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**ON THE LIMITS OF NEO-CLASSICAL ECONOMICS IN ITS MODELING OF
HUMAN BEHAVIOUR, MOTIVATION AND ECONOMIC TOTALITIES:
TOWARDS A SELF-CRITICAL MODEL FOR ECONOMICS**

**A Thesis Submitted to the Committee on Graduate Studies
In Partial Fulfilment of the Requirements for the
Degree of Master of Arts
In the Faculty of Arts and Science**

TRENT UNIVERSITY

Peterborough, Ontario, Canada

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Methodologies for the Study of Western History and Culture M.A. Program

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Abstract

On the Limits of Neo-classical Economics in its Modeling of Human Behaviour, Motivation and Economic Totalities: Towards a Self-Critical Model for Economics

Dennis Badeen

This thesis explores the limits of neo-classical economics and seeks to identify its various aspects which hinder the possibility of posing critical questions. The thesis begins with an exposition of positive economics and Consumer Preference Theory. The investigation into the combination of these theories reveals that neo-classical economics is an apologetic for the capitalist socio-economic order basing its apologetics around a naturalized ontology. An investigation of General Equilibrium Theory reveals that it cannot recognize the limits of capitalist production: crises of overproduction. In each case it is revealed that concrete determinants of consumer behaviour and economic crises have been left out of the models. It is these concrete, and often contradictory, aspects of socio-economic reality which can be used to pose critical questions of the socio-economic order. The abstraction of these elements renders neo-classical economics apologetic. A proposal is made regarding a new methodology for the modeling of human behaviour and economic totalities which is based upon critical, self-reflective rationality seeking to privilege those “irrational” elements which could facilitate structural social transformation. This model is based upon the limits of neo-classical economics: it privileges precisely what is abstracted away within the framework of neo-classical economics.

ACKNOWLEDGMENTS

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Introduction:

Identification of the Problems of Neo-classical Economics and their Detrimental Effects on the Construction of Critical Economic Models: Goals of this Thesis, Methods of Critique, and the Employment of Paradigms

This thesis is motivated by the necessity of creating a critical branch of economics which has as its goal the facilitation of an emancipatory interest. Transformative rational praxis,¹ structural economics, and the transcendental project are the exemplary models of this paradigm. A central theme of my critique concerns the abstract representation of human behaviour and motivation and economic totalities. Yet I have not done away with abstractions. Instead I propose an abstraction which is informed by the real, concrete intentions of the actors. The nature of abstractions makes construction from the concrete² problematic. The concrete is a heterogeneous plurality of often irreconcilable elements. It is also the experience of the agents in their actions and very lives. Abstractions tend to homogenize these elements to various degrees. I only seek to reduce the level of homogenization by informing abstractions with concrete content. This aids in the modeling necessary for the facilitation of an emancipatory interest. It should not be lost sight of that a socio-economic totality cannot be fully defined or described as something always escapes abstract modeling.

The focus of my critique is on the notion of agency implied by Consumer Preference Theory. Here I focus on the anthropological assumptions in consumer

choice theory, the use of behaviourism, the modeling of human behaviour as if it follows causal/physical laws, the epistemological question of rationality in the model, and the assumption that the tastes of the sovereign consumer are given. In combination these elements impoverish the notion of human agency and justify the capitalist socio-economic order. These aspects rule out recourse to the concrete.

The anthropological assumption is that people are naturally beings of utility and neo-classical economists are simply describing human nature. Making this move enables economists to keep the fact/value dichotomy. Yet this notion of human behaviour is not timeless but contingent on the capitalist socio-economic order which requires certain entities with certain axioms for its efficient functioning. One is not born a utility maximizing agent; one becomes one. In order to understand how one becomes one requires that we have recourse to institutional determinants of social ontology.

Behaviourism, in its form as economic Darwinism, states that through repeated interaction with the market successful economic agents will acquire those characteristics necessary for survival given the condition of the market economy. At first glance this may seem counter to the anthropological assumption since people learn to become utility maximizing agents. A closer look reveals that the market simply acts as a mechanism by which an individual learns to conform to its nature. This is evident because behaviourism precludes the possibility of social change: if people are only capable of conforming to their surroundings then they are de facto unable to

¹ Defined on page 149.

² This term is defined in the appendix.

change the social world. People are trapped by historical relations which appear as natural ones.

This is closely associated with the modeling of human behaviour as if it follows causal/natural laws. This is, in part, due to the nature of the mathematics employed. More importantly, this type of modeling is legitimated by the epistemological assumption that all meaningful statements are those referring to observable facts which facilitate prediction. Utility maximization becomes an iron law divorced from historical determination necessarily linking the individual to the capitalist socio-economic order. This form of modeling also precludes the notion of humans as capable of transforming their social world due to the stimulus-response model based upon causal laws. The capitalist socio-economic order becomes the natural/physical world of the utility maximizing agent which he or she cannot transform. Adaptation is the only option.

Rationality is equated with self-regarding utility maximization. It is the epistemological starting and ending point of the economic modeling of consumer behaviour and motivation. No matter what action is performed or the real intentions behind the actions, this version of rationality will tell us that the action was performed because, considering the feasible alternatives, it was the action that maximized utility. Alternative forms of rationality, which inform action and motivation, are reduced to utility maximization such that, typically, real, concrete intentions are lost. Self-reflective, critical rationality is but one of these forms and is required for the articulation of an alternative form of human agency. Rationality is itself linked with a particular and narrow conception of well-being in which all other forms are reduced to its fold.

According to neo-classical theory, all market activity is justified if it fulfills the given tastes and preferences of the sovereign consumer. My critique demonstrates that tastes and preferences are not simply given but must be induced by a socio-economic apparatus. The ontological category of the consumer, necessary for the reproduction of capitalist social relations, must itself be produced as a part of a process of socialization. Those concrete determinants of consumer behaviour have been abstracted from the model.

Together these aspects have the effect of impoverishing the notion of human agency. Humans, as beings of utility, always rationally seek to maximize utility. They respond to price fluctuations rationally and predictably by adjusting their consumption patterns to maximize utility. The market provides the context for this stimulus-response behaviour. These fluctuations and changes in the market are simply a response to the dictates of the sovereign consumer adjusting his or her choices to his or her given preferences. Agency is reduced to conformity to the natural/physical laws of the market; thus, there really is no agency. An emancipatory interest cannot be facilitated with this impoverished view of human action since an emancipatory interest must be equipped with a form of critical rationality antithetical to conformity.

The second problem confronting the construction of a critical branch of economics has to do with how the capitalist socio-economic order is modeled in General Equilibrium Theory. I argue that General Equilibrium Theory functions as a normative ideal social order which provides, for this timeless human condition, the proper social conditions to foster social and individual utility maximization. As mentioned, I shall have demonstrated that there is nothing natural about consumerist

ontology; that it can only be represented as natural if concrete, historical determinants are abstracted away. In this section, I am concerned with the “harmonious” modeling of the socio-economic order. Through mathematical gymnastics, Arrow has provided such a vision of capitalist production at the expense of its structural logic: the general law of capitalist production is that it is production for pure profit necessary for the accumulation of capital. An emancipatory interest may be facilitated by a more concrete representation of capitalist production recognizing its limits as a necessary condition for the transcendence of the capitalist socio-economic order. The combination of this naturalized ontology and the representation of capitalist production as orderly inhibit the construction of a critical branch of economics.

My critique borrows from three distinct paradigms. They are Marxism (Marx, Mandel, Lukacs), Critical Theory of the Frankfurt School (Adorno, Horkheimer, Marcuse,) and Left Anglo Analytics (Sen, Hargreaves Heap, Hollis). Although each contribute to my critique these paradigms are often incompatible in important ways. Dwelling upon these incompatibilities would detract from my overall argument in the body of the paper. so I have chosen to deal with them now.

I will attempt to draw a thumb nail sketch of each paradigm and then locate those specific areas in which they are incompatible. Marx’s notion of critique follows, in part, from the essence/appearance distinction. Bourgeois science deals with appearances while science (critical science) deals with essence. Marx also attempted to illustrate the mediating factors between appearance and essence. His argument, which is consistent with the one I make in chapter 3, is that the bourgeois world is upside down. The accumulation of capital works the capitalist market and not simple

reproduction. Capitalism inverts things such that they are not what they appear to be. For Marx, the primary role of theory is to facilitate social movements. Capitalism will transform itself through its own internal contradictions although this transformation will take the efforts of the working class to bring capitalism to its conclusion. Mandel updated Marx's scheme and concludes that changes in capitalism have not changed the dialectical laws of the class struggle. Instead, class struggle now occurs on a world scale. Lukacs is very close to Marx although he does not concentrate his efforts in the realm of economics. He is consistent with both Marx and Mandel in his notion of totality and the incorporation and explanation of appearance through structural determinants or what he refers to as the "material substratum."

Critical Theory is informed by Marx although its main lines are Hegelian. The notion of critique employed here is a reflective analysis of capitalism, within its own historical contingency, for the sake of emancipation. Critical Theory specifically the Frankfurt School in the 1930's - 1950's is concerned with why the revolutionary movement from capitalism to socialism did not occur on a larger scale. There did not exist a revolutionary subject between theory and revolutionary practice, although Critical Theorists' hope is to keep the idea of emancipation alive. The revolutionary subject failed to form or was defeated by another assemblage which produced fascism.

Left Anglo Analytic thought is sympathetic with Marx and the idea of emancipation. It specifically targets the impoverished notion of human agency and well-being. Its critique includes the incorporation of alternative conceptions of human motivation and well-being. Ethical commitments and the historical context from which

choices are made must also be taken into account since the exclusion of ethics from economics has impoverished economics in terms of its explanatory value.

I have isolated several areas of incompatibility. These areas may also point to limits I perceive in a particular paradigm which may not necessarily be limitations in others. The notion of “totality” is very different for Marxists than it is for Critical Theorists, specifically Adorno. A totality for Marxists depicts, at various levels of abstraction, reality in all of its concrete determinations including contradictory ones; essence, appearance and their mediations. Reality must be as closely approximated as possible in economic modeling to identify those contradictory aspects which can facilitate radical social change. For Adorno the totality is a lie, that is, the false totality of capitalism. In this particular conception of totality there are no contradictions since there is a unity of the general and particular or essence and appearance. The culture industry does not point beyond itself. I employ the term totality as Marxists do since the transcendence of the capitalist socio-economic order requires the recognition of those contradictory elements, although transformative rational praxis does function along Critical Theorist lines as a “negative dialectic” seeking to undue the homogenizing totality of neo-classical economics.

Another incompatibility that exists between these paradigms is with respect to the existence of a historical (revolutionary) subject. Both Marxists and Left Anglo Analytics are sympathetic with this notion while Critical Theorists are skeptical, to say the least. Marx himself was confident that the revolution would occur. Mandel has demonstrated that the dialectical laws of capitalism still function to this day such that the class struggle is becoming international. He too is confident that one day workers

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will organize and overthrow capitalist social relations. The existence of a historical class is rather ambivalent in the writings of Left Anglo tradition. Their sympathy with Marx and emancipation, coupled with their notion that man is capable of changing his social world, at least provides some evidence that they too think that a historical class exists as agents of social change. Given the historical conditions in which the Frankfurt School Critical Theorists lived, exiled to the United States from post world war II Germany, the failure of workers to join the communist revolution supporting fascism instead, and the failure of the Soviet Union to provide a more humane alternative to capitalism, it is easy to understand their pessimism. After all, the revolution did not happen and Critical Theorists set out to explain why this was the case and to keep the hope of revolution alive. This description is, however, more true of Adorno than Marcuse who still held out hope for a revolution, although the revolution would have to come elsewhere than from the workers' movement envisioned by Marx.

The constitution of the historical actors themselves is a point of conflict between Marxists and Critical theorists against Left Anglos. For Marx himself, historical movement, from one epoch to the next, was accomplished by a class emancipating itself through revolutionary activity. This thought is consistent with Critical Theory. Left Anglo Analytics, although this applies to Sen to a lesser extent, focus on the individual and how he can change the social world through the use of reason. I, in adapting a Marxist position, view this as a limitation of Left Anglo thought. In bourgeois thought the rational subject is an individual yet it is not the individual who is the motor behind historical change. This limits an appreciation of

historical change since it is not individuals who make historical choices but collectives or classes.

Regardless of these incompatibilities, there is one important area in which all agree and this is with the notion that the social world, through praxis and human activity, can be changed. For this reason, among others, these theorists fit together effectively since their thoughts can be used to construct an active (praxis) model. The recognition that humans can change the world provides for a more robust conception of human agency than the one allowed for by neo-classical economists. But more than this, it legitimates thinking about the limits of a socio-economic order as recognized by the employment of the method of structural economics and the project of transcendence. If there is no recognition of an essence of humanity which is not historically determined, and therefore constantly changing, then there should always be room for a critical theory of a socio-economic order to facilitate an emancipatory interest.

Chapter One:

Towards a Critique of the Ontological Status of Rational Economic Man: Rational, Self-Regarding Utility Maximization as Naturalized Ontology

And as soon as these conditions did come into existence, they did so under circumstances that no longer allowed of their being really and impartially investigated within the bounds of the bourgeois horizon. In so far as Political Economy remains within that horizon, in so far as, i.e., as the capitalist regime is looked upon as the absolute and final form of social production, instead of a passing historical phase of its evolution, Political Economy can remain a science only so long as the class-struggle [bourgeoisie-proletariat] is latent or manifests itself only in isolated and sporadic phenomena... Thenceforth, the class struggle, practically as well as theoretically took on more and more outspoken and threatening forms. It sounded the knell of scientific bourgeois economy. It was thenceforth no longer a question, whether this theorem or that was true, but whether it was useful to capital or harmful, expedient or inexpedient, politically dangerous or not. In place of genuine scientific research, the bad conscience and the evil intent of apologetic.³

1. Introduction

The purpose of the first two chapters is to identify those aspects of General Equilibrium Theory and positive economics, specifically as they pertain to consumer behaviour, which render a particular version of human behaviour as natural. This naturalization hinders the possibility of posing critical questions of either economic modeling or the capitalist socio-economic order. As indicated in the quotation, “political economy” is no longer, in the 1860’s and now, a critical weapon in the class struggle and, as a result, economics has become apologetic since it serves to rationalize and defend the existing socio-economic order. The rationalization of the

socio-economic order, as a consequence of a naturalized ontology, occurs because of the process of abstracting away concrete, historical elements which constrain human motivation and behaviour, and concrete, irrational, contradictory elements which could facilitate a historical movement to an alternative socio-economic order. As a result, General Equilibrium Theory, with its reliance on positivism and a narrow conception of human behaviour, motivation, and well-being, legitimates capitalist social relations; although the apologetics must be unmasked. In the following chapter, I will demonstrate how various aspects of economic methodology render natural a certain ontological construction. Each aspect in turn will be examined and it will be demonstrated that concrete, historical determinants are not considered. This in turn aids in the legitimization and rationalization of the socio-economic order.

2. Economics as Positive Science

In his essay “Methodology of Positive Economics” Milton Friedman outlines what he considers to be the proper method for economic inquiry. His primary goal is to clarify the role of assumptions and hypotheses by answering critics who dismiss economic theories based on unrealistic assumptions. One may identify three major inter-related factors which spring forth during Friedman's clarification that have a negative impact on the possibility of introducing critical questions into economic methodology. How these factors contribute to the exclusion of critical questions, as well as how they inter-relate, will be discussed throughout this chapter. For now, these factors will be listed and elucidated within the overall scheme of Friedman's essay,

³ Marx, Karl. Afterword to the Second German Edition. Capital: Vol 1 A Critical Analysis of Capitalist Production. Ed. Frederick Engels. (New York: International Publishers, 1968) 23-25.

then in Consumer Preference Theory. These factors are: ethical neutrality and objectivity; the reduction of normative questions to the horizon of positive economics; and predictive success as the only criterion for the evaluation of economic theories, assumptions, and hypotheses.

3. Ethical Neutrality and Objectivity

The notion that a positive science is divorced from questions concerning ethics and values is certainly not new. Friedman posits an absolute separation between positive and normative economics, the latter dealing with moral considerations while the former is concerned with what means will attain a given end. Positive economics can be described as a science of instrumental rationality. It deals with facts and is, therefore ethically neutral... “Positive economics is in principle independent of any particular ethical position or normative judgments. As Keynes says, it deals with what is, not what ought to be.”⁴ Ethical neutrality is one criterion of objectivity. The other is that assumptions made of economic agents must be broad enough to encompass a wide range of phenomena. These notions are implicitly built into economic theories as, according to Friedman, they are only concerned with predictive success. The task of positive economics is to... “provide a system of generalizations that can be used to make correct predictions about the consequences of any change in circumstances. Its performance is to be judged by the precision, scope, and conformity with experience of the predictions it yields.”⁵ Theories constructed around the tenets of positive economics are said to be ethically neutral and this stems from its task which is to

⁴ Friedman, Milton. Essays in Positive Economics. 5th ed. (Chicago: Chicago University Press. 1966)
⁵.

provide correct factual predictions which facilitate economic policy. This aspect will be further elucidated in the following section.

4. Reduction of Normative Questions to the Horizon of Positive Economics

The reduction of normative questions to positive ones further facilitates Friedman's argument that positive economics is ethically neutral. For Friedman all questions concerning economic policy are reducible to positive questions as policy choice relies on predictions of factual results of following one policy against another. Predictions are based in positive economics. There is an absolute correlation between what policy choices should be undertaken and the predictions of positive economics. This says nothing about the moral desirability of the policy choice. For Friedman, however, this is hardly a stumbling block for positive economics. Differences over policy choices are, ultimately, differences over predictions and not values. "The difference of opinion is largely grounded on an implicit or explicit difference in predictions about the efficacy of this particular means in furthering the agreed-upon end."⁶ This reduces all normative disputes to the discourse of positive economics. Disputes are never really over the ends themselves so much as they are disagreements over how to achieve them which is the domain of positive economics. Viewed in this way, positive economics can be used to produce consensus based on correct economic policy. It guides correct conclusions which are based on correct predictions. Positive economics contributes to agreements about questions of policy.

⁵ Friedman 4.

⁶ Friedman 5.

5. Predictive Success is the Only Criterion for the Evaluation of Economic Theories, Assumptions, and Hypotheses

As stated earlier, Friedman's intention is to answer criticisms concerning the unrealistic assumptions made about economic agents in economic theories. The purpose of positive economics does not include the descriptive accuracy of assumptions or conformity to reality, what is observed. A hypothesis or theory is considered correct if it is able to accurately predict. Hypotheses abstract from reality only those essential components which aid in prediction: all other features of reality are unimportant as they are considered to be inconsequential regarding predictive ability. Accordingly, hypotheses are constructed around attributes most common to economic agents:

A hypothesis is important if it explains much by little, that is, if it abstracts the common and crucial elements from the mass of complex and detailed circumstances surrounding the phenomena to be explained and permits valid predictions on the basis of them alone. To be important, therefore, a hypothesis must be descriptively false in its assumptions; it takes account of, and accounts for, none of the many other attendant circumstances, since its very success show them to be irrelevant for the phenomena explained.⁷

The goal of positive economics is not descriptive accuracy but the development of theories which facilitate correct and meaningful predictions about economic phenomena. Objections that the assumptions are unrealistic are irrelevant and impede consensus. The validity of the assumptions is to be judged independently of their conformity to reality. The point is to abstract away those aspects of reality which do not aid in prediction. Complexity is reduced to simple determinants; crucial

⁷ Friedman 14-15.

assumptions are the key elements of an abstract model. Economic theories are to be judged by their usefulness to predict given a certain economic environment.

Given an environment, the assumptions made about people are independent of those people. To clarify, in certain environments, the assumptions made about the behaviour of economic agents are independent of the actual psychological states of those agents. To explain, Friedman uses an example from physics. The rate of acceleration of a ball falling in a vacuum is independent of the mass of the ball. However, a ball falling in a vacuum and the same ball falling in an atmosphere differ. For Friedman, the point is that the ball acts “as if” it were falling in a vacuum when it is falling in an atmosphere. The criterion again is whether a hypothesis is sufficiently functional given the conditions it is supposed to explain/predict or are there other hypotheses which are better equipped to explain/predict in those conditions. If special circumstances do exist then hypotheses are constructed for those circumstances. Friedman uses the example of a feather falling in an atmosphere. The equation describing the rate of acceleration does not function for a feather, so another equation will have to be constructed. Therefore, hypotheses and theories have a range of validity.

In the context of economics, it is assumed that economic actors behave as if they were maximizing (either profit or utility) given the economic situation:

It is only a short step from these examples to the economic hypothesis that under a wide range of circumstances individual firms behave as if they were seeking rationally to maximize their expected returns... and had full knowledge of the data needed to succeed in this attempt; as if, that is, they knew the relevant cost and demand functions, calculated marginal cost and marginal revenue from all actions open to them, and pushed

each line of action to the point at which the relevant marginal cost and marginal revenue were equal.⁸

To survive in this economic system, a firm must act as if it is attempting to maximize its profits. Both firms and individuals will “habitually” react to the situation they are in and will learn how to survive in that state. This process seems to be a form of economic Darwinism; if a firm acts as if it were seeking to maximize profits, it is rewarded as capital expands through re-invested profit. If not, then it will eventually go out of business... “The process of natural selection thus helps to validate the hypothesis - or, rather, given natural selection, acceptance of the hypothesis can be based largely on the judgment that it summarizes appropriately the conditions for survival.”⁹ It is not so much that firms seek to maximize profits but unless they actually do maximize profits they will not survive in a competitive market economy. Hence, the assumption that firms behave as if they were seeking to maximize profits has predictive value for if they do not actually maximize profits they will not survive. The same can be said of consumers insofar as a theory assumes that they act as if they are rational, self-interested, utility maximizers. Through repeated interaction in the market, people will learn to be utility maximizing agents; otherwise, they will not survive as successful consumers, e.g., they will become impoverished and/or dissatisfied. This assumption also has predictive value. Profit and utility maximization become behavioral facts in this given reality.

From these “as if” statements positive economics is licensed to form what Friedman terms “ideal types.” Adaptation and learning in a given world leads to

⁸ Friedman 21-22.

⁹ Friedman 22.

justification of as if statements and consequently ideal types. What is not quantifiable does not lend itself to prediction. Ideal types are the quantifiable entities which may be employed by positive economics to make predictions. In an abstract economic model, one in which crucial assumptions are abstracted from a complex reality, ideal types facilitate prediction and are themselves idealizations insofar as they abstract from productively insignificant elements of a complex reality. Ideal types include both firms and consumers who all share the same behavioural traits; firms acting as if they seek to maximize profits and consumers acting as if they are rational, self-interested, utility maximizers.

From these passages one begins to see how Friedman conceives of the ontological status of economic agents. A fuller elaboration will be conducted following the section on Consumerist Ontology (see below). For now I will outline the following points. What is said about economic actors is derived from what I will term as the “principle of abstraction.” Descriptive accuracy is not the main issue. Instead an abstraction of the world is conducted whittling it down to what are deemed to be significant determinants of economic behaviour. From this abstraction an ontology of economic actors is derived. I shall term this form of derivation of ontology as “idealized abstraction,” that is, an ontological construction which is not significantly constrained by an observable world. More critically stated, it is an abstraction divorced from the concrete. It refers to abstractions and not real people with distinct and actual intentions behind their behaviour; discourse is limited to a form of instrumental rationality since utility maximization is assumed to be the only driving force behind human action. Predications may be said to be independent of the actual psychological

states of real, individual economic actors as they are assumed to act as if they behave (maximize utility or profits) in a certain way given the conditions contained in the abstraction of the world. Ontology (predication) is derived from this abstraction. Phrased differently, hypotheses are constructed around attributes most common to people. However, these attributes are not necessarily observed in particular actors so much as they are derived from abstractions of the world. They are predicates one would expect rational, successful people to have in this world. By using a form of behaviourism, Friedman is able to illustrate how behavioural facts are attributed to economic actors. People and firms survive in this given, abstracted world by acting as if they were maximizers. Through repeated interaction within the market, firms and consumers will learn to act rationally by maximizing profits or utility respectively. That is, economic Darwinism, or this version of behaviourism, implies that the market acts as a “natural” environment in which firms and consumers respond to price and commodity stimuli. In such an environment firms and consumers learn what actions lead to pleasure (higher profits, greater utility) and avoid pain (lower profits, decreased utility). Those firms and consumers who are more successful survive in the market environment, adapting to it, learning those characteristics necessary for survival; profit or utility maximization. Economists translate these characteristics into the “as if” statements located in the axioms of Consumer Preference Theory. In other words, it is assumed that consumers have these mental states when performing all market actions which are interpreted as expressing the intention to maximize utility. It is important to note that predication does not involve observation; the given world of economic theory is an abstraction from actual reality and people learn how to survive

considering the conditions existing within this abstraction. In this version of behaviourism predicates necessary for survival are derived from this abstraction of the real (observable) world. For a more complete picture one needs to review the axioms which comprise Consumerist Ontology.

6. The Axiomatic Construction of Rational Economic Agents: Kenneth Arrow and F.H. Hahn

The mathematical and economic modeling of rational behaviour takes the form of axiomatic statements. Arrow and Hahn's mathematical construction of rational economic agents (consumers) employs 5 axioms. These axioms are:

- 1) that preferences are transitive;
- 2) that preferences are complete (connexity);
- 3) that preferences are continuous;
- 4) that preferences exhibit "semi-strict convexity" or diminishing marginal rates of substitution and;
- 5) that preferences exhibit non-satiation.

The first three axioms are necessary for representing consumer choice in terms of utility functions from which individual demand functions are derived. In descriptive-empirical terms the second axiom means that consumers can compare any two consumption bundles in terms of which one of the bundles he or she prefers or if he or she is indifferent between the two bundles. The ordering of bundles is also consistent according to the first axiom in the following sense: if bundle A is preferred or indifferent to B and B is preferred or indifferent to C, then A will be preferred or indifferent to C. This type of comparison can be made for any three possible

consumption bundles by every consumer. The third axiom has to do with mathematical requirements for calculating optima. Continuity implies that if bundle A is preferred to bundle B, the same ordering will be preferred if B contains slightly more x and/or y. Such continuity requires consumption bundles to be infinitely divisible. Taken all together, these assumptions create stable sets of preferences from which stable utility functions as well as individual demand functions and aggregate demand function can be derived. The fourth assumption implies that a larger amount of a relatively abundant good will be exchanged for a relatively scarce good. The fifth axiom of non-satiation dictates that consumers will always prefer more of any available commodity; all income is always spent on commodities and is never saved or destroyed. Consumers will, through consumption, always try to attain the highest level of utility given a budget constraint.¹⁰

7. Consumer Sovereignty and Social Atomism

There are two further assumptions which are conventional parts of neo-classical economics. These assumptions are each facilitated by the absence of “externalities”¹¹ and the exercise of perfect competition and are complimentary factors. The first is consumer sovereignty. Briefly, this assumption states that in a perfectly competitive economy autonomous consumers guide production. Each consumer, free from external influence, dictates to the market what goods shall be produced and in what quantity. The perfectly competitive market provides those goods at an amount which satisfies given consumer demand clearing the market.

¹⁰ Kenneth J. Arrow and F.H. Hahn. General Competitive Analysis. (San Francisco: Holden-Day, INC. 1971) 78-79.

Significantly, the principle of consumer sovereignty has both descriptive-explanatory and normative force. In a competitive market all economic activity is causally determined and justified by the satisfaction of given consumer wants. Jerome Rothenberg provides a comprehensive account of consumer sovereignty:

[Consumer sovereignty] simply means that all economic processes are ultimately focused towards satisfying the wants of the final consumer. Production, exchange, and distribution are all means; consumption is the end. Moreover, in a free market system, market performance is in fact responsive to the specific wants of the consumers within the system... consumer sovereignty asserts that the performance of any economy ought to be evaluated in terms of how well it fulfills the wants of its consumers.¹²

This assumption is closely¹³ associated with a capitalist economy. It encompasses the following points:

- (1) knowledge of consumer wants which should be reflected in consumer demand;
- (2) expression of wants which requires that rational consumers will inform themselves of how to realize their wants;
- (3) production responds to wants as free competition and free enterprise will respond to consumer demand, given certain technological constraints, because assuming so will further the profit motive;
- (4) Pareto optimality¹⁴ is assumed and;

¹¹ See glossary for definition.

¹² Rothenberg, Jerome. "Consumer Sovereignty." Encyclopaedia of the Social Sciences. Vol. 3. (NY: McMillan, 1930) 327-335.

¹³ Closely because the author does not leave out the possibility that consumer sovereignty could guide other economic orders although the common argument is that only a capitalist economy best satisfies this condition (see Friedman Capitalism and Freedom). I will examine the apologetics around this claim later.

¹⁴ This term is defined on pages 36 and again in chapter 3.

(5) laissez-faire should be the economic policy of choice provided that the market is perfectly competitive as this will naturally realize the highest degree of consumer sovereignty.

The role of advertising is to inform the consumer about what goods and services are available. Consumer sovereignty dictates that advertising has the sole function of disseminating information. Advertising practices which stimulate demand are considered to be inappropriate according to the dictates of consumer sovereignty.

The second assumption is that perfect competition also allows the economist to consider the actions of individual economic agents as divorced from the actions of other agents and institutional considerations. Perfect competition allows the economist to consider the economic agent as self-regarding. This aspect I have termed “social atomism.” Both social atomism and consumer sovereignty are the topics of chapter 2.

8. Consumerist Ontology and Positive Economics

Let us now pull together all the aspects of consumerist ontology via positive economics. Positive economics claims to be ethically neutral dealing only with facts and not normative questions. This also extends to its description of economic agents within economic theories; they are merely descriptive, even if empirically unrealistic, and void of any ethical dimension. Questions of correct economic policy are reducible to successful prediction. All scientific questions ultimately fall within the horizon of positive economics and consequently comprise only the instrumental rationality of identifying the most efficient means to attain a given end. The same can be said of human behaviour; the assumption of self-interested utility maximization frames all

discourse, as the real intention of individual agents, or groups of agents, does not have to be taken into account. All actions are assumed to have utility maximization as their goal. In the last analysis, all action is instrumental action geared towards some form of maximization. This instrumentalism facilitates accurate predictions. Predicates and hypotheses are derived from the abstraction of the world, the principle of abstraction. The nature of the economic world, as described by the principle of abstraction, dictates that in order for economic actors to survive as consumers they must adopt or conform to the five axioms of Consumer Preference Theory. In other words, given the nature of the world as informed by the principle of abstraction, consumerist ontology is derived resulting in the five axioms (ideal type) which is, therefore, an idealized abstraction. These axioms can be said to be independent of the actual actors they are supposed to describe because they were derived without recourse to the concrete. This idealized abstraction is justified because economic agents must have these predicates to survive given the state of the world. Economic Darwinism dictates that economic agents will learn that they need to become the utility maximizers described by the five axioms. There is also the aspect that the actions of economic agents can be analyzed divorced from the actions of other agents and institutional constraints. As stated, this occurs because General Equilibrium Theory assumes perfect competition in all markets. It is consumers who are assumed to guide production and the acquisition of tastes and preferences by consumers is said to be exogenous to the economic model. All economic activity is assumed to be set in motion and legitimated by consumption and the pre-given needs of the consumer.

9. The Critique of Ethical Neutrality

Hausman and McPherson contend that “rationality,” which is part of both positive and normative economics, introduces morality into positive economics in the following manner. Rationality is normative because it prescribes an ought: people ought to act rationally. But rationality is also described by the axioms of Consumer Preference Theory. So rationality is identified with utility maximization necessary for preference satisfaction and human well-being. Hausman and McPherson claim that these axioms presuppose a moral principle of “minimal benevolence” meaning that if everything else remains equal, if no one else is made worse off, it is morally desirable that some people be made better off. So rationality is both normative and moral, contrary to neo-classical economics, since people ought to act rationally, yet in doing so people contribute to both subjective and social utility maximization. Pareto optimality, with its implication within rationality, collapses the distinction between morality and normativity. Hausman and McPherson explain the link of the normative aspect of rationality with Pareto optimality. I will return to the explication of this link momentarily. Suffice it to say that rationality means that consumers ought to maximize utility and this brings morality into positive economics... “One can begin to see how rationality can function as a Trojan horse smuggling ethical commitments into the theoretical citadel of positive economics.”¹⁵ In this way Hausman and McPherson can argue that positive economics may not be ethically neutral.

¹⁵ Hausman, Daniel M., and Michael S. McPherson. Economic Analysis and Moral Philosophy. (Cambridge: Cambridge University Press, 1996) 45.

As it stands, this analysis of the importation of morality via rationality into economics is incomplete but not incorrect. The bare assertion that rationality is a normative term is too simple and needs to be analyzed, although it will be argued that, in the last analysis, rationality is indeed a normative notion. Hausman and McPherson claim that rationality is a normative term which determines how economists interpret consumer behaviour. Omitted from their analysis is the fact that the version of rationality employed by positive economists is considered to be ethically neutral because, much like a physical law, it is simply a timeless description of human nature itself. Simply stated, rationality as self-regarding utility maximization is a *naturalized ontology*¹⁶ and therefore can be claimed to be ethically neutral as it is simply descriptive of universal regularities in economic deliberation and choice behaviour. More precisely, consumers uniformly behave as if they intend to maximize their utility and choose a commodity bundle believed to realize this intention - since otherwise they “do not survive”¹⁷ in a competitive market.

If this is indeed a timeless description of rationality then it could be argued by neo-classical economists that Hausman and McPherson have projected morality into positive economics instead of the smuggling of ethical commitments by neo-classists claimed by Hausman and McPherson. An “ought” and morality have been derived from an “is” by Hausman and McPherson, which is incorrect according to positive economics, and hence normative-moral components have been indeed smuggled into positive economics. Since they do not deal with this aspect of rationality, that it is considered to be a timeless description, Hausman and McPherson can be criticized as

¹⁶ Defined more fully in the glossary.

failing to recognize the real source and intent of the “smuggling.” In order to fully reveal such importation, a denaturalization of this timeless ontology is required. First we must examine the historical roots of this naturalized ontology.

One may acquire an understanding of the separation of morality-normativity and rationality from David Hume. “Reason” for Hume is comparable to the way in which economists use “rational” in that each has recourse to observation and fact for the grounding of knowledge. Morality does not appeal to facts (or the abstract relation of ideas), which is what distinguishes it from reason. This is why one cannot derive a moral-normative statement from a purely factual statement:

Reason is the discovery of truth or falsehood. Truth or falsehood consists in an agreement or disagreement either to the real relations of ideas, or to real existence and matter of fact. Whatever, therefore, is not susceptible of this agreement can never be an object of our reason. Now it is evident our passions, volitions, and actions, are not susceptible of any such agreement or disagreement; being original facts and realities, complete in themselves, and implying no reference to other passions, volitions and actions. It is impossible, therefore, they can be pronounced either true or false, and be either contrary or conformable to reason.¹⁸

This is the philosophical basis of the claim that one cannot derive an “ought” from an “is”. Accordingly, a factual statement cannot be the premise from which a normative-moral statement is derived.

Hume deals with the apparent overlap of reason and morality through the implication of what we term as instrumental, or means-ends, rationality. Hume speaks of the observance of an action as something which may elicit a moral judgment from an observer. The discrete action-in-itself is not the locus of the moral judgment as

¹⁷ Meaning that they become impoverished and/or dissatisfied.

moral judgments are not part of the description of actions properly speaking. The observation of actions can be linked with morals only insofar as the action is linked with the achievement of some morally desirable goal. Judgments of the best means to attain certain ends are mutually exclusive of moral judgments. Friedman is in direct agreement here insofar as an economic policy, as a factual means of achieving a socially valued end, is ethically neutral. Instrumental rationality has recourse to observable facts and these facts can be utilized to ascertain which means will generate a desired end. Reason concerns the domain of facts and observation which provides the basis for instrumental rationality when considering observable actions which elicit moral judgments. The relation of reason to morality occurs only in the following way:

It has been observed, that reason, in a strict and philosophical sense, can have influence on our conduct only after two ways: Either when it excites a passion by informing us of the existence of something which is a proper object of it; or when it discovers the connection of the causes and effects, so as to afford us means of exerting any passion. These are the only kinds of judgment, which can accompany our actions, or can be said to produce them in any manner; and it must be allowed, that these judgments may often be false and erroneous.¹⁹

So morality and reason cross over only when factual means to ends judgments are concerned. Passions then are vehicles by which certain ends are identified. It is up to reason to discover those means which will arrive at the ends identified by the passions. To use an example from economics, a given end, profit maximization, is achieved upon the equation of marginal cost with marginal revenue. To be instrumentally rational one would conduct this particular equilibrating action to bring about this desired outcome.

¹⁸ Hume, David. Treatise of Human Nature. (New York: Penguin, 1985) 510.

¹⁹ Hume, Treatise 511.

The truth that equating marginal cost with marginal revenue will lead to maximization of profits is consistent with observation.

Lastly, Hume divorces science from morality. For Hume, the subject of science is reason. Since reason is separate from morality, science is also separate from morality:

Nor does this reasoning only prove, that morality consists not in any in relations, that are the objects of science; but if examined, will prove with equal certainty, that it consists not in any matter of fact, which can be discovered by the understanding. This is the second part of our argument; and if it can be made evident, we may conclude, that morality is not the object of reason.²⁰

Science and ethics do not mix according to Hume. But this is not all. Recourse to reason is in the nature of human understanding and it is a naturalized version of human understanding which is the proper vehicle of scientific reasoning, that is, which concerns the observable, factual relation of causes and effects. Hence both the capacities of the human mind and science are constructed upon an instrumental role for reason. But there is another aspect to consider before we can begin to demonstrate that both “rationality” and “utility” are normative terms. Instrumental rationality does not stand alone since, in neo-classical economics, it is coupled with utility. The reason for this excursion into Hume is to elucidate an influential historical source of the doctrine that reason is ethically neutral and functions as a naturalized version of human understanding. Now we must venture into the relation between utility and rationality.

Jeremy Bentham and John Stuart Mill are two of the more renowned theorists associated with Utilitarianism - especially as it concerns economics. Although each is considered to be a theorist of cardinal utility, they established the ground work for the

formalization of ordinal, mathematically constructed utility functions as formalized by Arrow and Hahn, among others. Since Mill's work is a continuation of that of Bentham, I will restrict my explication to Mill's essay Utilitarianism.

For Mill, Utilitarianism is a moral doctrine of how people ought to behave insofar as they are encompassed by rationality. The principle of utility is defined as the principle of the greatest happiness. An action is moral if it increases aggregate utility by either increasing social happiness or decreasing social misery. Like Hume's reason, utility is an instrumental notion. All human action is a means to an end, that end being the greatest social happiness; and all actions are not only moral but rational insofar as they increase the greatest happiness of everyone affected by the action. Utilitarianism is premised on the psychological motivation of individuals and it functions as an axiomatic imperative - each rational individual should work to obtain the greatest aggregate happiness:

According to the Greatest Happiness Principle... the ultimate end, with reference to and for the sake of which all other things are desirable (whether we are considering our own good or that of other people), is an existence exempt as far as possible from pain, and as rich as possible in enjoyments, both in point of quantity and quality... This, being, according to the utilitarian opinion, the end of human action, is necessarily also the standard of morality; which may accordingly be defined, the rules and precepts for human conduct, by the observance of which an existence such as has been described might be, to the greatest extent possible, secured to all mankind.²¹

Utility is also a naturalized moral notion although it will be demonstrated that the naturalization of this moral notion no longer renders it a moral notion. People are

²⁰ Hume. Treatise 520.

²¹ Mill. John Stuart. Utilitarianism, in Utilitarianism, On Liberty, Considerations on Representative Government. (London: Everyman. 1993) 12.

beings of happiness or utility. Mill considered pleasure to be a naturally desired end, something inherent in the psychological constitution of mankind and which all human action has as its goal. There is one more area which we must cover before we return to Hausman and McPherson.

Left out of the exposition to this point is the discussion of self-interest. The most efficient way of illustrating this notion for economics is to cite Adam Smith. Briefly, Smith's question can be summed up as: How can a system which is based on self-interested individuals, pursuing their respective individual goals, lead to socially good outcomes? This in a nutshell is the question of General Equilibrium Theory and Welfare economics. How can self-regarding, utility maximizing agents and profit maximizing firms pursuing their respective goals, lead to a competitive general equilibrium and, consequently, a Pareto optimal outcome? As Smith states:

But man has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only... It is not from the benevolence of the butcher, the brewer, or the banker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love and never talk to them of our own necessities but of their advantages.²²

So we now have some philosophical background for the terms "rationality" from Hume, "utility" from Mill, and "self-interest" from Smith. Now let us see how they come together to form the ontological status of the economic agent as consumer, and demonstrate why one cannot simply begin with the assertion that "rationality" and "utility" are moral-normative terms.

²² Smith, Adam. Wealth of Nations (New York: Random House, 1937) 26-27, quoted in Daniel M. Hausman and Michael S. McPherson. Economic Analysis and Moral Philosophy (New York: Cambridge University Press, 1996) 217.

The ontological construction of the self-regarding, utility maximizing agent is supposed to be ethically neutral. From Hume we understand empirical reason to be instrumental rationality in which the best means for attaining a given end is a matter of observable facts. From Mill we have the notion that people are beings of utility - that all human action is instrumentally geared towards attaining the highest level of utility or pleasure. Smith adds that it is the motive of self-interest which guides human activity. If all people are self-regarding, instrumentally rational, utility maximizing agents *by nature* and, if one cannot derive an “ought” from an “is,” then this account of human nature is purely descriptive. In other words, no morality is involved because people are naturally self-regarding, rational utility maximizing agents. Since this is a naturalized, descriptive notion of human behaviour it is not enough to simply state that these notions are normative and therefore cannot be ethically neutral. This naturalized conception of human behaviour is the proper object of science, specifically positive science. If people are self-regarding, utility maximizing agents by nature, then there is no room for a critical evaluation of the ontological status of consumers within neo-classical economics. What is first required is a critique which denaturalizes this notion of human behaviour, revealing that it is an ideological mystification, showing it to be historically contingent to the capitalist socio-economic order. This order itself requires this understanding of consumer behaviour for the order to operate efficiently.

Marx’s critique of bourgeois economics is one way of denaturalizing this conception of human nature. One of his criticisms is that bourgeois economics naturalizes a certain mode of production, and elements historically specific to it, by abstracting away history and thereby historical differences. All societies have some

specific mode of production - some particular way by which they produce and reproduce themselves materially. For Marx, economic categories must be dealt with in their historical specificities. These categories also include ontological categories which are themselves historically specific. If people are rational utility maximizers it does not occur because of any timeless natural faculty but because of historically specific social relations and institutional constraints on human motivation and behaviour. That historically contingent social relations and ontological constructions have been abstracted away from society and history makes them appear as natural and inevitable relations and ontologies:

The aim is rather... to represent production, as distinct from distribution, etc., as governed by eternal natural laws independent of history, and the opportunity is taken to smuggle in bourgeois relations surreptitiously as irrevocable natural laws of society in abstracto.²³

One may just as easily substitute “self-regarding, utility maximizing agent” for production in this quotation. If this ontology is not natural, e.g., if it is not purely descriptive in the sense of being empirically necessary, then it might not be ethically neutral either. If it is not ethically neutral, that is, if it is not simply a positivistic description of human nature, then the is-ought split is illusory as the “is” is itself informed by a normative “ought” which prescribes a human nature or timeless ontology. I shall argue that General Equilibrium and Consumer Preference Theory are embedded with normative ideals as to the composition of human nature and well-being. The terms “rational” and “utility” are indeed normative terms as they stem from

²³ Marx, Karl. Introduction to a Critique of Political Economy. (Peking: Foreign Language Press, 1976) 13.

a historically contingent normative discourse concerning human motivation and behaviour - economic liberalism.

Getting back to Hausman and McPherson, one can now recognize why it is not enough to simply state that “rationality” and “utility” are normative terms. They are aspects of human behaviour that have been naturalized. In a sense, morality and ethics have not been imported into positive economics, as morality and ethics were always present. However, these normative assumptions must be unmasked from the positivistic, naturalization of human understanding, motivation and behaviour. This unmasking occurs by demonstrating that this version of human behaviour is historically contingent to the capitalist socio-economic order. I will demonstrate this with the aid of Hausman and McPherson.

Hausman and McPherson assert that economists identify human well-being with the satisfaction of preferences. In neo-classical economics, utility is itself identified with preference satisfaction. It is a morally good if some people are better off due to an increase in utility provided that no one is made worse off. This minimal benevolence is linked with Pareto optimality; a social state that occurs when no one can be made better off without making somebody worse off:

If economists accept minimal benevolence and identify an individual’s welfare with the satisfaction of his or her preferences, then they will judge that, other things being equal, it is a morally good thing to satisfy an individual’s preferences. The main issue in standard normative economics is according to what extent economies enable individuals to satisfy their preferences. Thus the importance of Pareto optimality.²⁴

²⁴ Hausman and McPherson 43.

Pareto optimality is an important concept to evaluate if one is to unmask the apologetics behind General Equilibrium economics and Utility Theory. For now I will only demonstrate this regarding Utility Theory. According to neo-classical economics, Pareto optimality is the most morally beneficial state of affairs humanity can strive for. Any improvement which increases the utility of even one individual without decreasing the utility of another individual is morally good. Hausman and McPherson's allusion to the first theorem of welfare economics, as stated below, is a good way of demonstrating this occurrence. Pareto optimality can only occur if several conditions are fulfilled.

Pareto optimality occurs when self-regarding, utility maximizing agents maximize utility as implied by the axioms of Consumer Preference Theory. There are other assumptions which concern production, competition and "externalities" but those will be dealt with in chapter 3. For now I will keep with Utility Theory and assume that these other conditions are met.²⁵

Recall the axioms of Consumer Preference Theory as outlined earlier.²⁶ I have established that they are indeed normative postulates of human rationality and behaviour so I will translate these positive statements into normative-prescriptive ones and explain how each is a necessary condition for attaining Pareto optimality. The second axiom means that people know which of two consumption bundles will, when consumed, yield the most utility. The prescriptive element is that people ought to know which of two commodity bundles will yield the greatest amount of utility. The

²⁵ I will demonstrate in chapter 3 that these conditions cannot be met either as they are in conflict with the structural logic of capitalist production.

²⁶ Pages 21-22.

first axiom implies that if preferences are transitive or “consistent,” an agent will be capable of comparing any three consumption bundles in terms of which provides the greatest amount of utility. People should be able to compute the greatest amount of utility they can derive from a number of alternative consumption bundles. The third axiom prescribes that consumers should retain the same preference ordering of commodity bundles A and B if either bundle contains marginally more of goods x and/or y. Prescriptively, the fourth axiom means that people should trade larger amounts of a relatively abundant commodity for a relatively scarce good. Taken together, these axioms prescribe a certain calculativeness which individuals should adopt so as to attain the highest subjective level of utility given a budget constraint. The last axiom means that people should be non-satiated. People should always prefer more of any available consumption bundles and that people should spend all their money or else they will not maximize their utility. These are necessary conditions for Pareto optimality. If people do not adhere to the first four axioms, consistent stable demand functions cannot be derived. If they cannot be derived then it will be very difficult to attain Pareto optimality as unpredictable changes of tastes and preferences will result in excess demand or supply of goods on the market. If markets do not clear then Pareto optimality cannot occur. The same is true of the last axiom. People cannot be sated before all of their income is spent or else there will again be unsold goods on the market and Pareto optimality cannot occur. Assuming that production conditions have been met, if people follow the axioms of Consumer Preference Theory, then Pareto optimality can occur and everyone will maximize utility subject to the Paretian

constraint. For neo-classical economics, Pareto optimality represents the greatest moral achievement according to the utilitarian criterion of human well-being.²⁷

10. Summary 1: The Elimination of Critical Questions through the Apologetics of Ethical Neutrality

We may begin to unmask the apologetics of ethical neutrality. If the greatest happiness is both the natural and most moral way for people to live then, according to the first theorem of welfare economics, only a market economy, that is, a free-enterprise capitalist economy, can deliver the Pareto optimality expressive of such happiness. Underwriting the assumptions for consumption, production, externalities, and perfect competition are the notions of Economic Liberalism expressed in rights to private property and the free market system. Hence, private property and a free market system are themselves necessary conditions for the fulfillment of human nature. This legitimates the capitalist socio-economic order because the system implicitly claims to be giving humanity what it naturally desires. The legitimization is camouflaged by the notion of ethical neutrality claimed because its ontological construction is considered to be merely descriptive. One cannot effectively critique this economic order either theoretically or practically because it provides for human nature more adequately than any other possible system. If this ontology is not natural but historically contingent to a certain socio-economic order, then one can conceive of alternative social formations.

²⁷ Throughout this study, I allude to the notion that people should be endowed with the axioms or characteristics associated with a social ontology required for the reproduction of the capitalist socio-economic order. In this specific case reproduction occurs with a general equilibrium state delivering Pareto optimality. So the adherence to these axioms is required for the reproduction of the capitalist socio-economic order. See "Correcting the Axiom to Account for the Production of Consumer Desire" on page 120 for a more realistic account of the required axioms.

11. Objectivity and its Critique

Friedman posits three interrelated criteria for objectivity which are themselves predicated upon the notion of ethical neutrality. Positive economics is supposed to be independent of any *particular* ethical or normative position. It must also be broad enough to encompass the widest range of phenomena, or people. Objectivity and ethical neutrality are built into economic models which are supposed to be able to provide correct factual predictions which facilitate economic policy. The policy is, moreover, implicitly ethically neutral and objective since it too is supposed to be independent of any particular ethical position.

Although Friedman would only posit an ethical neutrality of the means of attaining a social end (Pareto optimality), this cannot be the case because subjective utility maximization and its social counterpart are said to be purely descriptive components of human nature. If it is purely descriptive, e.g., factual, then the social end too must be recognized as ethically neutral. General Equilibrium Theory shows how an economy can achieve general equilibrium without government intervention. It is a theory which espouses laissez-faire policy. If general equilibrium does not obtain then there could exist justification for government intervention to secure it. This intention is still devoid of any particular interest if Pareto optimality is for the benefit of all as the moral good to which humanity naturally strives. Let us first delve into the world of mathematics.

Mathematics may be said to serve ethical neutrality and objectivity because mathematics provides a way by which all who are familiar with its conventions can arrive at the same conclusion. Take this rather simple example to start:

$$2 + 2 = 4$$

This operation holds for anyone familiar with the conventions of mathematics. It does not matter who conducts this mathematical operation. One may agree insofar as this applies to pure, unapplied mathematics. That is, anyone will be able to generate this answer. However, we are not dealing with pure, unapplied mathematics but with econometrics. From the utility function described by the general equation:

$$U = f(x,y)$$

where x and y represent two consumption bundles, anyone familiar with the conventions of econometrics can derive this individual's demand function and marginal rates of substitution as long as one also has the appropriate information concerning the accompanying budget constraint. But, in this light, the conventions of econometrics, unlike pure unapplied mathematics, are bound up with the normative assumptions about human understanding and motivation. Accordingly, the applied mathematical truths of economics are not value free statements as they will be internally connected to such a normative framework. In particular, economists do import normative assumptions into mathematics with the way they model human behaviour and understanding via the axioms of Consumer Preference Theory and the principle that rational economic agents seek to maximize utility given a budget constraint. The second implication is that all facts derived from this mathematical model are premised on Utility Theory and hence cannot be ethically neutral.

To facilitate the critique of objectivity, one must first show how the three criteria of objectivity mentioned above could be interrelated. I have already alluded to the notion that the economic modeling of consumer behaviour in Consumer Preference

Theory, and adopted by General Equilibrium Theory, can be said to be independent of any particular ethical commitment only insofar as everybody is recognized as necessarily determined to be a utility maximizing agent. This in turn is related to the notion that objectivity requires that economic models cover a wide range of phenomena and agents. Economic policy enacted with the intention to bring about Pareto optimality is also objective since it affects everyone and is void of any particular interest.

However, the first criterion for objectivity, that economics is void of any particular ethical position, cannot be sustained. Economic modeling of human behaviour is underwritten by a utilitarian criterion of human behaviour. Hence, we may ask whose ideal of human behaviour is represented by Utility Theory and General Equilibrium economics and what is its purpose? To begin to answer this question let us turn to Marx and Engels:

The ideas of the ruling class are in every epoch the ruling ideas, e.g., the class which is the ruling material force of society, is at the same time its ruling intellectual force. The class which has the means of material production at its disposal, has control at the same time over the means of mental production, so that thereby, generally speaking, the ideas of those who lack the means of mental production are subject to it.²⁸

If one can break down the class structure of capitalist society into the bourgeoisie and the proletariat as the skeletal components, and we know that the bourgeoisie is the class with control over the material means of production, then we also know that the established ontological construction of human behaviour is also a bourgeois notion. It would not, therefore, be void of any particular ethical or normative commitment. To

continue to be the ruling class, and to consequently be able to materially produce and reproduce capitalist social relations, the idea that people are naturally beings of utility is useful for the reason that a certain type of consumer activity is required. As Marx and Engels state a little further, this idea must prove “to be the dominant idea and is expressed as an eternal law.” That utility and its correlated rationality function together as an “eternal law” means that it is removed from its social and historical determinant - capitalist socio-economic order - and appears as natural and inevitable. Utility Theory then fails to be objective because it is underwritten by normative assumptions of human behaviour which are claimed to apply to everyone; but these normative assumptions are themselves particular ideas of the ruling class. Since Consumer Preference Theory and General Equilibrium Theory presuppose Utility Theory they cannot be objective as they each fail to meet this criterion of objectivity.²⁹

It also follows that economic policy cannot be objective either. Economic policy is linked with a certain presupposed end. That end is itself not objective in that it too is not separate from any particular normative commitments. Gramsci alludes to this when he states... “But it is absurd to think of a purely objective prediction. Anybody who makes a prediction has in fact a programme for whose victory he is

²⁸ Marx, Karl., and Frederick Engels. German Ideology. Ed. C.J. Arthur. (New York NY: International Publishers Co., 1993) 64.

²⁹ I realize that this account of ideology is rather crude since I only refer to ideology as a dominant case and not using the notion in Capital about the inversion of appearances. I realize that this is not Marx's last word on ideology. I do not totally identify with Marx's view as represented in this section since I expand this notion later specifically in the section on the principle of abstraction and idealized abstractions. I am attempting to reply directly to Friedman's assertion that economic policy is devoid of any particular interest: this reply is facilitated using the preceding quotation from Marx. In a sense an inversion has occurred where the particular idea, that people are beings of utility, is represented as a general idea divorced from its historical context.

working, and his prediction is precisely an element contributing to that victory.”³⁰ As Gramsci indicates, there is a certain view of the world behind every prediction and that prediction is geared towards attaining a certain goal. If there is an end in mind then what is that end? Marx’s assertion is that, within the horizon of bourgeois economics, theorems are judged by their expediency for capital. If the bourgeoisie is the most powerful class in capitalist society, then it follows that economic policy is geared towards the facilitation of capital; itself an embodiment of a particular interest. Pareto optimality is the generalized appearance of this particular interest which Pareto criterion is itself linked with a particular version of human motivation and well-being. Therefore an economic policy which facilitates the apparent general interest of Pareto optimality is in fact a policy geared by the particular interest of capital. Pareto optimality provides the justification for this particular interest making it appear as the general interest.

12. Summary 2: The Elimination of Critical Questions; the Apologetics of Objectivity

The legitimization once again needs to be unmasked. Pareto optimality is seen as the ultimate goal of economic policy according to the economic theory in question; only if normal market operations do not effect general equilibrium and, consequently, Pareto optimality, may government economic policy be invoked with the goal of achieving this socially optimal state. This is in itself apologetic as Pareto optimality is linked with a normative criterion of human well-being. And yet, economic policy is not so much geared for the benefit of consumers but rather to facilitate the accumulation

³⁰ Gramsci, Antonio. Selections from the Prison Notebooks. Ed. and Trans. Quintin Hoare and

of capital. However, if the facilitation of capital can be linked with the well-being to which human's are naturally disposed, then there is no need to question economic policy, or the order which necessitates that policy. The facilitation of capital is, at the same time, the facilitation of human well-being. If this is the case then capitalism is made to appear as if it is the eternal, natural and inevitable socio-economic order; thus limiting a critical perspective on this socio-economic order. One may recognize that a notion of objectivity which presupposes such ethical neutrality is detrimental for the possibility of posing critical questions of an economic order. But one may also recognize that objectivity is an illusion and that this creates the possibility for posing critical questions.

13. The Principle of Abstraction and Idealized Abstractions

Rational economic agents, as consumers, are abstract agents. The derivation of consumerist ontology is difficult to unravel but one must understand the process by which this ontology is constructed before a critical analysis can be conducted. As indicated earlier, the principle of abstraction takes from the empirical world only those elements which are essential for correct predictions. It abstracts away those aspects which do not aid in prediction. From this abstraction another one is created - the rational, self-regarding economic agent. I have termed this process the "principle of abstraction." Economic Darwinism is the key to understanding the nature of this abstraction. Given the state of the economic world, firms would learn to maximize profits or they would not stay in business. Both individual consumers and firms form habits which are required for survival given the state of the economic world. These

Geoffrey Nowell Smith (New York: International Publishers. 1971) 171.

habits are constituted by “as if” statements which Friedman also assumes to be independent of the actual psychological states of those economic actors. “As if” clauses become the predicates of economic agents which, when formalized mathematically, become axioms. The total of the axioms constitute the ontological status of the consumer and is an ideal type. I have termed this process “idealized abstraction” which is supposed to be a purely descriptive ontology that is nevertheless divorced from any particular, concrete economic agent. Later in this section, the role of axiomatic statements along with *ceteris paribus* clauses will be elucidated in terms of how they shield ontological constructions from falsification through observation. While recourse to observable facts is presumed to be the means by which predictive success is judged, observable facts do not falsify ontological constructions.

It may seem at first that economic Darwinism is a way out of the critique invoked earlier about the naturalism discovered in the last section. Indeed, Friedman seems to have hedged against such a critique as he asserts that economic agents must adapt to a given economic environment in order to survive - that they must learn to become utility maximizing agents. This cannot be sustained as a hedge for two reasons. The first reason is that people cannot possibly learn anything based upon an abstraction. Real individuals do not live in the highly abstracted world described by the principle of abstraction where the only things that obtain are perfect competition and lack of externalities. People live in highly complex socio-economic totalities and it is there where one would learn to become a utility maximizing agent. If this is what Friedman meant then one might attempt to build a case against my critique of Utility Theory based on a “learning model” of economic behaviour. The second reason

debunks this potential strategy. Only those who learn to become utility maximizing agents will be successful in this abstracted world. But what is the compulsion towards utility maximization if it is already assumed to be inherent in individuals? What else could possibly be the incentive? Mill may provide us with a clue when he speaks of society and institutions being arranged such that they could facilitate the realization of mankind as beings of utility. It is as if institutions spring forth spontaneously with the purpose of aiding mankind in this realization.³¹ But notice that utility is still assumed to be a natural quality of humanity. Institutions do not create utility maximizing agents but rather utility maximizing agents create institutions which simply reinforce this human precondition. Now that I have dispensed with this possible criticism, let us begin the analysis.

14. The Process of the Principle of Abstraction

We must first separate two issues which, although related, must be recognized in their own specificities before we may draw upon their relations. The first is a critique of the method which generates the principle of abstraction and idealized abstractions. The second is a critique of the idealized abstraction itself - the axiomatic modeling of consumerist ontology.

The first question has recourse to Marx. His critique of bourgeois economists contemporary to his time can be brought to bear upon the principle of abstraction. These economists also relied upon abstractions for economic analysis. The problem

³¹ Mill does not seem to formalize this proposition but there is evidence for it in the essay. For example, on page 32 Mill states "Like the other acquired capacities above referred to, the moral faculty, if not a part of our nature, is a natural outgrowth from it; capable, like them, in a certain

Marx discovered in their method had to do with the construction and composition of the abstract. The seemingly most logical point of departure for economic analysis has to do with an analysis of the population. But as Marx indicates, the population remains an illusory abstraction unless it is decomposed into its concrete constituent elements, economic classes. These classes themselves need to be broken down into their elements, wage labour and capital. The operation of moving from a fraudulently concrete category of the population to simpler concepts until the “simplest determinations” are found is incorrect and was the method employed by political economists of the seventeenth century. The population considered this way is a misleading abstraction, specifically, an abstraction which is divorced from the concrete. For Marx the point is to move in a different direction, from the actual concrete to the abstract, and in this way the population can be considered in its manifold, historically situated determinants... “From there the journey would have to be retraced until I had finally arrived at the population again, but this time not as the chaotic conception of the whole, but as a rich totality of many determinations and relations.”³² It is from smaller, concrete determinants that legitimately abstract, general, relations are discovered. One must proceed analytically; by reconstructing the originally illusory abstract population using its constituent concrete elements, e.g., economic classes. In this way the population is no longer an illusory abstraction but rather a concrete category as it is represented in its manifold concrete determinants.

small degree, of springing up spontaneously; and susceptible of being brought by cultivation to a high degree of development.”

³² Marx Karl. “Introduction.” Grundrisse: Introduction to the Critique of Political Economy. Ed. Quintin Hoare. Trans. Martin Nicolaus. (Baltimore: Penguin Books, 1973) 100.

It is not the abstract that generates the concrete, but rather, the concrete that generates the abstract. The abstract serves as a means by which the concrete is represented but the abstract must be generated by the concrete to correctly correspond to that determinate reality and avoid idealism, or confusing thought as the producer of reality instead of reality producing thought:

The concrete is concrete because it is the concentration of many determinations, hence the unity of the diverse. It appears in the process of thinking, therefore, as a process of concentration, as a result, not as a point of departure, even though it is the point of departure for observation and conception. Along the first path the full conception was evaporated to yield an abstract determination; along the second, the abstract determination leads towards a reproduction of the concrete by way of thought.³³

This is the act of synthesis. Once the abstract population is broken down into its elements, they are retraced and linked together until one arrives at a complex, concrete conception of the population. The population is no longer an illicit abstraction since it is now constituted by the “concentration of many determinations” and is the “unity of the diverse” instead of simply being a chaotic, undifferentiated, abstraction. The concrete has recourse to observation and so too must the abstract lest it become reified.

The same can be said of the principle of abstraction in neo-classical economics. The neo-classical principle of abstraction shares the same error as abstractions employed by the economists of Marx’s time. An abstraction which is not generated by the concrete shares the same aspect of commodity fetishism: divorced from the social and historical context they take on a life of their own independent of the context which

³³ Marx, Grundrisse 101.

produced them. In other words, abstractions divorced from the concrete are attributed a “naturalness” in that they seem to exist independently of the particular historical contexts from which they are actually generated.

The principle of abstraction radically abstracts crucial elements of a highly complex economic reality. From this abstraction another one is created which concerns the ontological construction of the consumer. This abstraction also appears as if it were natural since it is divorced from the socio-historical context from which it was derived. As Marx puts the issue for the case of exchange value:

To what extent some economists are misled by the Fetishism inherent in commodities, or by the objective appearances of the social characteristics of labour, is shown amongst other ways, by the dull and tedious quarrel over the part played by Nature in the formation of exchange-value. Since exchange-value is a definite social manner of expressing the amount of labour bestowed upon an object, Nature has no more to do with it, than it has in fixing the course of exchange.³⁴

Marx also alludes to exchange relations taking on law-like, objective qualities or becoming like a “law of Nature” ruling over the labour process. Applied to the principle of abstraction and idealized abstraction, the socio-historical characteristics of capitalist production and consumption become autonomous - divorced from the historical and social contexts from which they are formed. This assumption that human behaviour appears as if it is governed by natural, eternal laws permeates Consumer Preference Theory as the rational economic agent qua consumer is an idealized abstraction.

³⁴ Marx, Capital Vol 1 86.

15. Idealized Abstractions as Reified Ontological Constructions

As alluded to earlier, the predicates of economic man are derived from the principle of abstraction and come to represent the abstract consumer best adapted to a competitive market economy. The principle of abstraction intimately links him to the socio-economic order through his predicates/axioms. For Friedman, the only important aspect of an abstraction is its ability to aid in factual prediction. As such, economic man must be quantifiable. He is an abstraction: the sum of his predicates. Yet the reduction of economic man to axioms divorced from the concrete leads to the fetishization of economic man. As a reified entity, economic man defies history.

Lukacs's discussion of reification provides an insight into the connection between mathematics and reification. Lukacs's allusion to the "phantom objectivity" which governs production in capitalist society can be compared to the phantom objectivity which governs consumption in terms of how consumer behaviour is modeled in economic theory. Lukacs alludes to the notion that, given this phantom objectivity, human action appears as if it were governed by natural laws, an occurrence Marx also alluded to in terms of production in capitalist society. One may say with equal applicability that the consumer has been abstracted into an idealized type, that is, reified and reduced to mathematical concepts as made evident by the modeling of economic agents in terms of the formalized axiomatic statements listed on pages 21-22.

Lukacs was aware that it is by its very representation as an abstraction that human behaviour can be mathematically modeled. Economic agents are reduced to what can be quantified for the sake of prediction. Seen as such, consumer behaviour,

as described by self-regarding, utility maximization, seems inevitable and timeless. Laws are recognized as categorical (timeless) and not structural (historical) ones which are implicated in history and concrete reality... "Indeed, they divorce these empty manifestations from their real capitalist foundations and make them independent and permanent by regarding them as the timeless model of human relations in general."³⁵ This legitimates capitalism because this mathematical framing of human behaviour as subject to the natural law of utility maximization appears to render capitalism inevitable since capitalism contains the most suitable social relations for the realization of the human subject as utility maximizer. If Consumer Preference Theory can be used to mathematically represent human behaviour it is only because utility, as an ontological category, has been cut off from its historical and social roots:

Thus the subject of the exchange is just as abstract, formal and reified as its object. The limits of this abstract and formal method are revealed in the fact that its chosen goal is an abstract system of laws that focuses on the theory of marginal utility just as much as classical economics had done. But the formal abstractions of these laws transforms economics into a closed and partial system. And this in turn is unable to penetrate its own material substratum, nor can it advance from there to an understanding of society in its entirety and so is compelled to view that substratum as an immutable, eternal, datum. Science is thereby debarred from comprehending the development and the demise, the social character of its own material base, no less than the range of possible attitudes towards it and the nature of its own formal system.³⁶

Human behaviour can only be represented as a timeless law if scientific analysis and mathematical modeling is divorced from its concrete determinants. Yet the

³⁵ Lukacs, Georg. "Reification and the Consciousness of the Proletariat." History and Class Consciousness: Studies in Marxist Dialectics. Trans. Rodney Livingstone. (Berlin: Merlin Press Ltd. 1971) 94-95.

³⁶ Lukacs 105.

employment of the concrete can be used to pose critical questions of this ontological construction.

16. Hollis and Nell: The Critique of the Wedding of Positivism and Neo-Classical Economics

Hollis and Nell provide a critique of neo-classical economics based on its employment of the epistemology of Logical Positivism. One of their arguments is that positivism shields economic theory from both critical questions and refutation by concrete observation. Specifically, positivism provides limited insight into consumer behaviour since it is modeled as if it follows timeless causal laws. Their description of rational economic man as a child of the Enlightenment pertains to how positivism limits critical questioning and refutation of economic modeling through observation:

[rational economic man] lurks in the assumptions leading an enlightened existence between input and output, stimulus and response. He is neither tall nor short, fat nor thin, married nor single. There is no telling whether he loves his dog, beats his wife or prefers pushpin to poetry. We do not know what he wants. But we do know that, whatever it is, he will maximize ruthlessly to get it. We do not know what he buys, but we are sure that when prices fall he either redistributes his consumption or buys more. We cannot guess the shape of his head but we know that his indifference curves are concave to the origin. For, in lieu of his portrait, we have an Identikit picture. He is a child of the Enlightenment and so the self-seeking individualist of utility theory. He is a maximizer... As a consumer he maximizes utility by omniscient and improbable comparison of, for instance, marginal strawberries with marginal cement... He is always at what he takes to be an optimum, believing (however falsely) that any marginal change would be for the worse. From individual indifference to international trade, he is forever striking the best subjective balances between disincentive and reward.³⁷

³⁷ Hollis, Martin., and Edward Nell. Rational Economic Man. (London: Cambridge University Press, 1975) 53-54.

In light of the preceding quotation, the following will be drawn from Hollis and Nell's critique of the modeling of rational economic man. Rational economic man is an abstract individual described by the axioms of Consumer Preference Theory. The axiomatic treatment of his actions make those actions in neo-classical theory appear as if they are determined by causal laws as he constantly seeks to maximize his satisfaction. The particular axiomatic treatment of his behaviour leaves no room for critical questioning or refutation of the theory by concrete observation. It will be explained below that *ceteris paribus* clauses, along with rationality, also shield the theory from refutation and cause the theory to become insular and circular.

The axioms of Consumer Preference Theory, as synthetic statements, express timeless causal laws of human behaviour. The axioms are considered to be intuitively certain, that is, they are maximally confirmed by any observation and are informed by introspective evidence - that behaviour is motivated by utility maximization. This further reinforces the naturalism within Consumer Preference Theory. Seen as such, human behaviour is modeled as if it possesses the same regularity as nature:

The idea that economic laws state psychological necessities of human action has found more favour among economists. Indeed Utility Theory can be regarded as an expression of it, either as a quasi-empirical theory based on human motives and drives or as an epistemological claim that economics rest on ultimate self-knowledge of human desires.³⁸

The iron laws of nature become the iron laws of utility. Translated into a psychological theory of human action, it displays the same mechanical aspect as nature - a programmed machine subject to causal laws which are entirely validated by concrete observation.

Another shield afforded by positive economics against critical questions turns on the claim that predictive success is the only means by which a theory can be tested. For even this criterion is hedged against. *Ceteris paribus* clauses are added to economic hypotheses to keep so called extra economic variables from influencing economic outcomes: a theory can be said to have been able to predict a certain outcome if *all other things had been equal* (*ceteris paribus*). This can be seen to further abstract from a complex socio-economic reality. If the theory predicts a certain outcome and it does not occur this need not concern the neo-classical economist since he may simply claim that the *ceteris paribus* clause has not been satisfied.³⁹

It is instructive that the notion of rationality may function as such a *ceteris paribus* clause and thereby guard a theory from refutation by way of observation. Thus, if a predicted outcome does not happen, the neo-classicist can simply blame concrete economic agents for not acting rationally. Rationality is granted the same status as analytic statements. For example, the statement “all bachelors are unmarried males” is true because of the definitions of the words. That is the predicate “unmarried” is a part of the subject or derived from the meaning of the subject. In a similar fashion the statement “as rational agents, all human beings are self-regarding utility maximizers” may also be considered to be true because of the definitions of the words. “Rational agents” is the subject from which “self-regarding utility maximizing agents” is derived. Therefore, if neo-classical economists encounter observations which falsify their theories they simply dodge them with the use of *ceteris paribus* clauses and an analytic postulate of rationality.

³⁸ Hollis and Nell 171.

A paradox seems to exist because of this shielding against empirical falsification. Rational economic man is an abstraction and not a concrete person. “As if” statements make possible the claim that predicates are constructed independently of actual economic actors. Yet predictions are supposed to hold for the real world, but if actors do not act rationally it is not the fault of the model because *ceteris paribus* clauses assume that concrete actors will indeed act rationally; people have learned to become rational economic agents. This insular and circular model of human behaviour shields itself quite effectively from both refutation through observation and critical questioning via concrete content. Idealized abstractions or reified entities are, therefore, problematic in terms of both predictive success and critical questioning. Reality, as described by the principle of abstraction and idealized abstractions, is seen as homogeneous, orderly, and rational in a mechanical sense of rationality. Nothing irrational can make its way into an economic model which homogenizes a complex, heterogeneous reality into mechanically perfect units of utility maximizers. Abstracting away the irrational or heterogeneous also abstracts away those particular concrete elements which would bring forth critical questions of the economic model, behavioural status-quo, and socio-economic order the model is supposed to describe.

17. Summary 3: The Elimination of Critical Questions; the Apologetics of the Principle of Abstraction

The possibility of posing critical questions is blunted by the process of abstracting away those contradictory elements or features which may be employed as catalysts for social transformation. The principle of abstraction reifies economic

³⁹ Hollis and Nell 55.

entities and totalities by turning historical relations into natural ones through the divorce of the abstract from the concrete. This has the effect of homogenizing and leveling out the world thus ignoring irrational contradictions. These irrationalities could be the location of critical questions and insight. The concrete cannot be used to refute this ontological construction while *ceteris paribus* clauses and blaming concrete economic agents for not acting rationally further blunt the possibility of posing critical questions.

Economic agents appear as if they actually are naturally self-regarding utility maximizing agents and are modeled as such. If this is true then capitalism, as represented by General Equilibrium Theory, is made to seem natural and inevitable. Pareto optimality, as the best social state which this representation of humanity can hope to achieve, can only occur with general equilibrium which itself can only be effected in a free market economy. This legitimization can only occur if this ontological construction is removed from its concrete, historical determinants. The axiomatic construction further reinforces this as human behaviour is made to seem as if it follows natural causal laws. In other words what is not taken into account is the “material substratum” or institutional-structural determinants which aid in the creation of rational economic agents. Thus reification (principle of abstraction, idealized types) aids in the justification of the capitalist socio-economic order.

18. One Dimensional Economics

There are two interrelated ways by which all questions are reduced to the horizon of positive economics. This interrelation is mediated by the notion of ethical

neutrality. The first is the epistemological presupposition of positivism; that there is an absolute separation of normative-ethical questions from positive factual ones. This absolute separation also renders critical questions, based on alternative normative commitments, as metaphysical nonsense. This brings us to the second way by which all questions are reduced to the horizon of positive economics. Neo-classicists claim that all economic disputes are really over means and not ends. Positive economics facilitates prediction which is how disputes over means are resolved. As a result of this combination only one form of rationality is validated, along with its correlated economic agent-entity, which is most useful for predictive success. Therefore rational economic man is intimately linked with the capitalist socio-economic order since he can only learn to adapt to his surroundings: economic man can only be modeled as a creature of incorrigible cause and effect. Alternative entities and their correlated forms of rationality are left out or reduced to the dominant form of instrumental rationality. This is a direct result of leaving ethics out of economics. Lastly, preference satisfaction is the only recognized conception of human well-being. This, in turn, leaves out alternative conceptions of human well-being which could be radically opposed to the narrow notion afforded by conventional Utility Theory.

19. Positivism and Positive Economics- Habermas and the Closure of Critical Reflection

Both positivism and positive economics share the notion that meaningful statements are only those which report facts and observation. Stated formally, a cognitively meaningful statement, one which can be said to contain knowledge, must refer to observable phenomena, e.g., a cognitively meaningful statement is an “is”

statement. Otherwise a statement is said to be metaphysical and cannot contain any knowledge. Both normative statements, “ought” statements, and ethically critical statements traditionally fall under the category of metaphysical nonsense. In both positivism and positive economics cognitively meaningful statements are those which can be tested empirically, even though testing only occurs in the established socio-economic order. One is reminded of Hume’s famous dictum that:

When we run over libraries, persuaded by these principles, what havoc must we make? If we take in our hand any volume; of divinity or school metaphysics, for instance; let us ask, Does it contain any abstract reasoning concerning numbers? No. Does it contain any experimental reasoning concerning matters of fact and existence? No. Commit them to flames; For it can contain nothing but sophistry and illusion.⁴⁰

The problem with this assertion is that it also precludes certain kinds of critical questions and this is endemic of positive science in all of its manifestations. But some forms of knowledge and meaning, specifically socially critical knowledge or meaning, elude positivist strictness. These forms of meaning could be opposed to the established socio-economic order; for they do not report observable facts since they call into question those concrete determinants (e.g., institutional constraints on human behaviour and motivation) which generate the observable facts (e.g., consumer behaviour). Clearly positivist epistemology does not allow for an economic theory, or practice, to become self-reflective.

Habermas is aware of this situation. He reflects upon the status of positivism and its detrimental effects on the possibility of posing critical questions of itself and, consequently, the socio-economic order. For Habermas, the definitive feature of

positivism is that it disavows critical reflection. Commenting on the notion of positivism as a philosophy, positivism has the function of screening science from philosophical, or critical, inquiry:

Positivism certainly still expresses a philosophical position with regard to science, for the scientific self-understanding of the sciences that it articulates does not coincide with science itself. But by making a dogma of the sciences' belief in themselves, positivism assumes a prohibitive function of protecting scientific inquiry from epistemological self-reflection. Positivism is philosophy only insofar as is necessary for the immunization of the sciences against philosophy.⁴¹

Positivism does not allow for a critical inquiry into the scientific construction of knowledge as well as the social context from which such knowledge is derived. As it depends upon sensory experience for claims to knowledge, positivism does not allow for critical reflection. In other words, positivism can only comprehend the world as it currently exists. Limiting itself to what "is" and not what "ought" to be leaves the current world intact since it is not the place of science to critically reflect upon either itself or the object of inquiry. Critical statements are also meaningless statements as they cannot be made within the horizon of positivism... "Any epistemology that transcends the framework of methodology as such now succumbs to the same sentence of extravagance and meaninglessness that it once passed on metaphysics."⁴² Critical inquiry falls by the side of meaningless metaphysical nonsense and the current socio-economic order is, if only by implication, validated.

⁴⁰ Hume, David. Inquiry Concerning Human Understanding. Ed. Eric Steinberg (Cambridge: Hackett Publishing Company, 1993) 114.

⁴¹ Habermas, Jurgen. Knowledge and Human Interests. Trans. Jeremy J. Shapiro (Toronto: Beacon Press, 1972) 67.

⁴² Habermas 67.

Friedman asserts that disputes are only really over means and not ends. Thus Friedman's assumption that there is an agreement about the social values within the capitalist socio-economic order remains intact since one cannot critically reflect upon those values. What is real is rational and transcendence of the existing status quo, along with alternative critical epistemologies, is negated by positivism.

Friedman's assertion that people will learn to become utility maximizing agents is symptomatic of positivism. People can only conform to the world and cannot change it. Indeed, qualitative change implies a normative judgment informed by an alternative ethical commitment: in a word, a form of critical, self-reflective rationality. One must begin by explicating the ramifications of this limited notion of rationality. This practice of limiting questions to the parameters established by the de facto framework which, at the same time, rejects critical inquiry by limiting all inquiry to its boundaries, parameters or horizon, will be termed "one dimensional economics."

20. Rationality in One Dimensional Economics

The notion of "one dimensional" or "dominant rationality" provides a useful way by which one may elucidate how Consumer Preference Theory privileges this form of rationality over all others. To facilitate this discussion, a binary opposition of rational- "irrational"⁴³ will be employed. Later, in chapter 4, a notion of irrationality will be more fully elucidated and termed "transformative rational praxis." Consumer Preference Theory only recognizes one form of rationality as valid comprising the rational economic agent. Marx alluded to this notion when he wrote:

⁴³ As will be stated in chapter four when I define transformative rational praxis, this form of irrationality should not be confused with anti-rationality because it is not anti-rational.

For each new class which puts itself in the place of one ruling before it, is compelled, merely in order to carry through its aim, to represent its interests as the common interest of all the members of society, that is, expressed in ideal form: it has to give its ideas the form of universality, and represent them as the only *rational*, universally valid ones.⁴⁴

Rational economic man is the only valid ontological construction allowed within the horizon of General Equilibrium Theory. This has the following implication: all questions concerning consumer behaviour are limited to the horizon of Consumer Preference Theory and this has two corresponding effects. The first is that all human action is represented as a means by which utility is maximized, that is, for the purpose of preference satisfaction. This in turn disallows certain questions. This form of rationality abstracts away alternative ethical considerations which motivate the actions of economic agents. This has the further implication of validating the existing socio-economic order as questions regarding transcendence of this order are not tolerated.

21. Marcuse and the Closure of Critical Reason

Herbert Marcuse's critique of advanced capitalist society and positivism in One Dimensional Man⁴⁵ can be brought to bear upon Consumer Preference Theory and its limited conception of reason. The imposition of this particular and conservative notion of reason, as the all dominant form, results in the devastation of critical thinking linked with conceptions of alternative socio-economic orders. As the all dominant form, instrumental reason reduces all oppositional forms of reason to its own horizon. In other words, dominant reason homogenizes all counter forms of reason reducing

⁴⁴ Marx and Engels. German Ideology: 65-66. Italics mine.

⁴⁵ Marcuse, Herbert. One Dimensional Man: Studies in the Ideology of Advanced Industrial Society. (Boston: Beacon Press) 1964.

plurality and opposition into the discourse of the dominant reason. The result is that all differences and contrasts, one might easily say concrete contradictions, are flattened out; their radical difference is lost. In this way all that is counter to the dominant form of reason is considered to be irrational and aids in the confirmation of the dominant form of reason. The result of this loss of a critical dimension is that only the reigning socio-economic order is validated. What is real is rational since transcendence is limited to established socio-economic practices.

The function of one dimensional reason within positivist neo-classicism is the preservation of the existing socio-economic order. This preservation includes the integration of the individual into the current socio-economic order. The commodity form is one way by which this is accomplished although this is the topic of the next chapter (repressive desublimation). Suffice it to say for now that the reproduction of the current socio-economic order entails the integration of possibly subversive elements back into the dominant form of reason and, consequently, the current socio-economic order. The link between reification and one dimensional society/economics cannot be ignored. Just as idealized abstractions are removed from their concrete determinants thus appearing natural and inevitable, one dimensional economics reduces critical rationality to its fold, making the dominant form of rationality appear natural and inevitable. Without critical rationality the laws of the socio-economic order hover above human existence attaining phantom objectivity, necessarily guiding it. Adherence to these laws facilitates the reproduction of the socio-economic order. These laws function as if they were an invisible hand guiding the actions of the

economic agent whose only aspiration in life is the fulfillment of preference satisfaction:

The loss of this dimension, in which the power of negative thinking - the critical power of reason - is at home, is the ideological counterpart to the very material process in which advanced industrial society silences and reconciles the opposition. The impact of progress turns Reason into submission to the facts of life, and to the dynamic capability of producing more and bigger facts of the same sort of life. The efficiency of the system blunts the individual's recognition that it contains no facts which do not communicate the repressive power of the whole. If the individuals find themselves in the things which shape their life, they do so, not by giving, but by accepting the law of things - not the laws of physics but the law of their society.⁴⁶

This loss of critical rationality also manifests itself in positive economics and Consumer Preference Theory. Consumer Preference Theory is indeed a form of one dimensional economics since it reduces all forms of rationality to its version of rationality. Specifically, rationality is always equated with self-regarding utility maximization; no matter what action an individual takes it always appears as if he or she is trying to maximize his or her subjective utility. It has already been demonstrated that axioms, functioning as intuitively evident empirical truths, act as timeless laws of human behaviour further naturalizing this ontological construction. The axioms of Consumer Preference Theory also fix the meaning and interpretation of economic action; therefore the axiom-set reduces all such actions to its own operational terms: agent x performed such an action for the sole purpose of maximizing his or her utility. In this conception genuine agency is lost and a qualitatively different reason for performing a specific action is barred by the quantifiable notion of utility maximization.

⁴⁶ Marcuse 10-11.

One dimensional modeling of human behaviour makes it appear as if the individual has no choice but to conform to the existing socio-economic order and its historically contingent form of rationality; the individual will learn to become a utility maximizing agent or fail to survive. Therefore the excess, or further dimension, of meaning is removed from language as language is reduced to the operational terms of the prevailing notion of rationality. Thus reason is reduced to its non-critical element.

The result of one dimensional economics and its conformist notion of rationality is the exclusion of certain agents-entities from its framework: specifically those whose actions are not necessarily geared towards utility maximization. This is due, in part, to the necessity of having to reproduce the socio-economic order both in theory and practice. In theory because general equilibrium will not obtain unless agents act rationally. In practice because neo-classical agents aid in the reproduction of the socio-economic order through participation that conforms to its rationality. Of greater importance is how each entity, the rational and irrational, is conceived by positive economics. The rational economic agent is an element within a naturalized ontology: a purely descriptive and therefore ethically neutral framework. Ethics may be excluded if all action is necessarily geared towards utility maximization. The “irrationality” of other entities (and other possible forms of rationality) occurs because ethics is linked with alternative forms of rationality. These alternative forms of reason imply value judgments, unlike the prevailing instrumentalist form which is supposed to be a purely descriptive term denoting the effects of human behaviour and motivation as it naturally occurs. A critical judgment implies a value judgment but positivism has not allowed for value judgments as they are considered to be meaningless; all that is beyond the

prevailing rationality is considered to be illusory. The result of leaving out certain entities is that the prevailing thought remains axiomatic and only occurs within the established economic discourse. The only entities that are validated in economics are those required for the efficient running of the economy.

22. Rational Economic Man as One Dimensional Man - Hollis and Sen

Marcuse's discussion brought out the notion that social laws appear as natural laws for one dimensional man. Martin Hollis draws out the implication of this within neo-classical economics. Hollis distinguishes between active and passive man; it can be argued that the latter is one dimensional.⁴⁷ Hollis critiques the constitution of knowledge in neo-classical economics and the effect it has on the modeling of human behaviour. The criterion for knowledge of positive economics is the ability of a model to explain and predict. Prediction requires that both the economic agents and the world they inhabit are quantifiable. The world constructed by positive economics is a rational world of cause and effect. As a result, economic man can only be modeled as if he is subject to the causal economic laws. But the rational world of economic man is modeled as if it has the same kind of causal regularity as the natural/physical world. Social laws come to be regarded as natural laws to which economic man is unavoidably subject. Furthermore, economic man is himself represented as a natural creature since the axioms he is endowed with predetermine his actions; he is a predictable creature. The result is that economic man gains a timeless, universal principle of human nature of self-regarding, utility maximization. The economic

⁴⁷ Active man is the subject of chapter 4.

Darwinism espoused by positive economics becomes deterministic as economic man, subject to the laws of the market and as a rational creature, will always and necessarily seek to maximize his utility:

On the neo-Classical side, our question is raised typically by the lurking presence of a rational individual behind every allocation of resources. On the one hand he is an actor who seeks to maximize his utility by rational choices which bring him nearer to the margin of indifference. His view of his situation is crucial to explaining his behaviour and his actions manifest inner desires and satisfactions. On the other hand there is a marked tendency to a behaviourism, in which revealed preferences is sufficient evidence of desire and rationality assumptions are used to eliminate all actual differences between men placed in economically similar settings.⁴⁸

The last sentence of the quotation is significant in the sense that it opens the path to an understanding of a more robust conception of human action. Not only are actual differences between people eliminated, so are the contradictory or irrational elements which cannot be reduced to causal explanations via utility maximization and do not aid in prediction - the predictions of bourgeois economics that reproduce the capitalist socio-economic order. These elements have no place in a plastic conception of human behaviour. Therefore all action must be interpreted as fulfilling this unalterable and eternal imperative.

But even more, the axiomatic modeling of one dimensional, plastic man intimately links him to the capitalist socio-economic order. Rational economic man is one dimensional because his rationality is confined to utility maximization: the iron law of human behaviour and motivation. General Equilibrium Theory describes an economic order in which utility maximizing agents can best fulfill their unalterable and

eternal nature. His link to the capitalist socio-economic order is necessary and complete since his rationality perniciously binds him to one socio-economic order. When coupled with economic Darwinism, people will learn to become utility maximizing agents: hence, one recognizes that not only is rational economic man intimately linked with to the socio-economic order but he cannot alter his world. He cannot ask critical questions leading to transformation of his surroundings.

For Amartya Sen, the separation of ethics from economics, via the invasion of positivism into economics, has impoverished the economic modeling of human behaviour ensuring the reduction of human behaviour to the single dimension of self-regarding, utility maximization. Instrumental rationality camouflages real motivations of the economic agent including intentions which may not be reducible to utilitarian instrumentality. The “engineering based” aspect of economics (means-ends rationality) has a privileged position over descriptive accuracy since the success of a model is to be judged by its ability to predict. Economics would be better suited if it also paid attention to ethical considerations since by so doing so assumptions of self-regarding, utility maximization would not be incorrigibly required.⁴⁹ More concrete aspects of human action could be accounted for thus paving a way for alternative conceptions of human behaviour and motivation.

Sen has argued in several places that the question of descriptive accuracy should be addressed since the preselected assumptions severely constrain what (ontological) entities can be admitted into an analysis. Limiting the model to

⁴⁸ Hollis, Martin. Models of Man: Philosophical Thoughts on Social Action. (New York: Cambridge University Press, 1977) 17.

⁴⁹ Sen, Amartya. On Ethics and Economics. (New York: Basil Blackwell, 1987) 6-9.

interpretation involving utility maximization could camouflage the real intentions of the agent thus misrepresenting them: intentions which could be linked with ethical commitments outside of self-regarding, utility maximization... “But if you are consistent, then no matter whether you are a single-minded egoist or a raving altruist or a class-conscious militant, you will appear to be maximizing your own utility in this enchanted world of definitions.”⁵⁰ An individual is modeled as if he is always trying to maximize utility. This in turn limits possible alternative conceptions of human behaviour based on alternative intentions other than utility maximization:

A specific concept of man is ingrained in the question itself, and there is no freedom to depart from the conception so long as one is engaged in answering this question. The nature of man in these current economic models continues, then, to reflect the particular formation of certain general philosophical questions posed in the past. The realism of the chosen conception of man is simply not a part of this inquiry.⁵¹

Choices themselves are informed by ethics and the cultural context in which they occur. If rationality as utility maximization is the only way by which one can understand one’s real life choices then there is no way of understanding someone’s attitudes towards alternative motivations. The model can only accommodate one dimensional man and the socio-economic order to which he belongs. All thoughts of alternatives are reduced to the discourse of the established socio-economic order.

Sen’s idea becomes apparent when he speaks of the disruptive potential of allowing plurality into economic modeling. Sen argues that, far from all human action being geared towards utility maximization, human motivation is informed by a plurality

⁵⁰ Sen, Amartya. “Rational Fools: a Critique of the Behavioural Foundations of Economic Theory.” Choice, Welfare and Measurement. (Oxford: Basil Blackwell, 1982) 89.

⁵¹ Sen, Rational Fools 88.

of motives. This plurality, if represented properly, e.g., if it were not homogenized by the limited notion of utility maximization, would disrupt this homogeneity. Instead plurality is reduced to:

- 1) the recognition that freedom is only an instrumentally valuable thing, e.g., freedom is equated with one's ability to maximize utility and;
- 2) the notion that actions are always geared towards self-interest such that agency is limited to this particular conception.⁵²

For Sen, this representation is arbitrarily limited, although one could argue that this is not so arbitrary if the postulate that only those entities that are socially necessary is validated, as indicated by Marcuse. That is, Marcuse recognizes the need for the capitalist socio-economic order to validate only those entities containing the conformist form of rationality required to materially reproduce the given socio-economic order. Other agents-entities with alternative notions of rationality would disrupt the process of reproduction so they are not included within the dominant economic paradigm.

Sen argues that choice sets should be expanded to allow for alternative conceptions of human well-being. As it stands, social well-being, as an aggregate of individual well-being, is assessed according and only to the instrumental notion of individual utility maximization and Pareto optimality. Since human well-being is only equated with utility maximization, and a society is to be judged only according to its ability to afford individuals the highest level of utility, this limits the entities or actors

⁵² Sen, On Ethics and Economics 61.

allowed into economic modeling because of the limited criteria of human welfare.⁵³ Given that people are naturally self-regarding, utility maximizing agents, a capitalist market mechanism is the only one able to satisfy this criterion of human well-being.

What should also be considered is that Pareto optimality itself cannot be questioned. This occurs in two ways. The first has been mentioned: Pareto optimality becomes problematic only if other conceptions of human well-being than individual preference satisfaction are introduced. The second reason is, at first, limited to Pareto optimality itself. It is possible for Pareto optimality to obtain and have some people living in poverty while others live in luxury. Any movement of wealth, which may occur through a redistribution of original endowments, would be inconsistent with an attained Pareto optimal state. Moreover, there is no room for the discussion of redistribution since it is considered to be an ethical question. On a more radical note, this excludes questions which would deal with, to use Sen's example, radical alteration of ownership of resources which might have to include others form of ownership, e.g., communally based, which would move beyond this limited conception of human well-being. Again, to limit human behaviour and well-being to self-regarding, utility maximization and Pareto optimality validates the socio-economic order.

23. Summary 4: The Elimination of Critical Questions; the Apologetics of One Dimensional Economics

The very nature of one dimensional economics is that it does not allow for critical questions, that is, questions which could be linked with the transcendence of the socio-economic order. Positivism has had an impact on this in its rendering of

⁵³ Sen, On Ethics and Economics 30-35.

normative and critical questions as meaningless, metaphysical nonsense. One dimensional economics concerns itself with the reinforcement of a particular type of ontology associated with a particular type of rationality, validating it at the expense of other systems of rational entities. Certain questions associated with certain alternative entities and alternative conceptions of rationality are ignored outright (critical-normative questions) or reduced to a naturalized utility maximization and the associated notion of human well-being. Alternative forms of rationality, which are contingent on more concrete aspects, e.g., culture, history, and even class consciousness or interest, are disallowed. The other “marginalizing” effect of marginal utility, other than the sort of marginalization that occurs with the calculation of optima, is the “marginalization” of conceptions of alternative socio-economic orders.

One dimensional economics binds the individual to the prevailing socio-economic order. As long as the system is able to deliver the goods associated with the system’s conception of human well-being, what is real is rational. Capitalism is inevitable and it aids in fulfilling humanity’s natural and empirically necessary predisposition to maximize utility. The point is that only one entity can be validated since this is the only entity, that is, the rational economic agent of Consumer Preference Theory, whose motivations are required for general equilibrium to be attained; thus reproducing the socio-economic order; hence, the apologetics of one dimensional economics and its ability to validate only one type of entity linked with one type of rationality.

24. Conclusion: The Link of Ethical Neutrality, Objectivity, Principle of Abstraction, and One Dimensional Economics in the Elimination of Critical Questions

There are overlaps between ethical neutrality, objectivity, the principle of abstraction, and one dimensional economics within positive economics, Consumer Preference Theory, and General Equilibrium Theory in terms of how they act together to blunt the possibility of posing critical questions. The locus of this limitation is the representation of rational economic man as the actual entity of naturalized ontology. This is not to rule out the role of positivism or the two other aspects which hinder critical questioning. This reified, idealized abstraction, as the sole validated representation of human behaviour and motivation, is said to be ethically neutral because it simply a timeless description of human behaviour and motivation. This representation is also objective because, as a naturalized ontology, it represents everyone and as such is divorced from any particular interest. Idealized abstractions are divorced from their concrete determinants which furthers this naturalization, but such abstraction is also justified by the ideals of ethical neutrality and objectivity - people are represented as such because they are utility maximizing agents by their essential nature. So much for concrete social, cultural, and historical determinants. This representation validates only certain types of questions by either eliminating normative-critical questions or reducing them to questions of utility maximization.

Given that people are naturally beings of utility, questions are geared towards how this nature can best be facilitated. Pareto Optimality is the most appropriate social state for the realization of humans as beings of utility. This, in a nutshell, provides the justification for the capitalist socio-economic order as described by General

Equilibrium Theory and the normative political commitment underwriting it -
Economic Liberalism. Only a capitalist socio-economic order can provide the means
by which this human nature is fulfilled.

Criticisms of the aforementioned views which blunt critical questioning have
been conducted throughout this chapter, so they will not be restated. However,
anticipating the analysis which will be conducted in chapters 3 and 4 a few more things
need to be said. These theses of ethical neutrality and objectivity state outright that this
ontological construction is purely descriptive; moreover the principle of abstraction
and one dimensional economics imply the same. All three elements ignore the concrete
historically situated, socio-economic, structural-institutional constraints on, and
determinants of, human motivation and behaviour which aid in the creation of rational
economic agents. Deviations are considered to be irrational as they are contrary to
nature. Yet it is the irrational elements or contradictions which are concrete and could
facilitate social change. An ahistorical ideal type is detrimental to critical questioning
because it imposes an undue order onto a complex reality which contains concrete
irrationalities and contradictions. As Lukacs states:

At first sight we seem to be faced by an insoluble dilemma. For
either the 'irrational' content is to be wholly integrated into the
conceptual system, i.e., this is to be constructed that it can be
coherently applied to everything just as if there were no
irrational content or actuality... In this event thought regresses
to the level of naive, dogmatic rationalism: somehow it regards
the mere actuality of the irrational contents of the concepts as
non-existent. (This metaphysics may also conceal its real nature
behind the formula that these contents are irrelevant to
knowledge).⁵⁴

⁵⁴ Lukacs 118.

As was demonstrated throughout this chapter, and recognized by Lukacs, this elimination of the irrational either by its incorporation into the prevailing rationality or abstracting it away is part of the epistemological background of positive economics, General Equilibrium Theory, and the subsequent ontological construction of rational economic agents. This particular process of abstraction is the means by which irrationalities and contradictions are left out of economic modeling and do not pose a threat to its artificially created stability. The possibility of privileging these irrationalities will be discussed in the final chapter. The apologetics of social atomism and consumer sovereignty is the topic of the next chapter.

Chapter 2:

Production of Consumer Desire - A Critique of Social Atomism and Consumer Sovereignty

No sooner is the exploitation of the labourer by the manufacturer, so far, at an end, that he receives his wages in cash, than he is set upon by the other portions of the bourgeoisie, the landlord, the shopkeeper, the pawnbroker, etc.⁵⁵

1. Introduction

There are two further assumptions made within neo-classical economics regarding consumer behaviour. The first, social atomism, dictates that consumer choice is made regardless of external factors or the perceptions of other consumers. Institutions do not have to be taken into account since tastes and preferences are given. Secondly, consumer sovereignty dictates that all economic activity is geared towards fulfilling given consumer desires. The consumer dictates to the market what goods will be produced and the market provides them at a price that clears the market. The purpose of this chapter is to demonstrate that neither social atomism nor consumer sovereignty can be sustained. In concrete economic practice consumption has a social aspect to it; it communicates something about the bearer of the good. The socially atomistic individual does not exist because consumption is a social process. Consumer sovereignty cannot be sustained because needs are induced by a productive apparatus. Relatively speaking, it is capital that has power over consumption. It will be argued that advertising has the function of socializing the individual, naturalizing the

socio-economic order, and realizing surplus value.⁵⁶ The naturalization of consumerist ontology means that institutional determinants of consumer behaviour do not have to be taken into account; they are not considered in either social atomism or consumer sovereignty. This tacit justification of the capitalist socio-economic order will be revealed.

2. Procedural and Expressive Rationality as Constraints on Social Atomism

Hargreaves Heap's survey and evaluation of three types of rationality, which can be employed to provide explanations in economics including that of consumer choice, provides a useful starting point for a critique of social atomism. The first is instrumental rationality expressed in conventional Utility Theory. This theory regards all human activity as motivated by utility maximization as a final end to which such activity is a means. Instrumental rationality allows for the modeling of consumer behaviour to occur without recourse to institutions. Hargreaves Heap asserts that economic theory has been impoverished because of its exclusive reliance on this type of rationality. Modeling consumer behaviour using this method grounds behaviour in what Hargreaves Heap refers to as "sub-intentional causality" where unconscious causal components affect intentions of the agents. Agents are unaware that their beliefs and desires are being shaped by a causal process which is mathematically but covertly modeled within the axioms of Consumer Preference Theory themselves.⁵⁷ In other words, the causes of the intentions of the actors are abstracted away from the model.

⁵⁵ Karl Marx and Frederick Engels. "Manifesto of the Communist Party", Marx-Engels Reader. Ed. Robert C. Tucker 2nd ed. (New York: W. W. Norton & Company, 1978) 479.

⁵⁶ See the appendix for a definition.

This abstraction is dependent upon making institutions exogenous variables. Instrumental rationality requires that institutions and sources of information remain completely exogenous to the model. But this is of no concern for neo-classical economics. If institutions themselves derive from “given” tastes or preferences, linked with an ahistorical notion of utility implicated within instrumental rationality, then economists may think themselves correct in leaving institutions outside of the model. The two other notions of rationality Hargreaves Heap employs subvert the notion of instrumental rationality. The exploration of each will occur in turn.

The second notion of rationality Hargreaves Heap employs is procedural rationality. This type of rationality has recourse to Marx:

In the social production of their existence, men enter into definite necessary relations, which are independent of their will, namely, relations of production corresponding to a determinate stage of development of their material forces of production. The totality of these relations of production constitutes the economic structure of society, the real foundation on which arises a legal and political superstructure and to which there correspond definite forms of social consciousness. The mode of production of material life conditions the social, political, and intellectual life-process in general. It is not the consciousness of men that determines their being, but on the contrary it is their social being that determines their consciousness.⁵⁷

This quotation is extremely dense so particular distinctions must be made to better elucidate procedural rationality. For Marx, economic relations form the base of capitalist society. The main players are the bourgeoisie, the owners of the means of production, and the proletariat, who must sell their labour power for a wage. From this economic relation legal and political institutions are developed which sustain

⁵⁷ Hargreaves Heap, Shaun. Rationality in Economics. (New York NY: Basil Blackwell, 1989) 40.

⁵⁸ Marx. Preface to a Critique of Political Economy. (Peking: Foreign Language Press, 1976) 3.

economic relations. The legal/economic institutions include markets, firms, and sets of property rights which guarantee such relations. Certain forms of consciousness are necessary for the production and reproduction of the capitalist socio-economic order. This establishes the social ontologies necessary for such reproduction. But economic relations are not the only relations in the socio-economic order; social practices also must be taken into account. Therefore a socio-economic order is comprised of the totality of economic and social relations, economic and social practices, and the forms of social consciousness, e.g., social ontologies, corresponding to them. Procedural rationality takes account of this - that is, institutions as conventions, regular sets of practices, or sets of rules which determine behaviour.

Procedural rationality is comprised of historically specific institutions and social practices. This feature best serves to delineate the difference between procedural and instrumental rationality. Instead of having to posit the construction or acquisition of desires and preferences (and social ontology generally speaking) as exogenous to the model, procedural rationality recognizes these variables as endogenous; it is through these historically specific institutions that the desires and actions of individuals are informed. Since procedural rationality is historically situated and, furthermore, since it does away with the notion of desires and preferences as exogenous variables, it cannot be explained by instrumental rationality. Procedural rationality has to do with the historical context and therefore historical location of individuals. It accounts for the historical and cultural dimensions of social ontology. Procedural rationality coordinates communication in the social world and constitutes the building blocks for shared institutions and culture. As such, the latter are informed by the cultural context

of actions. It rests on procedures which are shared by many people in a given cultural context for instrumentally rational actions. Let us now examine the ramifications that procedural rationality has with regard to the construction of ideal types.

Both instrumental and procedural rationality require ideal types to explain human behaviour. The difference is that ideal types constructed around a notion of instrumental rationality are ahistorical as they contain little concrete, and therefore historical, content. By contrast, ideal types constructed from a notion of procedural rationality contain concrete content because they are informed by social relations and institutions:

Procedural rationality is defined as action which emanates from the use of procedures or rules of thumb. These rules cannot be reduced to, or explained in terms of, instrumental rationality alone; and they are often shared by several agents... They are the irreducible institutional underpinnings and the cultural context for our instrumentally rational actions.⁵⁹

The explanation of ideal types informed by procedural rationality Hargreaves Heap terms “stereotypes.” These stereotypes are supposed to provide guidelines for action but are not etched in stone. Their representations may also be misleading; hence an ideal type may be an inaccurate stereotype.

Advertising is an example of procedural rationality. Firms try to identify those aspects of commodities which will facilitate the sale of their good or service to a certain group of consumers who share certain culturally constructed ideals:

[The message] is not stated explicitly in the advertisement. Yet it will be a common inference. Indeed it would be difficult to believe that the French perfume company would be paying large sums for this advertisement unless this was a common inference. So how is this understanding of the image achieved?

⁵⁹ Hargreaves Heap 116.

The viewer makes sense of the image by using a variety of rules of thumb, procedures for decoding the message; and the advertiser, recognizing this, is able with great economy to convey complicated messages in a single image.⁶⁰

There seems to be an aspect that Hargreaves Heap does not refer to in this particular quotation which is important for the understanding of procedural rationality. If one recognizes advertising as a social practice or institution then it would not be a stretch to say that advertisements also helps create the rules of thumb which aid one in recognizing and decoding messages. They do not simply use pre-given rules of thumb but also aid in their construction.

Before moving to expressive rationality, let us take stock. Social atomism describes a situation in which institutions do not have to be taken into account when considering how consumer wants and preferences are formulated. The apologetics behind this can be better elucidated when one considers social atomism along with consumer sovereignty. By invoking procedural rationality, social atomism cannot be sustained as preferences and desires are seen to derive from historically contingent institutions and do not pre-exist in the individual consumer. Social atomism also describes a situation where the choices of others do not have to be taken into account: that people can be accurately represented as self-regarding economic agents.

If procedural rationality specifies the rules and conventions for how people choose between goods and services, then expressive rationality has to do with how individuals actually choose between goods and services. In other words, procedural rationality provides the guidelines for performing certain actions and expressive rationality is about the actual performance of those actions. Procedural rationality rests

⁶⁰ Hargreaves Heap 130.

on procedures that are shared and cannot be reduced to individual intentions; hence the need for expressive rationality. Hargreaves Heap provides a thorough discussion of expressive rationality. It is a type of rationality based on the individual; not an individual isolated from the rest of the world, but as active in a social setting. People try to understand the world and communicate within the world. In this context it is recognized that an individual's choices and preferences are ethically motivated. Although this is an individual rationality, Hargreaves Heap does not fall into the trap of projecting it onto other societies. Each society has its own cosmology but since our society celebrates the individual Hargreaves Heap employs this notion as an individual type of rationality.⁶¹ In the last chapter this form of rationality will be opened up to represent community interests which are historical and transformative. For now the only concern with expressive rationality is as a doctrine in which an individual communicates something about himself to the social world. As such it is a means by which to critique social atomism.

Veblen's ideas are at one with expressive rationality in running counter to the notion of social atomism. Veblen's critique of Marginal Utility Theory has bearing on the axiomatic construction of individuals as self-regarding utility maximizers. Specifically, he targets the notion that individuals make choices in isolation. This separation of individual choice from social considerations can only be effected if institutions are left out of economic modeling. Veblen argues that this omission has serious consequences for the economic modeling of consumer behaviour. Economic hedonism, as Veblen terms it, only considers the individual as self-regarding for the

⁶¹ Hargreaves Heap 148-149.

sake of calculative rationality. It is the pursuit of pleasure and avoidance of pain, void of social considerations, which only the consumption of goods and services can afford. In leaving out institutions, neo-classical economists leave out the cultural context as well which is how the individual and his or her wants and preferences are conditioned:

The cultural elements involved in the theoretical scheme, elements that are of the nature of institutions, human relations governed by use and want of whatever kind and connection, are not subject to inquiry but are taken for granted as pre-existing in a finished, typical form and as making up a normal and definite economic situation, under which and in terms of which human intercourse is necessarily carried on.⁶²

No question as to where institutions came from or how they change are posed. They simply exist in the world. But granting institutions the status of a pre-existing entity allows the economist the use of hedonistic calculus. People simply react to institutions as things which can be utilized to gain access to pleasure, or avoid pain, in a manner that ignores the social context in which choices occur. One may now evoke Veblen's notion of "conspicuous consumption" as expressive rationality to counter the claims of social atomism.

Conspicuous consumption is a form of expressive rationality. If commodities are things which may be used to communicate something about oneself to the world, then there is an element of social communication. The act of consumption, in terms of display, is itself a form of communication. Consumption communicates status, fashion etc. Goods which one displays tell something about that person in relation to other people because objects give status to those who display them. This is the definition of

conspicuous consumption; it is other oriented. Moreover, in providing status for the one in possession of the article, self-regarding utility maximization cannot be sustained since people take into account others around them. This affects their level of utility.

As a form of communication, expressive rationality resists the notion of “self-regarding” utility maximization such that it renders the first 4 axioms of Consumer Preference Theory problematic. Those particular axioms have to do with self-regarding behaviour:

The result would be the installation of what has been known as the “economic man,” as the normal and definitive type of human nature. But the “economic man,” whose only interest is the self-regarding one and whose only human trait is prudence, is useless for the purposes of modern industry.⁶³

So it is not simply that people derive utility from the use of goods and services in a self-regarding manner. If commodities communicate to the world something about the bearer, if they designate status or totemic value, then they are not simply consumed but displayed. Commodities are used for their display value and not only self-regarding utility maximization. Display value renders problematic the whole notion of self-regarding utility maximization since display has a social aspect which the neo-classical version of consumption, properly speaking, does not. However, in being concerned to display my status to others I could be “other regarding” even though I remain self-interested in the sense that I remain only concerned with my own well-being, not that of others - that is, I still may not have altruistic motives.

⁶² Veblen. Thorstein. “Limitations of Marginal Utility”, Veblen on Marx, Race, Science and Economics. (New York: Capricorn Books. 1969) 235-236.

⁶³ Veblen. Thorstein. Theory of the Leisure Class: An Economic Study of Institutions. (New York: Modern Library. 1934) 241.

Institutions are ever changing entities. As institutions change so too do the meanings behind commodities. This dynamic aspect also renders self-regarding utility maximization problematic as people must keep up with changing trends to maintain social status. An obvious example is fashion. What clothing is considered to be trendy changes from time to time. To maintain or improve social status over time, one must be aware of changes in fashion. Axioms 1-3 are essentially static. If commodity A is preferred to commodity B and commodity B is preferred to commodity C, ($A_p B_p C$) this order does not change as the axioms fix this order over time. In year 1, $A_p B$ could be the case because commodity A attributes to the one who displays it a social status greater than commodity B. Suppose in year 2 a change occurs such that $B_p A$ because B now attributes greater display value than A. To maintain social status one would have to display commodity B. It could also be the case that the display value is contingent to a particular setting such that $A_p B$ at the office while $B_p A$ at a social gathering. This renders axioms 1-3 problematic as preferences are not stable; they do indeed change over time and setting: internal consistency, as implied by axiom 1, becomes problematic once external, dynamic factors are accounted for. Put more strongly, individual utility functions are not mutually exclusive and since they are interdependent neo-classical economists cannot calculate “subjective” utility in the usual manner. This also has implications for a critique of consumer sovereignty but that will be discussed in the next section.

Before undertaking this, one more aspect of expressive rationality must be mentioned but will not be expanded upon until chapter 4. Expressive rationality does not simply mean that people use the rules to conform to the existing socio-economic

order. Contradictions are a part of both concrete reality and socio-economic practices. Contradictions may become part of a critical or historical consciousness. Therefore they too must be accounted for since they are the vehicles behind radical social transformation. Expressive rationality implicates directly the ethical motivations behind actions of agents. The virtue of expressive rationality, for Hargreaves Heap, is that it creates another dimension for individuals which is beyond the “normal” instrumental rationality described by the axioms of Consumer Preference Theory.⁶⁴ Another aspect of expressive rationality will be further developed in chapter 4 which I will term “transformative rational praxis” connected to critical reflection and an emancipatory interest. Transformative rational praxis has to do with the expressive actions of a group of agents which are critical of the socio-economic order. People are not simply trapped by history but at least have the capability of changing the socio-economic order. If a theory is to be judged not only by its ability to explain and predict but also by its use for intervention in the world, then transformative rational praxis must be taken into account.

3. The Critique of Consumer Sovereignty; Marx and the Production of Consumption and the Consumer

Marx’s explanation of the relation between production and consumption provides a good starting point for the critique of consumer sovereignty. Consumption creates production in two ways. The first is that production is realized as production through consumption. In economic terms, consumption is equated with the purchase of the commodity which has the function of realizing surplus value. The second reason

⁶⁴ Hargreaves Heap 171.

is that consumption creates the need for new production since, at the first level of analysis, consumer need is the target of production. Production creates consumption in three corresponding ways.

Production creates consumption by supplying the commodity for consumption. The second way is directly related to the first in that production, as a historically specific activity, also creates a historically specific way by which consumption occurs. Food may be necessary in every epoch for the reproduction of material life but food itself does not escape historical determination. Objects for consumption are not the only things that are created. The means by which objects are consumed are also created. The consumer is therefore a product of production:

Hunger is hunger, but the hunger that is satisfied by cooked meat eaten with a knife and fork is a different hunger from that which devours raw meat with hand, nail, and tooth. Not only the object of consumption but also the manner of consumption is therefore produced by production, not only objectively but subjectively. So production creates the consumer.⁶⁵

The last reason is that production creates a need for a commodity beyond what could be termed as natural needs (food, shelter, clothing, etc. although these are also historically determined as indicated by the last quotation regarding food). Beyond these needs are those which are purely historically and socially determined. In such cases, the desire for a commodity is produced by the perception of the commodity itself. This is a little misleading in that it is not exactly the object which creates this need per se but production which creates the need through the object. Marx's example of art shows this point... 'Like every other product an object d' art creates a public with artistic taste and a capacity to enjoy beauty. Production accordingly produces not

only an object for the subject, but a subject for the object.”⁶⁶ Marx summarizes these three points by stating that production creates consumption by creating the object for consumption, the characteristics of consumption, *and creating the want in the consumer for the particular type of commodity*; production urges consumption.

Although production and consumption seem to be identical in the sense that they presuppose each other and seem to occur in a single act, Marx asserts that production is the origin from which the entire process of production and consumption occurs. Needs created by society are purely socio-historical needs and are the result of a historically specific mode of production:

The essential point to emphasize here is that whether production and consumption are considered as activities of a single subject or of separate individuals, they in any case appear as moments of a single process in which production is the actual point of departure and accordingly the predominant moment. Consumption, as a pressing necessity, as a need, is itself an internal moment of productive activity. The latter, however, is the point of departure of realization and thus also the predominant moment, the act in which the entire process runs its course again.⁶⁷

So we see that it is not consumption that guides production, even with so called natural needs, but rather production which guides consumption, provided a want can be socially created such that surplus value can be realized and the industry or firm remain in business. We also recognize that consumption does not determine distribution or exchange either, as consumer sovereignty would have one believe. A historically specific mode of production will have its own specific form of distribution and exchange.

⁶⁵ Marx, Introduction 20.

⁶⁶ Marx, Introduction 20-21.

4. The Functions of Consumption and Consumer Sovereignty in Capitalist Society

Marx provides insight into three means by which the critique of consumer sovereignty may be conducted. The first has to do with “need” originating from production. Adorno and Horkheimer, Marcuse and Baudrillard contribute to this critique in terms of the ideology of consumer sovereignty in which the individual is indoctrinated or naturalized by the capitalist socio-economic order. The individual does not communicate preferences to the market but rather firms, under the demand of having to make profit, induce needs and wants which they then satisfy through production. Needs become an anchor fixing the individual to the socio-economic order, naturalizing both consumerist ontology and the socio-economic order from which it is derived. Changes in the forces of production also influence what is needed by society or, stated differently, new industries and technological changes induce new needs. For instance, the development of the internal combustion engine gave rise to the “need” for motorized vehicles thus displacing the need for the services of the blacksmith. Consumption functions to naturalize the capitalist socio-economic order and its corresponding consumerist ontology, and realize surplus value; both the naturalization and the realization furthering the reproduction of the capitalist socio-economic order.

4.1. Adorno and Horkheimer - Culture Industry and Consumption as Rationalized Activity Leading to Pacification

Writing in and about the context of pre world war II Germany and American capitalism, Theodor Adorno and Max Horkheimer’s analysis of culture, specifically

⁶⁷ Marx. Introduction 22-23.

consumer culture, paints a picture that is radically opposed to the ideology of consumer sovereignty. With the development and rise of capitalism came the rise and predominance of a rationalization encompassing all areas of culture including consumer culture. The effect of popular culture, which was accompanied by the rise in rationalization, was the pacification of the individual and his subservience to the power of capitalism. The quelling of critical responses to the oppressive system occurs because of the unity offered by culture: there was a false identity of the general and particular.⁶⁸ In Dialectic of Enlightenment, Adorno and Horkheimer identify the elements of the capitalist system seeking to justify production as a process which fulfills the pre-existing needs of the consumer. Instead, the ideological mystification of consumer sovereignty conceals the domination of the system over the individual through the process of rationalization:

...it is claimed that standards were based in the first place on the consumers' needs, and for that reason were accepted with so little resistance. The result is the circle of manipulation and retroactive need in which the unity of the system grows ever stronger. No mention is made of the fact that the basis on which technology acquires power over society is the power of those whose economic hold over society is greatest. A technological rationale is the rationale of domination itself. It is the coercive nature of society alienated from itself.⁶⁹

Those in control of the technical apparatus set the agenda for consumption.

Technological rationality, functioning under the economic system, has standardized mass production and this standardization has permeated all of society. This rationalization has gained control over individual consciousness blunting resistance to

⁶⁸ Max Horkheimer and Theodore W. Adorno. "Culture Industry: Enlightenment as Mass Deception". Dialectic of Enlightenment. Trans John Cumming (New York: Continuum, 1997) 121.

⁶⁹ Horkheimer and Adorno 121.

the system. Consumption does not enable individual freedom and well-being as the ideology of consumer sovereignty would have us believe. Instead consumption expresses the process of the pacification of the individual and his or her subordination to the socio-economic order.

Even so called spontaneous elements of society are controlled and administrated thus further providing for the apologetics of consumer sovereignty. "Culture" appears as if it spontaneously arises from individuals themselves while the culture industry simply responds with the commodities people are induced to wish to have:

The attitude of the public, which ostensibly and actually favors the system of the culture industry, is a part of the system and not an excuse for it. If one branch of art follows the same formula as one with a very different medium and content... then the claim that this is done to satisfy the spontaneous wishes of the public is no more than hot air. We are closer to the facts if we explain these phenomena as inherent in the technical and personnel apparatus which, down to its last cog, itself form part of the economic mechanism of selection. In addition there is the agreement - or at least the determination - of all executive authorities not to produce or sanction anything that in any way differs from their own rules, their own ideas about consumers, or above all themselves.⁷⁰

The spontaneous actions of consumers, which may be critical reactions against a repressive socio-economic order, are commodified and pacified under the sphere of rational calculation. Everything falls under a formula - even consumerist ontology. Deviations, in the form of spontaneous elements, become commodified and consequently a category of the totality of capital and the culture industry. As capital seeks those areas which are profitable it commodifies spontaneous elements,

⁷⁰ Horkheimer and Adorno 122.

rationalizing them, and consequently pacifying them. In this way rationalization has the function of creating a passive population; rational calculation of consumption results in the predictability of individual behaviour and the administration and control of the individual. Critical reason is subverted by instrumental reason: conformity renders the individual powerless since all elements of culture are subsumed into the formula of the totality of the culture industry. Formula and calculation keep critical thinking, irrationality, from becoming threatening by subverting it to dominant rationality. In this light, “consumer sovereignty” supplies the justification for the administration, domination, and control of the individual; not his fulfilment as a being of utility.

4.2. Marcuse and Repressive Desublimation

Marcuse’s critical description of consumer society argues that the realm of consumption establishes the conformity of the masses to the capitalist socio-economic order. Marcuse takes Marx’s assertion that needs are created by production one step further in that needs are also manipulated by particular interests... “For totalitarianism is not only a terroristic political coordination of society, but also a non-terroristic economic-technical coordination which operates through the manipulation of needs by vested interests.”⁷¹ The success of the capitalist socio-economic order is dependent upon the notion that producer needs appear as spontaneous consumer needs. The mystification of this management by particular interests provides the illusion that consumers are the foundation of all economic power in the capitalist socio-economic order. In turn this provides the illusion that consumers participate meaningfully within

⁷¹ Marcuse 3.

that order. Consumer sovereignty is ideological because consumers do not autonomously dictate their needs and wants to the market but rather needs and wants, as expressed commodities, are vehicles by which social cohesion and integration into the socio-economic order occur.

The realization of needs, or the satisfaction of preferences which is supposed to contribute to utility maximization, does not constitute evidence that the consumer is truly sovereign. Needs, as they originate from the particular interest of the producers, dominate and oppress consumers instead of liberating them. Goods and services impose an entire system or way of life; people recognize themselves through their commodities. As a result, consumption becomes one of those ways by which the individual is integrated into society: one of the aspects of one-dimensional man is his recognition of social laws as natural laws. One of the needs of the economic order is to reproduce itself which requires social control and containment of those aspects which could bring about radical social change. One way by which these explosive tendencies are controlled is through what Marcuse terms "repressive desublimation."

Contrary to the ideology of consumer sovereignty, Marcuse's notion of repressive desublimation illustrates that consumption is not only an area which is not controlled by the consumer, but one which attenuates all choice and protest of the established socio-economic order. The consumer, as a self-regarding utility maximizing agent, is part of the rationality of the established economic order; thus, the needs and wants induced by production are used not for the liberation of the individual but are elements of submission and domination. Those possibly explosive elements of society, when confined to the commodity market for solutions to the problems created

by the capitalist socio-economic order, are defused and made to work for the established order. Satisfaction on material grounds (commodity market) allows for “repressive desublimation.” Let me explain this development. Repressive desublimation is a critical Freudian term Marcuse developed to explain the act of channeling instinctual energies, not just rebellious ones although this study will focus only on rebellious ones, back into the repressive capitalist socio-economic order in such a way that simply reinforces repression and repressive structure (class society, the market, etc.). Society wears a happy face but this gratification channels and reinforces other types of repression. This is in contrast to Freud’s use of the term repressive desublimation which constitutes a realization of freedom to some degree.

All problems can be solved by looking to the commodity market which absorbs subversive energy without alleviating the socio-economic conditions of problems. For example, the commodification of greater sexual freedom or even hip-hop⁷² brings protest back to the commodity market which appears to have the solutions for social problems; but these are only apparent solutions generated through the consumption of commodities. The protest value of greater sexual freedom against a conservative society, or hip-hop against racism, no longer point to possible alternative ways of life. Instead, robbed of their protest through the assimilation of their antagonistic content, they affirm the capitalist socio-economic order as the only one possible. Thus repressive desublimation is the process by which protest is moved back to the parameters of the established order. Repressive desublimation has a socializing effect

⁷² Obviously a more contemporary example.

and as such does not point beyond the horizon of capitalist society; it aids society in remaining one dimensional.

On the commodity market, contradictions are not grasped. What is real is rational if the system delivers the goods. The commodity form, in which prevailing cultural values are embedded which are themselves expressive of the established socio-economic order, captures and defuses the potentially subversive elements of capitalist society:

If mass communication blend together harmoniously, and often unnoticeably, art, politics, religion, and philosophy with commercials, they bring these realms of culture to their common denominator - the commodity form. The music of the soul is also the music of salesmanship. Exchange value, not truth value counts. On it centers the rationality of the status-quo, and all alien rationality is bent to it.⁷³

If it is not consumption which guides all other economic practices, and the needs and wants are those induced by the producers, then one can recognize that consumption does not have the function of fulfilling pre-given human needs and wants.

Consumption has the role of containing potentially explosive contradictions by bringing all antagonisms together into the commodity form which itself centers on the rationality of the capitalist socio-economic order. If the system delivers the goods, without a problematization of the link between human well-being and the utility derived from the commodity market, then people are content to look to the commodity market for solutions to problems generated or perpetuated by the socio-economic order. Those elements which could negate the established order now only affirm it as the only rational one possible.

⁷³ Marcuse 57.

4.3. Baudrillard and the Ideology of Needs

Before one can begin to utilize the thoughts of Baudrillard for a critique of consumer sovereignty, one must outline Baudrillard's specific critique as he bases it on the concept of needs. In an attempt to formulate a more radical critique of capitalist economic practices, Baudrillard proposes that a critique should not consist simply of a theory of needs but of a theory of the ideological concept of needs. Baudrillard contends that a theory of needs incorporates a dialectic between a subject and object of needs which itself incorporates a "history of the will."⁷⁴ "Need" is itself incorporated within the utilitarian notion of usefulness but Baudrillard wants to engage in the "sovereign critique" of uselessness or unproductive expenditure. For the purposes of the present critique, Baudrillard's critique of needs will be employed simply against the theory of needs as engendered by consumer sovereignty. No attempt will be made to be as "radical" as Baudrillard as one could argue that the concept of "need" need not be uniformly ideological but such an argument is beyond the scope of the present study.

Baudrillard's account of consumption focuses around the naturalizing or socializing tendency of consumption taking Marcuse's account of repressive desublimation, with the aid of Veblen, one step further. The individual as consumer does not stand as the sovereign dictating needs and wants to the market but rather the market induces these needs and wants which are themselves correlated with the individual... "Far from the individual expressing his needs in the economic system, it is

⁷⁴ Baudrillard, Jean. "Ideological Genesis of Needs". For A Critique of the Political Economy of the Sign. Trans. Charles Levin. (St. Louis MO: St Louis Press, 1981) 79.

the economic system that induces the individual function and the parallel functionality of objects and needs.”⁷⁵ So the link of the commodity to the consumer, or object to its subject, is not generated by the sovereign consumer but by capital and the ideology of consumer sovereignty.

Commodities do not just have a use value defined simply as the function of the object; Consumer Preference Theory is implicated in this as it is a theory of instrumental rationality. Drawing upon Veblen, Baudrillard defines the object of consumption not simply as something which, by its use, generates satisfaction for the consumer. The object is distinguished by a trademark, status, or prestige which is conferred upon its bearer. The object exists within a hierarchical code of signification and it is this aspect of the object that defines it as an object of consumption. These signs themselves come from the “code.”

The code contains several aspects which render the notion of consumer sovereignty problematic. The first is the power relation of the code. The fact that the code contains signs which prescribe social status upon the bearer is only half of the story. There is also the question of control of the code. Whoever controls the code has a degree of power in society; the code is a social relation. From the point of view of consumer sovereignty it would have to be the consumer who is in control of the code. Baudrillard is not clear on the issue of control although one could draw an inference from his ideas. For Baudrillard the code and signs attached to the object within the code are reified. One aspect of reification is that it conceals social relations as the code rules autonomously over the consumer. If, for Baudrillard, the code prescribes status

⁷⁵ Baudrillard, Beyond Use Value 133.

upon the bearer of the item, and signs operate as alibis for commodities, then one could infer that, when strictly speaking about commodities, it is capital, as a social relation, that has power over the code... “And the needs invested by the individual consumer today are just as essential to the order of production as the capital invested by the capitalist entrepreneur and the labour power invested by the labourer. It is *all* capital.”⁷⁶ So it is not simply the case that needs and wants are given and commodities signify social status. The investment of this signification is made by capital since it is not sovereign consumers who control the code but the oeuvres of capital. The code induces needs through commercial capital, e.g., advertising. Social status is not a given need which the market fulfills but a need that the market induces and then fulfills through the production of objects which confer status upon the bearer. But this is not all.

Baudrillard contends that the code also socializes an individual. An individual internalizes codes which include social norms, values, imperatives, and this functions as a form of social control.⁷⁷ Baudrillard’s notion of “controlled desublimation” has many parallels with Marcuse’s repressive desublimation in the sense that consumption is also a mechanism of power over the consumer for the facilitation of capital and the capitalist socio-economic order. Liberation is not real liberation as it is integrated into the system of production and planning... “In this system, the liberation of needs, of consumers, of women, of the young, the body, etc., is always really the mobilization of needs, consumers, the body... It is never an explosive liberation, but a controlled

⁷⁶ Baudrillard. Ideological Genesis of Needs 82.

⁷⁷ Baudrillard. Ideological Genesis of Needs 68.

emancipation, a mobilization whose end is competitive exploitation.”⁷⁸ Since needs are actually needs of the system, and not given needs of the sovereign consumer, they are integrated into the system from the beginning. So consumption has a twofold aspect. It naturalizes the system by socializing the individual - internalization of the code - and it keeps potentially explosive elements at bay because those elements come from the system itself. Controlled desublimation not only keeps the status quo intact but also facilitates the material and ideological reproduction of the system. Need is an ideological concept because “need” can be used to naturalize any socio-economic order.

4.4. Galbraith and the Dependency Effect: Affluence, Advertising, and the Imperatives of Technology

The term Galbraith employs for a critique of consumer sovereignty is “dependency effect.” Simply stated, the dependency effect illustrates that needs and wants do not arise from the consumer but rather are induced by the productive apparatus. The standard of living is assumed to be an important factor of economic life. This is directly related with a society’s productive capabilities. But as production of new and more goods occurs, there must be consumers to purchase the goods. These new goods must find the necessary demand on the market. Advertising has the function of creating the demand for the new goods. Let us deal with each in turn.

The first of these dependency effects has to do with a higher standard of living. Affluence and differences in the standards of living across individuals generates more wants. People seek to emulate those with higher standards of living. The need to live

⁷⁸ Baudrillard. Ideological Genesis of Needs 85.

at a higher standard is induced by the productive apparatus, via advertising as the most glaring example - it creates the need. People then seek to emulate those more affluent in society to give a public signal of living at a higher standard:

But such integration [of advertising as responsible for the need to emulate] means recognizing that wants are dependent on production. It accords to the producer the function both of making the goods and of making the desires for them. It recognizes that production, not only passively through emulation, but actively through advertising and related activities, creates the wants it seeks to satisfy.⁷⁹

Emulation has to do with the possession of superior goods, e.g., those which attribute to its bearer a higher level of affluence. As society produces the capacity for a higher standard of living the individual is judged by the goods he possesses. A higher standard of living is itself associated with the productive capabilities of society so it is production which generates the capacity for a higher standard of living and, consequently, those goods which would signify that one has attained a higher standard of living. Wants are directly created through advertising and emulation to show that one has attained a certain level of personal satisfaction and affluence in society. As production expands new products are introduced into the market. Since aggregate demand is not given it must be created and this is one of the functions of advertising. As productive capacity increases, so too must the aggregate demand to absorb the additional goods.

Galbraith does not directly mention the axioms of Consumer Preference Theory but he does launch a criticism of the traditional assumptions of consumer behaviour presupposed by the axioms: technological innovations and the production of

new goods place this aspect in doubt. As Galbraith states... “And where a society is concerned, comparisons between marginal satisfactions when it is poor and those when it is affluent will involve not only the same individual at different times but different individuals at different times.”⁸⁰ In other words, when considering two individuals, utility maximization of the impoverished individual might depend upon those who are perceived to be better off in terms of levels of affluence. The subjective maximization of utility is interdependent among agents although each agent still remains self-interested. But this particular criticism is still incomplete as consumer sovereignty does not imply social atomism although social atomism implies consumer sovereignty. One may still account for changing preferences if those changes come from consumers themselves, but this is also false since Galbraith argues that it is production that induces needs and not given consumer needs which induce production. As technology changes, more “better” goods (from the point of view of technological progress and affluence) are produced. These goods need to find consumers on the market so needs must be directed, via advertising, towards those new goods which can now be produced.

5. The Technological Imperative- The “Sovereign Consumer” as an Appendage of the Forces of Production and Capitalist Accumulation

Earlier in this chapter it was illustrated, using Marx’s thoughts, that production creates needs and wants. One of the ways in which needs can be created is through technological innovation. This was indicated above using Galbraith’s dependency

⁷⁹ Galbraith, Kenneth. “Dependence Effect”. *Affluent Society*. 2nd ed. (Middlesex, Eng.: Pelican Books, 1970) 151.

⁸⁰ Galbraith 148.

effect. The notion that technological innovation also creates needs was recognized by Marx. Marx's analysis, however, allows one to implicate changes in the forces of production within the structural logic of capitalist production:

On the other side, the production of relative surplus value, e.g., production of surplus value based on the increase and development of the productive forces, requires the production of new consumption; requires that the consuming circle within circulation expands as did the productive circle previously. Firstly, quantitative expansion of existing consumption; secondly: creation of new needs by propagating existing ones in a wide circle; thirdly: production of new needs and discovery and creation of new use values.⁸¹

So changes in the forces of production, or technological innovation, have three effects on consumption. An increase in the forces of production means that more of a commodity can be produced than before. This increase in production must be met by an increase in consumption. In other words, an actual increase in consumption of the same commodity by the same group of consumers previously consuming the commodity. On the same note, an increase in production of the same commodity must be met by creating a need in those who did not previously consume the commodity since this also aids in offsetting the increase in production. Lastly, the production of a new commodity creates a need for that new commodity. Stated differently, the creation of new goods also creates new needs. These aspects also have repercussions for the axioms but that will be discussed at the end of this chapter.

Ernest Mandel, working from the framework established by Marx, formalizes this notion of the creation of needs and further implicates it in the structural logic of capitalist production and distribution. Mandel's general thesis concerning production

⁸¹ Marx. Grundrisse 408.

and consumption is that capitalist production is production geared towards profit and not given needs. Mandel also implicates the creation of needs with an expansion of the forces of production necessitated because of competition between capitalists, and the need to accumulate capital. He argues directly against market legitimization which states that it is changes in consumer preference which brings about changes in what is produced and, consequently, what is consumed. Mandel's argument is directed against a particular economist but it is thematically consistent with the present argument:

Let us first of all throw Noah's argument over the most absurd aspects of apologia, namely, the allegation that the innovations which bring the big waves of investment result from changes in taste on the part of the consumer. It was not, after all, the need to have a car that created the motor-car industry; it was this industry that created the need to have a car. It is the investment of enormous amounts of capital in new sectors of industry (and, to a subsidiary extent, publicity for their products) that changes the taste of consumers, and not the changing taste of consumers that brings about the flow of enormous amounts of capital into certain sectors, or, even less, technical inventions.⁸²

Changes in the forces of production, whether that change increases present production or creates new commodities, results from the structural logic of capitalist production itself. Competition compels the producer to become more efficient and that means either more efficient production, which could increase output and lower price, or the invention of new commodities. The surplus value created, by the increase in the forces of production or new commodities, must be realized on the market.

The importance of axiom 5 now becomes apparent. People must not be sated at any level of consumption or else an increase in production will not be off-set by an accompanying increase in consumption - general equilibrium will not attain and there

will be an excess supply of produced goods. The economic order requires individuals to be bearers of this axiom in order to ensure the efficient functioning of the economic order.

New needs must be induced in the consumer since they are not simply given. As Mandel states elsewhere regarding the relation between advertising and the apologetics of consumer sovereignty “Such apologists claim, on the one hand, that the mass of buyers is now sovereign, but concede on the other hand that the salient characteristics of the new advertising is that these sovereign consumers first have to be persuaded of their new needs.”⁸³ The creation of new commodities must be accompanied by the creation of new needs if the capitalist hopes to continue with normal business operations. The creation of needs is facilitated by advertising which is itself a component of capital.

Mandel identifies advertising as a component of commercial capital which has the function of facilitating the circulation of capital via the realization of surplus value. Advertising, then, is part of the distributive mechanism of capital:

All the expenses of distribution - trade, advertisement, telecommunications, etc., - are undertaken by commercial capital, which shares in the general division of surplus value... But this role undergoes a profound alteration as the capitalist regime evolves. As the productive forces expand prodigiously, and at more and more frequent intervals come up against the limits of the capitalist market, the essential role of distribution becomes less that of increasing the amount of surplus value than that of ensuring its realization.⁸⁴

⁸² Mandel, Ernest. Marxist Economic Theory. Trans Brian Pearce vol. 1 (New York: Merlin Press, 1971) 375.

⁸³ Mandel, Ernest. Late Capitalism. Trans Joris De Bres (London: Atlantic Highlands: Humanities Press, 1975) 398.

⁸⁴ Mandel. Marxist Economic Theory Vol 1. 201.

As capitalist production develops due to competition, that is, as the productive forces increase such that more and more goods, as well as more and more different goods, are produced, it becomes increasingly difficult to realize surplus value. The economic function of advertising, as an aspect of distribution, is to aid in the realization of surplus value by facilitating the purchase of commodities. But this is not all. Mandel also alludes to the socio-economic role of advertising which has to do with the socialization of individuals into the economic order through conformity to the ideals (images, way of life) attached to the commodities.⁸⁵ Production creates both the need and the consumer but the needs themselves are contingent to a particular phase of capitalism which has its own life style. People must be socialized to that life style, and the accompanying needs, to be effective consumers.

6. Neo Classical Economics and the Historical Emergence of Consumer Society

Both Mandel⁸⁶ and Ewen⁸⁷ have analyzed the emergence of consumer society. Mandel attributes this emergence to the second industrial revolution. Ewen too attributes this emergence to a rise in productive capabilities, e.g., technology, in terms of mass production. Each focus on socio-economic aspects of this occurrence between the turn of the century to the late 1920s. Although this historical analysis falls outside of the formalization of General Equilibrium and Consumer Preference Theory conducted by Arrow, Hahn, Debreu, and others during the 1950s, neo-classical

⁸⁵ Mandel, Late Capitalism 394. "The differentiation of consumption or the extension of the commodities consumed as a result of the social pressure (advertisements, conformity)." This is directly linked with the historical changes in the forces of production.

⁸⁶ Mandel, Late Capitalism specifically Chapter 12 "The Expansion of the Service Sector. The Consumer Society. and the Realization of Surplus Value"

economics and the various Marginalist theories developed during the late nineteenth and early twentieth century are thematically consistent with these formalizations. The purpose of this section is to reinforce the critique of social atomism and consumer sovereignty by accounting for the historical emergence of consumer society and the social function of advertising.

Consumer Society was called upon to answer three interrelated problems. The first and specifically economic problem has to do with the realization of surplus value, which is the definitive aspect of this period of capitalist economic history according to Mandel. It was no longer the creation of surplus value that posed a problem but rather its realization which occurs in the arena of consumption via commercial capital (advertising). This new aspect of capitalist production requires individuals who would direct their activities to correspond to changes in the productive apparatus. The second problem had to do with socialization of economic subjects and naturalization of the socio-economic order. It is not simply a creation of needs corresponding to changes in productive capabilities which are in question; it is also the creation of a lifestyle on which those needs are contingent and the adaptation of individuals to that lifestyle or "form of life." The last problem is closely related with repressive desublimation and one dimensional society in that the commodity market must appear to have all of the solutions. In this way the individual, as a consumer, still conforms to the boundaries of the capitalist socio-economic order since all protest is confined within its boundaries. In other words, greater conformity to the ideal lifestyle must be equated, by consumers, with greater happiness.

⁸⁷ Ewen, Stuart. Captains of Consciousness: Advertising and the Social Roots of the Consumer

As stated, Mandel associates the contradictions in this phase of capitalist production with the realization of surplus value. The development of the forces of production corresponds with an even greater generalization of commodity production. As capital moves into different “internal” sectors, which have not been touched by capitalist production, this leads to greater specialization in production and consequently greater specialization in consumption. Ewen is also aware of the notion that a capitalist economy would be faced with a crisis of overproduction if more surplus value is created than can be realized. Reducing the possibility of crises of overproduction depends upon the development of effective consumers:

As the question of expanding old and creating new markets became a function of the massification of industry, foresighted businessmen began to see the necessity of organizing their business not merely around the production of goods, but around the creation of a buying public.⁸⁸

Part of this function was administered through the creation of consumer credit as recognized both by Ewen and Mandel. In the 1920s advertisements were used to develop a continual response by consumers to developments in the market.

At this point one can recognize the need for a correction of the axioms of Consumer Preference Theory. Consumers are required to change consumption patterns to absorb the increase in production and changes in commodities produced associated with a change in the forces of production. If rational economic agents can become sated, then an increase in production will not be offset by an increase in consumption; hence, the markets will not clear, overproduction will occur, and general equilibrium and Pareto optimality will not obtain. What is required, then, is both an

Culture. (Toronto: McGraw-Hill Book Company, 1977)

increase in consumption corresponding to an increase in production and changes in consumption patterns to reflect changes in the types of commodities sold. But this second aspect is also linked with a particular lifestyle so socialization of individuals and the naturalization of the socio-economic system must also occur.

The function of advertising, then, is to sell a particular lifestyle socializing the individual as consumer, thus naturalizing the socio-economic order. Advertisements do not only create the need for consumption associated with particular commodities, but they create the image of a corresponding lifestyle. Ewen asserts that, historically, advertising arose with mass consumer markets. Advertisements define conceptions of both individuals and communities through the creation of images, corresponding to the creation of needs, and the means by which those needs can be satisfied. People must be attributed with both an ability to purchase goods (effective demand) and the desire to actually purchase goods. Referring specifically to the American experience, Ewen states that... "In response to the exigencies of the productive system of the twentieth century, excessiveness replaced thrift as a social value. It became imperative to invest the laborer with a financial power and a psychic desire to consume."⁸⁹

The need to realize surplus value, because of the expansion of commodity production, gave the capitalists the opportunity to integrate the consumer into the capitalist socio-economic order. Advertising began to take on a hegemonic role: it superimposed new conceptions of desire which at the same time solidified the production process and quelled anti-capitalist feelings. Developing an ideology of consumption responded to the issues of social control and the need to distribute

⁸⁸ Ewen 25-26.

goods. Captains of industry, by controlling the social realm, became the captains of consciousness. Antagonisms or unrest due to labour interests, and other social considerations, could be defined in terms of the desire to consume; recall the notion of repressive desublimation and Adorno and Horkheimer's notion of rationalization of culture leading to pacification of the masses:

Not only was this alleged democracy designed to define the modern worker as a smoothly running unit of industrial production, it also tended to define protest and proletarian unrest in terms of the desire to consume, making these profitable as well. By the demand of workers for the right to be better consumers, the aspirations of labour would be profitably coordinated with the aspirations of capital. Such convictions implicitly attempted to divest protest of its anticapitalist content. Modern labor protest should have no basis in class antagonism.⁹⁰

The link between socialization, naturalization, and containment of protest is nearly absolute. The greater the degree of socialization of the individual, and naturalization of the socio-economic order, the greater the chance of containing the antagonistic elements within the confinements of the market and therefore capitalist society. This would imply that it is not social relations and the conditions of social life that are to be blamed for frustrations but that the individual need only blame himself. The market provides the "solutions" while the structural/social causes of problems remain. Let us now take general stock of the critique of social atomism and consumer sovereignty so that the justification of the capitalist socio-economic order behind each can be revealed.

⁸⁹ Ewen 25.

⁹⁰ Ewen 27-28.

7. The Apologetics of Social Atomism and Consumer Sovereignty

Social atomism describes a situation where the analysis of consumer behaviour and acquisition of preferences is divorced from institutional considerations. The fundamental difficulty of social atomism is that consumption does not occur in an isolated fashion. The social function of consumption, as described by conspicuous consumption and expressive rationality, is to communicate something about the bearer of the commodity to the world. Institutions must create both the desire for the acquisition of desires and those desires and preferences themselves which, coupled with display value, integrate consumption as a social activity. Therefore social atomism cannot be sustained because of this social aspect of consumption and the fact that desires and preferences are not given or exogenous to the model or economic order. The representation of consumption as a purely individual action reinforces the notion that people are beings of utility. As such, institutions merely reflect the pre-given tastes and preferences of consumers. The legitimization occur in this division of consumption from its institutional determinants.

Consumer sovereignty shares with social atomism the notion that consumer needs are given. Yet it has been shown that needs are induced by the capitalist socio-economic order. Procedural rationality includes advertising which is itself a part of the code of consumption. This code does not derive from sovereign consumers but from commercial capital. Advertising induces the desire for a particular commodity. In other words, a need must be produced for a commodity if a firm is to realize the surplus value of the commodity through its sale. Needs are not natural but are a category of capital along with the code of advertising which induces those needs; they are all

capital. But this is not all. The code of advertising does not simply sell a commodity to an individual; it also socializes the individual to the socio-economic order thus naturalizing that order. In other words there is a reciprocity, or reciprocal logic, between socializing the individual and naturalizing the prevailing socio-economic order. Advertisements subconsciously induce individuals to always want more, be calculative and comparing, and seek to maximize subjective utility. This reciprocal logic precludes the possibility of individuals understanding that they could behave differently thus this naturalizes and stabilizes a changeable order. In naturalizing the system both advertising and the commodity market function to diffuse potentially subversive elements since the code, and the accompanying needs, both belong to the system. Far from being sovereign consumers, individuals are cogs in the socio-economic order. As the forces of production change so too must preferences to:

- 1) keep up with the increase in commodities or;
- 2) gear preferences towards the new commodities produced and the change in life style that may accompany the changes.

Consumer sovereignty provides the justification for the capitalist socio-economic order in the following manner: all economic activity derives from given consumer preferences and needs. The causal role of consumer sovereignty justifies the capitalist socio-economic order because these so called given, or exogenous, preferences cause or bring about capitalist market activity. Normatively, capitalism is justified on the grounds that it best serves the given consumer needs. The market described by General Equilibrium Theory is best suited for the satisfaction of pre-existing needs, although this will be further expanded upon in the next paragraph. As

no other socio-economic order is capable of providing for these pre-existing needs as well as capitalism, consumer sovereignty justifies capitalism making the natural and inevitable also appear as optimal.

Social atomism and consumer sovereignty both aid in the reinforcement of the naturalized consumerist ontology and the legitimization of the capitalist socio-economic order. It is not simply the satisfaction of pre-given needs, in terms of commodities, that the market provides for the atomistic, sovereign consumer. These commodities themselves are only means to a greater end. According to the naturalized ontology, human beings are beings of utility so a commodity is simply a means to the end of subjective utility maximization. I will now unpack this proposition to demonstrate how the apologetics are greater than they first appeared.

There are two aspects which need to be distinguished. The first is the abstract consumer as the rational, self-regarding utility maximizer contingent on the capitalist socio-economic order. The second is the more particular, yet still abstract, consumer of a particular phase of capitalism with its own lifestyle. Consumer sovereignty and social atomism are apologetic because they each reinforce capitalism as the best socio-economic order suited to the realization of individuals as beings of utility. They also provide the justification for particular phases of capitalism with their own particular lifestyles and the norms and social practices definitive of such lifestyles: for specific types of commodities are produced with the appropriate image to reflect the lifestyle, and thereby maximize the subjective utility of the consumer who has bought into the lifestyle. Together they justify the capitalist socio-economic order as:

- 1) the order most capable of providing for the naturalized ontology and;

2) reinforce the socio-economic order, in its particular phases, as it provides the particular commodities and corresponding lifestyles which aid in utility maximization. As long as the system delivers the goods, consumers carry the illusion of directing the socio-economic order. The convergence occurs because social atomism and consumer sovereignty link the abstract consumer (naturalized ontology) to the socio-economic order through the link of the subject as utility maximizer to the objects (commodities as means) which provide maximal utility and thus fulfill the individual as a being of utility regardless of the specific phase of capitalism.

8. Correcting the Axioms to Account for the Production of Consumer Desire

It has been argued throughout the first two chapters that the capitalist socio-economic order should induce those behavioural characteristics necessary for its continued operation. I mean this in a two fold sense. In the necessary causal world of General Equilibrium Theory, Pareto optimality only obtains if all consumers conform to the axioms of Consumer Preference Theory and assuming that all conditions have been met in production. In actual economic practice consumers should⁹¹ be the bearers of these axioms as modified below. Those aspects which are described by Consumer Preference Theory have been called into question in their current formulation throughout, but more specifically in this chapter. It has been argued that neither social atomism nor consumer sovereignty can be sustained when considering concrete economic practices. This had serious effects on the axioms themselves.

⁹¹ I say should to avoid a functionalist argument and allow for contradictory tendencies which may not allow for a socio-economic order to reproduce itself perfectly.

Specifically, it was discovered that axioms 1 through to 4 could not be sustained since they implied some sort of evaluation divorced from social considerations. The first 4 axioms are valid only insofar as preferences and desires are induced by production and change according to the code of advertising. The axioms should reflect that needs and preferences change with the dictates of capital via this code: the truth of the code is uncovered in the circulation, changes in the circulation, and accumulation of capital as a social relation which guides changes in the forces of production.

When taking into consideration the fact that preferences are not stable over time, and that needs must be induced by the productive apparatus, these axioms must be re-written in order to illustrate a more realistic view of the social ontology necessary for the facilitation of the capitalist economic system. This would have to mean that consumers would have to change their consumption patterns, and consequently lifestyles, to accommodate changes in production. As new commodities are produced a corresponding new need must be induced in the consumer via advertising so that these new commodities will find their equivalent in effective demand on the market. The first 4 axioms would have to be re-written to reflect this economic reality. Axiom 5 may remain unchanged as an increase in the amount of commodities produced must also find their equivalent in an increase in effective demand. People must not be sated or else overproduction will follow due to an excess supply of goods. In the next chapter axiom 5 will be shown to be problematic due to the exchange relations modeled into General Equilibrium Theory. Overproduction does not only occur because of underconsumption or because of a limit in the

consumption capacity of society but is inherent to the structural logic of capitalist production. We must now move the critique of the abstract world occupied by the rational economic agent - to the world described by General Equilibrium Theory.

Chapter 3:

General Equilibrium Theory As A Normative Ideal Social Order

As compared with the eclectic and vulgar conceptions, the neo-classicists were distinguished by a greater methodological rigor. Like the classical economists they strove not to leave any economic phenomena unelucidated, not to gloss over any question, to provide the material for the building of a coherent structure. The apologetic nature of this structure is shown not so much in the conclusions as in the methodology and the initial hypotheses. The system is coherent, but it is divorced from reality, which it fails either to grasp statistically or a fortiori, to explain in its laws of development.⁹²

1. Introduction

The question concerning neo-classical economics is: How can an economy inhabited by self-regarding agents operate in an efficient and orderly manner? Arrow's General Equilibrium Theory provides a mathematically formalized answer to this question. It is a coherent structure and when economic agents act rationally, general equilibrium and Pareto optimality obtain. In a sense General Equilibrium Theory acts as a normative ideal social order guaranteeing that humans can fulfill their nature as beings of utility in a self-interested manner, while providing for a socially optimal outcome. Although the model is structurally coherent it is apologetic because the model is divorced from reality. Specifically, it is a model of simple reproduction and as such does not account for the structural logic of capitalist production. When surplus value and capital accumulation occur, resulting from the extraction of surplus value from labour power, neither a general equilibrium state nor Pareto optimality can be

⁹² Mandel. Marxist Economic Theory Vol 2. 713.

sustained as disequilibrating tendencies arise. Furthermore, the abstraction from these structural elements also precludes the possibility of investigating the structural causes of economic crises of overproduction which could be used to transcend the capitalist socio-economic order. The purpose of this chapter is to disrupt the normative ideal social order by including the structural logic of capitalist production through the employment of a model of “capital accumulation.”

An emancipatory interest cannot be constructed when capitalist production is falsely represented as a coherent system best suited for the timeless human condition. The abstraction of these elements not only give a false impression of order in capitalist production, aiding in the apologetics surrounding the normative ideal social order, but it also abstracts away those aspects which can be employed to transcend this socio-economic order and establish another. As Marx characterizes these aspects:

By maturing the material conditions, and the combination on a social scale of the processes of production, it matures the contradictions and antagonisms of the capitalist form of production, and thereby provides, along with the elements for the formation of a new society, the forces for exploding the old one.⁹³

By including concrete, structural aspects we disrupt the false coherence of General Equilibrium Theory and open up the possibility of posing critical questions which could facilitate an emancipatory interest. An emancipatory interest could be linked with the conceptualization of an alternative socio-economic order, but critical questions of the current socio-economic order are necessary for certain emancipatory interests.

⁹³ Marx, Capital Vol 1 472.

2. General Equilibrium Theory and Welfare Economics Explained

The equation which describes general equilibrium for an economy with two individual consumers - a and b, two factor inputs - capital and labour, and two commodities - x and y is:

$$(MRTS_{kl})_x = (MRTS_{kl})_y = (MRS_{xy})_a = (MRS_{xy})_b.$$

In descriptive terms an economy is in a general equilibrium if and only if: the marginal rate of technical substitution⁹⁴ of the factor inputs in the production of x is equal to the ratio of the marginal rate of technical substitution of the factor inputs for y is equal to the marginal rate of substitution of commodities x and y for consumer a which is equal to the marginal rate of substitution of x and y for consumer b. This simplification represents Arrow's mathematical formalization of General Equilibrium Theory which itself can incorporate more than two of each type of the variables of output, factors, consumers, and firms.

3. Kenneth Arrow's General Equilibrium Theory, Pareto Optimality and Welfare Economics⁹⁵

Taken from Arrow's "Economic Equilibrium" the following elements are necessary and sufficient for a general equilibrium to attain:

In the economy there are two kinds of economic entities which carry out all economic activity; households or individuals and firms; all productive activity is conducted by firms. Households possess both various types of labour and claims to a

⁹⁴ The marginal rate of technical substitution of capital for labour refers to the amount of labour that a firm can give up by increasing the amount of capital used by 1 unit and still produce the same output.

⁹⁵ Arrow, Kenneth. "Economic Equilibrium." and "Pareto Efficiency With Costly Transfers." General Equilibrium Collected Papers: Volume 2. (Oxford: Basil Blackwell, 1983).

certain proportion of profits from each firm termed as “original endowments” which determine households’ total income. The value of the commodity bundles chosen by households do not exceed the income of the individual households. Each household chooses the most preferred consumption bundle from those available as consistent with the axioms of Consumer Preference Theory described in chapter 1. Firms chose from the set of technically producible production bundles according to which set maximizes profits. Due to the assumption of perfect competition, profit maximization implies zero pure profits although this at least guarantees a return on entrepreneurial risk.

As Arrow indicates, under constant returns to scale, there may be many bundles to chose from but the bundle which maximizes profits will be the bundle at which zero pure profits attain. Negative profits are also possible but at this point the firm would shut down. Pure profits are therefore either zero or negative for each production bundle.

Arrow defines a competitive equilibrium as a collection of nonnegative prices for all commodities, for consumption bundles of all households, and production bundles for all firms which satisfy certain conditions:

- 1) each household chooses that bundle which maximizes utility;
- 2) each firm chooses that production bundle which maximizes profits from all technically possible bundles;
- 3) total consumption by all households cannot be greater than the initial assets plus the net total production of all firms and;

4) that Walras's law holds: the total value of goods produced and originally owned is equal to the total value of goods demanded. Any goods produced which do not fall within this domain in terms of overproduction are given a price of zero and free disposal. Mathematically formalized, this can be described by the equation:

$$\sum D_{pq} = \sum S_{pq} + [\sum S_{(p=0)q} \text{ (free goods)}].$$

This holds only for zero pure profit conditions.

“Competitive” means that households and firms take prices as given and independent of its decisions. As stated, perfect competition implies zero pure profit conditions. The emphasis on this point will become clear later in this chapter. Lastly, and in this particular formalization, there are assumed to be no externalities in production or consumption. Negative externality is a social cost that is not reflected in the price mechanism of the economy for example, industrial pollution. Arrow does account for externalities in other formulations of General Equilibrium Theory. In the present study they will be ignored.

Taken from both “Economic Equilibrium” and “Pareto Efficiency with Costly Transfers,” any general equilibrium is said to be Pareto optimal if there is no way of reallocating resources such that even one person is made better off than before the reallocation without making some other person(s) worse off. Both better off and worse off are defined in terms of consumer utility, i.e., the allocation of total consumer utility in the economy is such that no consumer can be allocated more utility without at least one consumer having less utility. According to the first fundamental theorem of Welfare Economics a competitive general equilibrium will guarantee Pareto optimality. Such a competitive equilibrium can only occur in a free market system, i.e., a capitalist

mode of production. The second theorem states that, under the assumptions of the first theorem, with an appropriate redistribution of original endowments, any Pareto optimal outcome can potentially be satisfied as a competitive equilibrium. It should be emphasized here that the level of household's original endowments is determined by the degree of their ownership of the factors of production.

4. The Normative Ideal Social Order Explained

One may now see how General Equilibrium Theory acts as a normative ideal social order. General Equilibrium Theory attempts to answer the question of how each rational, that is, self-regarding, individual utility maximizer, pursuing his or her own subjective well-being, can lead to a social optimum in an orderly fashion given that people are naturally rational, that is, self-regarding utility maximizers. When general equilibrium, and therefore Pareto optimality, is attained, so too is the socially optimal level of human well-being as prescribed by timeless human nature. The realization of Pareto optimality itself requires certain elements grounded in the classical liberalism of laissez-faire economics and capitalist individualism. They consist of the assumptions of perfectly competitive markets (or free-market competition and zero pure profits), no externalities in production or consumption, and private property. In other words, it facilitates the realization of human nature as rational: both the market and self-regarding utility maximization are grounded in this version of rationality. The system is coherent as the assumptions, when adhered to, provide a general equilibrium delivering Pareto optimality. This (false) coherence blocks both the posing of critical questions linked with an emancipatory interest and the possibility of conceptualizing alternative

economic systems: if people are naturally utility maximizers then capitalism seems as if it is the natural and final socio-economic order.

In the first two chapters it was argued that there is nothing natural about consumerist ontology since it is historically contingent on the capitalist socio-economic order. This critique can be brought to bear upon General Equilibrium Theory as a normative ideal social order since individuals do not pre-exist society - there is no social (consumerist) ontology which is not determined by a historically contingent, socio-economic order. Far from self-interest being an inherent trait of the human condition, it is produced by a socio-economic order which requires self-interested individuals to reproduce itself. As indicated by Marx, natural relations geared by self-interest are really socially and historically determined by a specific socio-economic order. Social being, the communally lived experience of the socio-economic order, determines the necessary social consciousness of individuals (consumerist ontology) and not the other way around. This consciousness in turn serves to produce and reproduce the socio-economic order:

The dependence is expressed in the constant necessity for exchange, and in exchange value as the all-sided mediation. The economists express this as follows: Each pursues his private interest and only his private interest; and thereby serves the private interest of all, the general interest, without willing or knowing it. The real point is not that each individual's pursuit of his private interest promotes the totality of private interests, the general interest. One could just as well deduce from this abstract phrase that each individual reciprocally blocks the assertion of the other's interests, so that, instead of a general affirmation, this war of all against all produces a general negation. The point is rather that private interest is itself already a socially determined interest, which can be achieved only within the conditions laid down by society; hence it is bound to the reproduction of these conditions and its means. It is the

interests of private persons; but its content, as well as the form and means of its realization, is given by social conditions independent of all.⁹⁶

Marx was concerned with how a socio-economic order reproduces itself, the reproduction of the conditions by which a socio-economic order reproduces itself, how the capitalist socio-economic order may experience disruptions in the process of reproduction and, most importantly, how economic crises were outcomes of the structural logic of capitalist production itself.

We shall play the game of neo-classical economists by accepting the naturalized ontology as if it were a valid and timeless description of the human condition. I do not mean to dispute my previous critique of this naturalized ontology but to use the one dimensional form of neo-classical rationality against the neo-classical economists. If, in the reproduction of capitalist social relations, it is discovered that general equilibrium cannot be sustained indefinitely and, furthermore, that the very structural logic of capitalist production is the cause of disequilibrating tendencies, then a one dimensionally rational being would, in conformity with this form of rationality, reject capitalist relations because they cannot provide for the timeless human condition.

5. The Model of Simple Reproduction and its Detrimental effect on the Investigation of the Structural Causes of Economic Crises Explained

General Equilibrium Theory, it will be argued, is a model of simple reproduction in which Walras's Law assumes a strict identity of supply and demand. The definitive aspect of simple reproduction is that there is no expansion of the

⁹⁶ Marx. Grundrisse 156.

production process in subsequent rounds of production. Simple reproduction is enabled by two further and related aspects. The first is that no surplus value is created through production or realized through sale. The second aspect, as a consequence of the first, is that capital is not accumulated. The result is that the amount of capital and output remain constant. This economy can be formally represented as such:

$$C - M - C'$$

where C represents a commodity for sale (in this case labour is sold for wages and the household's original endowment of capital is rented for dividends), M represents money, and C' represents those commodities purchased by the household which are necessary for the reproduction of the household and (-) represents an exchange. In other words, labour is exchanged for money, which is exchanged for consumer goods which provide for the subsistence of the household. One can recognize that in this representation no surplus value is created, circulation occurs instantly, and that the economy is driven by the consumption of the households. In the specific case of General Equilibrium Theory, where no capital market exists except for original endowments, only consumer goods are produced. Walras's Law coupled with the assumption of consumer sovereignty guarantee that consumers will desire all that is produced since production is geared towards consumers' pre-existing insatiable desires; therefore markets will clear.

However the production and realization of surplus value, necessary for the accumulation of capital, are concrete determining aspects of capitalist production. The abstraction from these elements leads to a misrepresentation of capitalist production:

representing capitalism as a mode of simple reproduction thus denying capitalist production itself:

In world market crises the contradictions and antagonisms of bourgeois production break through to the surface. But instead of investigating the nature of the conflicting elements which force their way through catastrophe, the apologists content themselves with denying the catastrophe itself; and, faced with its regular recurrence, with insisting that production would never lead to crises if it were carried out according to the textbooks. The apologetics consist, then in falsifying the simplest economic relations, and especially in stubbornly maintaining the unity in face of the contradiction.⁹⁷

More significantly, the investigation of economic crises of overproduction requires that both surplus value and the accumulation of capital be included in an economic model describing capitalist production.

6. The Model of Capital Accumulation Explained

A theory explaining the inherent tendency of capitalist economic crises must include the its determinant elements - specifically the production and realization of surplus value and the accumulation of capital. What is necessary is a model of capitalist accumulation. Such a model may be formally represented as such (again where (-) represents an exchange):

$$M - C \{LP, MP\} \dots (P) \dots C' \dots M'$$

where M represents the money commodity used to purchase C - the input commodities used in the production process consisting of: MP representing the non-labour means of production and, LP representing labour power, (P) represents the production process, C' represents the commodities produced plus their value added due to the extraction

⁹⁷ Marx, Capital Vol 1 377.

of surplus value from labour power ($C' > C$) and M' which is the money derived from the sale of the produced commodities ($M' > M$).

Unlike a model of simple reproduction, in which the quantity of production remains constant through subsequent rounds of production, an accumulation model accounts for the fact that each successive period of production is distinct from the last period. It is not simply the case that, as in a model of expanded reproduction, production is expanded in each subsequent round, e.g., more of the same commodities produced with the use of a greater amount of capital. With accumulation there is a qualitative change in the production process itself. As Duncan Foley explains:

But real accumulation always involves a transformation of the process of production. Capital is not satisfied simply to recreate on a larger scale what it has already achieved; rather it presses to adopt new methods of production and to exploit the possibilities of larger scale production. The extension of capitalist relations of production through accumulation creates a wider market that can support a deeper division of labour, larger scale plants, machine production, and so on... Thus accumulation is far from being simple repetition of social production on a larger scale. Behind the monetary aspects of accumulation there is a fundamental change in the structure and organization of capital and equally fundamental changes in the scale and methods of production.⁹⁸

Marx was aware that, in making the distinction between simple reproduction, expanded reproduction, and capital accumulation, the inherent tendencies towards capitalist economic crises could only be investigated employing an accumulation model.⁹⁹

⁹⁸ Foley, Duncan K. Understanding Capital: Marx's Economic Theory. (Cambridge, Mass: Harvard University Press, 1986) 63-64.

⁹⁹ Foley Understanding Capital, 64.

This model explains two important and related aspects of capitalist production. The first, in sharp contrast to Walras's Law, is that this model depicts how capitalist market operations could be disequilibrating. This disequilibrating tendency exposes the apologetic nature of General Equilibrium Theory. The second, already mentioned at some length, is that the model explains economic crises as manifestations of the structural logic of capitalist production itself.

7. Mandel's Explanation of Capitalist Crises of Overproduction as Tendencies Towards Periods of Disequilibrium

Mandel's theory of economic crises is constructed from the totality of Marx's works, with special emphasis on the third volume of Capital and Theories of Surplus Value. All characteristics of capitalist production contribute to disruptions in equilibrium attributed to what Mandel terms "uneven development." Uneven development, occurring between the two departments of production - capital goods (department I) and consumption goods (department II) - is a tendency of capitalist production corresponding to uneven development of the rate of profit, uneven accumulation of capital, and uneven growth in the organic composition of capital. This uneven development occurs because of competition between capitalists searching for surplus profit. This in turn forces capitalists to increase labour saving technology to generate this greater level of profit... "All of the characteristics of capitalism as an economic form are contained in this description and they are based on its inherent

tendencies towards ruptures of equilibrium. The same tendency also lies at the root of all the laws of motion of the capitalist mode of production."¹⁰⁰

The cause of economic crises and disequilibrating tendencies of uneven development cannot be reduced to one variable. Many variables and determinants come into play and at any one point any of the variables may be autonomous. These variables include; the organic composition of capital¹⁰¹ both generally and specifically, the distribution of constant capital between fixed and circulation capital both generally and specifically, development of the rate of surplus-value, the development of the rate of accumulation, the turn-over time of capital (circulation process in total), and the relations between the two departments of production.¹⁰² The approach this method employs is to regard all of these variables concurrently as partly independent variables since they formulate the long term laws of the development of capitalist production. The interplay of these variables and laws explain the tendency for various spheres of production and the various component parts of value of capital to develop unevenly.

Crises occur because of the features of capitalist commodity production. The contradiction has to do with the dual nature of the capitalist commodity itself; that it is a use value and an exchange value. This results in the severing of the commodity into both money (exchange value) and the commodity itself (use value). It is this severing of the commodity which results in the possibility of capitalist economic crises. With

¹⁰⁰ Mandel, Late Capitalism 27.

¹⁰¹ The organic composition of capital is the ratio of constant capital to variable capital or c/v.

¹⁰² Mandel, Late Capitalism 39.

the advent of universal¹⁰³ commodity production economic crises of overproduction become possible.

For a crisis to occur, commodity owners must be incapable of locating consumers with the effective demand to purchase the commodities. A system of trade and credit may temporarily bring together commodities and their monetary equivalent but as this separation between the creation and realization of exchange values increases, and as more countries become involved in commodity production, more contradictions develop and intensify. This contradiction manifests itself during the process of circulation especially if there are changes in the price of production which may result for various reasons, more so if the production price of commodities has risen... “The contradiction between the commodity and the money equivalent which it has to find on the market thus develops into a contradiction between money as a medium of circulation and money as a means of payment, a contradiction which in turn leads to the contradiction between the whole process of commodity circulation and thus reproduction.”¹⁰⁴

The contradiction between use value and exchange value only provides the possibility for overproduction. They do not reveal the concrete causes of crises. The same can be said of the rate of profit in that it reveals the “inner mechanism” of economic cycles. To reveal the inner cause of economic crises one must analyze the concrete aspects of capitalist production. This concrete aspect, alluded to earlier, is uneven development:

¹⁰³ That is, with the advent of solely capitalist production or with the expansion of capitalist production in which it tends to become the only form of production and therefore universal.

¹⁰⁴ Mandel, Marxist Economic Theory 344.

For [the accumulation of capital] to take place without interruption, the conditions of equilibrium... must be constantly reproduced. The purchase of consumer goods by all the workers and the capitalists engaged in producing capital goods must be equivalent to the purchases of capital goods by the capitalists engaged in the production of consumer goods (including in both categories the purchases needed in order to expand production). The constant reproduction of these conditions of equilibrium thus requires a proportional development of the two sectors of production. The periodical occurrence of crises is to be explained only by a periodical outbreak in this proportionality or, in other words, by an uneven development of these two sectors.¹⁰⁵

Mandel indicates that he has not yet left the area of tautology and definition since crises are expressive of this disproportion. To show that uneven development is inherent to capitalist production, one has to demonstrate how capitalist development results in uneven development.

Since capitalist production is geared towards production for profit the average rate of profit is an important aspect of capitalist production. In the long run, the average rate of profit has a tendency to decrease. This does not occur in a linear manner but in a cyclical movement characterized by four main phases. The first is economic recovery. This occurs when there is less social labour time employed in the production of commodities than is required. In other words, demand exceeds supply. As a result, the price of commodities and level of profit increase. This compels capitalists to invest in this market. This is also characterized by a shortening of the time between the production of commodities and their sale. The second phase is boom and prosperity. Demand continues to be greater than supply, thus the level of profits tends to increase stimulating more investment and production. As firms realize super-

¹⁰⁵ Mandel. Marxist Economic Theory 349.

profits, even more investment occurs and credit develops. The third phase is overproduction and slump. As more and more commodities are moved onto the market, the relation between supply and demand changes such that now too much social labour time is being used to produce commodities. At their current price, some of the goods cannot be sold. Since the credit system has been expanded, some firms continue to produce goods and waste labour time. Circulation time of commodities becomes longer while prices and profits decrease. Many capitalists who do not produce at efficient levels are ruined. The last phase is crisis and depression. A new, lower, average rate of profit is constituted coinciding with a new organic composition of capital. Since many capitalists are out of business some of the fixed capital is destroyed and the price of capital is lowered. This condition makes recovery possible.¹⁰⁶ This cycle represents the tendency for the average rate of profit to decrease. Crises are the mechanisms by which the amount of social labour employed is adjusted to meet socially necessary demand. These adjustments take place after the fact because capitalist production is not planned production.

At the end of each cycle, production again takes place but with a marked difference as evident by the notion of capital accumulation, e.g., production has expanded by opening new markets internationally, creating new sectors of production attributed to increased technology, or through the creation of new competition.

Taken all together one can see that Mandel derives these inherent contradictions from the inner logic of the movement of capital and from the various phases in the economic cycle. He has demonstrated that crises are overdetermined: one

¹⁰⁶ Mandel, Marxist Economic Theory 347-348.

must employ an elaborate scheme in order to explain the occurrence of economic crises. For Mandel, the notion of uneven development is the manifestation of the internal cause of economic crises which themselves can be observed in the phases of the economic cycle. In the last analysis, economic crises are crises of overproduction which can be attributed to uneven development - itself a manifestation of the internal contradictions of capitalist production stemming from unlimited production capacity but limited consumption capacity, unplanned production for profit, the increasing organic composition of capital leading to the fall in the rate of profit, and the connection between social production and private appropriation.

8. Refuting Walras's Law Through the Use of Elements of Capital Accumulation

The structural logic of capitalist production is disruptive or disequilibrating with respect to the accumulation of capital bringing about a non-equilibrating crisis of overproduction. This phenomenon cannot be investigated within General Equilibrium Theory thus facilitating the apologetic nature of the theory. The harmonies of General Equilibrium Theory, due to the mathematical gymnastics offered by Walras's Law, ignore by abstracting away those various aspects of capitalist production recognizable with a capital accumulation model which itself recognizes the tendency towards uneven development. Specifically, the assumption of Walras's Law abstracts away: (1) the existence of surplus value and hence economic classes. This justifies capitalist production representing it as if it were production for the needs of the consumers (households). This in turn justifies consumer sovereignty and the abstraction of

problems associated with circulation. Finally the existence of economic classes and surplus value invalidate the second theorem of Welfare Economics and;

(2) the structural causes of capitalist economic crises are ignored. The only way that markets will not clear in General Equilibrium Theory is if consumers do not act rationally.¹⁰⁷

Let us explore each in turn.

The creation and realization of surplus value is necessary for the accumulation of capital; hence including surplus value into the model of simple reproduction reveals the existence of economic classes. Capitalist production requires the sale and purchase of labour power which places the class who extracts and retains surplus value in a relative position of power: e.g., the capitalist class. Production is for pure profits, generated by surplus value, disallowing for the equalization of the ratios in General Equilibrium Theory. The apologetics of General Equilibrium Theory are facilitated by the exclusion of the origin of surplus value (labour power) and consequently surplus value itself:

The surplus value of the capitalist originates precisely from the fact that he buys from the worker not commodities but his labour power itself, and this has less value than its product, or - what is the same thing - realizes itself in more embodied labour than is realized in itself. But now, in order to justify [pure] profit, its very source is covered up and the whole transaction from which it springs is renounced.¹⁰⁸

The concealing of social relations aids in the legitimization of capitalism since the labourer appears as if he owns his surplus value and sells his labour power to

¹⁰⁷ I am still assuming that the assumptions associated with production and externalities still hold.

¹⁰⁸ Marx, Karl. Theories of Surplus Value. Trans G.A. Bonner and Emile Burns (New York: International Publishers, 1952) 99.

himself. In bourgeois economics surplus value is returned in the form of dividends, rent paid by firms to households for the use of households' original endowments, e.g., capital. The act of concealing social relations justifies capitalist production not only because it aids in the harmonious representation of capitalist production but, without the existence of economic classes, production can be represented as if its function is to fulfill the pre-existing needs of the sovereign consumers:

It must never be lost sight of that in capitalist production what matters is not direct use value, but exchange value, and in particular the expansion of surplus value. This is the driving motive of capitalist production, and it is a pretty conception that - in order to reason away the contradictions of capitalist production - abstracts from the basis of the latter and presents it as production whose aim is to meet the direct consumption of the producers.¹⁰⁹

The other facet of consumer sovereignty is that circulation problems, specifically those associated with the realization of surplus value, can be abstracted away. The dual nature of the commodity is that it is an exchange value and a use value. What matters in capitalist production is exchange value: production is not for human need but for profit. It is this aspect of capitalist production that renders instantaneous circulation problematic at best. It is not known in advance if the commodity will find its equivalent in exchange value because it is not the needs of the sovereign consumer that govern capitalist market operations but the need of the capitalist class to accumulate capital. Yet General Equilibrium Theory models capitalist production as if it were use value that mattered - as if production met the given needs of the sovereign consumer. Recognition of the dual nature of the commodity exposes the apologetic role of Walras's Law, specifically its facilitation of

the illusion of consumer sovereignty. Whereas the particular character of capitalist commodity production exhibits disequilibrating tendencies due to the fact that production is for profit.

Furthermore, revisions in patterns of consumption must follow changes in the productive apparatus. These changes in technology, or the forces of production, are to be understood because of the need to accumulate capital. Changes in the nature of production itself require that consumer desires and preferences must be somewhat predictable and manageable for capitalists if they are to be effective at realizing surplus value. So much for the ideology of consumer sovereignty and instant circulation in the apologetic land of General Equilibrium Theory where the alchemist Walras can wave his magical wand and the dynamic world of capitalist accumulation turns into the static fairy tale world of simple reproduction.

Finally, the existence of economic classes has the following implication on the second fundamental theorem of Welfare Economics. At first sight, a redistribution of original endowments would be a step in solving questions of distributive justice: households may receive a more equitable share of final social utilities because of such a redistribution. However, in light of the idea that General Equilibrium Theory is only a theory of simple reproduction, this redistribution could not take place practically because the capitalist economy does not function in this manner. In the first instance the discrepancy in economic power is not due to any discrepancy in original endowments but rather to the structural logic of capitalist production itself, e.g., that the capitalist class has a claim on surplus value. However, this claim on surplus value

¹⁰⁹ Marx, Surplus Value 371.

would return the discrepancy in the structure of original endowments which itself would re-entrench economic power relations between capital and labour. That is to say, due to the existence of surplus value, the economy would re-establish the same type of structural economic inequalities that existed before the redistribution. It is not the case that a redistribution would solve problems of distributive justice but rather that the structural logic of capitalist production, and its corresponding social relations, would have to be questioned, since an inequitable normative ideal social order cannot be made more equitable by a redistribution of original endowments. In other words, an unjust economic structure is not removed by a redistribution - the structure itself must be changed. Hence, given the structural logic of capitalist production, General Equilibrium Theory becomes problematic in its claim to be able to provide an economic order best suited for rational beings of utility.

Yet another aspect which precludes economic crises from being investigated is the notion of rationality central to Consumer Preference Theory. General equilibrium and Pareto optimality will obtain as long as consumers are simply assumed to act rationally. Again, centrality of the consumer to the economy is guaranteed by consumer sovereignty since consumer sovereignty represents all economic activity as directed towards subjective and social utility maximization. Of course, such maximization also only occurs if consumers act rationally. Now, overproduction can occur if the axioms of Consumer Preference Theory are not adhered to; most especially, with violation of the nonsatiation axiom would lead to a form of underconsumption. But this form of overproduction, occurring because of underconsumption, would be due directly to irrational actions of economic agents and

not overproduction due to the structural logic of capitalist production. Hence, in this model of simple reproduction where utility maximization is at the center of all economic activity, crises can only occur if consumers do not behave rationally. But even if consumers act rationally, the possibility of falling into a state of disequilibrium due to “uneven development” still exists; in capitalist production indeed this is a dominant tendency of a laissez faire capitalist economy. Therefore if consumers were the rational agents described by Consumer Preference Theory, then, as rational agents, they would have to reject capitalist production because of its inherently disequilibrating tendencies which tendencies would bring about sub-optimal utilities or preference satisfaction both for the individual and society.

9. Conclusion

The cumulative result of representing capitalist production as production for utility in the model of simple reproduction is a denial of the process of capitalist production itself by abstracting away its structural logic:

In this way, therefore, crises are reasoned out of existence through losing sight of or denying the first preconditions of capitalist production: the nature of the product as commodity, the duplication of the commodity in commodity and money, the consequent separate phases in the exchange of commodities, and finally the relation of money or commodities to wage labour.¹¹⁰

The conditions of capitalist production are denied - that it is production for pure profit beginning with the creation and extraction of surplus value from the labourer via his labour power, and the realization of surplus value through the process of circulation

for accumulating capital. The abstraction of these conditions allow for the apologetics of General Equilibrium Theory as the normative ideal social order. Since economic crises are inherent to the commodity form, all aspects of capitalist production must be taken into account and not simply abstracted away. The abstraction results in an inability to identify those aspects necessary for the transcendence of the capitalist socio-economic order. In other words, it precludes the possibility of posing critical questions of the socio-economic order necessary for the facilitation of certain emancipatory interests. If we include the structural logic, we are provided with a more critical outlook on the socio-economic order and recognition of those elements which could be utilized to bring about radical social transformation.

¹¹⁰ Marx. Surplus Value 378-379.

Chapter 4:

The Emancipatory Interest: Towards a Self-Critical Model of Economic Totalities, Transformative Rational Praxis, and the Transcendental Project

Vulgar economics actually does nothing more than interpret, systematize and turn into apologetics the notions of agents trapped within bourgeois relations of production. So it should not surprise us that precisely in the estranged form of appearance of economic relations that involves these *prima facie* absurd and complete contradictions - and all science would be superfluous if the form of things directly coincided with their essence - that precisely here vulgar economics feels completely at home, these relationships appearing all the more self-evident to it, the more their inner connections remain hidden, even though they are comprehensible to the popular mind.¹¹¹

1. Introduction

In the first three chapters an attempt was made to identify those aspects of positive economics, Consumer Preference Theory, and General Equilibrium Theory which both naturalize a consumerist ontology and legitimate the capitalist socio-economic order. It is the combination of this naturalized ontology and the associated legitimization of the capitalist socio-economic order which limits the possibility of posing critical questions, linked with an emancipatory interest, thus limiting the possibility of the conceptualization of alternative socio-economic orders. The purpose of this chapter is to offer suggestions for an alternative methodology for the modeling of an economic totality (structural economics) and human behaviour and motivation based on self-critical rationality. A version of self-reflective, critical rationality will be elucidated, stemming from expressive rationality, termed “transformative rational

praxis” which is a form of rationality linked with an emancipatory interest of a class seeking to free itself from oppressive, concrete conditions. Each of these alternative models should be included as part of a transcendental project. A brief word will be said about the use and construction of abstractions.

Two assumptions underwrite these alternative models. The first is the epistemological assumption that, since the world of social relations is a product of human action and agency, the social world can potentially be changed although this potential may not necessarily be realized. The second is that there exists no “timeless” nature or “essence” of humanity which is not historically determined. In other words, there is no timeless nature that a socio-economic order attempts to realize; so self-reflective rationality must always be allowed a space to subvert the socio-economic order in practice.

2. Suggestions for a Self-Critical Model of Economic Totalities - Structural Economics; Modeling Contradictory Tendencies

General Equilibrium Theory represents capitalist production as orderly and unproblematic. The aggregate effect was the abstraction of economic crises out of the model. As a model of simple reproduction, General Equilibrium Theory cannot incorporate structural tendencies towards economic crises as it assumes zero pure profits, hence no production of surplus value. This in turn abstracts away concrete aspects of capitalist production such as economic classes - classes are homogenized as people are seen as both producers and consumers - and the general laws of capital, that production is for pure profit, that is, the accumulation of capital. The facilitation

¹¹¹ Marx, Capital Vol. 3 956.

of an emancipatory interest, which is limited by capitalist relations, must begin with a real transformation of the socio-economic order. This involves the modeling of capitalist production to incorporate those structural aspects which tend towards crises. This self-critical model involves the recognition of capitalism in its own historical specificity, regarding itself as one possible form of social organization among many which have existed or could possibly exist. Therefore a self-critical model would have to incorporate those concrete, structural aspects which tend towards economic crises, that is, crises of overproduction as the limit of capitalist production and society. Self-criticism is necessary for the conceptualization of alternative social formations; so an alternative method is required.

We must now describe a method which recognizes structural aspects of capitalist production which concretely exhibit tendencies towards economic crises, in a word, a method of self-criticism recognizing limits and the possibility of transcendence. This method would necessarily entail modeling concrete, structural aspects of capitalist production. Mandel's brief, yet thorough, elucidation of Marx's method begins to answer this question.

Mandel remarks that simply to repeat that Marx discovered the laws of capitalism by moving from the abstract to the concrete disregards the complexity of Marx's method. Mandel formulates four aspects of Marx's method which he considers to be vital to in understanding the method. These four aspects are:

1) that the concrete is the starting and terminal point of knowledge, which Marx saw as an active process as the concrete must be reproduced in thought;

2) that the movement from the abstract to the concrete is preceded by the movement from the concrete to the abstract. The abstract, which is not abstract in the sense that it is divorced from the concrete, results from a prior analysis in which the concrete was separated into its determinant relations;

3) that in forgetting (2), one commits the mistake of dissolving the unity of the processes of analysis and synthesis. The abstract is factual only if it produces the unity of diverse elements. The whole is true and the whole is constitutive of the abstract and concrete. It is the unity of opposites and;

4) that the test of the successfulness of the concrete totality in representing reality must proceed by its practical application, meaning that simple abstract concepts and categories reflect observable historical development.¹¹²

Mandel agrees that Marx's method is the correct method for the scientific analysis of economic totalities. Bourgeois political economy only deals with appearances while, for Marx, science must appeal to the essence as appearance and essence do not immediately coincide. Marx was also concerned with how appearance and essence are able to co-exist in a unity:

He did not see the task of science solely as the discovery of the essence of relationships obscured by their superficial appearances, but also as the explanation of these appearances themselves, in other words as the discovery of their intermediate links, or mediations, which enable essence and appearance to be reintegrated in a unity once again.¹¹³

When this integration does not occur Mandel claims that theory becomes a "speculative construction of abstract models" and, as such, divorced from reality.

¹¹² Mandel. Late Capitalism 14.

¹¹³ Mandel. Late Capitalism 15.

Mandel calls this a regression from materialism to idealism since the model has no correlation with empirical reality. The material must first be encountered empirically in order to “analyze its different forms of development,” and to trace the inner connections. All of this is necessary before any description of the actual movement can occur. This movement includes movement from appearance to essence and from essence to appearance or from structural tendencies to abstract representation and back again.

Mandel then summarizes Marx’s dialectical method in six interrelated points. Since the method is dynamic, there will be movement within these interconnected moments. They are:

- 1) a thorough understanding of the empirical material, the appearance, in its historical context;
- 2) analytical decomposition of the empirical material into its constituent abstract elements, or the movement from the concrete to the abstract;
- 3) investigation of the links between the elements to explain the “abstract laws of motion of the material”, or its essence;
- 4) detection of those links which bring about the mediation between the essence and appearance, or the movement from the abstract to the concrete through its manifold determinants;
- 5) empirical verification of steps 2–4 in the movement of history and;

6) detection of new empirical information and new links which may constitute “new abstract elementary determinations” through the practical application of the derived knowledge.¹¹⁴

The point for Marx is to approximate concrete reality as closely as possible for the sake of changing the world... “The philosophers have only interpreted the world, in various ways; the point is to change it.”¹¹⁵ The world needs to be grasped scientifically (in thought) to allow for the recognition of those aspects which would facilitate radical social transformation through human agency (praxis). For Marx, to be scientific is to be critical and illustrate those concrete tendencies which could facilitate radical social change. The difference between these two models of “scientific” economics, neo-classical and Marxist, becomes most apparent. As Marx indicates, apologetic economics only seeks to illustrate individuals functioning successfully in capitalist relations. As indicated, this is aided by a naturalized ontology which represents capitalism as the only socio-economic order possible. It is also aided by the orderly representation of capitalist production. When the orderly representation is rendered problematic essence no longer corresponds to appearance - the appearance of simple reproduction is rendered problematic by the essential nature of capitalist production in that it is production for pure profit for the accumulation of capital. Far from providing apologetics, Marx’s method seeks to reveal the limits of capitalist production freeing individuals from capitalist relations. Marx’s method for the analysis and modeling of economic totalities is a self-reflective, critical model because it depicts, concretely and structurally, capitalism as a historically contingent socio-economic order in its

¹¹⁴ Mandel. Late Capitalism 16-17.

historically developing and intensifying internal contradictions. Thus the history and development of capitalism must be understood as a function of the inner laws of capitalist production. By vindicating people within capitalist social relations, apologetic economics must represent capitalist production as orderly, natural, and inevitable which necessarily excludes self-reflection upon its own contradictory tendencies and limits. Hence the fundamental difference between these two paradigms; scientific apologetic versus science as critical rationality.

3. Expressive Rationality - Sen and Hollis

In “Rational Fools” Sen’s criticism was based on neo-classical theory’s narrow conception of human action and its limitations. In Ethics and Economics his critique is similar but it is more intimately linked with utilitarian notions of human well-being based upon Pareto optimality as the greatest social achievement. In both works he argues that economic modeling of human behaviour must be expanded to include alternative notions of human motivation and well-being. In this aspect there is much overlap between Sen’s ideas and those of Martin Hollis. Hollis provides a model of individuals as active in the world but also expands this to include the possibility of what I have termed “transformative rational praxis.” Sen also has such a notion. Human well-being is not reducible to utilitarian criteria and the corresponding social ideal of Pareto optimality. This can only be represented as such if people are also modeled as, by nature, self-regarding, utility maximizing agents.

¹¹⁵ Marx and Engels. German Ideology 123.

Sen suggests that economics should expand to include a broader definition of human well-being. Freedom should enter into an evaluation of how an individual is able to achieve agency and well-being. This would move beyond the rather limited notion of well-being as espoused by conventional Utility Theory:

There is another - in some sense more basic - question as to whether a person's advantage is best seen in terms of his or her achievement. This issue arises in evaluating both [utilitarian] well-being and agency. It can be argued that advantage may be better represented by the freedom that the person has, and not (at least entirely by) what the person achieves - in well-being or in terms of agency - on the basis of that freedom. This type of consideration will take us in the direction of rights, liberties, and real opportunities. If in ethical accounting the person's advantages are judged - at least partly - in terms of freedom-type considerations, then not merely utilitarianism and welfarism, but also a number of other approaches that concentrate on achievement alone would have to be rejected.¹¹⁶

This opens economic theory up to include a judgment upon human rights thus expanding an evaluation of human well-being beyond the limited criteria of utilitarianism and the reduction of human action to individual preferences. Sen employs the term "freedom" as a form of reflective autonomy which could be independent of preference satisfaction or utility maximization.

In Sen's more radical formulation of freedom it could come to denote the agent's ability to chose alternative outcomes, within a given choice set, which may not be reducible to preference satisfaction. Freedom in this sense is linked with what Sen terms as "capabilities" which describes how we are equipped to shape our lives. Capabilities have a close affinity with "expressive rationality" as active, open ended activities in which we express our form of life. It cannot be reduced to instrumental

¹¹⁶ Sen, On Ethics and Economics 47-48.

rationality and includes a notion of agency - something lacking in the utilitarian conception of human behaviour and motivation which abstracts away any form of agency which does not conform to its narrow understanding of human motivation as the pursuit of preference satisfaction. Agency, capabilities, freedom, and rights provide an alternative information set from which human actions are to be understood. This plurality of ethical considerations may work to disrupt the homogeneity created by the one dimensional framing of human motivation and behaviour in neo classical economics provided that this plurality is not, once again, reduced to the horizon of one dimensional economics.

There is another dimension of Sen's argument which has not been touched upon. Sen asserts that choices involve ethical consideration; hence the impoverishment of economics by leaving out ethical dimensions of human action. This involves the opening up of economics to include a plurality of motivations inclusive of the ethical commitments of human behaviour. This aspect has more to do with community concerns than with individual ones. Sen himself paves the way for this when he writes:

The ranking of action can, of course, be ordered also on grounds other than a particular system of morality: meta-ranking is a general technique usable under alternative interpretations of the meta-ranking relation. It can be used to describe a particular ideology [as a set of beliefs or practices] or a set of political priorities or a system of class interests.¹¹⁷

As I shall explain below, this paves the way for transformative rational praxis. Viewed in this way, this allows for the critical intervention into traditional economic theory in such a way that it not only disrupts its normal functioning, but it subverts its foundation establishing a new one.

The path is clear for transformative rational praxis because expressive rationality opens the notion of agency and alternative reasons for why people chose. Sen himself does not speak of the modeling of critical rationality although he does mention class and political interests. These interests, or alternative forms of critical rationality, may include an emancipatory interest to transcend the established socio-economic order. Initially, we may be facing alternative criteria for choices within an existing system. Opening up this criterion for choice could be potentially subversive but one thing needs to be added. Greater choice criteria could also aid in the facilitation of capital when it is choice within a system. For this reason it is judged to be both conservative and progressive as the contents of alternative choice models may or may not contain subversive aspects. It is not simply a matter of the freedom to chose and the opening up of choice criteria: transformative rational praxis is not limited to greater choice within an established system of choices (capitalism) but concerned with the ability to create and choose alternative systems. This is what is at stake. Although Sen allows for such a distinction to occur, he does not explicitly allude to it although his notion of capabilities recognizes the ability of humans to change the social world. There must exist a way by which to model protest, criticism, and possible alternatives to the prevailing socio-economic order.

Hollis's account of active or autonomous man also expands upon the narrow conception of human behaviour and motivation found in traditional Utility Theory. Hollis proposes a philosophical model that recognizes individuals as active in the

¹¹⁷ Sen. Rational Fools 101.

world and not simply the objects of mechanistic stimulus-response actions afforded by behaviourism.

Hollis asserts that Enlightenment philosophy provided for two conceptions of individual behaviour; passive and active. Passive man's behaviour is subject to the causal laws of nature. This theory of man is essentialist and the social setting is supposed to fulfill his timeless nature. But what was also a part of Enlightenment thought was the notion that, while natural laws may be unalterable, social laws were not true for all times and places, and therefore man could change social structures by the use of reason, although Hollis himself does not speculate on the content of rationality leaving it open. It is by this criterion that Hollis asserts that there needs to be a new model of man... "Plastic man is a natural creature in a rational world of cause and effect. The antiphonal theme in Enlightenment thought is that we are rational creatures in a natural world of cause and effect. With the aid of reason we can master nature, manipulate society, change culture and, indeed, shape our own selves."¹¹⁸ It is upon this notion of rationality that individual action should be modeled, that individuals have the ability to change their social world.

However, this is not an overriding theme of his work. While Hollis is concerned with reconceptualizing human action, his work focuses on a critique of passive man using active man as a foil. The point for him is to move beyond the narrow confines of cause and effect. People act because they have good reasons, not only because of causal determinants. Reasons for acting are informed by a socio-cultural context: the actions of a rational agent are to be explained in a social context

¹¹⁸ Hollis. Models of Man 11-12.

as social rules are reason for behaviour. This implicates both procedural and expressive rationality. Procedural rationality because it provides the rules for rational actions and expressive rationality because it pertains to how an individual makes use of those social rules for communicating his or her identity in the social world. Fully rational action is its own explanation given a social context. Although this is a more robust conception of human action, compared with plastic man, it is still, generally speaking, conformist in that the agent is still working within the rules of an established socio-economic order.

4. The Limits of Expressive and Procedural Rationality and the Construction of Transformative Rational Praxis

The above mentioned problem lies with the conception of both procedural rationality and expressive rationality and how it has been used and conceived of by Hargreaves Heap, Hollis, and, to a lesser extent, Sen. Both types of rationality provide a more accurate depiction of human choice and action because each take into account the historical, social, and cultural context which informs human behaviour and choice. They are each an improvement over the explanatory value of the instrumental rationality of traditional Utility Theory but each miss a key component. Procedural rationality had recourse to Marx. Procedural rationality, as it has been elucidated by Hargreaves Heap, represents an improvement over certain strands of Marxism which can be classified as economically deterministic. As Hollis accurately states:

Classical and Marxian theories of political economy hesitate about the identity of their human units. Marx and Engels, for instance, did not say solely that economic forces and relations of production determine the social being of men, which in turn determines their social consciousness; nor is 'determination'

here a simple or mechanical notion. Dialectical materialism takes as its basic unit a set of agents who, in producing and reproducing their means of life, reproduce themselves. Superstructure is not solely an epiphenomenon.¹¹⁹

But what is left out of this picture of procedural rationality, and consequently expressive rationality, are those concrete contradictions which can be utilized for social change. All of these thinkers share a notion of human agency and the ability to transform the social world but they do not fully draw out the implications of these notions. Contradictions are not limited to the ones between productive forces and relations of production but there also exist cultural contradictions in their socio-economic totalities, that is, those that are not strictly limited to the contradictions of capitalist production, as procedural rationality cannot be reduced to the domain of production but must encompass a wide variety of social activities, norms, and processes. Contradictions then must also find a way into procedural rationality in terms of a critical model of society. This in turn must inform transformative rational praxis since it is not consistent with solely communicating with the world, as expressive rationality, but is concerned with radical social transformation. Both procedural and expressive rationality are caught up in explaining, even if it is historically and culturally accurately, the world. The point is to change the social world, which would have to incorporate a description of its concrete contradictions.

Expressive rationality is the gateway to transformative rational praxis when considering its elucidation by Hargreaves Heap, Hollis, and Sen. However, the limits of expressive rationality for the purpose of this study can be summarized as follows: expressive rationality may incorporate reasons, ethics, intentions, and interests but

¹¹⁹ Hollis. Models of Man 17.

these are, generally speaking, limited to conventional communication with the current world. In other words, while expressive rationality problematizes mainstream economic theories, constructed around utilitarian instrumental notions of human behaviour, the incorporation of expressive rationality into economic modeling, in its current form, does not generate critical questioning, although expressive rationality opens the possibility of such questioning. In assuming that people are expressive, even if that expression is linked with the real intentions of the agent, it assumes expression within the established socio-economic order and, hence, is a conformist and conservative model of human rationality. What is necessary is a model of human rationality which is not reducible to expressive rationality in its current form but incorporates a critical version of expressive rationality linked with an emancipatory interest. Its other limitation, stemming from Hargreaves-Heaps and Hollis, is that expressive rationality is a doctrine of individual behaviour. Yet political struggles involve classes, or groups of people. Historical transformation involves class and not individual struggle: historical choices have to be made collectively.

5. Transformative Rational Praxis Defined

A preliminary definition of transformative rational praxis will be given for this form of rationality. Starting with the notion of “class,” which shall be defined as a political force or community of individuals who, through similarities or common interests, come together to resist a repressive apparatus. This repression is experienced and related to objective concrete conditions of existence. Critical revolutionary activity brings a class together. A class and the associated individuals are not reducible to a

single common interest. For example, the emancipation of the worker (an abstract concept thus far) from exploitive capitalist relations does not guarantee the abolition of other forms of oppressions, e.g., racism, sexism. Since all kinds of individuals engage in work, e.g., women, “minorities,” etc., there may be a link between these other forms of oppression and oppression within the capitalist socio-economic order, but this link is too broad to elucidate in this study.

The rationality of critical reason is bound with interests or, better, the rational is subject to interests which seeks transformation of concrete conditions of existence for the purpose of emancipation. An emancipatory interest recognizes and therefore incorporates those concrete, material conditions which repress a class and recognizes that the reason for repression is specifically those concrete conditions; thus a critical interest is part of the process of emancipation. But even more, it also recognizes that the social world is created through human agency and can be changed. Therefore “praxis” refers to this recognition; so it is self-reflection geared towards radical social transformation through apprehension of concrete, contradictory aspects of social life which are oppressive but can, nonetheless, be transformed. It refers to a form of rationality that has been masked or contained yet it still haunts a socio-economic order with possible alternatives. It more specifically denotes the excess of rationality (critical rationality) which has been repressed, that is, alternative forms linked with concrete aspects such as culture, history, and class interest. Therefore this model can be seen as privileging the marginalized form of critical rationality which, through its incorporation, threatens to subvert the established form of rationality.

The first step towards emancipation is self-reflection. This self-reflection points towards the limits of what can be comprehended in a conventional model or the limits of an economic order. These limits are described both methodologically and practically by recourse to the concrete. Both Consumer Preference Theory and General Equilibrium Theory construct abstractions (idealized abstractions) from abstractions (principle of abstraction) which are divorced from the concrete, since the actual psychological states of real economic actors, it is claimed, are not necessary when one speaks of explanatory value or predictive success of a model. Yet the limit of capitalist production is the crisis of overproduction which cannot be comprehended within the framework of General Equilibrium Theory since it is not constructed from the concrete. Consumer Preference Theory does not account for institutional constraints on human motivation and behaviour, or that an economic order must create agents endowed with the appropriate motivational characteristics for the reproduction of that order. In each case they fail to account for the “material substratum” which generates economic crises or real economic agents. Instead both theories depend, for their construction, on a commitment to an ideal of economic liberalism: the principle of abstraction, involving a reified description of agents, contains all that is necessary for this construction, whereas concrete aspects are considered to be irrational, even if only by implication. But these concrete aspects serve to inform interests inconsistent with the established economic order; the irrational is recognizable through self-reflection and is thus a part of critical rationality.

6. The Transcendental Project

Both the self-critical model of economic totalities and transformative rational praxis should inform a transcendental project. Transcendence here refers to a critical assessment of current socio-economic conditions, identifying its contradictions and liberating possibilities for the sake of a historical movement to an alternative socio-economic order. This project recognizes the possibilities, both material and intellectual, of a socio-economic order which could be realized within an alternative socio-economic order. Marcuse proposes certain criteria (outlined below) for a transcendental project which accounts for concrete, that is historical, tendencies, possibilities, and limits. A "project" refers to a specific historical practice and its specific characteristics. It seeks to understand reality for the sake of transforming it. The project is goal oriented. This transformation itself, and the possible outcomes, is constrained by the initial situation and the possibilities it offers.

Marcuse's criteria revolve around an assessment of the project for realizing possibilities and the manner by which these possibilities are to be realized, the realization of which is to actually occur in a given historical setting. Since every historical setting is a realization it tends to reduce the possibilities within itself to itself, that is, to keep those possibilities which are actually occurring contained within its framework. But these possibilities have the potential for qualitative, historical change rupturing the established socio-economic order; or what was referred to earlier as concrete contradictions which are either economic or cultural. The current project is a backdrop for the conceptualization and emergence of new projects which would change the existing socio-economic order.

Historical truth can be utilized in the formulation of the criteria for the rationality of transcendental projects. Marcuse formulates these criteria as such:

1) projects must incorporate real (concrete) possibilities open at the current level of material and intellectual culture;

2) projects must demonstrate higher rationality than the currently established version in three ways:

(a) it can preserve and improve the productive capacity of society;

(b) it defines the established reality in its real structure, tendencies, and relations and;

(c) the realization of the new socio-economic order offers a larger possibility of the “pacification of existence”¹²⁰ within a framework of institutions which offers a better chance of free development of human faculties. Both “pacification” and “free development of faculties” must be defined empirically by the available material and intellectual resources and capacities and their use for the attenuation of the struggle for existence. Marcuse offers this account as an objective ground for historical rationality: it expresses transformative rationality. It must also be recognized that this particular form of rationality contains a value judgment - a judgment upon the existing socio-economic order. But this is not all.

If history provides this objective ground, then there is the possibility of continuance. Rationality which envisions what is possible is dependent on the actual for the viability of any transcendental project. This in turn establishes the other necessity which would in turn aid in further transcendence; critical self-reflectivity

¹²⁰ Demilitarization and movement away from “all against all” mentality.

planting the seeds for self-subversion. This criticism establishes the criteria by which to judge whether an established socio-economic order has become irrational, that is, reached its limits for the realization of possibilities of human development. Negation and transcendence must be recognized in every possible socio-economic order and be allowed to transform into a more rational one.¹²¹ In the conclusion it will be demonstrated that the transcendental project provides the criteria for social transformation which does not allow for an “anything goes” critique.

7. A Note on the Use of Abstractions

The use of abstract models seems to be unavoidable in the social sciences. Indeed, both procedural and expressive rationality are abstractions of socio-historical rules and actual actions. Transformative rational praxis is also an abstraction as it is a theoretical construction for the modeling of self-criticism leading to social transformation. All one can do then is attempt to prescribe a correct method for constructing abstractions.

For economic totalities one already has suggestions made by Marx from which to proceed. An abstraction should be constructed from the concrete and accurately portray an economic totality in all of its determinants and contradictions or else it becomes a reified construction - an abstraction with little to no concrete content. The movement in the construction is from the concrete to the abstract as the abstraction, to be an accurate representation of the concrete, must be constructed from the latter's manifold, historically situated actual determinants. In this way abstractions coincide

¹²¹ Marcuse, One Dimensional Man 219-221.

with history as they are conditioned by history. In the same manner, presuppositions should be concrete ones and this applies to both the construction of social ontology and economic models. Viewed in this way, one can recognize that social ontology and socio-economic orders are historically situated; therefore, assumptions are not simply naturalized versions of human behaviour but outcomes of historically contingent socio-economic orders. Contradictions should also be a part of abstract models for the sake of correct representation and the ability to recognize those aspects which could bring about radical social change. Transformative rational praxis requires that self-criticism also be modeled and this model too is contingent upon history, specifically, those concrete, contradictory tendencies of socio-economic life.

8. Conclusion and a Cautionary Note

The purpose of this chapter was to suggest components for the construction of alternative social scientific models which involves the process of self-criticism linked with emancipatory interests. The model should provide for a second, or critical, dimension which cannot be reduced to the existing socio-economic order. Included are suggestions as how to model a capitalist economic totality to recognize its limit - crises of overproduction. Transformative rational praxis is the suggested paradigm for a type of modeling of human behaviour encompassing self-criticism. It specifically implicates the interests of a class seeking to emancipate itself from an oppressive, concrete existence. It also involves the recognition of concrete contradictions or contradictory tendencies and possibilities - the transcendental project. It suggests that if abstractions are to be used, then they are to be informed by concrete content,

specifically those contradictory elements which are required for the recognition of the limits of a socio-economic order and its transcendence. In short, these models should allow for the incorporation of the concrete, since it is the concrete which contains aspects which can be used to problematize a naturalized ontology, unmask the justification of capitalism this naturalization facilitates, disrupt the theoretical coherence of an economic model of a normative ideal social order and, therefore, free agents trapped within a repressive capitalist, socio-economic order. There is, however, one word of caution.

In the quotation that opened this chapter, Marx states that if the form of things corresponded with their appearance, science would be unnecessary. This is a problematic statement that needs to be unpacked. For Marx, one of the problems with bourgeois economics is that it mistakes reified abstractions for concrete phenomena and this taints scientific/critical inquiry. The abstraction from economic crises in such economics and the naturalistic ontological assumptions helps trap agents in capitalist social relations and legitimate these relations instead of trying to investigate the socio-economic order in a critical manner. Among the consequences of unmasking the structural determinants is an understanding that the form of capitalist production (denoted by economic liberalism) does not correspond with its essence (accumulation of capital). It is possible that within a socio-economic order of associated producers bringing production under rational, collective control, economic relations could become transparent - that the form could coincide with the essence. But not all relations are economic relations, and while Marx never really launched a critique of political economy in terms of its naturalized ontology in any systematic way, he did

provide a framework from which this could be accomplished. This is to raise a more pressing issue.

A theory based upon a normative ideal social order, whether it is a part of General Equilibrium Theory or not, typically assumes a naturalized ontology which society is supposed to foster. If this were true appropriate social relations, essence, and the current appearance of things would coincide; hence a new conservatism and the threat of the closure of a critical dimension. The point is to recognize that one cannot posit an ontology outside of historical determination - that essence will never coincide with the appearance of things or, in other words, history with nature in the case of human beings. When coupled with the notion that the social world is a product of human agency there is always the possibility of a critical dimension. But this is not to agree with an "anything goes" point of view on social transformation. It could be argued that, since there is no human essence beyond historical determination, history and nature (essence and appearance) always correspond, as history determines ontology, and, hence, that one socio-economic order is as good as any other. However, if human "nature" was recognized as historically developing, without realization at an end instituted by a normative ideal social order, then there is always room to question socio-economic orders. Marcuse establishes the criteria for social transformation with the transcendental project - a new, higher, socio-economic order which fosters greater possibilities for pacification, and free development of human capabilities. The transcendental project also allows for a critical dimension on any socio-economic order. The fact that human nature never corresponds to history, since the social world is a corrigible product of human agency, indicates that "truth" is

found not so much in a finality (teleology) as it is in the process of “progress” without realization, lest society falls into conservatism and dogmatism based on a naturalized ontology.

Appendix

Glossary of Terms

1) Analytic Statements.

An analytic statement, or proposition, is true independently of sense experience. Analytic statements are not about matters of fact and cannot make claims to empirical knowledge. An analytic statement is true based solely on the meaning of its symbols and cannot therefore be refuted by fact of experience. They govern the conventional usage of words or symbols but contain no factual knowledge themselves.

2) Capital

Throughout this paper, “capital” does not simply refer to the means of production but, and more importantly, capital as a social relation, e.g., to owners of the means of production who have a claim on surplus value produced by labour power. “Capital” also refers to its oeuvres.

3) Concrete

General Discussion

Of all of the terms employed in this study, concrete has the most varied meaning which is dependent upon the context. Very broadly speaking the concrete is the empirical and is the source of historical knowledge and truth: it is a critical structural category. The concrete occurs in a total connected process with contradictions which must be grasped empirically. As such it does not simply describe an existing state of affairs. It is empirical but not uncritical; it recognizes those

contradictory aspects which can lead to social change. As such reference to the concrete is an explanatory critique - it is dialectically contradictory - it is committed to practical transformation of structures and entities. It describes a world of connected appearances and the structural laws that generate appearances. The concrete is the empirical, historically situated determinations. In this particular study there are three ways in which the term concrete is used and the usage is contingent on its context:

a) **Modeling of an Economic Totality.**

The concrete is not just the “factual” of empiricists but the totality or concentration of many determinants and the unity of the diverse. Capital represents this unity when speaking of an economic totality, e.g., commodity capital, money capital, capital goods, etc. within the circulation of capital.

The concrete here represents the actual functioning of a capitalist market economy as it can be observed to occur in actual economic practice. The concrete determinations of capitalist economic practice is that it is production for pure profit, and accumulation of capital. Surplus value is an important determinant of capitalist production and must be modeled into an economic totality. Surplus value reveals two aspects of capitalist production each related to the inequalities of economic classes. The first is that it is based upon alienation; production is for the profit of the capitalist class and this class makes all decisions over the production process. The second is that it is based on exploitation; the labouring class is forced to give up a portion of its labour power to the capitalist class without compensation. This concrete determinant of capitalist production reveals the social relations of capitalism as it occurs in reality.

b) **Modeling of Consumer Behaviour.**

The concrete determinants of consumer behaviour, e.g., those elements which constitute procedural rationality or provide the rules of thumb. Advertising is but one of them. Media also aid in the socialization of individual consumers as well as schools, religion, etc. It also refers to the fashioning of social ontology and those factors which determine them. It has to do with the manifold determinants of how one becomes a consumer in capitalist society through his or her lived experiences.

The concrete is not a passive element since it is reproduced by people; institutions (determinants) ensure that social reproduction occurs. Existing empirical phenomena are regarded as the direct incarnation of these determinants (institutions, social relations, laws) so what generates the empirical is also concrete, hence the concrete is beyond the “sensory facts or data” of empiricism.

c) Actual psychological state of economic actors.

Instead of relying on the assumption that all human behaviour is geared towards self-regarding, utility maximization, recourse to the concrete has to do with the actual psychological states of the actors. The concrete provides the actual reasons for behaviour; it includes the contents for expressive rationality, e.g., culture, ethics, history, etc. Its more radical formulation is transformative rational praxis in which the concrete represents the actual intentions of that class which are contrary to the capitalist socio-economic order. It is the embodiment of the critical rationality which refuses to fit into a homogenizing totality and works to undue it. It is part of a “negative dialectic” seeking to unravel the homogeneous totality. Concrete also refers to the conditions which the class is trying to free itself from; it is experience or actual

existence critically grasped. It includes the repressive particular elements of an actual situation. The concrete world is grasped as a product of human agency.

4) Emancipation.

Emancipation refers to the subject's recognition of the naturalized ontology of the capitalist market and its representation in neo-classical economics. Upon this recognition the subject is not deluded by the naturalized ontology and realizes that it can exercise self-determination in the sense of being able to control history and change the social order. This form of self-determination furthers the development of human faculties and capabilities – it is expressive and autonomous. Emancipation then is linked with the construction of a socio-economic order that allows for free development of faculties and recognition that this order could be false or hinder free development and therefore should itself be changed.

5) Externalities.

Externalities, which can be either positive or negative and result from production or consumption, are social costs not reflected in the economy's price mechanism.

6) Ontology, Naturalized Ontology, Consumerist Ontology.

An Ontology is a description or conception of humanity contingent on a particular, in this case capitalist, socio-economic order. This description accounts for those characteristics required for the reproduction of the capitalist socio-economic order. It may also be referred to a social ontology since it is not timeless.

A naturalized ontology refers to a timeless or natural conception of human beings where historical determinants are not taken into account. "Ontology" itself does

not necessarily refer to a timeless conception, whereas “naturalized” fixes a particular conception of the nature of human beings. The naturalized ontology referred to in this study is the theory that humans are essentially beings of utility regardless of history or culture. Consumerist ontology is a naturalized ontology incorporating the conception that humans are beings of utility as described by:

- (1) the axioms of Consumer Preference Theory (p. 19-20) and/or;
- (2) more accurately, my correction of the axioms of Consumer Preference Theory on page 112 of this study. It is an ontological construction required for the reproduction of capitalist social relations and stemming from the structural logic of capitalist production. Real people should be the bearers of variables if a socio-economic order is to reproduce itself.

7) Pure Profit, Zero Pure Profit.

Pure Profit is produced with the extraction of surplus and is necessary for the accumulation of capital. In this paper, profit and pure profit are interchangeable. Zero Pure Profit can only obtain in an economy where capital is not accumulated and only the “needs” of the consumers are satisfied, since pure profits are required for the accumulation of capital.

8) Synthetic Statements.

Synthetic statements are those which can be verified through sense experience. They contain empirical content. They are hypotheses which are continually subject to empirical testing. Their truth is established through confirmation by observation, they are empirically verifiable.

9) Surplus value

Surplus value represents that portion of labour power extracted from labour by capital without compensation. It is the absolute and unvarying object of capitalist production. It consists of its production, which occurs during the production process itself and its realization which occurs during circulation and, specifically, sale of commodities.

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