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Towards a Veblenian Theory of Instincts

Working Paper No. 43

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Abstract:
This inquiry seeks to establish that in his writings, Thorstein Veblen offers a comprehensive and insightful contribution towards an understanding of instincts. Instincts can be viewed self-regarding and thought to promote the survival of the individual. Other instincts can be classified as group-regarding and contribute towards the continuation of society. Instincts can lead to the formation of habits and to combine to create societal institutions that govern human behavior. With the passage of time, instincts, habits, and institutions are thought to contribute to economic and societal evolution.

Journal of Economic Literature **Classification Codes:** B13, B15, B31

Key Words: Instincts, Institutions, Neoclassical Economics, Thorstein Veblen, Veblenian Economics

This inquiry seeks to establish that in his writings, Thorstein Veblen offers a comprehensive and insightful contribution towards an understanding of instincts. Instincts define an individual's tendency to take action and are core to evaluating the motivation of a person's thoughts and behavior. Habits form through instincts, and combine to create societal institutions that govern human behavior. Instincts, habits, and institutions all have the ability to evolve through the passage of time and provide a methodology to analyze the underpinnings of human thinking, choices, and behavior. Veblen combines the theories of neoclassical economics and those of Karl Marx, defining a unique theory to explain evolutionary economic cause and effect.

On Instincts

In *Veblen in Plain English* (2006), author Ken McCormick explores key ideas that he has gleaned from contributions of Thorstein Veblen (1857-1929). McCormick (2006, 18) explains that institutions are "… habitual methods of carrying on the life process of the community." In other words, human habits control the outcome of how most people think and behave. Further, most people do not realize that these habits exist because they are so deeply engrained within the human experience. McCormick (2006, 19) continues by defining that "common sense" is as a fact, a manifestation of these habitual thought processes and actions.

According to McCormick (2006, 19-20), these habits of thought and action originate from several sources throughout the lifetime of an individual. Starting in childhood, and continuing through adulthood, we learn and assimilate habits through the observation and instruction of others. This continual life process forms the primal foundation of how an individual thinks and behaves. Specifically, historical localized traditions that define what appropriate behavior is within a nation, community, and family are the origin of most habits. Several historical traditions including politics, religion, and observed public behavior, contribute to forming these habitual ways of human thought and action. In combination, these traditions blend to define a set of habitual autonomic norms that shape what an individual views as right, wrong, true, or false within their societal group.

Not to be confused with habits, McCormick (2006, 6-7) defines "instincts" as being innate primal human traits that define an individual's propensity to take action. Furthering this definition, these instincts are core, being persistently present and cannot be further reduced or simplified. Opposed to human reflexive action tropisms which require no thought; instincts from the Veblen perspective require conscious thought, as they utilize the human propensity of action to direct the behavior required for an individual to achieve a preconceived goal.

Adding clarity, McCormick (2006, 7) describes and places instincts into two broad classifications. One classification being self-regarding, and the other as group-regarding. Self-regarding instincts focus only on the interests of the individual, disregarding any effects to the group. Group-regarding instincts focus on the best interests and continuation of the human species as a whole. Although classified differently, these instincts are not mutually exclusive of each other. There are cases where these classifications of instincts work together in tandem, and cases in which they contradict in varying degrees. An evolutionary lens provides a basic view into the interaction of self-regarding and group-regarding instincts. Self-regarding instincts are required for an individual to survive; however, the individual will not survive without the group. This potentially diametric concept suggests that cooperation between individuals is an instinctual intersection between these classifications, where cooperation is a necessity for the continued survival of the self and of the group.

Specific group-regarding instincts are identified by McCormick (2006, 8-12) as "parental bent," "workmanship," and "idle curiosity." The instinct of parental bent is the focus an individual places on nurturing and caring for younger and weaker individuals within a given society to make life better for future generations. The instinct of workmanship is the intrinsic desire to provide efficient, quality output of completed work, and leaving little waste. Further, the instinct of workmanship aligns closely with the instinct of parental bent, as it provides the necessary items for others within the society, including its youth. Lastly, the group-regarding instinct of idle curiosity is simply a deep desire to know things without consideration of utility. McCormick (2006, 11) professes that idle curiosity is one of the most important forces of human evolution, as it alone has led to the significant accumulation of knowledge to be used by societies of current and future generations.

According to McCormick (2006, 12), "emulation" can also be considered as an instinct as an instinct draws from Veblen's writings. Through an examination of an individual's motivation to emulate, that being of the self, or society, the emulation instinct can be included within both of the group-regarding and self-regarding classifications. The emulation instinct describes the human characteristic to copy what they observe, and to make invidious comparisons. Additionally, the emulation instinct is one of the most persistent, alert, and strongest when related to economic motives.

Lastly, McCormick (2006, 14) describes self-regarding classifications as "self-aggrandizement" and "predatory" instincts. The self-aggrandizement instinct is the desire of an individual to preserve the self, but not always at the expense of the instinct of parental bent. The predatory instinct is an innate desire of an individual to dominate and feel superior to others.

Instincts and Institutions

McCormick (2006, 1) introduces the concept that human behavior is the central core of economics. This fact is visible in all economic systems, as each includes a method describing how people behave. The foundations of these economic systems have differing views regarding human behavior that significantly contrast with the writings of Veblen.

Providing a simple view of human behavior, neoclassical economics defines that all people, regardless of time or location seek only to maximize utility. This line of thought means that individuals simply make decisions based on the pain or pleasure they receive from their pool of available choices. Describing a contrasting view, McCormick (2006, 2) explains that Veblen believes this neoclassical view is absurd, as individuals are not simply reactive and passive agents, but follow an individual's collection of habits, expressing themselves and evolving as choices present themselves. Further, Veblen clarifies his position by arguing that if pleasure or pain did not exist—individuals would still make choices—adding quite simply, that people do not first calculate their maximum utility before making a choice.

In McCormick's (2006, 3) reasoning, he describes neoclassical economics as still purporting the assumption that maximizing utility drives the decision making of individuals, and as such, this view is claimed to sufficiently model and predict economic behavior. Additionally, the neoclassical view is not concerned about how realistic the model is in relation to human behavior; it only has to perform well as a prediction tool. Though neoclassical modeling does well for these predictions, it falls short in fundamentally analyzing how economic institutions evolve.

Shifting his lens, McCormick (2006, 4) asserts that Karl Marx (1818-1883) provided a popular alternate view of economics during the same era. Marx shared the same fundamental interests as Veblen: however, he approached these questions differently than neoclassical economists and Veblen. In the view of Marx, circumstances that an individual dwells within determine how a person behaves. For example, the owner of a business thinks and behaves differently than the employee of a business, based solely on the unique experiences each of them have had. Further, the social class that a person claims identity with determines the predominant thinking and behavior patterns of that individual. Struggle occurs when individuals in different social classes seek to protect what they have, or to grow beyond where they are at a given time.

McCormick (2006, 4) continues describing his understanding of the views of Marx by explaining that as time moves forward, the conditions of life change, and with this, so do the social and material institutional constructs. An idea purported by Marx is that external conditions are responsible for forming how an individual thinks, which in turn, changes the way people behave. This is quite the opposite from the neoclassical view that assumes human nature is static and unchanging. In more simplistic terms, Marx believes that "nurture" determines how an individual thinks and behaves, where neoclassical economists regard a statically fixed "nature" perspective defines human behavior.

Further identifying additional influences forming Veblen's concept of instincts and habits, William Waller (2017, 45-46) claims that the work of Jacques Loeb (1859-1924) was the most important in forming Veblen's views. Loeb argued that instincts originate through neurological and physiological foundations, a result of a stimulus causing a reflex reaction within the nervous system. Loeb suggested the higher-order instincts were a linked series of automatic responses that are associated with memories of repeated stimuli. Veblen took the idea that instincts are of a biological origin from Loeb, however, he rejected the concept that instincts or habits were automatic reflexive events.

Comparing the differing theories of Veblen's predecessors and contemporaries, McCormick (2006, 4-5) asserts that Veblen holds the most complex view. Veblen's belief is that these alternative viewpoints have validity, however, not in and of themselves. These widely different views work together to define how an individual behaves. Provided by nature, human instincts provide basic human tendencies that adapt over long evolutionary periods. Institutions provide the nurturing element where social norms and learned habits take shape. Veblen defines these two attributes—instincts and institutions—as working together in an evolutionary construct. To summarize, the Veblenian view is that human instincts evolve, institutions evolve, and both work together to influence the motivational behavior of individuals.

Towards a Veblenian Economics

In their textbook, *Principles of Microeconomics 2E* (2018), authors Steven Greenlaw and David Shapiro share their knowledge of the neoclassical view of economics. Greenlaw and Shapiro (2018, 28) explain that people are constrained to the consumption choices they can make based on their individual pecuniary means. In other words, each individual has limited income, and can only spend what they have to satisfy their wants and needs. Neoclassical economics defines this concept as an individual's "budget constraint."

Further defining neoclassical reasoning on how individual's make consumption choices, Greenlaw and Shaprio (2018, 29) examine the theory of "opportunity cost." Opportunity cost, as defined, states that for an individual to obtain something, that individual must sacrifice something else. In other words, the act of consuming one thing is a lost opportunity for the consumption of something else. This concept, combined with the individual's budget constraint provides neoclassical economists with the basis for a mathematically linear method to analyze and explain how and why people make consumption choices.

Considering this linear method, Greenlaw and Shaprio (2018, 32) discuss a rigid concept in which claims that all individuals use "rational" thinking when making subjective consumption choices. This notion infers that all individuals perform an examination of the costs and benefits for the selection of a good to consume prior to making a choice. Assuming that people compare the total benefits against the total costs, neoclassical economists claim that all people analyze how the benefits change when comparing between the available options to choose. Used throughout neoclassical economics, this "marginal analysis" method represents a primary component of the associated theories within this neoclassical school of thought.

Neoclassical economics uses this marginal analysis method to define the consumption selection process as centered on the "satisfaction" one receives from a good and is considered the "utility" that the good provides to the individual. In other words, individuals only consider how much pain vs. pleasure one receives from a good when making choices. There is an assumption that as one consumes more of a good, one obtains more utility, such as eating pizza. While conversely, the utility received after consuming the initial unit is higher than the received utility of consuming later units of that good. This phenomenon—defined by neoclassical economics—is the "law of diminishing marginal utility."

Using the previously discussed method of marginal analysis, Greenlaw and Shaprio (2018, 226) purport that neoclassical economic production also uses this method to decide how many units of a good to manufacture to maximize profit. Marginal profit determines the number of units of a good produced by a firm. Calculated by subtracting the marginal revenue from the marginal cost, the resulting marginal profit value determines if additional production is required. Producing one more unit of a good continues until the marginal profit becomes negative, where the firm would then endure pecuniary losses. The ideal number of units to produce is determined where the marginal cost is equal to the marginal revenue of a good.

In his "The Limitations of Marginal Utility," published in the *Journal of Political Economy* 17, no. 9, Veblen discusses his views on neoclassical economic theory. Veblen (1909, 620) accepts that the neoclassical methodology of marginal utility provides a static view based on the valuation of the consumption and production of goods; however, Veblen argues this is a limited view, and not an adequate tool to use in explaining how or why individuals choose between differing consumption goods. Additionally, Veblen is irked at the use of the term “dynamic” in neoclassical reasoning as he claims that none of the theories provides any definition of movement, or evolution that occurs within the reality of economic life. Specifically, Veblen views this methodology as teleology, as in use for terms of their purpose, rather than seeking their cause.

Veblen (1909, 621-622) continues his argument against neoclassical economics as it does not explain cause and effect, growth, or deal with change within any of its primary theories. Further, when one discusses institutional phenomenon, cultural change, or evolutionary events within a guild of neoclassical economists, they present a denial or alternate explanation, taking for granted the observed reality of evolving institutions and related habits that govern human behavior; not seeking its cause. Veblen shares that he understands that followers of this school are intelligent and have access to a wealth of information, but chastises the thinking that marginal utility, originating from pecuniary interests and events are the main driving factor for an individual’s economic choices.

Veblen (1909, 623) writes that the assertion that an individual’s anticipated experience of pleasure or pain as the sole factor used in deciding which consumption good to acquire, is at best, an optimistic assumption. Meaning that there are significant differences between individuals, and with this, different levels of tolerance in what defines pleasure and pain. Human behavior can be rational and irrational; the neoclassical school only works with rational behavior, and provides no definition in how to account for observed irrational economic events that occur. Constant change is a fact of economic life, and with these changes, external events occur that create a myriad of stresses on an individual. These stresses can cause irrationality of thought, leaving neoclassical economic theories unable to provide an accurate prediction using their mathematical models.

Considering social and cultural institutions, Veblen (1909, 624-625) considers the unwavering economic concepts of free contract and ownership as being claimed as a form of natural rights in the neoclassical school of thought. These rights—believed to be an absolute—with no need to question their need or validity—places a strict confinement of deductive reasoning of economic theory rather than examining the efficient cause. Two methods are available to reach a conclusion through reasoning and evidence: one through sufficient reasoning and the other though finding the cause. Both of these methods are significantly different from each other, and one cannot efficiently convert the results from one method to the other. The inevitable result on placing a primary focus on reasoning and evidence, or deduction, has resulted in the neoclassical view. Focusing on the cause and effect of events is the realm of the historical, institutional economic view.

Veblen (1909, 635-636) concludes his thoughts on the limitations of marginal utility by explaining that pecuniary concepts drive business and economic life through courses and cycles of booms and busts. It is through these cycles that institutional change occurs, distinguishing the character of business eras from the crude, to the modern. To ignore or toss aside the idea that evolving instincts, habits, and institutions are a critical aspect of economic theory, is to impede the acquisition of a deeper understanding of human behavior that is required in economics.

Conclusion

This inquiry has sought to establish that in his writings, Thorstein Veblen offers a comprehensive and insightful contribution towards an understanding of instincts. Through an expository view of instincts, habits, and institutions, we have established that instincts form the primary base of human thinking and behavior. Additionally, through the exploration of neoclassical, Loeb, and Marxist theories, clarification now exists in which Veblenian economic views were born using a combination of these distinctly different schools of thought. Veblenian economics goes beyond static analysis by contributing to a deeper understanding of how individuals make consumption choices, and what motivates them in making these decisions.

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