

# Surveying Financial Decisions? From *Homo Economicus* to Historical Specificity and J.S. Mill's Cultural–Institutional Individualism

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**Abstract:** The aim of this paper is to evidence that non-economic factors, such as culture, emotions and ethics, can be seen as an important force in influencing human economic behavior and human action. This is conducted by putting the *homo economicus* notion into the perspective of the history of economic thought and, more specifically, of John Stuart Mill. More specifically, Mill's institutional individualism, as is presented in his *System of Logic* (1843), and his relativity of economic doctrines construction, as is included in his *Principles of Political Economy* (1848), are synoptically delineated. Through Mill's analysis, it is supported that cultural differences between different states of societies are determinant in understanding different behaviors. The paper concludes that Mill's historical specificity and his more pluralistic version of cultural–institutional methodological individualism are more compatible in understanding human decision making.

**Keywords:** J.S. Mill; state of society; cultural–institutional individualism; ethology; historical specificity

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## 1. Introduction

According to the mainstream neoclassical economic theory, financial decisions (and capital markets) are driven by rational human beings who either maximize their utility, as consumers, or their profit, as producers–investors. The rational individual, named *homo economicus* in the economic literature, is considered as an ideal decision maker who is a master of rationality and logic. *Homo economicus* is completely self-interested, knows his wants

better than anyone else, has concrete preferences and possesses (frequently) full information. This methodological point of departure was transformed into one of the (fundamental) pillars of the neoclassical paradigm in economics. However, as many scholars indicated, this super-hero, economic rationality is incompatible with the influence of other non-economic factors such as culture, customs, ethics and emotions. This literature points out that a great variety of non-cognitive factors bind the economic rationality of the individual (Urbina and Villaverde, 2019, p. 67). Thus, the role of culture, customs and institutions in the economic literature is currently being rediscovered. More specifically, regarding individual decisions and actions, the cultural framework is of prime importance in determining humans' behavior (De Jong, 2009).

The *homo economicus* notion has been under heated discussion for decades (Urbina and Villaverde, 2019, p. 63). However, before recent studies such as behavioral economics, institutional economics, economic anthropology and ecological economics, it was the nineteenth century political economy which provided the first critical appraisal of *homo economicus*. One of the leading economists of the classical period of political economy, who delineated *homo economicus*'s limitations, was John Stuart Mill. John Stuart, the first child of the great philosopher and historian, James Mill, was raised by his beloved father on Ricardian political economy, on utilitarian philosophy and on Benthamite principles. Being Bentham's apprentice, he was the first political economist who was influenced by him and applied his hedonistic views in political economy (Drakopoulos, 1990, p. 361). In his first essays, such as *The Definition of Political Economy* (1843), the methodological and epistemological dominance of the self-interested individual is more than explicit. However, during his intellectual maturity, he initiated to regard culture, customs and institutions as decisive factors in influencing individual decisions and the course of economic development (Mill, [1848] 1909, p. 121). Mill, already from his *Principles of Political Economy* (1848), was ready to point out that "national" character is an important factor in influencing human behavior and decision making. Naturally, therefore, this view impelled him to differentiate himself from Bentham's abstract universalism. In his critical appraisal of the British utilitarian philosopher, he notes that Bentham "*was precluded from considering, except a very limited extent, the laws of a country as an instrument of national culture: one of their most important aspects, and in which they must of course vary according to the degree and kind of culture already attained; as a tutor gives his pupil different lessons according to the progress already made in his education*" (Mill, 1969, p. 105, emphasis added).

The aim of this paper is to discuss Mill's views on the importance of non-economic factors in studying economic phenomena and economic decisions. More specifically, in Section 2, we present Mill's "state of society" notion while we stress how his political economy is (tightly) associated with non-economic factors such as culture, emotions and ethics. This association impelled Mill to note that a (new) social science, *ethology*, is of crucial importance in understanding social and economic phenomena. In Section 3, we propose that Mill's cultural-institutional individualism is methodologically proper in surveying individual economic (and financial) decisions. The final section summarizes our discussion.

## 2. "State of Society" and the Science of Ethology: The Importance of Culture

In his *System of Logic*, which is his chief methodological essay, Mill introduced the notion of the "state of society". This notion crystallizes the importance of the socio-historical context regarding individual decisions and actions. More specifically, culture constitutes one of the main tenets of this notion. For Mill, the individual, in spite of its evident agency, which is animated by certain instincts (i.e., self-interest), is also influenced by culture. Mill defined the "state of society" as:

the simultaneous state of all the greater social facts or phenomena. Such are: *the degree of knowledge, and of intellectual and moral culture*, existing in the community, and in every class of it; the state of industry, of wealth and its distribution; the habitual occupations of the community; the division into classes; and the relations of those classes to one another; the common beliefs which they entertain on all

the subjects most important to mankind, and the degree of assurance with which those beliefs are held; their tastes, and the character and degree of their aesthetic development; their form of government, and the more important of their laws and customs. The condition of all these things [ . . . ] constitute the state of society, or the state of civilisation, at any given time (Mill, [1848] 1909, p. 595, emphasis added).

Thus, the rational wealth maximization assumption presented is improper in Mill's political economy. *Homo economicus* is super-historical despite the fact that different "states of society" produce different decisions. Mill solved this analytical inadequacy by introducing an interrelated (and relational) relation between structure and human agency. Mill moved against the classical universalism which denied the role of institutions, culture and social norms and believed that every human act or a given social structure of a society could be, at once, the effect and the cause of the interaction between men and their social context (De Mattos, 2005). On the other hand, he believed that individuals are not passive (historical) beings shaped univocally by their "state of society". They are active creatures, with intrinsic instincts, which are acting in a given temporal and spatial framework. Thus, Mill proposed a via media between the Scylla of extreme individualism and the Charybdis of doctrinaire necessity. On the one hand, Mill's analysis moved against the ultra-*utilitarian* tradition of both Jeremy Bentham and his father, James Mill, while, on the other hand, he also spaired "The Doctrine of Philosophical Necessity" (Mill, 1977, p. 217).

This methodological stance had a direct influence in his political economy. Mill was consistent with the classical tradition and had pointed out, already from the *Preliminary Remarks* of his *Principles*, that the subject of political economy is the investigation of the causes and the subsequent typification of the laws concerning the production and distribution of wealth. However, he remained skeptical of the universal character of these laws and devoted the first page of his magnum opus to illustrate his skepticism by noting that there are many causes that determine political economy:

Not that any treatise on Political Economy can discuss or even enumerate all these causes; but it undertakes to set forth as much as is known of the laws and principles according to which they operate (Mill, [1848] 1909, p. 1).

Mill believed that the laws of political economy are not rigid theorems but are associated with an inborn relativity. Their hypothetical (and non-rigid) nature is connected with the fact that individual decisions and actions "could not be predicted with scientific accuracy, were it only because we cannot foresee the whole of the circumstances in which those individuals will be placed" (Mill, [1843] 1889, p. 554). For Mill, political economy is the social science which "concerns itself only with such of the phenomena of the social state as take place in consequence of the pursuit of wealth", and "It makes entire abstraction of every other human passion or motive, except those which may be regarded as perpetually antagonising principles to the desire of wealth" (p. 588). However, as Mill himself believed, in many (historical) instances, custom, culture and even history are antagonizing principles which have to be taken into account by economists. A thorough understanding of these principles will render economic science methodologically and epistemologically valid. Thereof, it is impossible to obtain general principles, embracing the complication of circumstances, which may affect the final result in any individual decision without taking into account factors such as culture, ethics and other emotions (Mill, [1848] 1909, p. 428, emphasis added).<sup>1</sup>

According to Mill's political economy, different historical, social, political and cultural conditions imply different economic conditions and are associated with different theoretical conclusions. Mill was always conscious of this "relativity":

It often happens that the universal belief of one age of mankind—a belief from which no one *was*, nor, without an extraordinary effort of genius and courage, *could* at that time be free—becomes to a

<sup>1</sup>Mill believed that political economy, like the science of tides, and unlike astronomy, is an inexact science. He noted that in an inexact science: "the only laws as yet accurately ascertained are those of the causes which affect the phenomenon in all cases, and in considerable degree; while others which affect it in some cases only, or, if in all, only in a slight degree, have not been sufficiently ascertained and studied to enable us to lay down their laws, still less to deduce the completed law of the phenomenon, by compounding the effects of the greater with those of the minor causes" (Mill, [1843] 1889, p. 553).

subsequent age so palpable an absurdity, that the only difficulty then is to imagine how such a thing can ever have appeared credible (Mill, [1848] 1909, p. 3).

We may say that the Millian political economy is historically specific as it is bounded on historically and spatially (specific) socioeconomic systems. As such, in manifold historical situations, the behavioral axiom of wealth maximization is historically violated. In these situations, according to Mill's epistemology, the science of political economy requires the science of *ethology*, as he defines it, to understand the influence of culture, traditions, habits, thoughts and mores of a given society. This understanding is crucial as long as these factors determine people's decisions and actions. As Zouboulakis (2001, p. 33) observed, according to Mill, when historical conditions are transformed, economists need to modify their conclusions and "take account of circumstances almost peculiar to the particular case or era". Mill stressed the importance of *ethology*. In his own interesting verba:

The more highly the science of Ethology is cultivated, and the better the diversities of individual and national character are understood, the smaller, probably will the number of propositions become, which it will be considered safe to build on as universal principles of human nature (Mill, [1843] 1889, p. 591).

### 3. Cultural–Institutional Individualism

Thus, according to Mill's political economy, non-economic factors (i.e., culture or institutions) play a prominent role in forming individual decisions. These decisions are either activated or bounded by the "state of society". Naturally, therefore, "different" decisions are partially influenced by social structures, institutions, etc. Following Mill's analysis, we may say that various "abnormalities" in markets do not reflect irrational decisions but are associated with different cultural and institutional frameworks.

Following this (heterodox) epistemology, Mill proposed a different sort of methodological individualism from both Bentham and modern (neoclassical) economists. This kind of individualism, which is highly institutional and cultural in its content, moves away from the motif of the in extremis motif of *homo economicus*. Mill's individualism is workable within the limits set by institutions, customs and cultures (Wilson, 1998, p. 219). Mill's methodological crystallization is a methodological individualism which is not reduced to simplistic psychological terms. Mill accepted the priority of the individual in taking decisions. His locus classicus, *On Liberty*, "is famously concerned to shield eccentricity, particularly of opinion, and notably of religious heterodoxy" (Claeys, 1987, p. 192). In principle, Mill accepted the basic tenet of classical methodological individualism, namely, the fact that individuals are greatly motivated by the "desire of obtaining the greatest quantity of wealth with the least labour and self-denial" (Mill, [1836] 1844, p. 140).

However, he believed that political economy is the science of collectives as "we shift our point of view, and consider not individual acts, and the motives by which they are determined, but national and universal results" (Mill, [1848] 1909, p. 42). In this way, the eccentricity of the individual is subsumed into the intricate spectrum of social, cultural and moral relations. As such, his individualism does not resemble the Benthamite psychological calculus type; rather, it is an individualism of an institutional and cultural kind as women (and men) are still acting in a social, institutional, cultural and historical context (Zouboulakis, 2002, p. 2).<sup>2</sup> Therefore, in Mill's analysis, agents, either as producers or as consumers and investors, "do not act in conditions of social vacuum but inside a pre-existing and anticipated 'particular state of society'" (p. 7). Naturally, therefore, Mill recanted the views of an abstract human nature free from cultural, institutional and social conditions in which men are historically suited (Bouton, 1965, pp. 569–570). Thus, his approach impelled him to stress the fact that human actions' consequences are not always intentional but may be unintended. Therefore, their final outcome cannot be predicted with predefined accuracy. For Mill, the economic man (and woman) searches to fulfill his (her) interests but (always) "wears the clothes of a particular society" (Bonar, 1911, p. 720). Mill himself, when he came to elaborate his own political

<sup>2</sup>Persky (1995, p. 222) is even more heretical as he observes that while "John Stuart Mill is generally identified as the creator of economic man, he never actually used this designation in his own writings".

economy, deserted the monotonal and abstract economic man in favor of a broader (social and cultural) approach (Persky, 1995, p. 224). In a typical Aristotelian fashion, he paid attention to the portrayal and evaluation of human beings as social and not lonesome animals. For Blaug (1980, p. 56):

What Mill says is that we shall abstract certain economic motives, namely, those of maximizing wealth subject to the constraints of a subsistence income and the desire for leisure, *while allowing for the presence of noneconomic motives* (such as habit and custom) even in those spheres of life that fall within the ordinary purview of economics (emphasis added).

Moreover, Mill departed from the Benthamite calculus regarding that the total sum of private interests is identical to society's general interest. In his discussion of *Representative Government* (1869), he observed that:

Whenever the general disposition of the people is such, that each individual regards those only of his interests which are selfish, and does not dwell on, or concern himself for, his share of the general interest, in such a state of things good government is impossible (Mill, [1869] 1977, p. 390).

## 4. Conclusion

The aim of this paper was to show that Mill's historically specific political economy and his (idiosyncratic) version of cultural and institutional individualism are tightly connected with his relativity of economic doctrines construction. According to Mill, economic theorems are always connected with the historical, cultural and social framework of individuals. More specifically, his formulation of tendency laws—through which “Political Economy is able to explain only *what people tend to do* during their economic activities” (Zouboulakis, 2016, p. 5)—is one of the most astonishing expressions of his proposed relativity of economic doctrines and illustrates the relative character of economic theorems. According to Mill, due to the persistent presence of both economic and non-economic disturbing causes, the laws of political economy should be viewed as tendencies and not rigid formulations. These views move against the mainstream neoclassical economic theory. Evidently, they provide the methodological and epistemological ground to test more complicated scenarios in analyzing individual decisions (and actions).

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