CHAPTER II

THE CONCEPT OF ECONOMIC MAN

In this chapter, we discuss the various aspects of conventional economics. The chapter is divided into two main sections. In the first section, we trace the conventional approach to economics. This would give us the proper background for a study on the concept of economic man, which is taken up for discussion in the second section of this chapter.

In the second section, we describe the conventional understanding of the concept of economic man as well as its constraints as perceived by modern economists. This section is in turn divided into two sub-sections consisting of economic rationality and economics ethics. According to conventional economics, an economic man is rational and economic rationality refers to the maximization principle. Under the section economic rationality, we discuss the non-feasibility and un-desirability of linking rationality with economic maximization. Under the section economics ethics, we present the ethical theory of conventional economics which is imbibed from the Utilitarian ethics. We also discuss the limitations faced by the ethical theory of conventional economics with reference to the Naturalistic fallacy and the Maximizing Consequentialistic position of conventional economics.

Let us now proceed to acquaint ourselves with the conventional approach to economics which would provide us with a good background to facilitate a proper understanding of the concept of economic man.
A. The Conventional Approach to Economics

The word 'economy' comes from the Greek word 'oikonomos' which refers to the stewarding or husbanding of wealth and other resources towards some end. Managing of resources becomes necessary because human wants for goods and services are unlimited and the resources available in the economy to satisfy human wants are limited. Hence, an economy is faced with the problem of scarcity. Moreover, the available resources can be put to various alternative uses as they can be utilised for the satisfaction of one want or the other, in the economy. This situation compels an economy to make a choice.

Thus, an economy is a place where wants interact with resources to yield the production of goods for the participants. An economy happens to be an organised and inter-dependent community in which production and distribution of goods and services are undertaken with the objective of ensuring satisfaction to its members.

1. An Economic Problem

Any economy has to confront with the problem of scarcity and choice. In view of the scarcity of resources and unlimitedness of human wants, an economy has to make the best use of the available resources. An economy has to decide ways and means to allocate its scarce resources among competing wants so as to achieve the greatest possible satisfaction of the members. This is known as the economic problem or the economizing problem of economics.

In the words of Milton Friedman, "An economic problem exists whenever scarce means are used to satisfy alternative ends." Explaining the nature of an economising problem, C.L. Allen states, "choices must be made as to what and how much will be produced; decisions must be made as to which wants will be fully satisfied and which will be only partially satisfied or not at all. This is the essence of economics."
Thus, an economic problem lies in making decisions regarding the wants to be satisfied, the resources to be used in the production of goods and as regards the means to be used in the distribution of goods towards the satisfaction of wants.

Approach to Economics

Economic problem is the central core of economics. A clear understanding of an economic problem and its attempted solution would adequately reveal the conventional approach to economics. This is so because an economic problem provides an identity to economics itself as a discipline of study. In other words, economics is perceived as a subject which studies an economic problem. In fact, the famous 'scarcity' definition of economics, as given by Lionel Robbins, clearly reflects an economic problem. According to Robbins, "Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses." Thus, an economic problem happens to be the essence of economics. J.L. Hanson rightly points out: "Economics justifies its name by becoming a study of a particular kind of economising—the economising of resources and their apportionment among all the industries competing for their uses."  

Moreover, in the process of providing an identity to economics, an economic problem also distinguishes economics from other social sciences. While pointing the difference between an economic and social problem, Milton Briggs and Percy Jordon states, "An economic problem is simply one of the adjustment of means to ends." This emphasizes the significance of an economic problem to economics. J.Harvey explicitly points out that, "although economics is closely connected with such social sciences as ethics, politics, sociology, psychology and anthropology, it is distinguished from them by its concentration on one particular aspect of human behaviour—choosing between alternatives in order to obtain the maximum satisfaction from limited resources."
Thus, we are able to perceive the importance of an economic problem to economics. Since an economic problem is the subject-matter of economics, an insight into the former would reveal an understanding of the latter. Let us now discuss how economists have addressed an economic problem. This endeavour would enable us to clearly understand the conventional approach to economics.

a. The Two Sides of an Economic Problem

Economic problem arises because of the multiplicity of human wants, the scarcity of resources and the alternative uses to which these resources can be put. A close observation reveals the fact that there are two sides to an economic problem. On the one hand, there is the presence of human wants and on the other, the available resources in the economy. Generally, the nature of human wants is such that they are unlimited. The nature of available resources is such that they are scarce or limited and are capable of alternative uses. It is the combined interaction of the two sides that creates an economic problem.

Thus, the twin-aspect of an economic problem are (1) Human wants are unlimited, and (2) Resources are limited and are capable of alternative uses. Let us now analyse the two sides of an economic problem which would enable us to clearly understand the nature of economic study.

(1) Human wants are unlimited

In economics, human wants refers to the want of necessaries, comforts and luxuries. Necessaries includes not only the necessaries of existence, namely, food, clothing and shelter, but also the necessaries which makes an individual to be an efficient or a functional participant of the economy. It is to be noted that necessaries, comforts and luxuries are relative terms. They are relative to person, time and place.
It is a fundamental fact of economic life that human wants are unlimited. If human wants are limited, then no economic problem would have arisen. But in real life there is no end and limit to human want and when one want is satisfied, another emerges and take its place. It is also a fact that all wants are not of equal intensity and hence, there is enough scope to choose and satisfy the more urgent or pressing want among all wants.

Economists have always considered human wants to be unlimited. According to W.F. Lloyd, "the full satisfaction of all human wants" will not be attained even with such a "power of human production" as "the most enthusiastic imagination" can believe. This so because "the passion for wealth expands with the gratification of existing wants, and if not absolutely infinite, may at least, be termed indefinite". ¹² N.W. Senior points out that the desire for variety and distinction are the sources for the unlimitedness of human wants.¹³ To W.S. Jevons, simple wants like food and water are capable of satiety but in case of more refined wants like "the desire for articles of taste, science or curiosity, when once excited, there is hardly a limit."¹⁴ Alfred Marshall observes that a society is always progressive and in a progressive society "new activities pioneer the way for new wants."¹⁵ Hence, there is no limit to human wants. Edmund S.Phelps rightly remarks, "Recognizing that the wants for an economy's goods seem never to be filled, economics supposes that these wants are unlimited."¹⁶

Thus, economists assume human wants to be unlimited and this cardinal assumption is one of the foundation-stone on which the structure of economics rests. Let us now analyse the other side of an economic problem, which relates to the available resources in the economy.

(2) **Resources are limited and are capable of alternative uses**

In economics, resources are classified into three broad categories. They are land,
labour and capital. Land refers to all the natural resources including atmosphere, water, minerals, fish and wildlife. Labour refers to the human resources comprising of physical and mental or intellectual capacities of men in the economy. Capital refers to the artificially produced resources or the man-made resources in the economy.

It is a fundamental fact of economic life that resources are limited or scarce in the economy: In economics, the term 'scarcity' does not mean absolute scarcity of goods and services. It is used in a relative sense, that is in the sense of scarcity of resources relative to the wants of the people.

Although human wants are unlimited, the resources to satisfy these wants are scarce or limited. If these resources were also unlimited, then no economic problem would have arisen. One could have anything in any quantity whenever and wherever one liked because all goods. When the problem of scarcity ceases to exist, there would be no need for the science of economics. Joseph P. Mckenna rightly states this fact. "Economics would disappear only in a world so rich that no wants were unfulfilled for lack of resources. Such a world is not imminent and may be impossible, for time is always limited." 17 In real life, the resources are scarce and can be obtained only by parting with one’s money or labour.

Moreover, the problem of scarcity is further aggravated by the fact that the scarce resources are capable of alternative uses (i.e) the resources can be put to various uses. If the resources would have one use only, then the question of choice would not have arisen at all. It is because of the various alternative uses of the resources that one have to decide what would be the best allocation of resources. As Paul A. Samuelson points out that it is "the basic fact of life that there exists only a finite amount of human and non human resources, which the best technical knowledge is capable of using to produce only a limited maximum amount of each and every good." 18

Assuming human wants to be unlimited, economists have approached an economic problem by giving importance to resources and its allocation in the economy. They are of
the opinion that the crux of an economic problem or the real problem of economics revolves around the resource allocation in the economy. This perception is well presented by J.L. Hanson, when he states, "since wants are many and the means for satisfying them are limited, a way has had to be found for distributing these scarce goods among those who want them, and the problem associated with this distribution form the subject-matter of economics." Let us now discuss how economists address the problem of resource allocation. This endeavour would enable us to clearly understand the possible solution to an economic problem.

b. The Problem of Resource Allocation

Resources are employed to produce goods and services in the economy. In economics, the term "goods" refers to commodities that can satisfy human wants. Thus, resources are used in the production of goods and services which satisfy human wants in the economy. By "resource allocation", economists mean the production and distribution of goods and services in the economy. In the words of Edmund S. Phelps, "when economists speak of the allocation of the resources of an economy, they mean how each of these resources is used—which goods it is engaged in producing and how the resulting output of goods is distributed to the participants." 20

Economists have always identified the problem associated with resource allocation as the real problem of economics. Infact, many economists have defined economics in terms of scarcity of resources and choice. P.H. Wicksteed states that economics is a "study of those principles on which the resources of a community should be so regulated and administered as to secure communal ends without waste." 21 Similarly, T.Scitovsky defines economics as "a social science concerned with the administration of scarce resources. "According to G.J. Stigler "Economics is the study of the principles governing the allocation of scarce means among competing ends when the objective of allocation is to
maximise the attainment of the ends." 22

J. Harvey defines economics as "the study of how men allocate their limited resources to provide for their wants." 23 He further states that it is the job of an economist to study "how men mobilize these resources to achieve their ends and how efficient are the methods which they choose." 24 Paul A. Samuelson states that, "Economics is the study of how men and society choose, with or without the use of money, to employ scarce productive resources, which could have alternative uses, to produce various commodities overtime and distribute them for consumption, now and in the future, among various people and groups in society." 25

Thus, we are able to perceive that an economic problem is basically a problem of resource allocation. Economists have addressed this complex problem of resource allocation in the following manner. Firstly, the problem itself is split into three important basic and central problems of an economy. Secondly, appropriate solutions to these basic problems are evolved through economic systems. The basic problems are called as the central problems of an economy. Let us proceed to expound the central problems of an economy.

2. The Central Problems of an Economy

The central problems are fundamental for any economy as it stems from the basic problem of scarcity of resources and choice. Economists have conceived the central problems in such a way that it clearly brings out the entire range of problems associated with resource allocation in the economy. This facilitate economists to find solutions for the same. The central problems of an economy are (i) what to produce (ii) How to produce, and (iii) For whom to produce. 26 In other words, the central problems are concerned with what goods are to be produced, how are these goods to be produced and for whom are these
goods produced.

In economics, goods are classified into consumer goods and capital or producer goods. Consumer goods are those goods that directly satisfy human wants (i.e.) those goods that are purchased by the ultimate consumer. Capital goods are those goods that are used to produce consumer goods or other capital goods.

Let us now proceed to explain the three central problems of an economy.

(i) *What to produce.* The problem "what to produce" can be divided into two related questions, namely, what goods are to be produced and in what quantities are these goods to be produced. In other words, the economy has to decide whether to produce consumer goods and / or capital goods and in what quantities these goods should be produced.

(ii) *How to produce.* The problem "How to produce" is with reference to the choice of technology to be used in the production of goods in the economy. In other words, the economy has to decide whether it needs to employ capital-intensive technology or labour-intensive methods in the production of goods in the economy.

It may be noted that the above two central problems are related to the *production* of goods in the economy.

(iii) *For whom to produce.* The problem "For whom to produce" is with reference to how the national output is to be distributed among the members of the society. In other words, the economy has to decide how the total amount of goods produced are to be distributed in the economy. This problem is related to the *distribution* of goods in the economy.

Thus, the central problems of an economy clearly brings out the entire range of issues involved in the production and distribution of commodities in the economy. It is the scarcity of resources and choice that forms the basis for the central problems of an economy.
Economists have attempted to evolve an optimum solution to these central problems through economic systems. Let us now explain the economic systems and see how it addresses the central problems.

Any economic system has to confront with the central problems (i.e.) what, how and for whom to produce. In fact, the primary function of an economic system is to undertake economic decisions regarding the allocation of scarce resources in the production and distribution of goods and services, in the economy. An economic system has to decide how to use its scarce resources to give maximum possible satisfaction for the members of an economy.

There are three main economic systems known to the world today, although there are several variations of each. The three main economic systems are: a. Capitalism b. Socialism, and c. Mixed Economy. Let us briefly explain each economic system and see how it solves the central problems.

a. Capitalism

Capitalism is an economic system where the resources of an economy are placed at the disposal of private individuals and firms. The desire for profit is the sole consideration of these property-owners. In the words of William N. Louks, "Capitalism is a system of economic organisation featured by the private ownership and the use for private profit of man-made and nature-made capital." 28

Central Problems solved through Price Mechanism

In a capitalist economy, the central problems are solved through the system of price
mechanism. Price mechanism refers to a set of equilibrium price of individual commodities and factors of production determined through the forces of demand and supply in the various markets. Price mechanism establishes an equilibrium price both in the commodity market and in the factor market.

The price system is the indicator of the direction of profitable investment in a capitalist economy. To the question "what to produce", the price mechanism would advocate that those commodities should be produced for which demand prices are high and are therefore, profitable to produce. To the question "how to produce," the price mechanism would advice that those techniques or factors of production should be employed which cost less as indicated by the prices of factors. To the question "for whom to produce", the price mechanism would advocate that the commodities should be produced for those sections of the society who are in a position to pay the price in the market.

Thus, the central problems are solved and the resources are allocated through price mechanism, in a capitalist economy. 29

b. Socialism

Socialism 30 is an economic system where the resources of an economy are placed at the disposal of a central authority which works out the entire plan for the economy. The desire for equality is the main consideration of these authorities. In the words of H.D. Dickenson, "Socialism is an economic organisation of society in which the material means of production are owned by the whole community and operated by organs representative of, and responsible to, the community according to a general plan, all members of the community being entitled to benefit from the results of such socialised planned production on the basis of equal rights." 31
Central Problems solved through Central Planning Mechanism

In a socialist economy, the central problems are solved through the system of central economic planning. In fact, economic planning is evolved with the main intention to solve the central problems of an economy. According to H.D.Dickenson, "Economic planning is the making of major economic decisions - what and how much is to be produced, how when and where it is to be produced, and to whom it is to be allocated - by the conscious decision of a determinate authority, on the basis of a comprehensive survey of the economic system as a whole."32

Thus, the central problems are solved and the resources are allocated through the central planning mechanism, in a socialist economy.33

c. Mixed Economy

Mixed economy is a form of economic system which is a combination of the salient features of capitalism and socialism.34 The resources of a mixed economy are shared between private sector and public sector. Mixed economy strives to achieve efficiency as well as equity in the economy.

Central problems solved through Price Mechanism and Government Directives.

In a mixed economy, the central problems are solved through the system of price mechanism and government directives. The private sector allocates its resources through price mechanism. The public sector allocates its resources through government directives with the objective of achieving social and economic welfare of the community. In order to ensure that the private sector also contributes towards the development of the nation, the
government guides and direct the private sector through various incentives. The government also adopts necessary measures to control and regulate the private sector with appropriate monetary and fiscal policies.

Thus, the resources are allocated and the central problems are solved through the system of price mechanism and government directives, in a mixed economy.36

To Sum Up

An economic problem is the essence or the subject-matter of economics. An understanding as to how economists approach this problem clearly reveals the conventional approach to economics. An economic problem consists of two sides, namely, human wants and available resources. While assuming human wants to be unlimited, economists approach an economic problem by focusing their attention on the available resources and its allocation in the economy. They are of the opinion that the problem of resource allocation is the essence of an economic problem.

Economists approach the problem of resource allocation by first evolving the central problems of an economy, which deals with the production and distribution of commodities in the economy. The central problem clearly brings out the entire range of issues associated with resource allocation in the economy. Economists find solutions to the central problems through economic systems. The Capitalistic form of economic system solves the central problems through price mechanism. The Socialistic form of economic system solves the central problems through central planning mechanism. The Mixed Economy solves the central problems through price mechanism government directives. Thus, economists approach and address an economic problem clearly brings out the conventional approach to economics.

In conclusion, we may say that the conventional approach to economics reveals an
important fact that economists focus their attention on the resources and its allocation in the economy, while holding the cardinal assumption that human wants are ever unlimited.

With the above background knowledge of conventional economics, let us now proceed to discuss the concept of economic man.

The concept of economic man is the most fundamental and hence, an important concept of economics. Conventional economics assumes a particular pattern of human behaviour and builds economic models based on this behaviour. Modern economists, citing empirical evidences, have questioned the assumption underlying the concept of economic man.

Now, let us first expound the conventional view on the concept of economic man. This endeavour would enable us to clearly understand the nature of "man" in economics and the underlying assumptions there of. Secondly, let us discuss the criticisms levelled against the concept of economic man by the modern economists. This endeavour, other than bringing out the limitations of the concept of economic man, also provide us with the much needed direction to enter into the philosophy of Advaita Vedanta. In other words, this attempt would give us a clear picture regarding the required perspectives that have to be deduced from the philosophy of Advaita Vedanta.

B. The Economic Man

"Man" in economics, is commonly referred to as "Economic Man". The term "economic man" is taken from its Latin translation "Homo Economicus." The Oxford English Dictionary defines an economic man as "A convenient abstraction used by some economics for one who manages his private income and expenditure strictly and consistently in accordance with his own material interest." This definition brings out the general behaviour of an economic man. Let us now attempt to understand the "core" nature of an economic man, as
perceived by conventional economists.

Conventional economics defines economic man and his behaviour with the help of the concept of rationality. Accordingly, they hold the cardinal presupposition that: *Man is rational.* As Daniel Hausman and Michael Mcpherson points out, "The "homo economicus" of contemporary economics is 'homo rationalis'." 37 In the words of Robert Leckachman, "Every body in this prosaic universe is rational." 38 James Tobin states that, "Economic theory is usually predicated on the premise that, given their schedules of preferences for goods and services and leisure, individuals behave consistently and 'rationally'." 39 Thus, we are able to observe that the concept of economic man is defined in terms of rationality.

The term 'rationality' generally refers to "The quality of possessing reason; the power of being able to exercise one's reason." 40 To perceive man as rational is not unique to economics alone. Assumption of rationality can be found to be a component of other social sciences also. 41 But, in economics, the term 'rationality' is applied in a peculiar sense. This fact would be clear as we proceed to discuss the meaning of rationality in economics which is commonly referred to as 'economic rationality'.

1. Economic Rationality

In economics, the concept of rationality is used in a specific sense, keeping in view the function of an economic man, in the background of an economic problem. An economic problem, as we have already seen, lies in optimizing the employment of scarce resources among competing wants, in the economy. In such a situation, the function of an economic man would naturally be to strive for this optimization or maximization.

Tilman Borgers states that in economics, "any behaviour that solves some optimisation problem is called 'rational'." 42 In the words of Bill Garrad, "Economic behaviour is
interpreted as the outcome of optimizing choices by rational economic agents." 43 C. Dyke clearly brings out the relationship among economic man, rationality and the maximization principle. He states: "The rule of rationality involved here is: Act so as to get the most value you can for the least value expended. Someone who acts on the basis of this rule has come to be called a 'rational economic man'." 44

According to conventional economics, an economic man, if he is rational, would so allocate his resources in such a manner that would fetch him maximum benefit. In other words, an economic man would rationally allocate his resources in the economy. In the opinion of Ann Cudd, rationality involving maximization, is a capacity inhering primarily in all individuals. 45 Herbert Simon states that, "Economics tends to emphasize a particular form of rationality-maximizing behaviour" 46, and "the rational man of economics is a maximizer, who will settle for nothing less than the best." 47 Thus, we are able to observe that rationality in economics refers to the maximization behaviour of an economic man. This special form of rationality is termed as 'economic rationality'.

Every economic man is a compulsive maximizer, in any given situation. As a consumer, he is expected to maximise his satisfaction or utility and as a seller, he is expected to maximize his profit. As Gary Becker points out, "everyone more or less agrees that rational behaviour simply implies consistent maximisation of well-ordered function, such as utility or profit function." 48 An economic man is assumed to behave in such a manner that given the costs, he would maximize his benefits (or) given the benefits, he would minimize his costs. This form of maximization is termed as 'economic maximization'.

Thus, the above discussion enables us to understand that the concept of economic man, as perceived by conventional economics, brings out two simple, but important propositions. They are:

(i) Man in economics or economic man is rational, and

(ii) Rationality in economics or economic rationality refers to the maximization principle.
Here, we are able to observe that conventional economics enforces the complete identity of economic man with rationality and rationality with the maximization principle. In other words, we may say that Economic Man = Rational = Maximization

Modern economists are in agreement with the conventional view that man is rational. Along with conventional economists, they also perceive the importance of the rationality assumption in economics. According to Lansana Keita, "the foundational premise of neoclassical economic theory is the postulate of rationality is generally assumed" and it "is not only the basic theoretical assumption of orthodox neoclassical economics but the unchallengeable posit of theorists sympathetic to the neoclassical program." 49 In the words of Billi Gerrad, "the axiom of rationality is the cornerstone of modern economics." 50 Daniel Hausman states that, "Much of the methodological distinctiveness of economics stems from the remarkable fact that a theory or rationality lies at its theoretical core." 51

Modern economists, however, question the second proposition of conventional economics which links economic rationality with the maximization principle. As Daniel Bell and Irving Kristol rightly points out, "an increasing number of philosophers have questioned the practice of equating rationality with functional efficiency." 52 In recent years, an entire literature has arisen which disputes this aspect of the concept of economic man. Thus, modern economists accept rationality assumption but disagree on the content or rationality (ie) what constitute rationality?

For our discussion let us now broadly classify the criticisms levelled against the second proposition of the concept of economic man, under two main categories. Firstly, modern economists have questioned the feasibility of rationality in achieving economic maximization. This line of criticism may be discussed under the topic: The Non-feasibility of Economic Maximization. Secondly, modern economists have also pointed out the negative implications of the linkage of rationality with the maximization principle. This line of criticism may be discussed under the topic: The Un-desirability of Economic Maximization.
Let us now proceed to discuss these two criticisms in detail.

a. The Non-Feasibility of Economic Maximization

According to conventional economics, rationality involves the maximization behaviour of an economic man. While an individual would maximize his satisfaction, a firm would maximize its profits. It is generally believed that a firm’s behaviour would be more rational than an individual, in the economy. Hence, let us first focus our attention on the firm’s behaviour towards economic maximization, as perceived by modern economists.

(1) Non-feasibility at the Firm-Level

Many modern economists share the perception that the principle of maximization may not be feasible at the firm-level. According to conventional economics, an attempt of an entrepreneur to maximise his profit is regarded as a rational behaviour. But, doubts have been raised in recent years about whether in the real world, entrepreneurs actually tries to maximize their profits. Is it possible for them to do so? It has also been doubted whether profit maximization is the only motive which governs the behaviour of the rational entrepreneur?

(a) "Satisficing" Behaviour

Herbert A. Simon, one of the pioneers of the behavioural approach to the theory of the firm, points out that most psychological theories assume that instead of maximizing, rational men normally satisfice. This is so because the motive to act "stems from drives, and action terminates when the drive is satisfied." 53

Applying the above to the business decisions of the firm, Simon suggests that instead
of maximizing profits, firms aim at satificing, that is, to achieve a satisfactory level or rate of profit. In his own words, "we must expect the firm's goals to be not maximizing profit, but attaining a certain level or rate of profit, holding a certain share of the market or a certain level of sales. Firms would try to "satisfice" rather than to maximize." 64

According to Simon, firms normally have an "aspiration level". An aspiration level of a firm is based on its goal as well as its past experience and in fixing it, uncertainties are duly taken into account. Simon explains the 'Satisficing' behaviour in relation with this aspiration level. He states, "One could postulate that the decision maker had formed some aspiration as to how good an alternative he should find. As soon as he discovered an alternative for choice meeting his level of aspiration, he should find. As soon as he discovered an alternative for choice meeting his level of aspiration, he would terminate the search and choose that alternative. I called this mode of selection Satisficing". 65

Herbert Simon adds that aspirations will rise in conducive atmospher and fall in harsh ones. In other words, if the actual performance of the firm reveals that a given aspiration level can be easily achieved, then the level is revised upwards. on the other hand, if it is found that a given aspiration level is difficult to be achieved, then the level is adjusted downward to a level which is more likely to be achieved.

According to Herbert Simon, the adjustments in the aspiration level are dependent on the 'search' activity effected by the firm. Generally, when the actual performance of a firm falls short of an aspiration level, 'search' activity is started to find out the ways of better performance in the future and therefore achieving the aspiration level. But, there is a limit to these searching activities because it involves the incurring of costs in terms of money, effort and time. Simon further states: "we cannot within practicable computational limits generate all the admissible alternatives and compare their respective merits. Nor can we recognize the best alternative, even if we are fortunate enough to generate it early, until we have seen
all of them. We satisfice by looking for alternatives in such a way that we can generally find an acceptable one after only a moderate search.”

Thus, the typical search of a firm is a moderate one as the gain from search activity is balanced against its costs. This moderate search limits the firm to have a moderate aspiration level of profits. Therefore, a rational firm aims at a 'Satisficing' level of profit, rather than 'Maximizing' profit.

(b) Secure Profits

Many economists subscribe to the view that an entrepreneur does not aim at maximizing his profits at a particular time of for a particular period or time. Instead, he tries to have a steady flow of profits for a long time. In other words, he is acutated by the desire for Secure profits.

According to Prof. K.W. Rothschild, "Profit maximisation has up till now served as the wonderful master key that opened all the doors leading to an understanding of the entrepreneur’s behaviour. ... But there is another motive which is probable of a similar order of magnitude as the desire for maximum profits: the desire for Secure profits".

Prof. Rothschild is of the view that profit maximisation assumption may be valid for explaining the behaviour of a firm which is working under conditions of perfect competition (that is, innumerable sellers in the market) or monopoly (that is, a single seller in the market). For the former, profit maximization objective is essential for its survival and for the latter, it becomes a natural feature. But, in the field of oligopoly (that is, few sellers in the market), profit maximization assumption is not valid or sufficient. In Rothschild’s own words, "Here is both the desire for achieving a secure position as well as the power to act on his desire.”
Rothschild comments that in spite of the growth of numerous oligopolies in the real world, economists have ignored this additional motive and have relied exclusively on the profit maximization principle.

(c) Full-cost Principle

One of the earliest and most influential empirical study, which opposed the conventional view of profit maximization, was made by Oxford economists R.L. Hall and G.J. Hitch in 1936.

Hall and Hitch surveyed thirty eight British firms and found out that in thirty firms, the executives said they used the Full-cost pricing rules. Full-cost principle refers to basically adding a 'normal' or target profit margin (or a percentage return on invested capital) to an estimate of unit costs to establish a product's price. These firms did not try to maximise profits by equating marginal cost with marginal revenue, which they seldom know.

When the firms were asked why they used the Full-cost principle and not profit-maximization, the executives provided three reasons, namely, to deal with the uncertainties in the estimates of demand functions, to avoid charging too high a price (and driving away customers) or too low a price (in an oligopolistic market), and to avoid the great burden imposed by calculations for marginal cost pricing on businesses that sell thousands of different items.

Thus, we are able to see that the empirical study as undertaken by Hall and Hitch clearly shows that firms do not aim at profit-maximization.
(d) Multiple Goals

In the modern world, the organizational set up of the firms, especially in case of big firms is of the nature of joint stock companies or what is also called corporations. In the case of joint stock companies or corporations, we find a separation between ownership and management. It is the shareholders who are the owners of the company and bear the risks of business. But price and output decisions are usually taken by hired managers. Under such a set up, profits of the business go to the shareholders and the managers are paid fixed salaries. Generally, managers would like to maintain a study flow of profits and would not be motivated enough to aim for maximum profits. This subtle conflict evolves multiple goals and prevents profit maximization to be the only goal or objective of a modern firm.

A full-scale behavioural theory of the firm has been put forward by R.M. Cyert and J.C. March. According to them, in these days of large scale corporate type of business, we can no longer consider a firm as a single major decision maker, but instead we should look at it as a complex group or complex organisation composed of various individuals whose interests may conflict with each other. Cyert and March terms this complex organisation or group as an organisational coalition.

Closely observing the behaviour of a number of firms, Cyert and March assert that all the individuals in an organisational coalition, actively participates in setting the goals of the organisation. Thus, an organisation has many goals. According to Cyert and March, a typical firm generally possess Five goals, namely, production goal, inventory goal, sales goal, market share goal, and profit goal. 60

Cyert and March points out that business firms generally tries to satisfy the genuine demands of all the coalition members because firms are instinctively guided by the above five goals while taking decisions regarding price, output and sales strategy. But, there is an implicit order of priority among different goals, which is dictated by the bargaining
positions of the various members of organisational coalition in different firms.

Thus, we are able to observe that modern firms are multiple-goal firms and profit-maximization is not the only objective of such firms.

(e) X-Efficiency Theory

According to conventional economics, a rational firm is expected to maximize its profit or minimize its costs. We have already seen the doubts being raised by economists regarding the feasibility of a modern day firm to aim at profit-maximization. Let us now proceed to see whether firms aim at cost-minimization. Cost-minimization means that for production of goods and services, firms minimize cost per unit of output for a given scale of operation. It basically refers to the resource allocative efficiency of a firm.

Harvey Leibenstein, citing examples of the hairnet factory in U.S.A. and the three-day-week experience of British factories, question the cost-minimization assumption of conventional economics. He contends that firms do not utilize its resources efficiently even when they are made aware of the available economic opportunities. According to Leibenstein, this situation is examined under the X-efficiency theory. In his own words, "What I called 'X-efficiency theory' is concerned with the type of inefficiency resulting from missed opportunities to utilize existing resources within productive organizations." 61

Leibenstein asserts that inefficiencies in the utilization of resources occur due to the presence of differential degrees of motivation in an organisation. These motivating forces can be strong or weak or distortional, depending on the nature of the organization, and apart from the resources available to it." 62 Since the amount of effort that people put forth depends on the differential degrees of motivation, effort is considered as a discretionary variable for all enterprise members. Therefore, the X-efficiency theory assumes that to some extent individuals can choose 1) some of their activities; 2) the rate at which they
carry out those activities; and 3) the quality of their effort. The nature of the choice each individual makes will depend on the motivational system. 63

According to Leibenstein, every individual’s decision-making procedures fall into three categories. The first is decisions made according to habits, routines, and conventions. The second is decisions according to partial calculating procedures. Finally, there is a class of procedures which comes close to complete calculation. This last class of procedures, according to Leibenstein, results in the achievement of the profit-maximization objective. Leibenstein argues that it is the degree of external pressure which determine the decision-making procedures of a firm. Greater the external pressure, the greater the shift towards complex calculation and maximization.

In general, firms rarely achieve complete calculation because of the presence of inert areas and effort entropy. According to Leibenstein, “the concept of inert areas postulates that only if external pressure (or external cost) is sufficiently high, will behaviour change.” 64 In other words, firms do not possess the inclination to shift from convention or habit to partial calculation, and from partial calculation to complete calculation, without the involvement of very high external pressure. “Entropy refers to "disorder" and "effort entropy" represents "the degree of insufficient coordination with presumed enterprise objectives." 65 In other words, firms are in general, disorganised, and a greater degree of co-ordination is possible only with greater amount of external pressure.

Therefore, we are able to perceive that external pressure is the cardinal aspect of the X-efficiency theory. A greater amount of external pressure would lead to a decrease in effort entropy, resulting in better co-ordination in the organisation. This in turn leads to a shift towards complete calculational procedure, thereby increasing X-efficiency and achieving maximization. Leibenstein concludes by stating that in general, firms are non-maximizers and maximization is more of an exception rather than a rule.

Thus, we are able to observe that the foregone discussion clearly brings out the
non-feasibility of economic maximization at the firm-level. Let us now proceed to discuss the individual's behaviour regarding economic maximization.

(2) Non-feasibility at the Individual-level

Many modern economists share the perception that the principle of economic maximization may not be feasible at the individual-level. According to conventional economics, an attempt of an individual to maximize his satisfaction is regarded as a rational behaviour. But doubts have been raised in recent years about whether in the real world, individuals actually tries to maximize their satisfaction. Is it always possible for them to do so?

(a) Systematic Biases

Modern economists are of the view that given the limited ability of human beings to gather and process information, and the complex world they face, it may not be feasible for individuals to always maximize their satisfaction. For, economic maximization requires analyzing all the alternatives and selecting the best from them. This involves, among other things, a huge amount of time, effort and money.

Herbert Simon stresses the limitations of short-term memory. While individuals can store large amounts of information in the deeper memory, they are able to hold only some seven items (or perhaps as low as three) in their immediate mental grasp. 66 This situation cannot be compared to the hundreds of items a maximal decision may require. Simon also points out the great difficulties that individuals have in logically combining prior information with new inputs, which causes them to either grossly over-respond or under-adjust to new information. 67 John Steinbruner states that those who expect tennis players to calculate
whether to lob, smash or rush to the net, are unaware that the player, if he is to calculate, must deal with 4,200 possibilities.

Jonathan Borak and Suzanne Veilleux, having made a specific study on the efficiency level of the physicians, records the following observations. Physicians are obviously much more educated than the average citizen, yet their judgements, in their area of specialized training, are subject "to all flaws of human reasoning". According to the authors, "Among Physicians with greater knowledge of statistical principles.....Probability estimation, although some what more adequate, was still largely dominated by logical inconsistency and failure to apply basic concepts of probability." In effect, 'sophisticated physician' did not perform significantly better than nurses and non-professional hospital workers, even when dealing in medical issues.

While conventional economics assume individuals to act under certainty, in recent decades the fact is often recognized that individuals must frequently choose among future outcomes and courses of events that are uncertain. As individuals have to confront with uncertainty in most real life decision-making, they tend to use various heuristic devices to simplify the complex decision-making situation. Heuristic devices are employed by individuals in the guidance of action in order to save the costs of detailed calculations. Heuristics are said to 'inform' the individual on how best to act in the given situation. Modern economists points out that while these heuristics help to some extent, they themselves introduce major systematic biases which affects human deliberations towards the objective of economic maximization.

Even though there are numerous systematic biases which are found to limit economic maximization, let us focus on three major and common systematic biases that enter into an individual’s decision-making process. They are (i) Availability, (ii) Representation, and (iii) Anchoring and Adjustment. Let us now briefly discuss these three systematic biases.
(i) Availability:

It refers to the findings that people systematically accord higher estimates to the frequency of events (or category of events) that they can recall more readily, than to those that are more difficult to recall. Richard Nisbet and Lee Rose points out that mere publication of statistics on risk for breast cancer had little effect, but the publicized mastectomies performed on Mrs. Ford and Mrs. Rockefeller in 1974 led to a flood of visits to cancer detection clinics. Thus, individuals depend more than they should on salient information which is easily retrievable from memory.

(ii) Representation:

It refers to the findings that people generally judge the probability of an event by the similarity principle. That is, if the question is, what are the chances that object X belongs to category Y? People would respond by evaluating, How much is X like Y? This is misleading because frequency and similarity often do not coincide.

A report on 'Decision making and problem solving' submitted to the National Academy of Sciences states that when people are given information about the probabilities of certain events (eg. how many lawyers and how many engineers are in a population that is being sampled), and then are given some additional information as to which of the events has occurred (for example, about a person who has been draw from the population), they tend to ignore the probabilities and rely on the incomplete or even irrelevant information about the individual. Thus, individuals act as if stereotypes are more common than they actually are.

(iii) Anchoring and Adjustment:

It refers to the findings that people use a convenient starting point (the anchor) to estimate a magnitude. They often start with a wrong initial estimate ('prior') which is not as much of a concern, because they are expected to learn from experience (simulated by
repeating the same experiment). However, as Daniel Kahneman and Amos Tversky found out, people either dig in and refuse to adjust or grossly under-adjust. Thus, individuals let their judgements to be overly reliant on some initial anchoring values and do not want to adjust subsequently.

The above findings is further substantiated by the illustration provided by James Engel and Roger Blackwell. A manufacturer produced new ceiling tile without holes and demonstrated the superior sound absorption capability of the product. But, consumers rejected the product on the basis that an effective ceiling tile must have holes. After a period of unsuccessfully fighting this misbelief through advertising, he inserted the holes and thereby reduced the performance of the product. But, sales then responded positively.

Citing many examples, Nisbett and Ross states that "once subjects have made a first pass at a problem, the intial judgement prove remarkably resistant to further information, alternative modes of reasoning, and even logical or evidential challenges." Therefore, in the modern, dynamic and uncertain world, individuals find it extremely difficult to achieve economic maximization. Even if an attempt is made, major systematic biases creeps in the decision-making process, thereby hampering the individual's feasibility to maximize.

Thus, we are able to perceive the fact that modern economists, by providing evidence, have shown the constraints involved in the conventional concept of economic man, regarding the feasibility of linking rationality with the maximization principle. Therefore, it becomes imperative on the part of economists to explain the behaviour of firms, which strives for less-than-maximization profits and individuals, who strives for less-than-maximum satisfaction, within the domain of conventional economics.

Let us now proceed to discuss the second line of criticism levelled against the conventional concept of economic man.
b. The Un-desirability of Economic Maximization

Many modern economists have voiced their concern regarding the undesirability of linking rationality with economic maximization. Such a linkage induces a typical rational individual or firm to always pursue self-regarding interest, ignoring the role of altruistic and moral commitments in human decision-making procedures. By 'altruism' we refer to the regard for others as a principle of action. By 'moral commitment' we refer to the degree of conformity to a standard ethical conduct.

(1) The Position of Conventional Economics

According to conventional economics, human behaviour is ever motivated by the maximization principle. In the words of Robert Crouch, "a human being is a purposeful animal and the purpose is to maximise enjoyment off life." 76 Lipsey and Steiner states that, "The members of a household will seek to maximise their total utility This is just another way of saying that the members of households try to make themselves as well off as they possibly can in the circumstances in which they find themselves." 77 A close observation would show that the urge to maximize, the urge to compete with fellow-beings, the urge to be 'better-off' in any given situation all stem from the selfish nature of individuals.

Conventional economics legitimizes and fosters self-interested behaviour of an economic man. Adam Smith, the father of conventional economics, proclaims: "We are not ready to suspect any person of being defective in selfishness." 78 He emphasizes that the market as a system relies on each individual's pursuit of self-interest. He states, "It is not from the benevolence of the butcher, the brewer or the baker 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 advantage." 79
According to Dennis Mueller, the goal of a rational act is to maximize the actor's self-interest. Robert Frank explicitly defines rationality as self-interest.

Conventional economics not only glorifies self-interest, but also explains the non-selfish behaviour of individuals in terms of self-interest. This is possible because conventional economics assumes that the welfare of another individual can be adequately reflected in the self-interested preference schedule of an individual. Kenneth Boulding explains, "All we have to suppose is that the perception of one party, A, of the welfare of the other, B, is a variable in A's utility function such that when A perceives that B is better off, A's utility rises." Lipsey and Steiner illustrates this point through an example of an individual contributing to charity. They point out, "If, for example, the individual derives utility from giving his money away to others, this can be incorporated into the analysis, and the marginal utility that he gets from a dollar given away can be compared with the marginal utility that he gets from a dollar spent on himself." Thus, when an individual contributes to charity, conventional economics would say that giving money to charity maximizes his self-interest more than spending the same amount on himself.

Not only the altruistic behaviour of helping others, but also the moral values of individuals are explained through self-interest. Corry Azzi and Ronald Ehrenberg was troubled by the fact that religious activities cannot be explained by "the expected stream of 'benefits' which an individual plans to receive" during his life time. In order to explain people's activities by some consumable good, they introduced the factor of 'after life consumption' and suggested "this variable being atleast partially a function of the householder's investment of members' time in religious activities during their life times" Therefore, according to conventional economics, the self-interested 'after life consumption' motive is the objective of religious activities.

Another example, which pertains directly to economics, is the way in which conventional economics explains the 'excessive' saving motive of individuals. Economists have found that people save much more than the desire to ensure their consumption after
retirement. Lester Thurow states that, "At no age above sixty-five are Americans on average dis-saving." Attempts have been made by conventional economists to explain this 'excessive' saving by the need to adjust to a situation where one will live longer than expected. But this explanation still leaves a sizable unaccounted 'surplus'. In the opinion of Anthony Shorrocks, this can be explained by older people's ability to enjoy the consumption of their offspring 'extending through several generations' and according to John Laitner, the "consumption of their (household's) descendants in all future generations". Therefore, according to conventional economics, the self-interested 'bequest consumption' motive is the objective of excessive savings.

Thus, we are able to observe that conventional economics explain all kinds of behaviour on the basis of self-interest. But, in the process, there is an excessive attempt to stretch the consumption function. It is rather difficult to visualize how an individual can enjoy: (1) the consumption of another (as in case of charity), (2) the consumption of after-life situation (as in case of religious activities), and (3) the consumption of the yet-to-be conceived offspring of one's offspring (as in case of excessive savings).

(2) The Irreducibility of Non-selfish motives

Modern economists are of the view that if any behaviour is by definition an attempt to maximize self-interest, then this definition turns into a tautology (that is, saying the same thing twice, but in different words) and ceases to explain the different kinds of human behaviour in economics.

According to Norman Bowie and Robert Simon, "In the classical view, each consumer is a satisfaction maximizer, i.e., he is a rational egoist. ... This assumption is so obviously contrary to fact that economists have turned it into a tautology. Any consumer behaviour is by definition an attempt to maximize satisfaction." The authors go on to point out that as a
result "we no longer have an empirical theory about consumer behaviour" and the theory becomes "utterly trivial." Daniel Hamermesh and Neal Soss tellingly states that if an individual commits suicide, it is implied that life must have been worse than death or death maximizes self-interest more than life.

Commenting on the tautologies nature of the conventional rationality assumption, Amartya Sen states that, "It is possible to define a person's interest in such a way that no matter what he does he can be seen to furthering his own interests in every isolated act of choice." Kenneth Arrow refers to the basic rationality theorem as applied by most economists as "a weak hypothesis, not easily refuted and therefore not very useful as an explanation." Regarding the importance given to self-interest in conventional economics, Michael Mecpherson wonders "What is odd is the desire to derive everything from self-interest as if that were a natural or necessary starting point. It is a peculiar feature of the sociology of the present-day economics profession that this odd ambition should be so prevalent."

Thus, we are able to understand that to define individual behaviour on the basis of self-interest does not substantiate anything. Now, economists are faced with an important question. Is there any motive other than self-interest which determines the decision-making procedure of individuals? As Amartya Sen rightly puts it, "the real issue is whether there is a plurality of motivations, or whether self-interest alone drives human beings."

Modern economists, pointing out numerous instances, forcefully argue that there are non-selfish motives behind the decision-making procedures of individuals, which cannot be reduced to self-interest. Let us discuss a few of them.

(a) Altruism

Richard Titmuss worked on systems for acquiring and distributing blood for
transfusions. He claims that voluntary blood donation systems, as in Great Britain, are more efficient than commercial systems, as in the United States. In a thoughtful and lengthy review, Kenneth Arrow endorses much of Titmuss' case. In particular, Arrow underscores the serious drawbacks of commercial provision when the testing of blood for infections agents is imperfect. Altruistic donors have no incentive to lie about whether their blood is safe, but commercial donors plainly do. Moreover, commercialization of blood can discourage blood donation. To give blood, when it cannot be purchased, is to give something that is literally priceless, something which the donor themselves describe as 'the gift of life'.

A considerable body of experimental data supports the perception of the presence of altruistic behaviour in individuals. Several experiments showed that many people mail back "lost" wallets with cash intact to strangers. In a study conducted by Harvey Hornstein, 64% of the subjects who had an opportunity to return a lost contribution to an "Institute for Research in Medicine", did so. The cost includes forgoing the found cash, paying for postage and taking the effort of mailing the contribution. The only reward is the inner sense of having done what is right.

Irving Janis and Leon Mann points out that in some situations, many individuals who see others in distress rush to help them without calculating the consequences for themselves when they feel responsible. People do things for the sake of others that they do not do for themselves. Michael Walch and Lise Wallach mentions a case in which an old woman refused surgery to save her vision, until reminded of the effect her blindness would have on her children. Edmund Phelps notes that in the same selfish world, one also finds, "the prevalence of altruistic behaviour: a producer may advertise his product truthfully when he need not, .... a benevolent butcher may abstain from short-weighting."

(b) Moral Commitment
Amartya Sen uses the term 'Commitment' to explain the presence of moral values in an individual. Commitment, not formally defined, is contrasted with 'concern for others when it is based on one's own welfare. Sen gives the following example. If you see another person being tortured and it makes you sick, you act out of sympathy. But if you think that such action is wrong, you act out of 'Commitment'. The significance of the concept of commitment is that it points to a source of preference, or value, other than being 'better off'.

Brian Barry points out that conventional economics is not in a position to adequately explain the voting behaviour of individuals. This is so because the act of voting entails efforts but yields no specific return to each voter. According to Barry, the act of voting expresses one's 'Citizen duty' and there is a considerable correlation between the level of such a commitment and voting.

In many situations, gifts are not given to elicit reciprocal gifts nor adjusted "in terms of marginal utilities to the recipients", but to express a family commitment or bond. Generally, people who donate kidney to their siblings or offspring do so because they feel responsible, that they 'ought to'.

(c) Savings attitude

According to Amitai Etzioni, the behaviour of 'excess' savings which has troubled the conventional economists, can be meaningfully explained by recognizing the presence of moral commitment of individuals. He enumerates three moral values which affects the amount saved. They are "the moral commitment of (A) not to be in debt, (B) not to be dependent on the government or one's children, and (C) helping one's children to 'start off in life'. In fact, some studies have even pointed out that economic factors have no positive influence on the saving behaviour of individuals. According to Barry Bosworth, the saving rate in the United States between 1951 and 1981 remained "surprisingly constant
within a range of 16 to 18 percent of GNP", despite the fact that in this period, numerous changes were introduced in tax policies which presumably made it 'rational' to change one's saving behaviour. 103

(d) Free-Rides

Gerald Marwell and Ruth Ames conducted a large number of experiments, under different conditions and found out that people do not take free-rides, but pay voluntarily as much as 40 percent to 60 percent of what economists figured is due to the public, if the person was not to free ride at all. The main reason for this behaviour is that the subjects consider it the 'right' or 'fair' thing to do. 104 Overviewing the available evidences, Marwell concludes, "in over 13 experiments we have found that subjects in investing substantial proportions of their resources in public goods despite conditions specifically designed to maximise the impact of free riding and thus minimize investment. The prevalence of such economically 'illogical' behaviour was replicated over and over again. Nor do other expriments find their subjects behaving much differently." 105

(e) Guilt and Habits

Modern economists are of the view that other than self-interest and moral values, there are factors affecting the decision-making behaviour of individuals. Let us discuss two such factors, namely, Guilt and Habit.

The feeling of guilt arises when people violate their moral values to enhance their self-interest. The feeling of guilt precede, accompany or follow human action and effects behavioural consequences Several experiments have shown positive correlations between 'pro-social' acts (eg., giving to charity) and prior"'transgressions" Such correlations are interpreted as the result of 'guilt arousal" 106 Philipee Rushton reviews many such studies. In one such experiment, 55 percent of shoppers who believed they broke a camera in a
shop offered to help another shopper in a staged incident, compared to 15 percent of the control group who did not help.\textsuperscript{107} Jonathan Freedman mentions an experiment in which people who were first induced to tell a lie were subsequently twice as likely to volunteer to carry out a chore than those who did not lie.\textsuperscript{108}

Habits refers to a routine behaviour without cognition or evaluation. Many experiments clearly shows that people choose not by deliberating, but out of habit, on impulse or because of 'brand loyalty' George Katona points out that people use credit cards and installment payments, even at 18 percent interest, even when they have cash on hand.\textsuperscript{109} A classic study on the subject was undertaken by Houthakker and Taylor, who analyzed consumer expenditure for 82 items. Statistical evidence shows that 50 items were found to be subject to habit formation. These 50 accounted for 58.4 percent of the total consumer expenditure. In contrast, commodities subject to price deliberations accounted only for 28.2 percent of total consumer expenditure. The authors conclude that "habit formation quite clearly predominates in the United States consumption", while prices (at many income levels) are relatively unimportant.\textsuperscript{110}

Habits affect not only the purchasing behaviour of individuals. As Alan Lewis points out, even changes in fiscal policy, for instance cuts in income tax, frequently are found not to have the expected effects on motivation to work.\textsuperscript{111} According to Paul Stern, when Americans were offered a free 'energy audit' (to establish how they could reduce their energy waste and hence expenditure), only a very small fraction of the public accepted the offer.\textsuperscript{112}

Thus, from the foregone discussion we are able to clearly understand the modern economists contention that altruistic and moral commitments of individuals do play a vital role in human decision-making procedures and they cannot be reduced to self-interest, as advocated by conventional economics.
(3) Self-interest and Morality

According to modern economists, self-interest and moral values are both considered as important factors affecting human behaviour. Thaler and Shefrin states that a person is to be viewed as an organization that consists of a planner (concerned with moral values) and a doer (completely selfish and myopic). Siegward Lindenberg suggests that actors have two 'baskets' one containing all forces that advance their 'normal' utility (concerning self-interest), and the other containing all those that urge the actor to favour "a taste for variety" (concerning moral values). Howard Margolis points out that people split their resources between pursuits of self-interest (including activities that benefit others) and those that benefit some larger social entity of which they feel they are an integral part. George Stigler recognizes two motives, namely the investment motive (concerning self-interest) and the consumption motive (concerning moral values). According to Albert Hirschman, people have preferences (concerning self-interest) and meta-preferences (concerning moral values), in their decision-making procedures.

Now, a vital question that arises is that: Can conventional economics accomodate the altruistic and moral commitments of individuals along with self-interest, within its paradigm?

To respond, it is very clearly visible that so long as the concept of rationality is identified with the maximization principle, conventional economics would accept an economic man, motivated only by self-interest. Infact, convention economics perceives moral commitments to be in opposition with self-interest. Oliver williamson points out that rational actors who pursue self-interest are expected to act opportunistically, which often entails acting immorally. Giving examples, he concludes that an economic man is "a more subtle and devious creature than the usual self-interest seeking assumption reveals". Gary Becker explains the virtues of person faking ('simulating') altruism, because then he can benefit from the altruism of others without contributing his share. On the conflict between conventional rationality and morality, Michael Mcpherson observes, "Neoclassical theory,
if it recognizes these conflicts at all, could do so only to disapprove; such conflicts mark an imperfection, a failure of rationality." Thus, we are able to observe a typical trade-off between economic rationality and morality. This position of conventional economics makes us wonder whether it is irrational to act morally or immoral to act rationally?

Thus, from the forgone discussion we are able to perceive the fact that modern economists, by providing adequate evidences, have clearly shown the constraints involved in the conventional concept of economic man, regarding the desirability of linking rationality with the maximization principle. Therefore, it becomes imperative on the part of economists to explain the altruistic and moral behaviour of an economic man, within the domain of conventional economics.

To Sum Up

A discussion on the concept of economic man enable us to understand that conventional economics perceive man as rational and rationality as identical to the maximization principle. That is, economic man = rational = maximization. Modern economists, accepting man as rational, have questioned the linking of rationality with economic maximization. They point out the constraints involved in the concept of economic man regarding the feasibility and desirability of linking rationality with the maximization principle. The feasibility limitation brings out the need to explain the less-than-maximization pursuits of an economic man, within the paradigm of conventional economics. The desirability limitation brings out the need to explain the altruistic and moral pursuits of an economic man, within the paradigm of conventional economics.

In conclusion, we may say that the conventional understanding of the concept of economic man reveals an important fact that the term 'economic rationality' is too limited and narrow to explain the various kinds of behaviour of a modern economic man. There-
fore, the conventional concept of 'economic rationality' has to be re-defined to accommodate and explain the less-than-maximization objectives and the non-maximization objectives of an economic man, as found in the modern day world.

It is rather surprising to find economics unable to accommodate the altruistic and moral commitments of individuals. Economics cannot claim to be value-free like mathematics or computer-science. As a social science discipline dealing with human society and social relationships, it is imperative on the part of economics to possess a substratum consisting of ethical values. This situation enjoins us to ask two pertinent questions, namely, what is the ethical theory followed by conventional economics? and why is that the ethical theory of conventional economics is unable to recognize the altruistic and moral commitments of individuals?

Let us now proceed to address the above two questions in our next topic taken up for discussion, namely, "Economics Ethics".

2. Economics Ethics

The Oxford English Dictionary defines ethics as "The science of morals; the department of study concerned with the principles of human duty. The moral principles by which a person is guided." 121 This definition brings out the salient feature of ethics. Ethics is concerned with an ideal or standard which is sought to be realized in our actions. As "the science of Conduct" 122, ethics also enable us to pass moral judgements. A moral judgment is a judgement which estimates the rightness or wrongness of human actions or conduct with reference to some principle, end, ideal or standard, as given by ethics. C.E.M. Joad summarizes the subject-matter of ethics, when he states: "Ethics discusses such matters as the meaning of the words 'good' and 'bad', the criterion of right action, and the nature and source of moral obligation." 123
Let us now proceed to discuss the ethical standard as accepted by conventional economics.

a. The Ethical Standard as 'Maximization of Satisfaction/Pleasure'.

A recollection of the basic position of conventional economics enable us to clearly perceive that all actions of an individual are expected to be channelized toward the objective of economic maximization. A consumer's action is considered to be rational, if he maximizes his satisfaction and a seller's action is rational, if he maximizes his profits.

Since conventional economics assumes man to be rational and rationality involves maximization, it logically follows that a 'rational' action is also the 'right' action. Conventional economics identifies a moral human conduct with the rational human conduct. Thus, a consumer's action towards economic maximization is not only considered as a rational action, but is equally a right action in conventional economics. Thus, moral judgements are passed based on the principle of maximization.

Now, what does a rational economic man maximize? According to conventional economics a rational economic man maximizes his satisfaction or pleasure. While explaining the meaning of a rational conduct, Albert Meyers states, "All that we are implying by rational conduct from the view point of economic science is that, given a choice among several lines of conduct, a rational individual will try to select that course of action which seems to him to promise either the greatest amount of satisfaction or the least amount of dissatisfaction." 124 In the words of W.S. Jevons, "The object of economics is to maximize happiness by purchasing pleasure, as it were, at the lowest cost of pain." 125 According to Leon Walras, "the object in trading is to gratify the greatest possible sum total of wants." 126 C. Dyke states that, "All actions are directed towards the gain of pleasure and the avoidance of pain." 127

Thus, we are able to observe that the ethical ideal or standard of conventional
economics is given by the principle of maximization of satisfaction. This standard is sought
to be realized in all our actions. Moreover, moral judgements in conventional economics
are effected only with reference to the standard of maximization of satisfaction/pleasure.

An overview on the important ethical theories of the world suggest that the ethical
type of conventional economics has been imbibed from the Utilitarian ethical standard of
maximization of pleasure. Let us now briefly discuss the perspectives of the utilitarian
ethics, so that we get a better understanding of economics ethics.

b. Utilitarian Ethics

Utilitarianism as an ethical theory holds the perception that men always seek
pleasure and avoid pain. Jeremy Bentham, the founding father of utilitarian ethics,
proclaims that "Nature has placed mankind under the governance of two sovereign masters,
pain and pleasure." 128 He also states that man’s "only object is to seek pleasure and to
shun pain." 129 J.S. Mill is of the opinion that pleasure is the only natural end of human
action. He remarks, "desiring and thing a finding it pleasant, aversion to it and thinking of it
as painful, are phenomena entirely inseparable." 130

(1) The Ethical Standard as the 'Greatest amount of Happiness/Pleasure'.

According to utilitarians, an action is right if it produces the greatest amount of
pleasure or benefits over pain. It means that the moral worth of an act is to measured by its
usefulness in promoting pleasure or happiness. In the words of J.S. Mill, "The creed which
accepts as the foundation of morals, Utility, or the Greatest Happiness principle, holds that
actions are right in proportion as they tend to promote happiness, wrong as they tend to
produce the reverse of happiness. By happiness is intended pleasure, and the absence of
pain; by unhappiness, pain and the privation of pleasure." 131 According to Henery Sidgwick,
a man chooses that course of action which would "involve as concomitant or consequent,
the greatest surplus of pleasure over pain”. In fact, ethics itself is defined by Jeremy Bentham, as “the art of directing men’s actions to the production of the greatest possible quantity of happiness, on the part of those whose interest is in view.”

Thus, the ethical standard of utilitarianism consists in the standard of the greatest amount of pleasure/happiness. Here, we are able to clearly observe that the ethical standard of conventional economics, namely, the maximization of satisfaction/pleasure, is faithfully imbibed from the utilitarian ethics.

Let us now proceed to discuss how the notion of moral and altruistic values are perceived in the utilitarian ethics. This would help us to understand ethical structure of conventional economics.

(2). Utilitarian perception of Moral Values

Since the Utilitarian standard is given by the greatest amount of happiness, moral actions are accepted only in so far as it leads to pleasure. In the words of J.Bentham, "He who adopts the principle of utility, esteems virtue to be a good only on account of the pleasures which result from it; he regard vice as an evil only because of the pain which it produces. Moral good is good only by its tendency to produce physical good. Moral evil is evil only by its tendency to produce physical evil." According to J.S. Mill, "A sacrifice which does not increase, or tend to increase, the sum total of happiness, is considered as wasted." He further states, "Those who desire virtue for its own sake desire it either because the consciousness of it is a pleasure, or because the consciousness of being without it is a pain, or for both reasons united". This mind-set is well illustrated in the incident involving Thomas Hobbes. When he was asked why he contributed to a beggar, and was this not due to Christ’s commandment, Hobbes responded that he did so "with the sole intent of relieving his own misery at the sight of the beggar.”

In utilitarian ethics, even society is viewed with suspicion as self-interest takes
precedence over social-interest. According to Bentham, "The community is a fictitious body, composed of the individual persons." \(^{138}\) In the opinion of J.S. Mill, "The great majority of good actions are intended, not for the benefit of the world, but for that of individuals." \(^{139}\)

Thus, we are clearly able to observe that the ethical theory of utilitarianism and conventional economics gives predominance to self-interest and explain all kinds of behaviour through the motive of self-interest.

Why is that the above theory is not in a position to recognize and accept the altruistic, moral and social commitments of individuals, within its ethical paradigm? A close scrutiny on the factors underlying the ethical position of utilitarian ethics reveals the truth that there are two main causes within the ethical structure, which do not encourage the accommodation of motives other than self-interest. The two main limiting forces are the Naturalistic Fallacy, and the Maximizing Consequentialistic position.

Let us now proceed to discuss these two important factors which limits the recognition of altruistic and moral commitments of individuals.

c. The Naturalistic Fallacy

According to the utilitarians, pleasure is the highest good and the only good that is desirable as an end.

J.Bentham states that the good is pleasure, or the cause of pleasure and evil is pain, or the cause of pain. In his own words, "Pleasure is in itself a good; nay, even setting aside immunity from pain, the only good. Pain is in itself an evil; and, indeed, without exception, the only evil; or else the words good and evil have no meaning."\(^{140}\) J.S. Mill states that acquiring "pleasure and freedom from pain, are the only things desirable as ends, and that all desirable things (which are as numerous in the utilitarian as in any other scheme) are desirable either for the pleasure inherent in themselves, or as means to the promotion of pleasure and the prevention of pain."\(^{141}\) Here, we are able to observe that 'pleasure' is
identical to the 'good' and moreover, the 'good' is good only because it promotes individual's 'pleasure'.

Conventional economics also perceives satisfaction and happiness as the highest good desirable by an individual. C.Dyke clearly present the above idea and also uses the terms "happiness, satisfaction, good and pleasure" as synonyms. 142 Vivian Walsh explicitly states that pleasure is the only good and goodness cannot be thought off without pleasantness. 143 Richard B. Brandt points out that pleasure in intrinsically good. He explains the utilitarian assumption that happiness, the sole utility to be maximized, is intrinsically good in the moral sense, because "God aims to maximize the happiness of his creatures." 144

Thus, from the foregone discussion, we are able to clearly understand that the 'good' is identified with the 'pleasure', in the ethical theory of utilitarianism and conventional economics.

According to G.E. Moore, the notion 'good' is simple, non-natural and indefinable. It is unique and, therefore, irreducible to any other property or quality of an object.145 Moore insists, however, that while 'good' cannot itself be defined, all other ethical terms can be defined through it. The conception of the indefinability of the good in Moore's ethical theory is augmented by the doctrine of 'Ethical Realism' According to this doctrine, there are ethical properties which exist independently of human consciousness.

According to Moore, when we think of something as 'good', we, of course, means to convey something, but it is wrong to identify that 'something' with good. since good is a unique property of the object, it is very much wrong to resolve it in any other property of the object. When we do so, we commit the 'Naturalistic Fallacy'; In his own words, 'It may be true that all things which are good are also something else, just as it is true that all things which are yellow produce a certain kind of vibration of light. And it is a fact, that Ethics aims at discovering what are those other properties belonging to all things which are good. But
far too many philosophers have thought that when they named those other properties they are actually defining good; that these properties, infact, were simply not 'other' but absolutely and entirely the same with goodness. This view I propose to call the 'naturalistic fallacy.'

Moore illustrates this naturalistic fallacy with reference to the utilitarian definition of good which is pleasure or pleasant. According to utilitarians, to say that A is pleasant would mean that A is good. But this is fallacious. Though 'good' is a property of the object which we characterise as good, yet it cannot be completely identified with pleasantness. Pleasure is one thing and good quite another.

(1) The Naturalistic Fallacy in Conventional Economics

We have already seen that conventional economics also identifies the 'good' with the 'pleasure' or 'satisfaction'. The 'good' is that which is 'desirable' by all men. It corresponds to an 'ideal' position. On the other hand, the 'pleasure' is that which is 'desired' by all men. It corresponds to the 'actual' or 'present' position. The naturalistic fallacy involved in the merging of the 'good' with the 'pleasure' also leads to the identifying of what is 'desirable' with what is 'desired' and the 'ideal'; with the 'actual'

Generally, men may 'desire' many things, but all these things does not automatically qualify as 'desirable'. In other words, what is 'desirable' has an ethical and moral connotation, while what is 'desired' is free from it. The 'ideal' is quite different from the 'actual'. Altruistic, moral and social values are fully recognized only in the 'good', the desirable and in the 'ideal'.

Since conventional economics mergers the 'good' into the 'pleasure', pleasure is not only considered as 'desired', but also 'desirable'. The 'actual' day-to-day and common behaviour of pleasure-seeking is considered as the only 'ideal' and rational behaviour in
convetinal economics. Thus, pleasure is recognized as the only paramount force behind all human actions and this position limits conventional economics to explain and define all kinds of human behaviour only in terms of pleasure or self-interest. This leads to the evolvement of tautologies in conventional economics.

Thus, the present ethical position of conventional economics clearly reveals the fact that altruistic and moral commitment can be recognized and accommodated into the economic pradigm only when conventional economics is made to realize that the 'good' the 'desirable' and the 'ideal' are quite different form the 'pleasure', the 'desired' and the 'actual'. As long as this does not happen, conventional economics would be forced to define human behaviour only through the powerful motive of self-interest.

d. The Maximizing Consequentialistic Position

Consequentialism is an ethical theory in which the rightness and wrongness of any action depends entirely on the results or consequences of the action. Generally, in consequentialism, an action, rule or policy is morally permissible or right if and only if there is no alternative with 'better' consequences.

The ethical theory of utilitarainism and conventional economics adopts a maximizing consequentialistic position, commonly referred to as the utilitarian consequentialistic position. They identify "better" consequences with the "Maximization" of pleasure or happiness. Accordingly, the principle "is that actions are right if and only if their consequences involve greater happiness than those of any other actions that could be done instead." 148 In the words of Henry Sidgwick, "By Utilitarianism is here meant the ethical theory, first distinctly formulated by Bentham, that the conduct which, under any given circumstances, is externally or objectively right, is that which will produce the greatest amount of happiness on the whole." 149 Thus, moral actions are determined by the
principle of maximizing consequences.

Conventional economists define rational human behaviour in terms of maximizing consequences. According to Gary Becker, "everyone more or less agrees that rational behaviour simply implies consistent maximization of a well-ordered function, such as a utility or profit function." 150 Samuel Scheffler contends that consequentialism embodies a principle of rationality which he calls 'maximizing rationality'. 161 This maximizing rationality is identical to the conventional economists conception of economic rationality. Infact, Joseph G.Stigler defines economics itself as a discipline dealing with the maximization of the ends. In his own words, "Economics is the study of the principle governing the allocation of scarce means among competing ends when the objective of allocation is to maximize the attainment of the ends." 162

(1) Ignoring the role played by the 'Means' of an Action in Conventional Economics

The position of utilitarian consequentialism limits conventional economics to focus its attention only on the 'consequences' or 'ends' of an action. It ignores the vital role played by the 'means' through which the desired 'end' is achieved. It assumes that all means find their justification in the ends they serve.

Many examples may be provided to show that moral judgements of an action cannot be passed wholly based on its consequences. A stolen article may give the same utility (if not higher) as the one bought at a price. A stolen money will buy as much as the same amount earned the hard way. A student's grade can be enhanced by hard work or by the employment of malpractices. A person, who defame another is acting immorally, whether or not the person succeeds in actually damaging the one he seeks to defame. One can live up to a moral commitment when one testifies in court on behalf of a wronged party even if
the person loses the trial. Similar is the case when one donates blood to a relative who nevertheless dies. While criticizing the utilitarian consequentialistic position, Amitai Etzioni rightly states that "Utilitarians would regard two acts that yield the same outcome as equivalent, even if one of them involved a transgression (say, deception), and the other did not." Therefore, if the 'end' is the sole objective of an action, then it does not guarantee the reflection and accommodation of moral and social commitments of individuals. It leads to situations where the individual's interest may be in opposition to the society's interest.

Thus, we are able to clearly observe that moral values are fully recognized only in the 'intention' and subsequently the 'means' of an action rather than in the 'consequences' of an action. Since the ethical position of conventional economics gives importance only to the 'consequences' of an individual's action, it is unable to recognize and accommodate the altruistic, moral and social commitments of individuals, within its ethical paradigm.

To Sum Up

A discussion on the ethics of conventional economic enable us to understand that the ethical structure of conventional economics, as given by the standard of maximizing satisfaction, have been imbibed from the utilitarian ethical system. Further, we also clearly understand that conventional economics is unable to include altruistic, moral and social commitments of individuals within its present ethical structure because of two important limiting factors. The first limitation pertains to the conventional economics' committing of the naturalistic fallacy, wherein the 'good' is identified with the 'pleasure'. As a result, the pleasure becomes the one and the only motive force behind all human action, in conventional economics. This position also leads to the evolvement of tautologies. The second limitation pertains to the conventional economics position of giving importance to the 'consequences' or 'ends' of an action, ignoring the 'means; involved in the action. The 'end' does not reflect and accommodates the altruistic, moral and social commitments of
individuals, unlike the 'intention' or the 'means'. It may also lead to a friction between an individual and the society.

In conclusion, we may say that a discussion on the ethical position of conventional economics reveals an important fact that 'economics ethics' has to be re-viewed to accommodate and legitimize the altruistic, moral and social commitments of an economic man in his decision-making procedures.