

IS THERE A FUTURE FOR ECONOMIC MAN?

Remarks by

David P. Eastburn, President  
Federal Reserve Bank of Philadelphia

Conference on Futurism  
Eastern College  
Saint Davids, Pennsylvania  
February 5, 1975

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Economic Man has had things pretty much his way for most of this century. The question I want to explore today is what are his prospects for the rest of the century?

First, let's examine Economic Man for a moment. His claim to fame in economic discussion is secure. Economists long ago described him well. He is, above all, a calculating individual. He approaches problems in a rational way, balancing advantages and disadvantages of alternative courses of action. In the time-honored tradition of Adam Smith's invisible hand he considers these advantages and disadvantages in terms of his self-interest. By serving his own interests he is also serving society's interests. Since he operates mostly in the business world, Economic Man's measure of his self-interest is material gain--profits and income. He is governed by the market system which harnesses the pursuit of self-interest into social good. The market registers the desires of consumers, passing them along to producers who, disciplined by the market place, allocate resources in the most efficient way to meet those desires. The market distributes incomes in accordance with each person's contribution to the total product. Although this may not be equality, Economic Man believes it is not only fair but necessary for progress. This is a broad-brush portrait of Economic Man as you might come upon him in the textbook.

More recently, however, Economic Man has come to convey another kind of image. This is the image of a person to whom consumption is the most important goal of life. He is typified by the affluent American with two cars, a power boat, two homes, three or four color television sets, all the kitchen appliances, an electric toothbrush, and all the other "necessities"

of life. His desire for more gadgets is insatiable. Therefore, his major goal for the economic system is growth. Only by a constantly and rapidly rising GNP is he able to satisfy his craving for greater material comfort. This growth is made possible by a frenetic pace of discovery and invention turned out by modern technology. If this growth uses up natural resources at a dangerous rate, this is a problem others will have to deal with in the future. If it fouls up air and water, clogs the highways and spoils places of scenic beauty, this is a price of progress. This is an image of Economic Man that is becoming increasingly prevalent. Although I think it is more a caricature than a portrait it is one we must deal with in assessing Economic Man's future.

Much of what I read and hear about this future is pessimistic. Robert Heilbroner, for example, has recently explored the human prospect and arrives at a most dismal conclusion. He says:

Rationalize as we will, stretch the figures as favorably as honesty will permit, we cannot reconcile the requirements for a lengthy continuation of the present rate of industrialization of the globe with the capacity of existing resources or the fragile biosphere to permit or to tolerate the effects of that industrialization. Nor is it easy to foresee a willing acquiescence of humankind, individually or through its existing social organizations, in the alterations of lifeways that foresight would dictate. If then, by the question "Is there hope for man?" we ask whether it is possible to meet the challenges of the future without the payment of a fearful price, the answer must be: No, there is no such hope.<sup>1</sup>

If this kind of thinking is accurate, it suggests that the next quarter century would be very different from the past quarter of a century. Perhaps most striking, it would be a sharp shift from what has generally been a prevailing

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<sup>1</sup> Heilbroner, Robert L., An Inquiry into the Human Prospect, W. W. Norton & Company, Inc., New York, 1974, pp. 135-136.

optimism of American attitude. In view of all the gloom, it seems to me that somebody should look at the other side, examine the possibility that our society will be better able to meet the challenges ahead than many currently are forecasting. The rest of what I have to say is an attempt to do just that.

In essence my point today is that Economic Man is most adaptable. He is not the same person now as fifty or seventy-five years ago. The rough edges of his philosophy and practice have been smoothed off by social action--especially in the 1930's. He will not be the same person in twenty-five years as now. But he will still have an important role to play in our society.

How accurate this prediction turns out to be will depend heavily on how Economic Man meets three major challenges: the exhaustion of resources, the deterioration of environment, and the clamor for equality.

### Resources

One point of view is that Economic Man is doomed because we are certain to run out of vital natural resources. It will not be possible to continue the economic growth we have enjoyed in the past quarter of a century. It will not be possible to consume on the same lavish scale.

A fascinating aspect of this forecast is how rapidly it has come about. In 1958 J. K. Galbraith wrote The Affluent Society. This was hailed at the time not only as an accurate evaluation of the current state of affairs, but a perceptive appraisal of the problems ahead. Whatever they were, they were not problems of production; we had solved the production problem and now had to deal with the problems of affluence. Galbraith's analysis had a profound effect on thought at that time. It was only a few years later that the

Limits to Growth appeared. This book, which purported to show by scientific econometric techniques that the economy could not continue growing at its recent pace, came as a shock to many who had just come to believe that Economic Man was firmly in the saddle. Some disagreed with the analysis, but it was hard to dispel the idea that, after all, we do live on a finite planet and sometime resources will be gone. And we all have had first-hand confrontation with the problems at the gas station. Still more recently I ran across a paperback called The End of Affluence which, among other things, instructs Americans in how to adjust their life styles to new realities of slower economic growth. So, within the space of relatively few years the prospects of Economic Man have suffered a complete about face because of new concern about resources. What to make of this?

Obviously, resources are finite. Economic growth uses them up-- quickly if growth is rapid, less quickly if growth is slower. The difficult question is whether Economic Man is capable of dealing with the problem before it becomes catastrophic. I believe he is, by relying on two of his trusted tools--the market system and technology. The market system, if it is permitted to work, can slow down use of increasingly scarce resources and encourage development of new resources. This is the best approach to the energy problem we face right now, for example. If the price of gasoline is permitted to rise, this will cut down demand and at the same time encourage exploration of new sources of energy. A higher price for fuels will encourage technology to develop new techniques of recovery, better methods of producing nuclear energy and even feasible processes for harnessing energy from the sun.

It is true that the market system does not work perfectly in protecting resources. For one thing, it sometimes takes the short view,

overly emphasizing the present to the detriment of the future. Economic man does look ahead, but the market does not always cause him to be sufficiently concerned with problems he may create for future generations. The market will need help, therefore, from Government. If certain resources are being used too fast and others not being developed, Government can assist by taxes or subsidies that nudge Economic Man in the desired direction. For example, a tax on imported oil, or on gas at the pump or on large cars can help to conserve gasoline and stimulate development of other energy sources. The trick is for Government to work as much as possible through the market system and to capitalize on Economic Man's desire for profits and his talents in allocating resources.

#### Environment

Economic Man has neglected the environment and his prospects are not good if he continues to do so. Economists as far back as Adam Smith recognized that the production of goods often involved costs that the producer didn't have to bear but others did. When a paper producer dumps waste into a stream and this pollutes the water supply of neighboring communities, for example, the practice entails a cost for the people in those communities, but the cost doesn't enter into the price of the paper. (In fact, the effort of cleaning up the water is actually counted as an increase in G.N.P. rather than a subtraction from it!) These external costs of production, or externalities as economists have come to call them, while long recognized in concept, have only recently been given the attention in economics which they deserve. And it is only in the past decade or so that the environment has deteriorated so drastically that the general populace has become restive about the problem. What can Economic Man do?

The challenge is immense. It will take decades to undo past damage. But here again, the market and technology can help. The market can't do it alone, however. The fact that externalities are not included in the price of products is a defect of the price system that must be improved. The idea is to have as much of these external costs as possible borne by those who produce them rather than by others. Economists have explored many ways of doing this, but taxation is probably the most important. The paper producer can be taxed so that he bears the cost of pollution, not the community down stream. The result would be clearer water.

This, of course, is easier said than done. Many external costs are hard to measure. There is political resistance to allocating costs to their sources. But the problem has been recognized and Government is increasingly aware of the role it must play. Again, the trick will be to take advantage of the market system and to harness Economic Man's sharpness in calculating profit opportunities. Technology can help by devising improved methods of production without pollution.

### Equality

Economic Man's prospects will not be good unless there is progress in dealing with the human inequalities which now exist. Here again, the outlook need not be one of unrelieved gloom. I think it is undoubtedly a fact that disadvantaged people throughout the world will be clamoring for a better shake. But it is also a fact that our economic system has done a great deal to upgrade living standards of lower-income groups and I believe it can do a great deal more. As often pointed out, Marx was wrong in his prediction. The market-oriented countries of Europe and North America have not turned into

places with a few very rich and masses of very poor. We have not had a revolution of the proletariat. The reason is that our economic system has generated a large and stable middle class. But what of the future? Two questions are vital: population growth and economic growth.

The predictions of an economist of a century and a half ago - Thomas Malthus - are now enjoying a new vogue. Malthus predicted that there was a natural tendency for population to outrun the means of subsistence. Unless population were held in check by birth control, it would be held in check by starvation. Certainly, as we look around the world, there is ample reason for pessimism. In the less-developed world of Africa, Asia, and Latin America, birth rates are enormous and population growth soars. At the same time, sources of food supply are becoming hard-pressed and unreliable. People are starving. Economic Man is limited in what he can do about this food gap. Technology can improve food supplies, but essentially people must take steps to limit their own reproduction. As we see what has happened in developed countries in recent years, however, there is cause for hope. In many areas, births are rapidly moving toward a rate which is materially slowing population growth. With education and governmental pressure--and, I predict, eventually a changed policy of the Catholic Church--the same can happen in developing countries.

A second factor determining the future of disadvantaged people will be the rate of economic growth, and this is something Economic Man can do a lot about. A main reason for past improvement in living standards all around has been Economic Man's talent in producing more efficiently. He has enlarged the total size of the output pie so successfully that everyone can have more

even with the same relative slices. Despite implications for our resources in the longer run, I believe it is essential to continue to press for rapid economic growth. As I explore the arguments for moving to a stable-state economy I conclude (in addition to the feeling that life might be pretty dull) that their major defect is a lack of realism about implications for disadvantaged people. It simply does not seem in the cards to be able to redistribute the existing product in a way that would significantly help the disadvantaged. The haves would not stand for it, the have-nots would not benefit all that much. Growth strikes me as a much more realistic solution.

I recognize that there are two sides to the problem--the size of the pie and the size of the slice--absolute well being and relative well being. Growth, if the past is any guide, can go a long way in solving the absolute problem, but probably won't do much toward solving the relative problem. And, if so, the clamor for equality will continue. I suspect this will always be the case. It is too deeply ingrained in human nature to be otherwise.

#### Economic Man in 2000 A.D.

So it seems to me that the outlook for Economic Man is not as bleak as it is being painted these days. Nevertheless, just as his lot is not the same now as 25 years ago, it will not be the same 25 years hence. What will it be like in 2000 A.D.? As I see it, his world will be different in at least three respects: the degree of freedom which he can exercise, relationships with others, and the degree of conservatism that exists.

Freedom. I suspect there will be a trend toward less freedom in the next quarter of a century--at least freedom as Economic Man has known it. Much of the history of this century has been a decline of laissez-faire philosophy and practice. A continuation of the trend seems inevitable. Government has played an increasing role in the economy and will continue to do so.

Although Economic Man may not realize it, this can work to his benefit. As I have tried to show, he needs the help of Government in protecting resources, improving the environment and bettering the lot of the disadvantaged; and unless there is substantial progress toward these goals, Economic Man does not face a happy future. On the other hand, much will depend on how Government goes about intervening in economic affairs. Hopefully, it will see the advantage of working with Economic Man and utilizing the market system which is so important to them both.

All things considered, however, Economic Man will become more and more a partner of Government rather than a free agent. He will not occupy the dominating role he has grown accustomed to over most of this century.

Relationships. As the economy grows increasingly complex there will be a need for greater interdependence of the units within it. Unfortunately, there may be strong pressures for parts of it to go it alone. I don't have in mind the kind of self-sufficiency prescribed in The End of Affluence which I mentioned earlier. It seems unlikely that the idea of storing up food for emergencies or planting organic gardens in back yards is likely to catch on with most people. But on a larger scale it does seem likely that the desire to go it alone or to form closely knit groups will

have a major impact in the world economy. Witness our own Project Independence. Witness banding together of countries to form cartels to control natural resources as the OPEC nations have done. Given this tendency, plus the clamor for equality from disadvantaged people the world over, Economic Man seems likely to be living in a world of considerable conflict. Since he thrives best in a climate of trust, specialization and interdependence, he may find life difficult.

Conservatism. I am not thinking here in usual terms of liberal vs. conservative, but in the more general sense that society is likely to become increasingly concerned with conserving what it has. It will necessarily be more and more conservative in its use of resources. And although I believe the economy must continue to grow to solve the problems of the disadvantaged, the idea of the stable state will gain increasing acceptance. This suggests that the dynamic economy which Economic Man is used to will become less dynamic, less growth-oriented. It is probably also true that there will be some change in life-style. Return to the simple rural life is impossible, but there will probably be less of a drive to achieve satisfaction through consumption, less of a drive to lose oneself in work, and more interest in making productive use of leisure, more satisfaction from family and friends. It could be a less exciting but perhaps a more rewarding world.

### Conclusion

In short, I believe the gloomy prognosis for Economic Man has been overdone. He is too adaptable not to be able to go a long way in meeting the challenges before him. But by 2000 A.D. he is likely to be living and working in a world that has different values than those he has traditionally held. He is likely to need all the adaptability he can muster.