The Crisis of Economic Man (*Homo Economicus*)

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**Abstract**

The paper expounds the problems of the conventional economic paradigm, tracing to its origin/foundation (ie) its perception of ‘man’ or more specifically, its concept of economic man (homo economicus). Since the concept of economic man is the very ‘foundation’ on which the ‘structure’ of economics rests, the ‘structure’ is not in a position to correct the ‘foundation’. Therefore, interventions cannot be implemented from ‘with-in’ the system. Hence, the vital need for a different ‘world-view’ is in order.

**Keywords:** Conventional economic paradigm, economic man (homo economicus), rationality

**Introduction**

Economics is a social science discipline which plays a central role in shaping the activities of the modern world towards the objective of ensuring prosperity and betterment of individuals and society. Conventional economics hold the perception that these objectives are quantifiable. By "Conventional economics", we mean the perspectives of the Classical and the Neo-Classical tradition with reference to the concept of economic man, known as *homo economicus*. While Adam Smith regarded economics itself as a study of wealth ¹, Alfred Marshall considered economics to be a study of material welfare ².

At the macro-level, a nation is acclaimed as superior and developed if it exhibits a high level of material and monetary enrichments, as reflected by economic indicators like increased Gross national product ³, per capita income ⁴, and so on. At the micro level, the prosperity of an individual is considered to be comprehensively reflected in his financial and other material endowments. Observing human behaviour, J.S. Mill states, "Man is a being who is determined, by the necessity of his nature, to prefer a greater portion of wealth to a smaller in all cases" ⁵.
The problem of conventional economics

The above perception of conventional economics have an important implication. It motivates and encourages individuals to involve themselves in cut-throat competitions and indiscriminate accumulation of resources, all in the name of betterment and progress. This leads to problems like poverty, inequalities of income and wealth, regional disparities, increasing crime rates and violence, corruption, decline in moral values, environmental disasters, and so on.

Conventional economics experience difficulty in addressing these problems. Commenting on the failure of conventional economic theories, Nobel Laureate Herbert Simon states that in economics "bad theory survives; it does not predict very much, and when it does, it predicts incorrectly". According to Allan H. Meltzer, economists promised "more than economics can deliver" and many economists "may now be dispirited by the failures of the policies they advocated, initiated and administered, and by the cost of their failures." Fritjof Capra explicitly states that, "Economics today is in a profound conceptual crisis. The social and economic anomalies it can no longer address-global inflation and unemployment, mal distribution of wealth, and energy shortages among others - are now painfully visible to everyone." A comprehensive long-term strategy seems to evade conventional economics because the issues that emerge and are subsequently addressed in the contemporary economy, are only the effects and symptoms of the core problem. The real problem lies within the basic structure of economics itself. Hence, a re-examination of the foundation of economics becomes imperative. As Daniel Bell rightly points out"... there is the question not only whether there is a crisis in economic theory but also a crisis of economic theory itself. For this reason, one has to go back to the history of that theory and retrace its steps." 

Economic man (Homo economicus)

A close examination on the foundation of economics reveals the fact that the basic economic structure is dependent on the assumed perception of the concept of economic man, homo economicus. An endeavour to understand and overcome the constraints involved in the concept of economic man would in turn benefit and enable conventional economics to address its problems in a comprehensive manner. Avner Ben-Ner and Louis Putterman states that economists disregard issues which "do not arise logically from the fundamental premise that underlies most economic research, that of homo economicus". Hence, there arises a vital need for a study on the concept of economic man.

Moreover, modern economists have questioned the efficacy of upholding the conventional assumption regarding the concept of economic man. By "modern economists", we mean those who criticize the perspectives of the Classical and the Neo-Classical tradition with reference to the concept of economic man. The conventional assumption regarding the concept of economic man is that economic
man, *homo economicus*, is perceived as rational and rationality is identified with the maximization principle.

Criticizing the conventional perception, Ernst Fehr and Simon Gachter states, "On the basis of assumptions of rationality and selfishness economists have constructed a remarkable body of theoretical knowledge. However, there remains the question whether the exclusive reliance on rationality and selfishness is capable of explaining people's actual behavior." 11 Modern economists present both theoretical arguments as well as empirically validated evidences (based on observed human behaviour in various economic activities) to substantiate their position. 12 The conflicting claims of conventional and modern economists necessitate a detailed study and evaluation of the concept of economic man.

**Conclusion: The need for a different ‘world-view’**

Since the economic structure is itself dependent on the cardinal assumption regarding the concept of economic man, the former is not in a position to adequately address the limitations faced by the latter. For example, if a high-growth industrial economy is needed to fight against pollution, which itself appears to be the result of high-growth industrialization, then what is the way out of this extraordinary circle?

"The present crisis in economics" says Peter F. Drucker "is a failure of the basic assumption, of the paradigm, of the 'System', rather than of this or that theory." 13 In the words of E.F. Schumacher, "Economics is being taught without any awareness of the view of human nature that underlies present-day economic theory. In fact, many economists are themselves un-ware of the fact that such a view is implicit in their teaching and that nearly all their theories would have to change if that view changed."14

In this scenario, it would be prudent for conventional economics to resort to the perspectives of other disciplines in its effort to assess and overcome the constraints involved in its concept of economic man.

Moreover, a review of the concept of economic man in the light of a different discipline would provide an opportunity to facilitate a reconciliation of the different perceptions of economists. In the process, this endeavour would also enable conventional economics to understand the dynamics involved in the nature and implications of the concept of economic man. It would firmly enthrone economics as a premier social science discipline.

**Notes and References**

In the words of Alfred Marshall "Political Economy or Economics is a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of well beings." Alfred Marshall (1890), *Principles of Economics*, Eight Edition (1920), MacMillan and Co. Ltd., London, Reprinted in 1961, Book I, Chapter I, p.1. Economists like A.C. Pigou and E. Cannon have also defined economics in terms of material welfare.


The United Nations classification on developed and developing countries is based on the Per capita income of various countries. United Nations (1951) *Measures for the Economic Development of Underdeveloped Countries*, p. 3.


Economists like Herbert Simon, Harvey Leibenstein, Amartya Sen and others have questioned the feasibility and the desirability of holding the cardinal assumption regarding the concept of economic man.
