. This need we may call self-actualization" (Maslow 1954: 91).

Thus, in studying human behavior the relationship between the individual and society is of the utmost importance. Each individual is a carrier of general human nature in the form of universal human needs and potential for self-actualization. But such needs will only become conscious desires through the medium of a culture and a socialization process. And conscious desires may or may not adequately reflect the underlying human needs. Moreover, the means by which any and all of these human needs can be fulfilled are more generally social. Therefore, the study of individual behavior must simultaneously be a study of society, and the evaluation of a social system must always be in terms of general human needs and the actualization of human potential.

In briefly outlining Maslow's view of human nature, I do not mean to suggest (nor does Maslow suggest) that there is any finality or ultimate "correctness" in Maslow's specific categorization of universal human needs. Rather, I suggest that the questions he raises are the most important questions in social science and that his tentative answers are a fruitful starting point. On the difficulty of definitively answering these questions, I agree with the following statement by Bertrand Russell:

... the humanistic conception regards a child as a gardener regards a young tree, i.e. as something with a certain intrinsic nature, which will develop into an admirable form, given proper soil and air and light....

The soil and the freedom for a man's growth are immeasurably more difficult to discover and to obtain.... And the full growth which may be hoped for cannot be defined or demonstrated; it is subtle and complex, it can only be felt by a delicate intuition and dimly apprehended by imagination and respect (cited in Chomsky 1971: 53).

### **The Criteria Defining Social Economics**

The foregoing discussion of the relationship between the individual and society furnishes what for me are the criteria by which economic theory may be judged to be social economics or non-social (asocial or antisocial) economics. I suggest that the following three criteria must be met if we are to consider any particular general approach to economic theory to constitute what would properly and meaningfully be called social economics.

*First*, social economics must recognize that any actual, concrete, empirical economic behavior represents a complex intersection of the innate traits of human nature—the universal needs, potential, and degree of malleability that are inherently a part of human beings *qua* human beings—and the peculiar or particular social institutions, social relationships, and social processes

characteristic of a given social system, through which the individual is socialized and through which universal human needs are channeled (or fail to be channeled) into concrete conscious desires, and collective human endeavor is organized in ways which to varying degrees fulfill (or fail to fulfill) the conscious desires as well as the deeper, more basic, underlying universal needs. Similarly, social economics must make a clear and explicit distinction between those aspects of economic activity that are found in every society (e.g., the necessity of applying human exertion to transform unusable natural resources into usable products, the necessity of using tools [or previously produced products] in this process, and the necessity of distributing or apportioning these products for the use of the members of society) and the particular institutional forms which such activities take in different social systems (e.g., in traditional tribal economies, in slave economies, in feudal economies, in capitalist economies, or in socialist economies).

*Second*, social economics must be normative. The explicit recognition of the existence of universal human needs and potential necessarily and inevitably implies a normative model (however tentative, imperfectly specified, or imperfectly understood that model may be) in terms of which the economic society under study is critically evaluated. Such an evaluation must surely be extraordinarily complex. Thus, for example, a given type of society may be organized in such a manner that it is clearly and decisively superior to a second type of society in promoting the fulfillment of one level of human needs while the very mechanisms or institutions by virtue of which this success is attained may be such as to systematically thwart the fulfillment of other needs which are somewhat more adequately fulfilled in the second type of society. The complexity and irreducibility of the various human needs would appear to be such as to involve the social economist in very difficult “index number problems” in the critical, normative evaluation of different forms or types of socioeconomic organization. Nevertheless, if social economics begins with the above described view of the relationship between the individual and society, then it is clear and obvious that it must constitute a critical, normative approach to the study of any economy or society.

*Third*, as critical, normative theorists, it would seem that social economists would have to address themselves to (among other issues, questions and topics) the following four issues: (1) the historical genesis of the social relations and institutions under study, (2) the relative adequacy or inadequacy of these social relations and institutions in fulfilling human needs and potential, (3) the probable course of the future development of these social relations and institutions if the majority of people have a moral, emotional and intellectual acceptance of (or at least an acquiescence to) these relations and institutions, and (4) the concrete possibilities for change, alteration, adaptation, or destruction and replacement of these relations and institutions when they are judged to be ineffectual in the fulfillment of human needs and the promotion of the actualization of human potential.

On the basis of these three criteria, I will argue that the utilitarian tradition in economic theory (which is most paradigmatically represented by the contemporary neoclassical advocates of laissez faire capitalism) is not social economics, while the theories of both Marx and Veblen (and, of course, others which I shall not discuss in this essay) *are* examples of social economics.

In the next section I shall present a summary of what I see as the basic tenets of utilitarian economics. Following this I shall briefly discuss Veblen’s and Marx’s critiques of utilitarian economics. It will be seen that within the context of the above criteria of what constitutes social economics both Veblen and Marx criticized utilitarian economics precisely because it was not social economics. In the final section of this essay, I shall very briefly indicate why I consider the ideas of both Veblen and Marx to constitute social economics.

## Utilitarian Economic Theory

Although Adam Smith and David Ricardo had important elements of utilitarianism in their economic theories, these elements were combined in an inconsistent and eclectic manner with a labor theory of value approach to economic theory. The writings of J.B.Say and Nassau Senior represent a “purging” of the elements of the labor theory perspective from the utilitarian foundations of Smith’s theory. This purging was completed in the writings of Frederic Bastiat. Except for the explicit and rigorous development of the logic of marginalism, the general social and philosophical perspective of Bastiat’s writings is nearly identical to that of the neoclassical economists. Bastiat, Jevons, Menger and Walras represent the true developers of the logic of the utilitarian elements in the theories of Smith and Ricardo. Modern neoclassical economics is merely an extension and a refinement of these utilitarian ideas.<sup>2</sup>

There are, I believe, ten separate tenets of utilitarian economics which clearly show that it does not constitute social economics. It can be shown that nearly all of the theorists in this tradition accept, either explicitly or implicitly, all or most of these tenets.<sup>3</sup> Within the confines of this essay, however, I can only use short quotations from various utilitarian economists to simply illustrate some of the various tenets.

The first four tenets represent a systematic and complete denial of my first criterion of social economics. Tenets one and two describe what utilitarian economics takes as the two most essential and universal features of human nature, metaphysically given desires or preference orderings and rational calculating behavior. In most neoclassical textbooks these are the only features of human beings in any society which have any importance, and generally no other features are even mentioned. Tenets three and four represent the utilitarian attempt to take some of the most important peculiar or distinguishing institutions of capitalism and to portray these institutions as simply the inevitable outcome of their conception of the empirically fixed and constant human nature, and hence as “natural” or “eternal.”

*First tenet*, utilitarian economics does not question the social origins of conscious human desires. For both descriptive and normative purposes, they simply accept Bentham’s dictum: “Nature has placed mankind under the governance of two sovereign masters, *pain* and *pleasure*. It is for them alone to point out what we ought to do, as well as to determine what we shall do” (cited in Mack 1969: 85). Whether these desires are exclusively related to the attainment of pleasure and the avoidance of pain, or simply reflect a preexisting, metaphysically or genetically given “preference ordering” makes no difference whatsoever. The point is that they are simply given in the nature of things.

*Second tenet*, utilitarian economics reduces all human behavior in all societies in all times and places to rational, calculating utility maximization. The principle, was stated by Jevons, for example, as follows: “To satisfy our wants to the utmost with the least effort— to procure the greatest amount of what is desirable at the expense of the least that is undesirable—in other words, to *maximize* pleasure, is the problem of economics” (Jevons 1970: 111). It is, however, not really a “problem,” because utilitarians believe that all human behavior is everywhere and always based on just such rational, calculating maximizing decisions. Thus, in a contemporary neoclassical text, in a section entitled “Why People Walk On the Grass,” Richard McKenzie and Gordon Tullock write:

We suggest... that the decision to walk on the grass ... is an aspect of human behavior and, therefore, economics .... The individual ... must, in making the decision to walk on the

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<sup>2</sup> Each of the assertions in this paragraph is fully and elaborately developed and defended in Hunt’s forthcoming book, chapters 3,5,6,8,11,12,15,17, and 18. Editor’s note: see Hunt 1979.

<sup>3</sup> I have endeavored to show this in my History of Economic Thought (Hunt 1979).

grass, weigh the expected benefits against the expected costs. Before stepping onto the grass he must quickly reflect on the benefits and then calculate the costs involved .... Consequently, [if] the calculated benefits exceed the costs, he walks—and he does it rationally! (McKenzie and Tulloch 1975: 28)

The same authors go on, in a chapter entitled “Child Production,” to argue that people “produce” children using exactly the same kind of rational, calculating cost-benefit analysis that business firms use in any other form of production. In fact, every minute aspect of human behavior is reduced to a rational, calculating, utility maximizing computation.

*Third tenet*, utilitarian economics views the most essential differentiating feature of capitalism—private ownership of the means of production—as “natural,” “eternal,” “universal,” or inherently “just.” When this view is made explicit, we see, for example, statements such as these, by Bastiat: “Property does not exist because there are laws, but laws exist because there is property” (Bastiat 1964b: 97). And “property is a necessary consequence of the nature of man. In the full sense of the word, man *is born a proprietor*” (Bastiat 1964b: 99). The same view is presented by innumerable other utilitarian economists. Carl Menger, for example, writes: “Property ... is not an arbitrary invention but rather the only practically possible solution that is, in the nature of things, imposed upon us by the disparity between requirements for, and available quantities of, all economic goods” (Menger 1950: 97).

*Fourth tenet*, utilitarian economics takes the peculiar social categories of distribution which are unique to capitalist forms of property ownership, viz., capital, wage-labor, interest and wages, and assumes these categories to be universal. J.B. Clark, for example, writes that “the distribution of the income of society is controlled by natural law,” (Clark 1965: v) and that interest and capital are inevitable in any society because the “capital of the world is, as it were, one great tool in the hand of working humanity—the armature with which humanity subdues and transforms the resisting elements of nature” (Clark 1965: 117). And Alfred Marshall, for another example, writes that income distribution rests on “private property, the necessity of which doubtless reaches no deeper than the qualities of human nature” (Marshall 1961: 600). The universal principles governing this distribution, Marshall concludes, are “in close harmony with such common sayings of everyday life, as that ‘everything tends to its own level,’ that ‘most men earn just about what they are worth’ ” (Marshall 1961: 335).

The fifth and sixth tenets systematically preclude utilitarian economics from being a critically normative theory, that is, they preclude the scientific evaluation of the degree to which existing desires adequately reflect underlying universal human needs, and hence they preclude a normative evaluation of a particular set of social institutions on the grounds of their efficacy in fulfilling human needs. Tenet five represents the utilitarian equation of human needs with existing conscious desires and the utilitarian equation of human wellbeing with the satisfaction of conscious desires. Tenet six shows the further utilitarian restriction of human needs to only those conscious desires backed by purchasing power. In order to make this further restriction utilitarianism is shown to require unanimity for any social evaluation. Obviously the fifth and sixth tenets are a total violation of my second criterion.

*Fifth tenet*, utilitarian economics takes existing desires as the only source of human values. Consequently, human wellbeing is identified as the satisfaction of existing desires. Moreover, it takes market prices as a workable, or practically adequate, measure of *both desires and satisfactions*. Marshall, for example, argued that economists must use the market prices of commodities as the measure “both for the desires ... and for the satisfactions that result from them” (Marshall 1961: 78). In utilitarian economics conscious desires and satisfactions can both be measured by market prices and *constitute* the only source of human values. Various utilitarians

have spoken of other “social values,” but when they do so it is mere eclecticism. Such other values cannot be derived from the utilitarian view itself.

*Sixth tenet*, since utilitarian economics takes individual desires as the *only* source of human value, it becomes a normative theory which requires *unanimity* as a condition for social judgment. Desires are purely personal, subjective experiences. No one has ever suggested a realistic or convincing method by which interpersonal comparisons of the quantitative magnitudes of desires could be made. The following quotation from Jevons typifies the utilitarian view on this matter:

... there is never, in any single instance, an attempt made to compare the amount of feeling in one mind with that in another. I see no means by which such comparison can be accomplished .... Every mind is ... inscrutable to every other mind, and no common denominator of feeling seems to be possible (Jevons 1970: 85).

This rules out any normative evaluation of an action or situation which *redistributes* wealth or income such that one person’s gain is another person’s loss. In order for two situations to be normatively compared, all persons involved must unanimously prefer one of the situations to the other. Otherwise the obstacle of incomparable utilities is encountered. The elimination of the possibility of an evaluation of any redistribution of wealth or income dovetails neatly with the first and second tenets of utilitarian economics. The three of them together assure us that (a) unanimity is required for any social evaluation, and (b) the only human values that will “count” in social evaluations are those existing conscious desires which are backed by the appropriate purchasing power within the existing distributions of wealth and income (which, in turn, are the results of the “natural” and “eternal” property relations currently existing).

The seventh through the tenth tenets systematically preclude utilitarian economics from having any concern for the issues listed in my third criterion for social economics. Tenets seven and eight show how the first six tenets necessarily restrict utilitarianism exclusively to an analysis of either isolated human behavior or voluntary exchange. None of the issues listed in my third criterion can be exclusively analysed in such narrow terms. In fact, such a narrowing of the focus of analysis inevitably relegates these issues to the category of “non-economic issues.” Tenet nine shows the preceding tenets to have “intellectually predetermined” the conclusion that a competitive, free exchange economy automatically maximizes human welfare regardless of the nature of any universal human needs and regardless of the nature of the particular social institutions existing in such a competitive exchange economy. Tenet ten explicitly states the utilitarian claim of the universality of their theory. This tenet alone absolutely contradicts and nullifies all three of my criteria of social economics.

*Seventh tenet*, utilitarian economics can find only two sorts of human activities that are not obviously excluded from the purview of their analysis by the above six tenets. First, there are the actions of isolated individuals, such as the above example of the individual walking on the grass, or the ever popular utilitarian example of an isolated Robinson Crusoe. Second, there are voluntary market exchanges. If we assume that both parties to a voluntary exchange fully accept all institutional arrangements, laws of property, distributions of wealth and income—in other words, if they fully accept all of the circumstances that have created their present consciously felt desires, that have created the degree to which their underlying human needs have been fulfilled or have not been fulfilled, and that have determined the degree of bargaining power (or lack thereof) which they bring to the exchange—then it is possible for us to assume that a voluntary exchange is an instance of a change of affairs brought on as a result of rational, calculating cost-benefit analyses, in which every person affected by the exchange (it is presumed that only the two exchangers are affected) unanimously prefers the situation after the exchange to the situation before the exchange. Thus, the cases of isolated human actions and two party voluntary



exchanges permit utilitarians to assume both rational, calculating human behavior and the *unanimity* which their theory requires in order to make a normative evaluation.

*Eighth tenet*, because of the foregoing, utilitarian economics reduces economic theory entirely to a theory of exchange. Bastiat declared that “Exchange is political economy, it is society itself” (Bastiat 1964a: 59). And Jevons wrote: “Exchange is so important a process ... that some economists have regarded their science as treating of this operation alone. ... I am perfectly willing to agree with the high importance attributed to exchange” (Jevons 1970: 126). While on the surface, or superficially, it seems that utilitarian economists theorize about both production and exchange, if one examines their theory of production one arrives at the conclusion reached by one of the most important contemporary utilitarian economists, J.Hirschleifer, that in neoclassical theory consumption behavior is viewed as consisting merely of exchanges among persons, while “production is ‘exchange’ with nature.” (Hirschleifer 1970: 12).

*Ninth tenet*, since utilitarian economics cannot make normative judgments about human welfare unless unanimity prevails, there is a tacit assumption that social welfare is increased only by changes which involve such unanimity, i.e., only through voluntary exchanges. Furthermore, since individuals are rational, calculating utility maximizers, such voluntary exchanges will always automatically continue to that point where total human utility, or social welfare, is maximized. Jevons, for example, wrote that “no one will buy a thing unless he expects advantage from the purchase; and *perfect freedom of exchange, therefore, tends to the maximizing of utility*” (Jevons 1970: 173). In the same vein, Walras concluded:

The exchange of two commodities for each other in a perfectly competitive market is an operation by which all holders of either one, or both, of the two commodities can obtain the greatest possible satisfaction of their wants.... We may say ... that this proposition embraces the whole of pure and applied economics (Walras 1954: 143).

Contemporary neoclassical textbooks in microeconomic theory are generally nothing more than elaborate analyses which lead to the same conclusion. Thus, in the last section of the last chapter of his *Microeconomic Theory*, C.E.Ferguson concludes: “Perfect competition in all markets will lead to a position of maximum social welfare, given the assumptions that underlie the analysis” (Ferguson 1969: 460).

*Tenth tenet*, utilitarian economists generally view this analysis as universally applicable to all people in all societies, in all times and places. J.B.Clark, for example, wrote that “the law of final utility which directs the purchases that are made in a modern market also directs the production of the isolated man, and is a universal law of economics” (Clark 1965: 44). Although Paul Samuelson never explicitly makes such a statement, one will search in vain, in his *The Foundations of Economic Analysis*, for any specification of the particular social institutions to which these intellectual “foundations” are applicable. One is left with the overpowering impression that they are universally applicable. This imagined universal applicability of the theory stems from the view that individual human behavior always reflects a metaphysically given “human nature” which is always, everywhere, and fully manifested in people’s conscious desires, and is never significantly affected by the nature of the society of which they are a part. Thus McKenzie and Tullock write:

The focal point of the study of economics is the individual. It is the individual who possesses values, makes choices, and... takes actions. All group decisions and actions are thought of in terms of the collective decisions and actions of individuals (McKenzie and Tullock 1975: 7).

Such a view (and it underlies all utilitarian economics) must always culminate in the conclusion, as expressed by Armen Alchian and William Allen, for example, that “There *is* a valid core of

economic theory applicable to *all* economic systems and countries” (Alchian and Allen 1964: 5). This imagined “valid core,” needless to say, is comprised of some variant or another of each of the nine previously stated tenets of utilitarian economics.

### **The Critique of Utilitarian Economics**

#### **By Veblen And Marx**

It is obvious that if one accepts my previously stated criteria for defining economic theory as social economics, then utilitarian economics (and especially neoclassical utilitarian economics) is *not* social economics. Both Marx and Veblen were highly critical of utilitarian economics. In this section I shall attempt to show that their criticisms were generally aimed precisely at the fact that this theory is not social economics when judged by criteria similar to those which I have stated.

Both Veblen and Marx rejected entirely the notion that all human behavior was rational, calculating, maximizing behavior. The rejection was implicit in nearly everything Marx wrote. Veblen, however, gave the most explicit and definitive rejection of this view:

The hedonistic conception of man is that of a lightening calculator of pleasures and pains, who oscillates like a homogeneous globule of desire of happiness under the impulse of stimuli that shift him about the area, but leave him intact. He has neither antecedent nor consequence. He is an isolated, definitive human datum in stable equilibrium except for the buffets of the impinging forces that displace him in one direction or another. Self-imposed in elemental space, he spins symmetrically about his own spiritual axis until the parallelogram of forces bears down upon him, whereupon he follows the line of the resultant. When the force of the impact is spent, he comes to rest, a self-contained globule of desire as before (Veblen 1961: 73–74).

Both Veblen and Marx recognized that conscious desires were socially created and, as such, could never serve as the normative criteria for evaluating the society which created them. Veblen wrote of the nature of the types of conscious desires generated by a capitalist social system:

So soon as the possession of property becomes the basis of popular esteem, ... it becomes also a requisite to that complacency we call self-respect.... But as fast as a person makes new acquisitions, and becomes accustomed to the resultant new standards of wealth, the new standard forthwith ceases to afford appreciably greater satisfaction than the earlier standard did... [As a result], the normal average individual will live in chronic dissatisfaction with his present lot (Veblen 1965: 31–32).

And Marx made the point even more explicitly:

The point is... that private interest is itself already a socially determined interest, which can only be achieved within the conditions established by society and through the means that society affords, and that it is thus linked to the reproduction of these conditions and means. It is certainly the interest of private individuals that is at stake; but its content, as well as the form and the means of its realization, is only given by social conditions independent of all these individuals (Marx 1971: 65–66).

Both of these thinkers also rejected the notion that capital, wage-labor, interest and wages were universal economic categories. Such categories, they insisted, were socially and historically specific to capitalism. Veblen mockingly described J.B.Clark’s view that the categories of wages, rent and interest.

... are hedonistically ‘natural’ categories of such taxonomic force that their elemental lines of cleavage run through the facts of any given economic situation... even where the situation does not permit these lines of cleavage to be seen by men ... ; so that, e.g., a gang of Aleutian Islanders slushing about in the wrack and surf with rakes and magical

incantations for the capture of shell-fish are held, in point of the taxonomic reality, to be engaged in a feat of hedonistic equilibration in rent, wages, and interest. And that is all there is to it. Indeed, for economic theory of this kind, that is all there is to any situation (Veblen 1961: 193).

Veblen insisted that the most essential features of capital were social and specific to a particular kind of society. The essence of capital, he wrote, “resides in a continuity of ownership ... the continuity, in fact, is of an immaterial nature, a matter of legal rights, of contract, of purchase and sale” (Veblen 1961: 197). Consequently, interest income was a historical and social peculiarity of capitalism.

In point of historical fact anything like a consistent rate of interest emerges into the consciousness of mankind only after business traffic has reached some appreciable degree of development; and this development of business enterprise has taken place only on the basis and within the line of the so-called money economy.... But a money economy ... can emerge only on the basis afforded by the mature development of the institution of property. The whole matter lies within the range of a definite institutional situation which is to be found only during a relatively brief phase of civilization (Veblen 1964b: 142).

Similarly, Veblen argued that wage-labor and wages could only exist in that situation in which capitalists had monopolized the ownership of the means of production in a commercial money economy. Only then would capital exist, and it was “only then that the term ‘wages’, in the strict technical sense, can properly be employed” (Veblen 1964: 136). The existence of “wages is a fact incident to the relation of employer and employed. It is ... an economic category whose scope is entirely within the theory of production as carried on by the method based on that relation” (Veblen 1964b: 135). In a strikingly similar vein, Marx wrote:

One thing... is clear—Nature does not produce on the one side owners of money and commodities [capital], and on the other men possessing nothing but their own labour-power. This relation has no natural basis, neither is its social basis one that is common to all historical periods. It is clearly the result of a past historical development, the product of many economic revolutions, of the extinction of a whole series of older forms of social production (Marx 1961: 169).

Thus, Marx like Veblen saw the essence of capital as an historically specific social relationship:

Capital is not a thing, but rather a definite social production relation, belonging to a definite historical formation of society, which is manifested in a thing and lends this thing a specific social character. ...It is the means of production monopolized by a certain section of society, confronting living labour-power as products and working conditions rendered independent of this very labour-power (Marx 1961: 794–5).

Neither Veblen nor Marx viewed the legal forms of capitalist private property as “natural,” “eternal” or just. Veblen argued that different forms of property come into existence when “seizure and forcible retention ... gain the legitimation of usage, and the resultant tenure becomes inviolable through habitation.” (Veblen 1964b: 43). Moreover, Veblen believed that

where this tenure by prowess prevails, the population falls into two economic classes: these engaged in industrial employments, and those engaged in such non-industrial pursuits as war, government... and religious observances (Veblen 1964b: 43).

Similarly, Marx wrote:

All production is appropriation of nature on the part of an individual within and through a specific form of society. In this sense it is tautological to say that property

(appropriation) is a precondition of production. But it is altogether ridiculous to leap from that to a specific form of property, e.g. private property (Marx 1973: 87).

In Marx's view, it was only within the specific social and legal institutions of capitalism that "property turns out to be the right, on the part of the capitalist, to appropriate the unpaid labour of others or its product" (Marx 1961: 583). In the same vein, Veblen wrote, that with capitalistic private property, "absentee owners are removed out of touch with working personnel ... except such remote, neutral and dispassionate contact by proxy as may be implied in the continued receipt of a free income" (Veblen 1964a: 215).

Finally, both Veblen and Marx mockingly ridiculed the utilitarian invisible hand argument that free competitive market exchange created social harmony, efficiently allocated resources, and maximized social welfare.<sup>4</sup> The foregoing brief survey of their critiques of the tenets of utilitarianism indicates the general basis for their rejection of the invisible hand argument.

### **Veblen and Marx as Social Economists**

The writings of both Veblen and Marx completely satisfy all of the above listed criteria of social economics. A full defense of this assertion would require lengthy summaries of the ideas of each of these thinkers. Within the scope of this essay I can only make assertions, give some references to the works of the two men, and cite a few quotations.<sup>5</sup> I shall here only briefly discuss a few of their ideas within the context of my three above mentioned criteria of social economics.

*First*, both thinkers clearly recognized that actual human behavior represented a complex intersection of certain inherent, or innate, features, tendencies, limitations and potentialities of human nature and a definite, particular set of social institutions through which these traits were given (or failed to be given) concrete, actual social manifestations in the being and acting of individuals.

Veblen attempted to express the more or less universal features of human nature with his notion of instincts. This was an unfortunate choice of words because many critics (who would have to have failed to read Veblen to have reached this conclusion) have assumed that by using the word instinct Veblen was equating human behavior to animal instincts and thereby minimizing the importance of the socialization process. This is an extremely inaccurate view of the meaning of Veblen's use of the word "instinct." There are innumerable specific passages in Veblen's writings that can correct this misinterpretation (not to mention that a simple reading of any of his books will show this notion to be false). Veblen's insistence that human nature is only concretely manifested through the prism of a concrete socialization process is stated in the following passage:

In economic life, as in other lines of human conduct, habitual modes of activity and relations have grown up and have by convention settled into a fabric of institutions. These institutions... have a prescriptive, habitual force of their own.... If the contrary were true, if men universally acted not on the conventional grounds and values afforded by the fabric of institutions, but solely and directly on the grounds and values afforded by the unconventionalized propensities and aptitudes of hereditary human nature, then there would be no institutions and no culture. But the institutional structure of society subsists and men live within its lines (Veblen 1964b: 143).

Precisely the opposite misunderstanding of Marx's writings is widespread. His frequent insistence that an individual's consciousness and general modes of behavior are largely

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<sup>4</sup> See, e.g., Veblen (1964b: 166), and Marx (1961: 176).

<sup>5</sup> I have endeavored to give a full summary of their economic ideas in chapters 9, 10, and 13 of my *History of Economic Thought* (Hunt 1979).

determined by the individual's social existence, has led many people to believe that Marx utterly rejected the notion of any deeper underlying human nature. And sometimes in his polemics against the utilitarian view that the actual empirical behavior of people in a capitalist society represented the empirical norm of human nature Marx did, in fact, say there was no human nature. But when one reads many of Marx's most important works, one sees that he was simply rejecting the notion that human behavior within the context of one particular set of social institutions could ever be taken as an accurate empirical norm of underlying, universal human nature.

In many of Marx's works, his acceptance of the notion that there is a universal human nature, of the general type I have described above, is not only obvious, it is absolutely essential to many of his arguments. In the *Grundrisse*, for example, Marx asserts that "all epochs of production have certain common traits, common characteristics" (Marx 1973: 85). He goes on to insist that "the elements which are not general and common, must be separated out from the ... [features common to all] production as such, so that in their unity—which arises already from the identity of the subject, humanity, and of the object, nature, their essential difference is not forgotten" (Marx 1973: 85). The important point in this quotation is that Marx asserted that similarities and common features of differing social modes of production arise from the essential identity of all humanity and not vice versa. Finally, the same point was made explicitly in Marx's critique of utilitarianism in Volume I of *Capital*. In describing Bentham's philosophy, he wrote:

... in no time and in no country has the most homespun commonplace ever strutted about in so self-satisfied a way.... To know what is useful for a dog, one must study dog-nature. This nature itself is not to be deduced from the principle of utility. Applying this to men, he that would criticise all human acts, movements, relations, etc., ... must first deal with human nature in general, and then with human nature as modified in each historical epoch. Bentham makes short work of it. With the driest naivete´ he takes the modern shopkeeper... as the normal man. Whatever is useful to this queer normal man, and to his world, is absolutely useful. This yard-measure, then, he applies to past, present, and future.... Had I the courage of my friend, Heinrich Heine, I should call Mr. Jeremy a genius in the way of bourgeois stupidity (Marx 1961: 609).

*Second*, the writings of both Veblen and Marx were critically normative in exactly the way in which I defined the second criteria of social economics. Both based their normative criticism on the notion that there did, in fact, exist a structure of universal human needs and potential (although in neither case can it be argued that their conceptions of the categories of universal human needs coincided precisely with my own or with Maslow's). In both cases they believed that while capitalism was relatively successful in fulfilling the lowest and most basic of human needs, the very socioeconomic mechanisms and institutions by which these needs were fulfilled systematically thwarted the fulfillment of higher needs.

Veblen believed that the satisfaction of what I (following Maslow) have called the third and fourth level of needs of human beings was accomplished through the full development of the "instinct of workmanship" (in fact, he believed that the fifth level needs were fulfilled by the development of the instinct of "idle curiosity," which was itself closely associated with the instinct of workmanship). The development of the instinct of workmanship, developed human creativity, self-esteem and cooperation. He believed that this instinct was historically prior to, and more fundamental than, the "predatory instinct." Capitalist society, however, was dominated by absentee owners who fostered the "predatory ideals." These ideals he wrote, "have a considerable corrective effect on the frame of mind of the common man," (Veblen 1964c: 185) that is, the predatory culture of capitalism systematically thwarted the development of the traits associated with the instinct of workmanship by debasing the work process and constantly subjecting it to the requirements of money making (Veblen 1964c: 224).

As a consequence of the debasement of the work process in capitalism, those activities which should have been the most creative and most fulfilling became the most unpleasant, irksome and oppressive. The most objectionable feature of capitalism, for Veblen, was its thwarting of the higher needs associated with the instinct of workmanship, not its material inequality or poverty. He concluded that

... the irksomeness of labor is a spiritual fact; it lies in the indignity of the thing. The fact of its irksomeness is, of course, none the less real and cogent for its being of a spiritual kind. Indeed, it is all the more substantial and irremediable on that account (Veblen 1964b: 95).

This critique of capitalism by Veblen should be compared to the following passage by Marx:

What, then, constitutes the alienation of labour? First, the fact that labour is external to the worker, i.e., it does not belong to his essential being; that in his work, therefore, he does not affirm himself but denies himself, does not feel content but unhappy, does not develop freely his physical and mental energy but mortifies his body and ruins his mind. The worker therefore only feels himself outside his work, and in his work feels outside himself. He is at home when he is not working, and when he is working he is not at home. His labour is therefore not voluntary but coerced; it is *forced labour*. It is therefore not the satisfaction of a need; it is merely a *means* to satisfy needs external to it. Its alien character emerges clearly in the fact that as soon as no physical or other compulsion exists, labour is shunned like the plague. External labour, labour in which man alienates himself, is a labour of self-sacrifice, or mortification. Lastly, the external character of labour for the worker appears in the fact that it is not his own, but someone else's, that it does not belong to him, that in it he belongs, not to himself, but to another.... As a result, therefore, man (the worker) no longer feels himself to be freely active in any but his animal functions-eating, drinking, procreating, or at most in his dwelling and in dressing up, etc.; and in his human functions he no longer feels himself to be anything but an animal. What is animal becomes human and what is human becomes animal (Marx 1959: 69).

Several things are clear in this passage. Marx definitely believed that some aspects of the worker's existence did "not belong to his essential being," that under capitalism, "what is animal becomes human and what is human becomes animal," and that some forms of human development "mortify the body and ruin the mind." It is obvious, throughout this passage and many others in Marx's writings, that he like Veblen had a more or less clearly defined notion of universal human needs and universal human potential. It is also obvious that both thinkers judged capitalism to be incapable of fulfilling some of the most important of universal human needs. Numerous other passages and other examples of the same critical theme in the writings of both Veblen and Marx could be cited but the constraint of the length of this essay dictates that this one example of the systematic degradation of the labor process under capitalism must suffice to illustrate that both Veblen and Marx were social economists according to my second criterion.

It is utterly impossible to "demonstrate" within a few pages that the issues specified in my third criterion are, in fact, the very issues to which nearly all of the writings of both Veblen and Marx were directed. I must simply state that after many years of reading the works of both these theorists I have concluded that both of them devoted nearly all of their writing to these issues which, by my definition, constitute social economics.

I would like to conclude this essay with an emphatic statement that I do not consider Veblen to have been a disciple of Marx. I choose to deal only briefly with the writings of both theorists, rather than developing more extensively the ideas of one of them, in order to obviate a possible criticism of my definition of what constitutes social economics. Had I considered only the writings of one of them, critics would undoubtedly accuse me of formulating my criteria of social economics in such a manner as to confer some honorific status on some particular thinker of

whom I was particularly fond for either intellectual, emotional, or ideological reasons. This is not the case. I believe that my criteria are helpful in isolating those theorists who have an honestly critical approach to the study of the relationship of the individual and society. The criteria are sufficiently general that economic theorists who may be classed as social economists can among themselves have many disagreements or differences, as in fact is the case for Veblen and Marx—and as would be the case in an even more striking way had I considered the ideas of such thinkers as C.E. Ayers or Joseph Schumpeter who could also be classified as social economists.

It is my belief that, despite such differences, theorists who are social economists are investigating enormously and profoundly more important issues than are those theorists in the academically dominant tradition of utilitarian economic theory. For this reason, and because of the extent of intellectual intolerance for social economics on the part of many theorists in the dominant utilitarian tradition, I believe that the *Review of Social Economy* and other academic journals of a similar intellectual bent, or a similar degree of intellectual tolerance, are providing a most important social and intellectual service.

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