

## HUMAN ATTITUDES AND ECONOMIC GROWTH

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Peter Bauer was very much concerned with the question of how attitudes may affect the potential for economic development in underdeveloped countries. He was forced to deal with it because much of the conventional wisdom on development, which he was contending, denied the relevance of basic economic theory to developing countries.

### The Relevance of Economic Theory to Developing Countries

In *Economic Analysis and Policy in Underdeveloped Countries*, Bauer (1957: 15–16) wrote:

Those who dispute the relevance of the propositions of economics to underdeveloped countries usually base their arguments on the differences in attitudes and institutions between the underdeveloped world and the western countries. . . . A few years ago in the Gold Coast a highly placed civil servant told me that his experience had convinced him that economics was irrelevant in Africa, because the African simply did not respond to economic motives.

But Bauer was thoroughly convinced that basic economics, in particular, supply and demand theory, was emphatically relevant to underdeveloped countries. As he and Basil Yamey noted in their classic *The Economics of Under-developed Countries*:

Although many of the differences between the different parts of the under-developed world are very deep-seated, some of the basic tools and concepts of economics apply widely to under-developed countries. This is true, for example, of the basic elements of supply and demand analysis [Bauer and Yamey 1957: 8].

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Moreover, from his own extensive study and direct observation in Asia and Africa, Bauer (1957: 15) concluded:

I am now convinced of the very wide applicability to underdeveloped countries of the basic methods and approach of economics. . . . I am thinking especially of the elements of supply and demand analysis and its simpler conclusions, the tendency of people to seek activities and occupations which yield the highest net advantage within the opportunities open to them.

In a 1967 paper, Bauer emphasized the importance of elementary economic principles. He criticized sophisticated economic models “in which the abstraction and aggregation involved render them irrelevant . . . they become travesties which divert attention from the essentials and obscure the issues.” He pointed out that “the necessity of emphasizing the importance of apparently trite elementary propositions is that in the last 20 years or so economists themselves have ignored them.” Among these “elementary propositions” are those of supply and demand theory, with particular emphasis on “supply, demand and price as functional relationships” (Bauer [1967] 1976: 285–87).

It was for this reason that Bauer pleaded for direct observation of conditions in developing countries. In this emphasis his point was precisely the opposite of what many other economists who, throughout the history of economic thought have emphasized observation, have had in mind. Throughout the history of economics, critics of economic theory, particularly critics of supply and demand theory, have argued that economics should be based not on theory but on empirically established relationships. Bauer’s point was precisely the opposite. In order to be able to apply simple economic propositions to widely disparate real-world contexts, it is necessary to recognize the particularities of these disparate contexts—otherwise the relevance of these simple propositions of economic theory will be overlooked or denied.

Bauer’s conviction of the universal relevance of supply and demand analysis was based on his insight that despite the differences in “the values which people cherish and thus in the objectives they wish to attain, and in the various social and technical obstacles which circumscribe their activities”—human beings share a basically “economic” attitude (Bauer 1957: 17–18). In the words of Lord Desai (2002: 62), Bauer believed “that the driving force of self-interest in pursuit of well-being is of universal application.”

I will seek to push Bauer’s approach a little further than his recognition of the powerful, universal force of simple economic

self-interest. My focus will be not so much on the insight, central to Bauer's position, that self-interest ensures that demand curves slope down and that supply curves slope up, thus ensuring the relevance of simple supply-demand analysis. Rather, my focus will be on the entrepreneurial process of dynamic market competition, upon which we depend for our conviction that markets do indeed tend to gravitate toward the prices and quantities marked out by the supply-demand intersection.

### Beyond Pecuniary Self-Interest

Critics of economic theory have traditionally focused their attacks on the model of *homo oeconomicus*, with its emphasis on maximizing net pecuniary gain. They believed it was this model of the economic agent that underlies economic theory. The economists whom Bauer cites as denying the relevance of economic theory to developing countries were arguing that the attitudes of economic agents in developing countries were so different from the attitude of *homo oeconomicus* that supply-demand analysis was no longer of relevance. Bauer was defending this relevance by challenging the critics' understanding of the attitudes of economic agents in developing countries.

I will take issue with the critics' arguments not by claiming the universal presence of strong pecuniary self-interest, but by denying that the crucial theorems of economics in fact depend on such pecuniary self-interest at all. Instead, I will claim, the economists' view of the market process and of the so-called law of supply and demand rests on the insight that economic agents are *purposeful*. In this I am following a tradition (associated with the names of Philip Wicksteed, Lionel Robbins, and Ludwig von Mises) that does not see economic theory as resting on the assumption of narrow selfishness, but on the human propensity to manipulate scarce means consistently toward the achievement of adopted goals.

In fact, I have argued that the same kind of competitive market processes that underlie the conclusions of elementary economic theory can be expected even in an imaginary society peopled only by altruists. Even if each economic agent has no other goal but that of benefiting his or her fellow citizens in some particular way, we should expect, in a society permitting freedom for market activities, the kinds of market activity and market phenomena with which we are familiar in our own world, in which altruism is *not* the prime universal goal of members of society (see Kirzner 1990, 2004).

In such an imaginary altruistic world one person, intent on healing the sick, might seek to maximize his profits in manufacturing, say,

cheese, in order to support hospitals in their healing and in their medical research. He will pay no more than market wages (and provide no more than the absolutely necessary perks and amenities) in order to secure the labor he requires. In so doing he is not being selfish at all, he is being altruistic toward the sick.

A second industrialist may be producing bicycles in order to feed the hungry. He, too, will act in accordance with the profit-maximizing theory of the firm, competing vigorously with other market participants.

More important, both the cheese manufacturer and the bicycle manufacturer—precisely because they are the altruists that they are—will be on the lookout for pure profit opportunities. As entrepreneurs they will be not merely “maximizing profits” (more accurately, maximizing quasi-rents) as in the theory of the firm in equilibrium markets. They will be continually alert to opportunities to buy inputs (including labor) at lower than most prevailing prices. They will be continually alert to opportunities to sell their cheese or their bicycles at higher prices in newly discovered markets. And they will be alert to possibilities of switching from the production of cheese or of bicycles to that of sweaters or of golf lessons—all, of course, with the overpowering objective of in some way channeling pecuniary profits to the altruistic improvement of the human condition.

## The Relevance of Market Process Theory

My point, of course, is not to suggest that in our world, even in nonurban, nonindustrialized societies, selfishness is replaced by altruism. Rather, my point is to show that the relevance of market process theory, of entrepreneurial theory, of the theory of dynamic competition in the Mises-Hayek sense, does not depend on the assumption of pecuniary self-interest in the sense of selfishness, as usually understood.<sup>1</sup>

Consequently, Bauer was correct in arguing that “differences in attitudes” of economic agents in underdeveloped countries do not cast into doubt the relevance of simple economic theory. That relevance holds across a wide variety of possible “attitudes” and cultures—not because pecuniary selfishness holds across all cultures (it

<sup>1</sup>I am deliberately refraining from using language that would describe as “selfish” the attitude of an individual who insists on assigning a higher ranking of urgency to some altruistic objective than others would.

may), but because all that is necessary for simple economic theory to be relevant is *human purposefulness*.

Such human purposefulness is characterized by (a) chosen objectives, which may vary widely among different cultures, as Bauer recognized; (b) consistency in the pursuit of those objectives, which does not mean constancy in the pattern of choice but rather systematic manipulation of available scarce means in order to achieve chosen ends; and (c) human alertness to new possibilities of achieving objectives, which is what constitutes the entrepreneurial element in human behavior. Indeed, it is this entrepreneurial element in human behavior that separates Mises's "human action" from standard micro-theorizing, in which individuals are simply assumed to maximize some objective function within the constraints of resource limitations.

## Conclusion

One may, of course, describe human purposefulness (and especially entrepreneurial alertness) as an "attitude." And one would then say that economic development in underdeveloped countries (as was the case in the history of western economies) does indeed depend on an "attitude."

However, I believe that Peter Bauer would agree that our discussion shows that economic development does not depend on any *particular* attitudes. Instead, I believe he would agree that economic development depends on the humanity shared by all members of the human race—not on the attitudes of *homo oeconomicus*, but on the attitude of *homo sapiens*.

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