A Materialistic Critique: The Myth of Rationality from John Locke to Adam Smith

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"When you dig deep down, economists are scared to death of being sociologists. The one great thing we have going for us is the premise that individuals act rationally in trying to satisfy their preferences" [1](Schultze 1985; quoted in "Clean Models vs. Dirty Hands")

As humorously articulated by Schultze, the assumption of rational human behavior, while constantly underlying the conceptualization of economics, might not always stand under scrutiny. This assumption not only illuminates the presumed code of human behavior upon which capitalist economies operate, but also, when critically evaluated, offers potential explanations for the reality of contemporary capitalism that is in many guises derailed from its idealization. Thus, in this paper, I aim to demonstrate that the chasm between the theorization and reality of laissez faire capitalism could partially be attributed to an obfuscated assumption of rationality that is treated as an objective and universal truth dictating all economic behaviors rather than a conditional human propensity intricately motivated by socio-economic reality. To achieve so, I will first expound on how the myth of rationality, a notion speculated rather than contextually justified to be an objective truth, grounds John Locke's and Adam Smith's philosophies that constitute the economic and political foundation of the capitalist institution. Next, I will venture into the limitation and contradiction of individualist rationality and morality in both Locke's and Smith's assertions, subsequently arguing that the inadequate consideration of diverse material conditions, such as those of structural equality and inequality, in which all form of economic operations are embedded,

[1] Paul Hirsch, Stuart Michaels, and Ray Friedman, "Clean Models vs. Dirty Hands: Why Economics Is Different from Sociology". 1.

could account for why the ideal of rationality does not always effectuate in capitalist reality. Lastly, I will briefly propose an alternative paradigm of economic studies, where rationality is treated as a subject of contextualized and structural inquiries rather than an assumption of economic models, and argue for the practical salience of adopting such a method in understanding the heterogeneity of diverse global economies.

The inquiry into rationality demands a critical evaluation of the meaning of rationality, which in no way warrants a simplified and singular definition. Given the subject of this paper, I will narrow my interrogation of rationality to the faculty of reasoning assumed to be innate to human beings that drive individuals to act in accordance with self-love and the maximization of self-interest, an essential character of rationality shared by Locke, Smith, and the heart of laissez-faire capitalism. Having established the scope of inquiry, I will now proceed to elaborating why the notion of rationality is a singular idealistic myth, upon which both Locke's theory of social contract and property and Smith's deliberation on the principle of capitalism and division of labor are constructed.

Locke, whose political theories have been adduced as the foundation of moral justification for unlimited private accumulation that is central to the rise to capitalism[2], speaks volumes on social contract and private property, the functionality of which is nevertheless rendered sensible and possible only by an assumption of rationality applied to all individuals across society. Locke posits that humans' state of nature is fundamentally ruled by reason. As articulated in *Chapter II. of the Second Treatise of Government*, "the state of nature has a law of nature to govern it, which obliges every one: and reason, which is that law, teaches all mankind, who will but consult it, that being all equal and independent, no one ought to harm another in his life, health, liberty, or possession".[3]

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[2] Mitchell, Neil J. "John Locke and the Rise of Capitalism." History of Political Economy. Duke University Press, June 1, 1986. 1.
[3] John Locke, Second Treaties of Government, Chapter 2 (1690). 5.

In Locke's argument for the naturally desirable social contract among men, rationality is thus presumed as innate human nature, whereby all humans are governed by and will therefore oblige by reason, which is to be treated as a universal truth that requires no further justification. As Locke writes on property, he reiterates that "whether we consider natural reason, which tells us, that men, being once born, have a right to their preservation, and consequently to meat and drink, and such other things as nature affords for their subsistence".[4] Hence, Locke's conviction in humans' natural capacity for reason, coupled with his belief in property ownership as an inalienable human right justified by natural reason, leads to his verdict that people's rational need for the protection of private property, which would otherwise be undermined in the state of war where conflicts persist without an end, renders a mediating civil government necessary and functional. In other words, because the defense of one's right to property is an innately rational deed and rationality is believed to dictate people's action in accordance with their best interest, civil governments can be created and maintained upon the protection but not the control or meddling of citizens' private property. Thus far, a pattern of self-warranty emerges in Locke's employment of rationality across his discussion of social contract, rights to property, and civil government, where rationality is treated as an intrinsically self-justified ordinance of human nature, which consequently renders itself an assumed myth rather than a critically proved universal truth. Here I utilize the diction "myth" not to suggest that rationality is fictitious but to point to how rationality functions as a homogenous taken-for-granted construct, albeit true under many human conditions, upon which Locke's theorization of social contract and property is based. Since Locke's political and economic philosophy shapes the roots of foundational democratic and capitalist ideas, where the rights to life, liberty, and property are given utmost sanctity and turned into momentum of production, the

[4] Locke, John. Second Treaties of Government. Chapter 5. 1690. 12.

myth of rationality entrenched in his thinking lends an epistemological and genealogical explanation to the sweeping assumption of rational behavior in laissez faire capitalism.

Likewise, Adam Smith echoes this myth of rationality in his economic doctrine and further endorses the classical liberal philosophy of laissez-faire in his world-renowned work, *the Wealth of Nations*. In the discussion of the principle that gives occasion to the division of labor, Smith propounds that "the division of labor […] is the consequence of a certain propensity in human nature; whether this propensity be one of those original principles in human nature, of which no further account can be given, or whether, as seems more probable, it be the necessary consequence of the faculties of reason and speech, it belongs not to our present subject to inquire; it is common to all men".[5] Similar to Locke's approach to rationality as innate human nature, Smith also does not probe the veracity, limitation, or variation of rationality but rather assumes away a static truth of rational behavior that drives autonomous and self-interested individuals. Smith then applies the same logic to the exchange of the product of labor, where he argues that when "every workman has a great quantity of his own work to dispose of beyond what he himself has occasion for and (when) every other workman being exactly in the same situation, he is enabled to exchange a great quantity of his own goods for a great quantity or, what comes to the same thing, for the price of a great quantity of theirs; he supplies them abundantly with what they have occasion for, and they accommodate him as amply with that".[6] The assumed virtue of the exchange of private property governed by people's rational wants to maximize self-interest lays the foundation for the free capitalist market, inevitably inheriting the myth of rationality infused in Smith's economic philosophy.

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[5] Smith, Adam. The Wealth of Nations, Chapter 2. 1776. 5.
[6] Smith, Adam. The Wealth of Nations, Chapter 1. 1776. 4.

Having demonstrated how a monolithic assumption of rationality grounds capitalist ideologies in both Locke's and Smith's work, I now direct our attention to a contradiction that arises from the moral consideration of individualist rationality, and utilize this discussion to account for the disconnect between the reality and Locke's and Smith's idealization of capitalism. The primary tension comes from a paradoxical imagination of the coexistence of self-interested rationality and morality--- the rational faculty of an autonomous and self-loved individual is assumed to simultaneously drive him to dominate and maximize self-interest and oblige him happily to the moral social contract of a civil society. Locke responds to this predicament by a moral assumption, whereby rational individuals are believed to act upon the "equality of men by nature […] and the foundation of that obligation to mutual love amongst men, on which he builds the duties they owe one another, and from whence he derives the great maxims of justice and charity"[7]. Given this assumed moral character of rational individuals, the pursuit of the maximization of self-interest governed by rationality would not endanger the social contract and civil competition that individuals enter into. Smith responds to this paradox of rationality by evoking a different sense of moral assumption, where the mutually assured maximization of self-centric gains among rational self-interested individuals is believed to maintain the civil order of capitalism. Essentially, rational individual egotism allows for collectively moral markets. In Smith's words, "give me that which I want, and you shall have this which you want, is the meaning of every offer; it is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity, but to their self-love, and never talk to them of our own necessities, but of their advantages".[8] Hence, both Locke and Smith, despite through different lenses of moral assumptions, suggest that rationality not only motivates

[7] Locke, John. Second Treaties of Government. Chapter 2. 1690. 5.
[8] Smith, Adam. The Wealth of Nations, Chapter 2. 1776. 5.

humans' maximization of self-interest, but also ensures the functionality and stability of a collective capitalist order, from which many derive their conceptualization of free capitalist markets as the ideal institution of productivity and moral righteousness.

However, defying Locke's and Smith's hopeful theorization, the present reality of capitalism is riddled with sustained exploitation, inequality, and instability. I argue that the root of the discordance between the idealization and actual manifestation of (neo)classical capitalism goes beyond the problematically rigid mythologization of rational behavior, and can be imputed to the failure to arrive at a contextualized and fluid understanding of rational incentives. I imagine that people would have little difficulty abiding by the code of rational behavior envisioned by Locke and Smith when societies provided equal opportunities for everyone to defend his right to life, liberty, and property and equal freedoms to maximize self-interests. However, when the reality is one of structural inequality and systemically unequal endowment of opportunities, inherited and fructified from the long human history of stratification, rather than one of structural equality, Locke's and Smith's moral assumption about individualistic rationality loses its soundness in resolving the paradox of self-interest and collective moral climate. Under the material conditions of structural inequality, it is neither realistic nor fair to expect the rational behavior of a man systematically oppressed and disadvantaged to conform to that of those enjoying structural privilege and vice versa. After all, rational behaviors are determined by rational incentives. Unequal socioeconomic realities, such as stratified wealth, status, race, and gender, ineluctably incentivize different forms of rational behavior, where, for instance, one might have a greater rational incentive, such as through cost-and-benefit analysis, to abandon the moral code of social contract and engage in cheating, swindling, and exploitation because his privilege and power could prevent him from being properly punished for such behavior. Rationality is not a fixed parameter that can be assumed, but a function that requires the conditions of social reality as input to produce and incentivize the accordingly rational behavior as output. A homogenous and dogmatic consideration of rationality derived from a singular idealized material condition is fundamentally misleading. Karl Marx's argument in the Communist Manifesto, "(the bourgeoise's) very ideas are but the outgrowth of conditions of your bourgeois production and bourgeois property, just as your jurisprudence_is but the will of your class, made into law for all, a will whose essential character and direction are determined by the economic conditions of the existence of your class", offers a perspective on how Locke's and Smith's assumption of rationality may only hold true in the ideal state of structural equality ,where the truth of the bourgeois class is the truth of all men, but certainly not in a socioeconomic reality dominated by preexisting systemic inequality, exploitation, and oppression. The current global material reality unfortunately resembles the latter rather than the former, where the theoretical idealization of capitalism must thereby be reconsidered by marrying a contextualized understanding of rational incentive and rational behavior with the vastly diverse socio-economic, cultural, and political conditions across society.

Thus, I hope to briefly propose an alternative approach to economic studies that treats rationality not as an automatically presupposed objective code of behavior but a subject of contextualized research on how variegated material conditions differentiate rational incentives. We can safely postulate that the rational incentive for a villager in rural China would be quite different from that for a Swiss billionaire, the contextualized study of which could divulge not only valuable information on the socio-cultural, political, and ideological climates that drive distinct rational behaviors, but also a more sensible and accurate foundation for the evaluation of economic models formulated upon such understanding of rationality. This practical salience of this approach lies in its potential to correct what Bower claims to be the "simple and wildly unrealistic assumption" that leads to “unintended, dysfunctional consequences of contemporary economic models”.[9] As Hirsch, Michaels, and Friedman suggest, economics is indeed different from sociology, however such cross-disciplinary differences create the potential for economists to incorporate the methodological and analytical strengths of sociology, that investigates rather than assumes a universal code of human behavior, into the improvement of economic models.

I must acknowledge that the entirety of my argument is grounded in my materialistic interpretation of society, whereby I consider material conditions rather than ideals to be the shaping force of human history. I, on a fundamental and philosophical level, diverge from Locke and Smith, who are likely to be motivated by the opposite conception that grants human intentions and ideals the ultimate agency in determining history and human relations. Essentially, I attacked an argument by overthrowing its underlying logic rather than debunking its specific premises, which, when critically explored, could very well yield exciting new insights into the discussion of rationality.

In conclusion, in his paper, I started off by explicating the myth of rationality in Locke’s and Smith’s economic and political thoughts seminal to foundation of laissez-faire capitalism. Through a further critique of the moral assumption of individualistic rational behavior, I offered a possible explanation for the disconnect between the theoretical idealization and reality of classical capitalist economies. Ultimately, I proposed that contextualized inquiries into how material conditions shape rational incentives should be incorporated into economic studies for a more culturally specific, functional, and realistic understanding of heterogenous global economies.

[9] Paul Hirsch, Stuart Michaels, and Ray Friedman, “Clean Models vs. Dirty Hands: Why Economics Is Different from Sociology”. 1.