

Tibor R. Machan's
Capitalism and Individualism:
Reframing the Argument for the Free Society
(New York: St. Martin's Press, 1990)

John D. McCallie
University of Maine

Despite the obvious economic superiority of capitalism, Tibor Machan has stressed on numerous occasions that capitalism requires a moral defense of individual rights to check the steady encroachment of statism. In *Capitalism and Individualism*, Machan amplifies why he considers the current economic defense is inadequate and even harmful to the cause of capitalism. He is especially critical of the pretense of imperialism in economics, where the economic view of man is used to theorize about man's life in general. As an alternative, he offers a view of man that supports an objective view of value and a moral argument for the free society but limits the scope of economics. His remarks are indeed aimed at some of the most distinguished Nobel laureates and defenders of the free-market, including members of the Chicago, Austrian, and public-choice schools. Accordingly, this review mainly examines the book's agenda for economics.

Understandably, one's view of the essential attributes of man greatly shapes one's ethical and political views. In this respect, the author contends that the current framework of economics is largely based on a warmed-over version of Thomas Hobbes' *homo economicus* model of human nature. That is, following Hobbes' desire to comprehend everything by reference to Newtonian laws of mechanical motion, economics is also heavily swayed by the idea that science can be

reduced to physics, which is commonly known as “reductive materialism” or “monism.” Here man is mechanistically driven by a calculated self-interest and fully determined by subjective motives produced by his circumstances. The amoral considerations of this framework are well understood. In short, the good is that which man desires; the bad is that which he avoids. This framework fits well into the scheme of positivism by holding the alluring prospect of approaching the so-called value-free methods of physics and mathematics.

Nevertheless, Machan argues that this “neo-Hobbesian” view misfires badly. Among other pitfalls, it greatly founders on the self-defeating and faulty elements of determinism and subjectivism. Determinism, if taken seriously, leaves no room for morality or justice as they are correctly understood. By rejecting free will, the moral considerations of individual rights and responsibility are meaningless. Subjectivism on the other hand considers that values are merely arbitrary and denies that they can be objectively linked to the facts of reality. These two postulates, among other reasons discussed in the book, subvert any attempt to construct a moral defense of capitalism and individual rights based on an objective view of values.

The book cogently describes the troublesome aspects of these and other elements in the neo-Hobbesian framework. For example, determinism is clearly self-defeating. After all, determinism also leaves any theoretical claims superfluous, since man’s thought processes would have to be mechanistic as well. Moreover, capitalism defended on the basis of subjectivism is a dead-end proposition as well. If values are merely arbitrary, then no objective arguments can be made for the moral superiority of liberty over slavery - of capitalism over socialism. As such, this theory cannot beseech the individual to defend freedom or individual rights on grounds of ethics or justice. Rather, economics proposes that individuals are induced to demand capitalism mainly by the prospect of possibly being wealthier. Machan counters that the economic argument lacks sufficient force. To be certain, “It simply cannot give the support necessary to convince people to defend the system, to stand up for it proudly, to regard it as morally inspiring and even noble, even at a time when socialism is proving to be a practical failure” (p. x).

In contrast, Machan’s alternative framework offers a sketch of an objective view of values that supports a moral defense of individual rights in the Lockean tradition. (Various aspects of his framework are detailed in his prior writings.) Here, an individual’s primary moral responsibility is a thoughtful pursuit of happiness or “success in life,” as properly conceived in the context of man’s attributes. Importantly, the author indicates that it is indeed mistaken to consider the choice to live as either mechanistic or arbitrary.

The moral justification of capitalism is that it honors an individual's quest to enhance his own life. Hence, the state treats individuals as independent, moral agents, who can exercise free will and are thus accountable for their actions. In contrast, a paternalistic state makes a mockery of personal responsibility and independence and thwarts an individual's prospect for happiness.

Hence, the book views the notion of "rational self-interest" starkly differently from how it is viewed in economics. In economics, self-interest is at best a spontaneous, calculating function in man's life with no moral implications. In this way, it is comparable to Kant's amoral treatment of "prudence." At worst, it is considered a natural flaw in man's character but a necessary evil to achieve the public good. For Machan, there is nothing inmechanistic or amoral about it. Rational self-interest is a noble and moral endeavor that one must choose to pursue in order to achieve one's personal success or happiness.

Furthermore, the author argues that economics is in fact conditional on particular moral considerations; that it presupposes ethics. I concur. It presupposes, for instance, that people have chosen to observe property rights and to earn a living. To the extent that they choose otherwise, economic forces are diminished. In order to bring economics within the proper context of ethics, the author prescribes that the scope of economics is limited to market activity (ch. 3). It is not clear here whether the author would dispute the point that market phenomena do indeed reflect everything that impinges on the personal valuations of the market participants, as indicated by praxeology.

To be fair to economics, the conditional aspects of economics were indeed appreciated in earlier times (before the influence of positivism and behaviorism). For example, it was then generally understood that economic analysis abstracts from "force and fraud." I even recall reading a text written around 1920 that defined economics as the study of what happens when people earn a living. The (pre-Hayek) Austrian school certainly recognized earlier that economics does not encompass force, fraud, or other destructive behavior, and that it is duly qualified to the extent that these non-economic forces are present.

In any case, modern economics generally fails to grasp the conditional aspects of economics. It credulously incorporates crime, suicide, fraud, regulation, welfare, and politics within its sphere of analysis while dropping the context that economic efficiency necessarily rests on the mutual exchange of value. Imagine for instance a general equilibrium principle or "Invisible Hand" driven solely by the forces of crime and welfare.

Economists often deflect such criticisms as Machan's by declaring that their assumptions are perhaps unrealistic but fruitful. Machan even

responds that he would have less quarrel if economics actually considered the *homo economicus* model merely as a "useful fiction" but qualified their work accordingly (p. 19). In fact I would argue that economics could rightfully assume that people are generally rational (in an ethical or psychological sense) but acknowledge that human behavior can be irrational (e.g., self-destructive or intentionally harmful to others). "Fallibility" could be treated the same way. Nonetheless, Machan correctly concludes that economists rarely qualify their work for these moral and psychological considerations and generally reveal that they officially embrace subjectivism.

The neo-Hobbesian view is commonly reflected in the teaching of economics. For example, students are frequently asked such questions as what amount of money would be necessary for them to consider "taking" an unintentionally abandoned wallet. Similarly, politicians are cynically portrayed making decisions that solely enhance their political careers. There is nothing inevitable about such behavior; indeed, honesty and statesmanship could prevail. But the underlying lesson from such teachings is that "prices" mechanistically determine social conduct and thus moral and ideological considerations are superfluous.

Consistent with Machan's framework, prices do not in fact allocate resources - people do. Prices merely reflect their valuations. Again, economics typically reverses the cause-effect relationships to suggest otherwise. To illustrate, it is a very well known non-sequitur in economics to infer from an "individual perspective," where it is reasonable to envision prices as data, that prices are actually data from a "market perspective" as well. From a market (or macro) perspective, it is understood that prices and quantities are effects - not causes (barring force). Yet it is common practice to diagnose the effects of price and wage changes, or interest-rate changes, or even price-level changes, without inquiring into what initially caused the change. The egregious flaw of such a practice is well understood in economics.

The influence of determinism is also prevalent in economics. For example, Keynesian economics relies heavily on determinism to fabricate a notion of "underemployment equilibrium" - that is, the proposition that free people *autonomously* get mired down into a enduring state of helpless pessimism. In addition, the monetarists depend on the mechanistic notions of the quantity theory to construct a general glut theory that clings to an age-old fear of too little money. Similarly, this popular theory denies that a free society can solve its money problems without a central bank. "Prisoner dilemmas" and "market failures" are other examples where theorists frequently ignore the possibility of people resolving problems with "ignorance" or "free-riding" by effecting various types of arrangements or agreements.

Importantly, Machan discusses the circular reasoning in the econo-

mic presumption that there is something inherently good about utility maximization or efficiency. This presumption is based on the premise that there is something good about what people desire, which merely suggests that free behavior is utility maximizing - that whatever people do is what they want to do (pp. 12-3). The economic argument thus misses the critical question, that is, "What is good behavior, and why?" To me, the "public good" standard of the classical liberal response merely begs the question. Hence, economics not only evades ethics by assuming that voluntary behavior is indisputably the best behavior by definition but also denies the importance of ethics.

A principal motive for avoiding ethics is the desire to remain value-free. However, as I see it, a value-free stance does not have to imply that ethics (or even ideology) is superfluous. The basic intent of this stance is to keep economic analysis objective and free of ethical and political bias. In this respect, one could achieve objectivity without denying the significance of the moral dimension of economic life by keeping the economic and ethical considerations separate. In any case, economics cannot be strictly value-free when it comes to questions on what and how to proceed in economics, as even Milton Friedman suggests.¹ These value considerations are certainly not subjective or deterministic (which is why methodology is critical).

Interestingly, despite contrary claims by economists, economics is replete with value-laden and policy-biased terminology. To mention a few, terms such as "sticky prices," "imperfect competition," "imperfect information" or "market failure" are necessarily normative by their nature. They beg a standard: Sticky compared to what? Imperfect compared to what? Failure compared to what? And furthermore, policy-bias is manifest when the market is speciously graded on how it stacks up against a standard of what it ought to be in some *ideal* sense.

Finally, the author suggests that both Hayek and Mises have adopted certain amoral aspects of the neo-Hobbesian view of man that induces them to conclude that capitalism cannot be defended on the basis of ethics or justice. Here I think there is little controversy regarding Hayek - his contempt for reason and neutrality on the moral justice of the market are familiar. Although I esteem Ludwig von Mises as one of the most important champions of liberty in this century, his writings can be interpreted to have a certain Hobbesian flavor as well. Though Mises rejects determinism, because free will rules out the possibility of "necessity" (or "constancies") in human action, he does imply that there can be something biologically mechanistic about human action analogous to the neo-Hobbesian view. For Mises, the faculty of reason functions as some kind of amoral calculator mainly for the pursuit of living. For example, he contends that "reason's biological function" is to serve the "vital impulse" of

preserving and promoting one's life, which is in "man's innate nature" (*Human Action*, p. 882). Thus, human behavior is activated by a desire to remove some felt uneasiness. Indeed, "society is a product of . . . the human urge to remove uneasiness as far as possible" (*Human Action*, p. 146). As noted above, Machan would argue that rationality (or reason) is not some amoral or mechanistic biological impulse but a noble virtue that an individual must consciously make an effort to achieve. Nevertheless, Mises' thoughts on the function of reason are consistent with his morally neutral view of rationality.

Mises broadly defines rationality as purposeful behavior without attaching any particular moral or psychological considerations to the ends sought. Granted, this definition is perhaps suitable from an economic perspective, assuming that one is abstracting from these considerations, but Mises clearly indicates he accepts the basic teachings of subjectivism that values or ends are arbitrary and not subject to any rational scrutiny (e.g., *Human Action*, pp. 19-23). Again, Machan would propose that the presumption here is that whatever people want to do is what is "right." Also, it is mistaken to consider the pursuit of life as necessarily arbitrary.

Indisputably, Mises views moral arguments as arbitrary. For Mises, "the notion of right and wrong is human device, a utilitarian precept designed to make social cooperation under the division of labor" (*Human Action*, p. 720). Moreover, it is well known that Mises rejects notions of natural law and any arguable claims of justice. He holds that there exist no sense of justice independent of the established mores or laws of a given social system. For example, he argues that "there is no such thing as an absolute notion of justice not referring to a definite system of social organization. It is not justice that determines the decision in favor of a definite social system. It is, on the contrary, the social system which determines what should be deemed right and what wrong" (*Human Action*, p. 721). Mises of course is wary of misuses of arbitrary notions of justice; but, nonetheless, this view is considerably disturbing. It suggests that a moral case against, say, slavery is merely arbitrary outside state laws or the precepts of social cooperation; that a slave has no moral right independent of society and its "human devices" to cast off his shackles. This type of consideration reinforces why the utilitarian or economic defense of liberty is inadequate.

Thus, regarding the treatment of the current philosophical underpinnings of economics, Machan's book is on solid ground, although one could argue that earlier economists had a much better appreciation for the moral and conditional nature of economics. However well meaning, the current economic framework embraces an unwarranted ethical view that unfortunately yields undesirable unintended con-

sequences. Granted, the task of economics is not to pronounce moral and political judgments, but this does not imply that moral and political philosophy are dispensable, as economics currently indicates. Indeed, this book serves an important function of demonstrating why such considerations are essential to both economics and the defense of the free society.

1. Milton Friedman, "Value Judgements in Economics," in Sidney Hook, ed., *Human Values and Economic Policy* (New York: New York University Press, 1967), p. 86.