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ECONOMIC INSTITUTIONS, THE DEBATE OVER INSTINCTS

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INTRODUCTION

In the second half of nineteenth century, economic and social theories were influenced by the Darwin-inspired approach. His introduction of biological explanations into behavioral analysis led to the need of a more deep attention dedicated to the social science. It was then clear that cognitive science would be able to enrich the understanding of economic problems. Between the end of the nineteenth century and the beginning of the twentieth century, early institutionalists,¹ such as Thorstein Veblen and Carleton Parker, started using instinct theory in order to complete their analysis of economic behaviors and mechanisms. The trend of using this kind of analysis, however, had a short being. The positivistic prospect spread quickly, and so did its idea of scientific analysis needing an objective observation, and the instinct theory was soon seen as an unscientific method. Then again, the theory started to be unattractive, eclipsed by the new psychological, but more scientific, doctrine of behaviorism, looking upon observable behaviors and not mental state. This paper deals with the life, the spread and the fall of the instinct theory.

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□ On the definition of Institutionalism see M. Rutherford, *Institutionalism as 'Scientific' Economics* in R. Backhouse & J. Creedy (eds.), *From Classical Economics to the Theory of the Firm: Essays in Honour of D. P. O'Brien*, Cheltenham, Edward Elgar, 1999, pp. 223–42; a thorough review of the topic is given in P.F. Asso and L. Fiorito, *Human Nature and Economic Institutions: Instincts Psychology, Behaviorism, and the Development of American Institutionalism* «Journal of the History of Economic Thought» 26.4 (2004), pp. 445-477.

CHAPTER I

THORSTEIN VEBLER

The discussion about human instinct, among Institutionalists, was first analyzed in the *Theory of the Leisure Class* by T. Veblen (1899),² the founder of original or old institutional economics, combining social and evolutionary thought in his institutionalist approach to dealing with psychological, social, and economic issues. Given the psychological content of Veblen's writings instinct and habits were first taken into consideration.

In his dealing with definition of a 'modern science' he expressed a particular point of view, which consisted of an evolutionary approach, thus applying post-Darwinian biology, but at the same time encompassing all sciences, both natural and human. According to Veblen, science was an expression of idle curiosity, a disinterested inquiry so it should not aim at or be judged by practical success or application. On this Veblen's concept of science relies his criticism of orthodox economics: radical in his analyses, his criticism went deep and ranged widely against the state and militarism, business ways and means and the capitalist process, against organized religion and press. But Veblen never refers to 'capitalism', or 'the working class', or 'the ruling class', or any class - except, of course, his ironic code-word for those who dominate, the 'leisure class'.

He found it almost impossible, under the influence of leisure-class institutions, to conceive of situations in which psychological self-worth outranked economic self-worth in the search for social approval. According to Veblen, *the only practicable means of impressing is an unremitting demonstration of ability to pay*, so as to *outdo those with whom we are in the habit of classing ourselves*.³ In other words, reputability in leisure-class terms was a distinctly predatory phenomenon,

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□ Th. Veblen, *The Theory of the Leisure Class*, New York, A. M. Kelley, 1965.

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□ *Ibidem*, p. 87,103.

entailing evidence of material affluence to the exclusion of all other sources of self-actualization. In that way, it provided ‘spiritual well-being’ in addition to economic well-being for those who came to share leisure-class conceptions of the good life.⁴

Our attention, anyway, should be focused on his 1914s work, *The instinct of Workmanship and the State of the Industrial Arts*.⁵ He himself considered it as his most important work, because of the presence of a more systematic, clear and consistent psychological theory on human nature.

In this work, Veblen argued that human beings are marked by two sets of inclinations, the one predatory (“the instinct of sportsmanship”), the other life-serving (“the instinct of workmanship”); the one destructive, the other constructive. In the very first pages of his book, Veblen makes clear that ‘instinct’ doesn’t connote ‘tropismatic’ action, such as what happens with the sunflower turning with the sun, but that instinct involves consciousness adaptation to an end aimed at.⁶ Instinct must be seen in its contraposition to Tropism, while the first is a conscious, end directed and intelligent adapted human behavior, the other is an automatic, physiological directed, response to a received impulse.

According to Veblen, instincts are ‘the prime moves in human behavior’,⁷ the universal goals, the inborn bents of human being, survived as ‘hereditary traits’. Basic characteristics of human nature are deep rooted in all races: “*the complement of instincts native to the several races is after all of much the same kind, comprising substantially the same ends.*”⁸

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□ D. Dowd, *Capitalism and its Economics: A Critical History*, London, Pluto Press, 2000, p.17.

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□ Th. Veblen, *The Instinct of Workmanship and the State of the Industrial Arts*, New York, B. W. Huebsch, 1918.

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□ *Ibidem*, p. 4.

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□ *Ibidem*, p. 1.

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Instincts cannot be seen as isolated actions, because they all touch, overlap, interfere with each other, and so he lists his taxonomy of instincts, based on their ‘teleological content’. First distinction could be made between the other-regarding instincts and the self-regarding. The first class represents those devoted to the welfare of the family and the social group they belong to, the second one concerns the tend to aggression, domination and predation.

The leader of the first class is the instinct of *Workmanship*, the pleasure got from working, not as a monetary refund but just a reward coming from the “*efficient use of the means at hand and adequate management of the resources available for the purpose of life.*”⁹ The *Workmanship* has also the higher role of connecting instincts to habits. Following, in the first class we find *Parental bent*, the tendency to care about the social group and particularly the future generations,¹⁰ and the instinct of *Idle curiosity*,¹¹ the pure search of knowledge not coming from academic reasons.

Habits are the result of a long-lasting search of ways to please instincts, and “*...habits creates usages, customs, conventions, preconceptions, composite principles of conduct that run back only indirectly to the native predispositions of the race, but that may affect the working out of any given line of endeavor in much the same way as if these habitual elements were of the nature of a native bias.*”¹² The basic origin of institutions is located in habits, influencing human behaviors. Instincts, according to Veblen, are in a dynamic relationship with the environment, they are influenced by institutions and social groups, and this shows how biological determinism must be rejected.

9 □ *Ibidem*, p. 24

10 □ *Ibidem*, p. 31.

11 □ *Ibidem*, p. 89-98.

12 □ *Ibidem*, p. 85-89.

□ *Ibidem*, p. 39.

Mind and environment co-evolving in line with changing material circumstances of life, prevent Veblenian individual from elevating abstract moral principles above socially-situated conduct, since the rise of status-oriented consumption itself acts as a form of moral self-education, deeply entrenching the social norms of ownership out of which it arose. In other words, the impossibility of an autonomous economic self was matched by the impossibility of an autonomous moral self. As a result of this socially-situated process of emulation, moral degradation in conspicuous consumption is irredeemably inscribed into the whole cultural structure of capitalism, where it becomes increasingly normal for people to try to secure enhanced self-esteem through having their consumption practices seen, admired and praised by others.

Veblen's theory shows some inevitable contradictions. In some way, instincts are presented also as what human activity is mostly based on, and, in fact, its scope can never be far from these instinctive dispositions; from another point of view it only seemed to happen only in the primitive society, when institutions hadn't yet reached the complexity of the industrial society. This didn't prevent American economists from institutionalist's persuasion to contribute in this field. Their analysis follows in the next paragraphs.

CHAPTER II

CARLETON PARKER

After Veblen's work, the idea of a possible application of instinct theory in the world of industry spread and grew. Various authors dedicated their works to this topic, the relation between instincts and human motives, correlated to the working industry, seemed to lead to a better comprehension of the reality and the economic events. Modern corporations were driven by instincts, and not only by money-making philosophy.

Carleton Parker was, among the institutionalists, the most influential one who followed Veblen's philosophy. "Motives in Economic Life" (1918) is the paper better presenting his psychological approach¹³. It consists largely of a catalogue of instinct unit characters and an insistence that these are far less modified by experience than others had supposed. His treatment of these as distinct behavior tendencies mainly relies on his psychology studies. The Freudian view of repressions of instincts and a resulting emotional disorganization is brought over from psychopathology to the social problems in industry with the general conclusions that "*the instincts and their emotions coupled with the obedient body, lay down in a scientific and exact description of the motives which must and will determine human conduct*".¹⁴

Unlike Veblen, Parker's definition of instincts must be considered a biological one. They are, actually, capacities not being affected by social environment, just the persistence of native tendencies. "*All the human activity, then, is untiringly actuated by demand for realization of the instinct wants. If an artificially limited field of human endeavor be called economic life, all of its so called motives hark directly*

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¹³ C. H. Parker, *Motives in Economic Life* «American Economic Review» 8.1 (1918), pp. 212–31, reprinted in C. H. Parker, *The Casual Laborer and Other Essays*. New York – Hartcourt, Brace and Howe, 1920, pp. 125–165. The book was posthumously published and dedicated to Thorstein Veblen.

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¹⁴ *Ibidem*, p. 161.

back to the human instinct for their origin. There are in truth, no economic motives as such."¹⁵

The analysis of contemporary labor problems in industry with a psychological approach pointed out the possible consequences of instinct's repression among workers. Parker lists an impressive list of conventional instruments of repression, such as extreme religious orthodoxy, economic inferiority, and imprisonment, along with physical disfigurement such as short stature or a crippled body. These instruments repress the full psychological expression in the field of the instinct tendencies. As a result a psychic revolt, a slipping into abnormal mental functioning takes place, in other words the repressed get alienated. Any 'revolutionist' is socially accused of being either willfully inefficient, an alcoholic, a syndicalist, supersensitive, an agnostic or insane.¹⁶

On the other hand, convention has judged the *normal* man, socially acceptable and respectable in an economic society, to be that individual maintaining certain *business placidity*: he is solvent, safe and non-irritating to the delicate structure of credit. This *normality* has nothing to do with either stability of institutions or human progress., since its only important feature relies in its being *conventional*. All this would lead to rebellion and unrests; in order to avoid that, it would be necessary to change labor conditions and find some socially acceptable forms of outlet for worker's impulses and a new form of economic normality is a urgent imperative.¹⁷

Parker listed sixteen instinctive tendencies, all of them were meant to survive through time and to be hereditary for the human species. They include: gregariousness, parental bent, curiosity, acquisition, fear, mental activity, housing, migration, hunting, pugnacity, revolt, revulsion, leadership, subordination, display

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□ *Ibidem*, p. 137.

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□ *Ibidem*, p. 138-139.

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□ *Ibidem*, p. 139.

and sex instinct.¹⁸ Contrariwise of Veblen's list, there was no room for workmanship, and their theories also didn't match about the nature itself of instinct. While Veblen considered human instinct easy to be shaped by social environment, Parker, quoting the psychologist Thorndike, underlined the propensity of instinct to be persistent in time, as *unlearned capacities*.¹⁹

Frank Fetter and other contemporaries despised Parker's theory about modern industrial system feeding worker's triggering and consequent unrests. The ultimate causes of possible threats against capitalism were to be found in the failing of the educational system, rather than biological nature of men.²⁰ Anyway, he brought about an advance on the line he set out upon, namely the study of human behavior, as such, where it assists in the understanding of economic conditions.

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□ *Ibidem*, pp. 141-154.

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□ *Ibidem*, p. 134.

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□ F. Fetter, "Discussion of Carleton H. Parker's 'Motives in Economic Life'" *American Economic Review* 8.1 (1918) pp. 237-39, at p. 239.

CHAPTER III

LIONEL EDIE

Lionel D. Edie is an institutionalist, whose work contributed to the instinct theory. Most of his ideas are illustrated in his popular textbook, *Principles of the new economics*;²¹ writing about economic psychology, instead of mere instinct psychology, the attention mainly was focused on the problems of industry critically treated.

His book, organized with the aid of the criticisms of an able and constructive reformer, is divided into three parts: Part I, with four chapters on Economic Psychology; Part II, with Chapters V-X on Economic Institutions and Functions ; and Part III with Chapters XI-XIII devoted to a discussion of Economic Adaptation.

Edie's is an industrious attempt to apply psychology in a discussion of general economics. In his second chapter, entitled "Economic Expression of Instincts," he mentions fifteen different instincts. Instincts are indeed divided in two main different kinds: those useful to analyze economic behavior (workmanship, possession, self-assertion, submissiveness, parental bent, gregariousness, fight and fear, and the sexual impulse) and those less useful (hunting, homing, migration, play, mental activity).²²

The description of men as 'bundles of tendencies to act', tendencies that are instinctive, approaches Veblen's theory, and leaves Parkers behind, considering the influence of instinct possibly mediated by social environment, and through habit, imitation, sympathy and suggestion:

Men are inclined to huddle together, to think and act as a herd, to work and fight by group. To mix with other people, to be one with them, to feel their presence, brings a

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□ L. D. Edie, *Principles of the New Economics*, New York, Thomas Y. Cromwell Co., 1922.

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□ *Ibidem*, pp. 8-38.

*contagious pleasurable sensation, and men's economy actions seek the maximum of this positive gregarious sensation.*²³

In the third chapter he discusses the organization of human nature under the headings: habit, imitation, sympathy, suggestion, and inequalities of human equipment.²⁴

Habits show how every instinct has a habitual form, they turn out to be useful in saving mental energy and they are the way to socially modified instinctive tendencies; nevertheless, it can be seen as an obstacle to changes, due to the stiffness of mind:

*The more securely thought becomes habitualized, the more difficult become change, progress, and improvement in economic processes. In the field of thought, therefore, habit makes for a defense of things as they are and becomes the ally for the status quo and the foe of whatever is new and different.*²⁵

As forms of social contamination, *Imitation* links the individual to the social group, leading the first to adapt to the other; *Sympathy* pushes every group member to share the community emotions; *Suggestion* underlines even more the importance and the influence of being part of a social group, every social idea is accepted without a personal critical analysis. According to Edie, they are three different yet related, phases of an instinctive response.²⁶ Together with habit, these factors exercise a major influence in organizing all of the dispositions into human nature and human behavior. The work of experience is the result of different dispositions

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□ *Ibidem*, p. 21.

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□ *Ibidem*, pp. 39-51.

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□ *Ibidem*, pp. 41-43.

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□ *Ibidem*, p. 43.

combined rather than being isolated, and the personality of the man becomes branded by the outstanding interest he acquires by experience. Shortly, *the organization of human nature is a biological process in which the inner nature, and the outside object acting as a stimulus, cooperate to create the finished product of the human personality.*²⁷

By means of this last statement, Edie praises Economic Psychology for putting man at the center of economic: *it is dynamic in its outlook and conceives economics as a human or social science. It views man as a dynamic organism asserting his powers among his fellowmen, thus rendering some service to his community.*²⁸

He ends his treatment of Economic Psychology with the fourth chapter on human adaptation to economic environment, in which he deals with discipline, elimination, sublimation, rationalization, and revolt.²⁹ Adapting human nature to the social environment is fundamental, the inability of adaption to the repressive features of economic environment would lead frustrated individual to revolt or to mental disease. Four are the different ways presented to adapt human nature to economic and social environment: *Discipline*, by means of which human nature adapts to the economic task of making and spending money; *Elimination* of the socially undesirable impulses (thanks to discipline); *Sublimation* of those impulses, turning their ends to useful ends; *Rationalization*, a socially acceptable justification for instinctive patten of actions.

But failure in the process of adaptation can lead the frustrated individual to psychic revolt or mental disease, which are to be considered as “*the finished product of men’s futile attempts to adapt his human nature to certain repressive features of his*

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□ *Ibidem*, p. 47.

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□ *Ibidem*, p. 48.

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□ *Ibidem*, pp. 52-69.

economic environment’’.³⁰ In such a case, Edie concluded, when the conflict between the stable instincts and the evolving institutions cannot be settled, the only way to restore harmony is to reform existing institutions.³¹

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□ *Ibidem*, p. 67.

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□ *Ibidem* , p. 68-69.

CHAPTER IV

FRANK TAUSSIG

Historians of economic thought have considered Frank W. Taussig as a conservative, neoclassical economist. A deep reading of his work *Inventors and money-makers* might lead us to believe that Taussig had much more in common with American Institutionalism than what has been thought.³² His view of economic problems has always been in terms of their social setting and in their historical prospect.

There's not doubt that the writ has lots in common with the elements of Thorstein Veblen's work, as he tries to examine the psychodynamic nature of human motivation beyond *homo oeconomicus*.

In the preface of *Inventors* he states that he would handle the relations between economics and psychology, not in their whole aspects, but just the one regarding the phenomena of instinct: "The familiar word 'instinct' is used to designate very diverse degrees of automatic impulse and conduct, from the simplest reflex actions to innate tendencies of a broad and general kind."³³

Despite his regard toward Veblen's writ, he refuses to enlist instincts in taxonomy since there was no accepted classification or enumeration in common literature. Nevertheless, it is clear that his attention is much given to the instinct of contrivance, or workmanship. Regarding the two previous terms, he states to prefer McDougall's term, "contrivance", rather than the Veblen's "workmanship".³⁴ Others are discussed in the following chapters, such as collection, domination, sympathy or devotion, imitation and emulation.

According to Taussig, instincts are not just human-related; animals show a deep dependence on them too. Based on Darwin's theory, the main difference is the manifestation of them, simple and almost monotonous is their manifestation in the lower animals.³⁵ Birds seem to enjoy the pure act of flying within their fellows; dogs chase one another, but what about the great number of sports that man has invented during history? And even if the image of a dog burying a bone or a squirrel hiding a

³² F. Taussig, *Inventors and money-makers*, New York, The Macmillan Company, 1915

³³ *Ibidem*, p. 6.

³⁴ *Ibidem*, p. 11.

³⁵ As long remarked by Ch. Darwin, *Descend of Man*, 2 Voll., New York, Appleton and Co., 1871, II, p. 374.

nut is much of great example for us of the instinct of collection, this in humans presents so many more shadows: not only we collect what is merely useful to us, but also what might encourage our curiosity and pleasure, such as postage stamps, musical instruments, embalmed animals, elaborate clothes.

Each individual presents different traits of every instinct, sometimes it might even be so scarce to be recognized, but in some others it is undeniable that the trait appears unmistakably evident. Taussig is supporting Sombart's theory, where certain races seem to have a rooted disposition (*Veranlagung*) toward trading, e.g. the Florentines, the Scots and above all the Jews.³⁶ Still, Romans, Vikings and English freebooters from the Tudor time had a strong sense of conquest and spirit of adventures, on the contrary Goth and Celts showed less of the spirit of domination.³⁷

Since the existence of instincts is accepted, it is still unclear how they can be evoked, and still be of contribution for general welfare. Unmistakably, the environment is the major influence in the development, or smothering, of some instincts.

The problem of happiness is not theorized in *Inventors* but it is sufficient to point that the satisfaction of an instinct leads to a certain level of happiness, and that the struggles of achieving it leads to unhappiness. In a Utilitarian point of view, men contrive and invent because they find it advantageous to do so. Taussig agrees with this prospective and states "those creatures which were disposed to contrive had a better chance in the struggle than their fellows".³⁸ One would not contrive unless there is a prospect of gain, therefore, for the general welfare, premiums, patent laws, protected trade-marks must be well theorized and applied. The figure of the *inventor* is of much interest to Taussig. Many are the names that he mentions, Watt, Bell, Ericsson, Edison: they all share some distinctive features. Great curious and ingenious minds cannot work on their own: the figure of the inventor is suggested to be supported by another subject, the businessman. "Every invention, we are told, needs to be nursed. Some one must always advance funds. What is no less important, some one must supply judgment."³⁹ Hence inventors are not generally considered good managers.

³⁶ W. Sombart, *Der Bourgeois: zur Geistesgeschichte des modernen Wirtschaftsmenschen*, München, Duncker & Humblot, 1913, p. 273, cit. in F. Taussig, *op. cit.*, p. 5.

³⁷ W. Sombart, *op. cit.*, Ch. V p. 69 seq.

³⁸ F. Taussig, *op. cit.*, p. 12.

³⁹ *Ibidem*, p.34.

Once established the relationship between the satisfaction of an instinct and the happiness derived from it, the inventors are fully gratified from the mere ability of working handily and well, being able to see the invention growing in their own hands. It should be reminded that the fulfillment of an instinct is not directed just toward one specific end. In this specific case, it is not enough to be aware and proud of the majestic invention that has been discovered or produced. In short, contrivance is immensely affected by the prospect of gaining for himself.

Willing to apply Taussig's theory to the economic world, let's take in consideration the factories management. Management must be not only scientific, but also human. Workers tend to work like automatic machines, and as living men they are not able to exercise their spontaneity.⁴⁰

Second on the list are acquisition, collection, ownership and appropriation. The mere acceptance of the existence of the instinct of ownership is sufficient to turn away Taussig's theory from any communist ideas. He himself praises his colleague William James, defining him as brilliant, and quotes him "the depth and primitiveness of this instinct would seem to discretion in advance all radical forms of communistic Utopia. Private property cannot be practically abolished until human nature is changed".⁴¹ And still, Graham Wallas, reemphasizing the pure nature of all instincts, averts ownership from being a mere result of habit or intellectual choice driven by the desire for power.⁴²

Concerning 'acquisition' in general (*Erwerbstrieb*, as the Germans call it), this term is to be preferred rather than 'collection' as far as the businessman's temperament is concerned: collection aims to a specific object, while acquisition regards possession in general.

Whereas Taussig's appreciation of James is well remarked, it could be interesting adding what James has written on these topics, giving the reader a clearer psychological explanation.

"The beginnings of acquisitiveness are seen in the impulse which very young children display, to snatch at, or beg for, any object which pleases their attention.

⁴⁰ *Ibidem*, p. 78.

⁴¹ W. James, *Talks on Psychology to Teachers: and to Students of some Life's Ideals* New York, Henry Holt and Company, 1916, p. 56.

⁴² G. Wallas, *Human Nature in Politics*, London, Archibald Constable and Co.ltd., 1908, p.36.

(...) Their earliest quarrels with each other are about questions of ownership; and the parents of twins soon learn that it conduces to a quiet house to buy all presents in impartial duplicate. (...) The chief interest of the objects, in the collector's eyes, is that they are a collection, and that they are his."⁴³

As we might have already understood, there are many different names to call a certain kind of instinct. "Domination" is the third to argue about, this is the one chosen in *Inventors*, bringing out more clearly its influence in the social and economic sphere. Psychologists and biologists tend to prefer more common terms such as "pugnacity" and "predation", which are referable to the struggle of male against male, related to the sexual instinct.

Domination, power and conquest play an important part in the industrial world as well as in the political one; the spirit of adventure gives the drive towards enterprise. And those who have proven to be driven by this spirit are also those in which the characteristic qualities of the businessman are most abundant.

The love for adventures leads men to enterprise. Example is given with the figures of Edward H. Harriman and J.P. Morgan and the construction of the earlier western railway. The ruling spirit among those who built it was described by Stickney, one of their associates, as:

*"They were men of fine physique, large brain, and tremendous force and energy. Had they lived two hundred years before, they would have become kings and dukes. At the head of their clans, with the battle-axe or broad-sword, they would have led to victory or death. No sentimental nonsense about the rights of others, the value of human life, or the sorrows of widows or orphans would have blocked their way. They were cast in that impetuous mould which brooked no opposition."*⁴⁴

This disposition might explain the insatiableness of the appetite for wealth, the conspicuous desire for additional wealth, both oriented toward the mere love of comfort and the ambition for social distinction. To this sort of thing there seems to be no limit. "The term '*captain of industry*' fits better than its glib users think. Like Alexander or Napoleon, the captain of industry would rule the world".⁴⁵

It is illegitimate to think that man cannot stop this vicious circle of wealth-searching, but it can be said that he does not want to stop: a greatest force leads him to this

⁴³ W. James, *Principles of Psychology* 2 voll., London, Macmillan and Co., 1891, II p. 422.

⁴⁴ A.B. Stickney, *The Railway Problem*, St Paul Minn., D.D. Merrill Company, 1891, p.12.

⁴⁵ Taussig, *op.cit.*, p.89

perpetual venture, the power of overmastering instincts in himself. In Adam Smith's words "the desire of food is limited in every man by the narrow capacity of the human stomach; but the desire of the conveniences and ornaments of buildings, dress, equipage, and household furniture seems to have no limit or certain boundary."⁴⁶

Men, with worldly position and power, fiercely and ruthlessly fight competitors. Sombart suggests that ruthlessness and unscrupulousness are peculiar trait of modern economic man.⁴⁷

The instinct of domination is the simplest explanation of the business leader's opposition toward trade unions. There is no wanting opposition to control, he wants to run his own business. On the other hand, it is the same that drives labor union leaders. The bone of contention is the control on wages, hours and working condition.

As we approach the instinct of Imitation, it is of great example the simple scenario given by James.

*"The child's first words are in part vocables of his own invention, which his parents adopt, and which, as far as they go, from a new human tongue upon the earth; and in part they are his more or less successful imitation of words he hears the parents use."*⁴⁸

As far as the economic aspect is concerned, for Taussig imitation is much driven by the love of social distinction. It would be of great pride to be part of those the newspapers gossip about, to be considered members of a superior class in the aggregation of human beings. The Darwinians would find its origin, and its analog among animals, in sexual selection.⁴⁹

Social emulation, rather than any other force, animates most of those who conduct business. The desire of infinite additional wealth, guided by the instinct of emulation, cannot have an end. The modern manifestation of social emulation derives from the feudal ideals and tradition. The feudal upper class lived in luxury and leisure, so the middle classes, once they obtained property and income, were ambitious, and imitated the life of feudal aristocrats. On the other hand, ironically, the modern

⁴⁶ A. Smith, *Wealth of Nations*, (ed, W.Cannan), London, Methuen and Co. Ltd., 1904, I-ch.XI p.165.

⁴⁷ De Bourgeois, *op. cit.*, p.. 233.

⁴⁸ W. James, *Principles of Psychology*, *cit.* p. 409.

⁴⁹ F. Taussig, *op. cit.*, p.96.

nobles now embrace the previously scorned act of trading and join the capitalistic world.

Then Taussig turns to a different kind of instinct: devotion. It has been described with many terms, pity, sympathy, love, altruism, but devotion seems to be the most appropriate regarding the economic analysis. The earliest economists have ignored the existence of this instinct, but he shows how it fits in the economic world.

*“The older controversy, whether man is or is not endowed with a moral sense, - whether there is a radical opposition between egoism and altruism, - has died out. The questions which psychologist now debate concern not the existence of the moral sentiment, but its origin, scope, relativity. A view much in favor is that it roots in the maternal and paternal instincts, and is an outgrowth of the domestic affection.”*⁵⁰

Taussig’s assumption is based on Adolf Wagner’s classification of the economic system under the three heads of motivation: public, private and charitable.⁵¹ It is of great importance that it has been recognized, for the last one was ordinarily ignored as non-economic. The conduct of business cannot always ground on the mere cold calculation.

Being proud of one’s own success implies the devotion to the business itself. There will be those who would abandon their business once not successful with any regrets, and there will be those heart-broken. It is not just a matter of profit and moneymaking, but also of affection and pride. Public officials and ministers of the gospel are partly paid in honor; their sense of duty and the wish to promote general welfare are stronger than the desire of enrichment.

As already stated, instincts are current in every individual at different levels. It is no wrong to say that there are also men of high devotion, who are more willing to sacrifice for the general good.

In order to support this last statement, Taussig refers to *Memoirs* by General Marbot⁵², where another face of the dominating figure of Napoleon is shown. Thousands of Russians sheltered over the frozen surface of a lake, they were slaughtered after being attacked by French cannons. As soon as Napoleon saw a

⁵⁰ F. Taussig, *op. cit.*, p. 102.

⁵¹ *Ibidem*, p. 114; Taussig doesn’t specify any work by the German economist he is referring to.

⁵² The English translation Taussig refers to, is *The memoirs of Baron de Marbot, late lieutenant-general in the French army*, London, Longmans, Green and co, 1903, p. 165.

single wounded officer floating on a piece of ice, he called for volunteers to rescue him.

The desire of additional wealth, as we have seen, is highly complex. It is a blend of various instincts. It is not possible to say whether and how they can be controlled and modify by the environment. It is certain that no instinct can be completely eradicated from an individual, but how far can one go until it affects the society negatively?

*The question how far this complex combination of impulses is modifiable, is part of a whole series of questions on the possibility of modifying the capitalistic regime.*⁵³

In Taussig's opinion there are instincts to be encouraged without any reserve; others are better to be kept under control. As for the latter, sexual instinct is the most obvious reference. Marriage and monogamy together bring the adjustment for human happiness, but sexual passion must not be the thoroughly rejected. There is no reason why the instinct of contrivance should be limited.

Taussig considers a Buddhist placidity of mind and the communist equality of rank as not fitting the modern society since both would bereave most men of their natural drive. Such a society would lack of permanent conditions, and men prefer to feel lower than in a perpetual state of equality.

*Every Englishman is said to love a lord; every American is said to love a title.*⁵⁴

⁵³ F. Taussig, *op. cit.*, p. 122

⁵⁴ *Ibidem*, p.126.

CHAPTER V

THE DECLINE OF INSTINCT THEORY

Contemporary economics was deeply influenced by Veblen's work, nevertheless, the Instinct theory shortly started to loose impact on the social scientists. Economists, above all, were questioning whether the instinct theory was effective for the study of human behavior.

Criticisms initially rose from the institutionalist camp itself; it was Wesley C. Mitchell who in 1914 first noticed some vagueness in Veblen's work.⁵⁵ The choice itself of the word *instinct* sets some problems in its interpretation. "But Mr. Veblen is prepared for such criticism"- states Mitchell. Veblen himself, actually, had admitted the disintegration of the concept of instinct into the biological sciences since new trends of research in this field introduced the new concept of psychological and physiological behavior. In his words, his own task was neither biological investigation nor exhaustive psychological analysis: it was an 'inquiry into the nature and causes of the growth of institutions'⁵⁶ For certain factors of unquestioned importance in this process of institutional growth, he thought that no better designation than the time-worn instinct was available.⁵⁷

Veblen introduced the term *workmanship* to the psychological academics for the very first time in an article, published in the American Journal of Sociology in September 1898. According to Mitchell, this term still might be differently intended: as an example, Maurice Parmelee misinterprets it as simply "the tendency to work (...)

⁵⁵ W. C. Mitchell, *Human behavior and economics: a survey of recent literature*, «The Quarterly journal of Economics» 29.1 (November, 1914), pp. 1-47, at p. 19.

⁵⁶ T. Veblen, *The Instinct of Workmanship*, New York, The MacMillan Company, 1914, p. 2.

⁵⁷ *Ibidem*, p. 3.

very far from being a distinct instinct” because it “is a very complex in its character and causes.”⁵⁸

Clarence Edwin Ayres is another institutionalist that strongly criticized the instinct theory. In his opinion, the instinct literature is too prolific and confusing, leading to self-refuting. Inventing a new instinct is just another way of categorizing different ‘ends’. “In short, instinct in man is his disposition to behave whatever way he may behave.”⁵⁹ From this point of view, the only human instinct that he recognizes is the one quoted by the psychologist J. R. Kantor as ‘the instinct to die’, the end of all activities. Instincts are not able to explain human behavior, yet some constant dynamic element must be assumed. “It must be shown that there is a specific urge in man’s nature that makes him do precisely thus and so. The word ‘instinct’ implies such a constant and dynamic element that is its connotation in animal psychology. Yet that element is avowedly lacking in the ‘instincts’ with which the social sciences are advised to equip themselves. And since there is nothing of the sort in human behavior- except the complex reflexes which are generally ignored because they have no social implications-what cause is served by implying that there is?”⁶⁰ Institutions seem to be the only needed element for social scientists, not instincts.

Further criticism was advanced by Ayres’ brother-in-law, Morris A. Copeland. His Ph.D. dissertation presents his interest in studying the connection between economics and psychology, with a whole appendix about “Psychological Implication of Institutionalism”. Like Ayres, he realized that the word *instinct* had been given different meanings by several authors. Some have interpreted it as inborn reaction, others as an innate function. Men’s behavior “was in this case interpreted in teleological terms: instinct had become a normative concept, based as it was on a subjective and arbitrary judgment by the scientists, rather than on an objective

⁵⁸ M. Parmelee, *The science of human behavior*, New York, The MacMillan Company, 1913, p. 252.

⁵⁹ C. E. Ayres, *Instinct and capacity: the instinct of belief-in-instincts*, «The Journal of Philosophy» 18.21 (1921), pp. 561-565, at p. 563.

⁶⁰ *Ibidem*, p. 564.

denotation of behavior.”⁶¹ The embracement of an instinct leads to self-realization, its suppression to frustration. Copeland preferred Parker’s view rather than Veblen’s because “Parker’s instincts are normative. (...) As an economist, Parker doubtless finds this philosophical position familiar ground. It is the Utilitarian notion of laissez-fair with a somewhat different content. Self expression rather than the expression of Natural Law is to be ‘let alone’ (...) Curiously enough Veblen, whose statement of instinct is blatantly teleological, scarcely uses the teleological concept after the first chapter.”⁶² In his opinion, there is no such thing as a normal course of instinctive expression. It is not possible to foresee the result of a stimulus by the simply explanation of the instinct regarded. “Copeland defines an instinct as an initial reaction system out of which habits are formed – not a general end or goal, but a specific tendency to make specific responses to specific stimuli, but also more or less capable of modification and molding by culture.”⁶³

The next criticism comes from a non-institutionalist, Frank H. Knight. He also stated that the acceptance of the scientific utility of instincts is troublesome, for there is a unanimous disagreement on the quantity and identity of them. “Logically the choice seems to lie between a meaningless single instinct to do things-in-general and the equally meaningless hypothesis of a separate instinct for every possible act.”⁶⁴ The instinct theory has not been able to identify the specific outcome of a stimulus, but only the kind of reaction. He admitted that Edie had succeeded in writing a book, which was ‘different’;⁶⁵ his discussion is realistic and strongly related with the

⁶¹ P. F. Asso and L. Fiorito, *Human nature and economic institutions: instinct psychology, behaviorism, and the development of American institutionalism*, «Journal of the history of economic thought», 26.4, (2004), pp. 445-477, at p. 459.

⁶² M. A. Copeland, *Some phases of institutional value theory*, Ph.D. dissertation, University of Chicago, 1921, Notes X5.2.

⁶³ M. Rutherford, *Morris A. Copeland: A case study in the history of institutional economics*, «Journal of the History of economic thought» 24.3 (2002), pp. 261-290, at p. 265.

⁶⁴ F. H. Knight, *Ethics and the economic interpretation* «The Quarterly Journal of Economics» 36.3 (1922), pp. 454-481, at p. 467.

⁶⁵ F. H. Knight, *Some books on fundamental*, «Journal of Political Economy» 31.3 (1923), pp. 342-359, at p. 354.

human problems of modern economic society. But it is not enough for him to embrace the instinct theory. The use of the term instinct is not sufficient to explain everything in the field of human behavior. “The numerous references to instincts in the body of Professor Edie’s book are as unessential to his economic argument as are the formal introductory chapters, and the whole would be improved by eliminating this theoretical interpretation and stating the plain facts the way which men act.”⁶⁶

⁶⁶ *Ibidem*, p. 355

CONCLUSIONS

The thesis deals with the spread of instinct theory among some institutional economists and its rapid decline after only few decades. Veblen, the first and main exponent, influenced the world with his theory on *The instinct of Workmanship*, trying to expand the field of social and economic research to a more psychological analysis. Instinct, defined as hereditary universal end of action, is linked to habits, the original source of institutions. It was then evidenced that an industrial psychology would lead to a better comprehension of the economic world outside.

Carleton Parker showed a more deterministic view of human instincts, not to be influenced by cultural and social interference. Unlike Veblen, Parker did not distinguish between instincts and tropisms, nor did he examine in details the interaction between instinctive tendencies and habits, sometimes contenting himself with rather vague and elusive assertions.

Lionel Edie, closer to Veblen's approach, presented the issue on dealing, satisfying and reacting to the inborn tendencies. Like Veblen, he thought the struggle, posed on trying to achieve these instinctive tendencies, needs consciousness and intelligence, a stronger emphasis is given to human ability interacting with the social group shows, than in the previous author.

Frank Taussig was one of those authors who tried to apply the instinct theory to the world of industry, in order to find an explanation to the causes and effects of industrial events. He suggested that the economic problems were to be studied by means of a sociological and historical approach; therefore, he attempted to understand the psychodynamic nature of human motivation beyond *homo oeconomicus*. His analysis of instincts shows that the businessmen and workers not only work pushed by the mere attraction to wealth but also by the interest of personal achievement.

The four authors offer important insights for the development and improvement of current institutional economics.

Nevertheless, the theory has come across many critics and its consequent decline.

Critics came mostly from the institutionalist movement itself. C. E. Ayres, W. C. Mitchell, M. A. Copeland and F. H. Knight were the major reviewers.

They remarked that the theory lacked of scientific testing and empirical verification, lying on the metaphysical ground. These authors observed that there was a unanimous disagreement about the numbers, the sequence or the real nature of instincts. Every supporter of the instinct theory had dealt with many different instincts, as much as the number of human behaviors that could be recognized. Furthermore, it was critically pointed out that social culture and institutions, rather than biology, drive human beings' life.

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