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What does neo-classical economics teach us concerning virtue, short-term gratification and poverty?

"He that idly loses five shillings' worth of time, loses five shillings, and might as prudently throw five shillings into the sea"[1]

– Benjamin Franklin, *Necessary Hints to Those That Would Be Rich*.

"The infraction of its rules is treated not as foolishness but as forgetfulness of duty. That is the essence of the matter"[2]

– Max Weber, *The Protestant Ethic and the Spirit of Capitalism*.

Neoclassical economics presents a narrative which describes an attainable utopian ideal. I posit that the assumptions of the weltanschauung which it provides us for interpreting lived-experience-as-text have become an established part of the social discourse which pervades contemporary modes of thinking in developed nations. How then does neoclassical economics encourage us to think about virtue and vice in this world? In particular, do its assumptions regarding the deferral of short-term gratification facilitate thinking of the poor as morally culpable for their own poverty? In answering this question I examine the timbre of a standard illustration of the neoclassical economic model for investment vs. immediate consumption. I then trace, in both the implications of Max Weber's thesis and via a typified

[1] Benjamin Franklin, *Necessary Hints to Those That Would Be Rich* (Works, Sparks edition, 1736), II, p.80; cited by Max Weber, *The Protestant Ethic and the Spirit of Capitalism: The relationships between religion and the economic and social life in modern culture*, ed. Anthony Giddens, trans. Talcott Parsons (New York: Charles Scribner's Sons, 1976), p.50

[2] *The Protestant Ethic and the Spirit of Capitalism* (1976), p.51

usage of Oscar Lewis' theory, the possible consequences of subscribing to these theses. For each of the three, by briefly expounding their arguments initially, I hope to demonstrate a marked similarity of inclination regarding the poor and thereby delineate a tentative genealogy.

Lazy Islanders

The lessons of neoclassical economics with regard to short-term consumption seem unambiguous. In general, subject to the caveat of diminishing returns, long-term wealth is increased when short-term consumption is deferred and existing resources are appropriately invested.

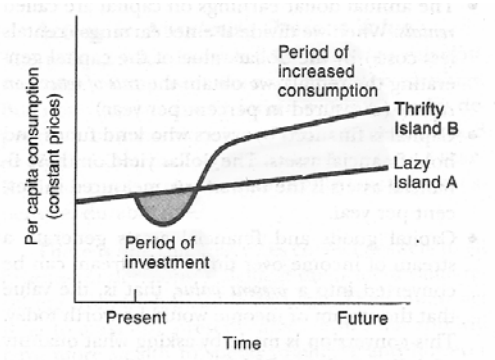

FIGURE 14-4. Investments Today Yield Consumption Tomorrow

Two islands begin with equal endowments of labor and natural resources. Lazy Island A invests nothing and shows a modest growth in per capita consumption. Thrifty Island B devotes an initial period to investment, forgoing consumption, and then enjoys the harvest of much higher consumption in the future.

Economics, seventeenth edition, ed. Paul Samuelson, William Nordhaus, (Tata McGraw-Hill, 2001), p.276

Samuelson and Nordhaus illustrate this using the example of two islands. The community of Island A produces food and clothing using its endowments directly, whereas Island B "sacrifices current consumption and uses its resources and labor to produce capital goods,

such as plows, shovels and looms"[3]. If, instead of using the primary factors of labour and natural resources for the direct production of goods for immediate consumption, this same capital is invested into the production of capital goods, then the behaviour of holding off from immediate consumption is rewarded in a longer-term boost in the per capita amount of consumption which is possible. The potential reward is furthermore – at least theoretically – disproportionately larger than the amount originally sacrificed.

Let us now examine the language in which this model is couched. Endowments invested for the enjoyment of a "much higher" future harvest on the one hand, as against a people who "produced no capital goods at all" on the other, and who by not making a "temporary sacrifice" showed "modest growth"[4]. Thrifty islanders on the one hand, lazy islanders on the other. It may be suggested that it is possible to place too much emphasis on a casual word choice – the use of the term "lazy" to describe the economic legacy of the islanders on Island A – yet I would argue that in the terms of this model, we are being shown the rules of a game and those who fail to mobilise themselves to achieving its stipulated goals are implicitly to be considered culpable for their relatively poor condition.

It may be objected that where this model holds true, the islanders of A are in fact

[3] *Economics*, seventeenth edition, ed. Paul Samuelson, William Nordhaus, (Tata McGraw-Hill, 2001), p.276
[4] ibidem.

responsible for lagging behind in the development of their economy. Responsible yes, but significantly the implicit judgements being reckoned here are those of blameworthiness. The islanders of A are branded lazy not because they do not work – they must in the long run work more in order to consume an amount matching their archipelagic neighbours – but because they do not forbear awhile from present consumption. Not for them the Lenten period of abstinence from worldly materialism, hence moral laxity, hence laziness. On the side of those who are hereby framed as their competitors however, we conversely see the character trait "thrifty" attributed. Johann Herder writes, "the explanation of such words unlocks for us manner of thought and police, *character* and ethics, in short, the secret of the nation"[5]. Our present investigation is cultural rather than explicitly national, yet it is noticed that here in the realm of neoclassical economics we cannot avoid associating "thrifty" (defined as: "frugal, economical; thriving, prosperous"[6]) with positive moral connotations perhaps deriving some influence from the Aristotelian *eudaimonia* wherein to thrive as an individual is to be virtuous.

It would be difficult to overlook the similarities in the language and outlook of this

[5] Johann Gottfried von Herder, 'Fragments on Recent German Literature', *Herder: Philosophical Writings*, ed. Michael N. Forster, (Cambridge: Cambridge University Press, 2002), p.47, his italics
[6] *The Concise Oxford Dictionary of Current English*, seventh edition; ed. J. B. Sykes, (UK: Oxford University Press, 1986), p.1115

brief passage of *Economics* and that of the New Testament's 'The Parable of the Talents'[7]. In both, the revenue upon investment is a "harvest"[8] whereof for the "much higher"[9] consumption of *Economics*, the biblical equivalent promises "an abundance"[10] for the wisely capitalist investor. Strikingly, in Matthew's gospel, the paymaster's condemnation of the servant who failed to invest his endowment of one talent is "You wicked, lazy servant!"[11]. In this instantiation, the moral culpability of not maximising one's natural endowments is palpable in both the divine scheme and in neoclassical economics.

The Weber Thesis

It is at this point that I hope I may logically progress to an exegesis of the Weber thesis. Max Weber's unproven thesis as expounded in *The Protestant Work Ethic and the Spirit of Capitalism* in 1904-05 was able to attain widespread renown, credibility and influence within the Western academy. I suggest that its acceptance has in large measure been a corollary of its resonance with the value judgements promoted by a culture professing the

[7] *The Insight Bible: New International Version*, International Bible Society, (London: Hodder & Stoughton Ltd., 1992), Matthew 25:14-30, pp.994-995
[8] *NIV* (1992), Matthew 25:26, p.995
[9] *Economics* (2001), p.276
[10] *NIV* (1992), Matthew 25:29, p.995
[11] ib., Matt. 25:26

orthodoxy of neoclassical economics with steadily growing fervour since the marginal utility analyses of the 1870s[12]. Both proffer us narratives about the poor which we would like to believe in.

Whilst seeking to explain the reasons for the success of the "Industrial Revolution"[13] or the rise of industrial capitalism in England and subsequently in New England, Weber sees in protestant ideology (and particularly in Calvinism) the moral foundations necessary for successful economic activity. Differing from the cyclical redemptions emphasised by Catholicism, the protestant religions tend to cast the lifetime as a trajectory of cumulative moral acts assessed in a final ledger[14]. Weber claims that in contrast to such faiths as Hinduism, Puritanism favours a rational mastery over the material world rather than insisting on the primacy of transcending its encumbrances and promotes a this-worldly asceticism which Weber asserts would distinguish it from Confucianism[15]. Calvinism conditions its adherents to attend to their "calling"[16] (in a society of apparently divinely-ordained divided

[12] Some discussion of when the term "neoclassical economics" applies, reduced here by Barkley Rosser: 'Re: neoclassical microeconomics and Keynes's contribution by J. Barkley Rosser, Jr.', available at: <http://csf.colorado.edu/forums/pkt/2001/msg02060.html>, posted: June 5th 2001 20:58 UTC, retrieved: April 1st 2004.
[13] The historicity of this term has been called into question. To nominate even a period as broad as 1750 to 1850 would seem to overlook the centrality of the cotton industry to the transformation of the economy, since the export of cottons in the UK did not overtake woollens until after 1800 and the radical growth of Manchester did not occur until the 1830s and 1840s (Richard F. Hamilton, 'Max Weber's *The Protestant Ethic*: a commentary on the thesis and on its reception in the academic community', *Estudios/Working Papers* 1995/73, September 1995, originally presented at Centre for Advanced Study in the Social Sciences of the Juan March Institute, Madrid, May 18th, 1995, p.26).
[14] *The Protestant Ethic and the Spirit of Capitalism* (1976), pp.106-107
[15] ib., p.6
[16] ib., p.180

labour) with diligent and frugal "rational conduct"[17] whilst sanctioning the accumulation of wealth as part of a sober and industrious career[18].

Finally, in what I suggest provides a readily extensible metaphor for risk-taking to build confidence, Calvinism does not guarantee salvation, but exhorts disciples to perform "good works"[19]. As Weber exposits, "good works" are "the technical means, not of purchasing salvation, but of getting rid of the fear of damnation. … Thus, the Calvinist, as it is sometimes put, himself creates his own salvation, or, as would be more correct, the conviction of it"[20].To mimic the rhetorical manoeuvre of Milton Friedman, we could determine that good works are to be performed "as if" one has confidence in the promise of one's salvation and in so acting to thereby demonstrate that one has sufficient faith such that this promise may be fulfilled by some higher mechanism. By such operations are recoveries spurred, stock prices inflated and venture capital funds secured. This entrepreneurial moral approach functions to provide a divinely-endorsed template for entrepreneurial economic behaviour, all within the bounds of prudent financial management and the pursuit of sustainable long-term growth.

[17] ib.
[18] ib., p.5
[19] ib.,p.115
[20] ib.

Weber's ambitious project to correlate the structure of religious belief with the locus of economic development did encounter in Calvinism an explanatory component which when given credence imbues the neoclassical economic world with an implicit moral justice. If the rigidly self-disciplined investor could elevate his station (spiritually, socially, as an industrialist and later as a consumer) by faithfully following a sound moral path, then at the collective level, the moral culpability of the lazy islanders for their economic underdevelopment is assured and income disparities need not trouble the conscience of the non-poor.

Oscar Lewis' "Culture of Poverty"

To cite a more recent manifestation of what I suggest is this recurrent exegetical trope which neoclassical economics inclines us to apply when confronted with the poor, I turn to Oscar Lewis' analytical category, "the culture of poverty". This broad concept which first surfaces in his 1959 work *Five Families: Mexican Case Studies in the Culture of Poverty* and is developed as a result of his ethnographic fieldwork for *La Vida: A Puerto Rican Family in the Culture of Poverty – San Juan and New York*, is defined both negatively in

terms of poor people in social and historical circumstances to whom it would not be said to apply, and by the provision of a number of "necessary but not sufficient traits to define the phenomena I have in mind"[21].

The term "culture of poverty" corrals a variety of practices, attitudes and behavioural traits which Lewis does recognise are the result of adaptative responses to a given environment, but of which he stresses that the resultant "culture of poverty" is "not only an adaptation to a set of objective conditions of the larger society … it tends to perpetuate itself from generation to generation"[22] and thereby functions to perpetuate the poverty of its agents. Being later required to defend his position in response to Charles A. Valentine, Lewis retracts some of the determinacy he ascribed to the "culture of poverty", writing that "in the long run the self-perpetuating factors are relatively minor and unimportant as compared to the basic structure of the larger society"[23]. However, in its earlier and more widely-adopted usage the apparent analytical merit of the concept seemed to reside in how it could account for how – in the case of slum children, by the age of six or seven – "they have usually absorbed the basic values and attitudes of their subculture and are not

[21] Oscar Lewis, *La Vida: A Puerto Rican Family in the Culture of Poverty – San Juan and New York* (New York: Random House, 1965), p.xlviii
[22] ib., p.xlv
[23] Oscar Lewis, 'Review of Charles A. Valentine', *Culture and Poverty: Critique and Counter-Proposals*, *Current Anthropology*, Vol.10 (1969), No2-3, p.192; cited by: Eleanor Burke Leacock, 'Introduction', *The Culture of Poverty: A Critique* (New York: Simon and Schuster, Inc., 1971), pp.35-36

psychologically geared to take full advantage of changing conditions or increased opportunities which may occur in their lifetime"[24].

Most relevant for our present analysis is that based upon his ethnographic research, Lewis perceives that the persistent poor within the "culture of poverty" exhibit "a strong present-time orientation with relatively little ability to defer gratification and to plan for the future"[25]. For instance, the Ríos family does not defer sexual gratification, "like most of the other Puerto Rican slum dwellers I have studied, [they] show a great zest for life, especially for sex"[26] both from the perspective of socially acceptable marital practices and in individual situations: "their extreme impulsivity affects the whole tenor of their lives. There is an overwhelming preoccupation with sex … early sexual experience for boys and girls is accepted as almost inevitable, even though ideally mothers are supposed to keep their young daughters under control"[27]. This characteristic as part of a panoply of others shared by those within the culture of poverty is furnished as having an explanatory quality. Other examples include: "On the level of the individual … a strong feeling of marginality, of helplessness, of dependence and of inferiority … of orality, of weak ego structure, confusion of sexual

[24] *La Vida* (1965), p.xlv
[25] ib., p.xlviii
[26] ib., p.xxvi
[27] ib.

identification … a sense of resignation and fatalism"[28].

Is the failure to postpone short-term gratification depicted as a vice by Lewis? Do the dysfunctional economic situations he observes as correlating to it and interprets as stemming in part from it appear in his work as indicative of a moral dysfunction in the underlying culture of poverty as a whole? With regard to the non-deferral of short-term gratification, Lewis is prepared to grant that "Living in the present may develop a capacity for spontaneity and adventure, for the enjoyment of the sensual, the indulgence of impulse, which is often blunted in the middle-class, future-oriented man"[29]. Nevertheless, it must be acknowledged that regardless of intent, Lewis' term "culture of poverty" often came subsequently to be used in the discourses of social work, public policy and sociology – as well as anthropology – in the sense of a regrettable but contemptible set of character flaws. To select an egregious example, this archetype of the "lower-class individual"[30] comes from erstwhile Harvard Professor of Urban Government, the late Edward C. Banfield who chaired a taskforce on model cities under President Nixon:

> He does not care how dirty and dilapidated his housing is either inside or out, nor does he mind the inadequacy of such public facilities as schools, parks, and libraries: indeed where such things exist he destroys them by acts of vandalism if he can. Features that make the slum repellent to others actually please him. He

[28] ib., pp.xlvii-xlviii
[29] ib., p.li
[30] Edward C. Banfield, *The Unheavenly City: The Nature and Future of Our Urban Crisis* (Boston: Little, Brown and Company, 1970), pp.62-63; cited by: D. Stanley Eitzen, *Social Structure and Social Problems in America* (Boston: Allyn and Bacon, Inc., 1974), p.150

> finds it satisfying in several ways. First, it is a place of excitement – 'where the action is.' Nothing happens there by plan and anything may happen by accident – a game, a fight, a tense confrontation with the police; feeling that something exciting is about to happen is highly congenial to people who live for the present and for whom the present is often empty.[31]

Of Oscar Lewis, Philippe Bourgois makes the following assessment: "despite the author's progressive political intent and his personal sympathy for the socially marginal, critics interpret his volume as confirming the deep-seated contempt for the "unworthy" poor that permeates U.S. ideology"[32].

Critiques which effectively delineate the core problems with Lewis' thesis include Eleanor Burke Leacock's who points out that Lewis does not – and probably empirically could not – distinguish between three separate sources of differences between the poor and the non-poor, only the third of which properly designates his "phenomena" and is often falsely anticipated in subsequent research. The three sources of difference are: those arising from distinct traditions, often reinforced by historic discrimination; those Leacock would term realistic attempts to deal with objective class circumstances; and "those adaptive acts and attitudes that become institutionalized, and incorporated into internalized values and norms appropriate for living in a given position in the social-economic system"[33]. Furthermore, Anthony Leeds argues that Lewis' analytical cul-de-sac is intractable "because

[31] *The Unheavenly City* (1970), pp.62-63; cited in: *Social Structure and Social Problems in America* (1974), pp.150-151
[32] Philippe Bourgois, *In Search of Respect: Selling Crack in El Barrio*, (Cambridge: Cambridge University Press, 1995) p.16
[33] 'Introduction', *The Culture of Poverty: A Critique* (1971), p34

he defines his population by one set of index-behavioural-ideological traits, which, however, are displayed by varying sets of people who are not distinguishable from each other on a number of other sets of traits"[34]. Finally, a criticism by effect is encapsulated by Charles A. Valentine: "The policy corollary of this belief is that it is more necessary and urgent for our society to abolish the special lifeways of the poor than to eradicate poverty"[35].

Conclusion

All three of these models and the terminology they endow us with serve to cultivate and legitimise a certain view of the poor as: in the illustration of Samuelson and Nordhaus' "Lazy Islanders" collectively to blame for their situation; in the eager reception of Weber's thesis implicitly morally culpable individuals; and with regard to the usage of Lewis' term "culture of poverty" contemptibly muddle-headed.

I would suggest that this act of exegesis carried out upon our societies and our economies is greatly facilitated by what M. Neil Brown and J. Kevin Quinn describe as the

[34] Anthony Leeds, 'The concept of the "culture of poverty': conceptual, logical and empirical problems, with perspectives from Brazil and Peru', *The Culture of Poverty: A Critique* (1971), p.261
[35] Charles A. Valentine, 'The "culture of poverty": its scientific significance and its implications for action', *The Culture of Poverty: A Critique* (1971), p.214

metaphor of the machine. This is the neoclassical model of the economy thought of as a soulless mechanism and yet simultaneously one which could theoretically be infallible in the impartiality with which it accurately distributes gains to certain kinds of human behaviour within the market. As characterised by Brown and Quinn, "We are justifiably wary of potential abuse of power by human subjects, but the machine is benign; after all, it's just an object. Our choices will determine the quality of life we eventually experience; the machine is our innocent helpmate"[36].

We surely pay heed to evidence of justice in the social order we inhabit because such evidence presents us with a cue (amongst others) as to the kind of behaviours to adopt. Once the invisible hand has become secularised machinery, moral associations remain, but they become tied to savvy economic self-governance. Weber writes the following:

> One has only to re-read the passage from Franklin, quoted at the beginning of this essay, in order to see that the essential elements of the attitude which was there called the spirit of capitalism are the same as what we have just shown to be the content of the Puritan worldly asceticism, only without the religious basis, which by Franklin's time had died away.[37]

Weber may not have proven the causal link of his Industrial Revolution thesis to our satisfaction, yet regardless of this, the similarity if not sameness which he marks between a moral critique of the poor and this eighteenth century capitalist's critique of economic

[36] M. Neil Brown and J. Kevin Quinn, 'Dominant Economic Metaphors and the Postmodern Subversion of the Subject', *New Economic Criticism: Studies at the intersection of literature and economics*, ed. Martha Woodmansee and Mark Osteen (New York: Routledge, 1999), p.136

[37] *The Protestant Ethic and the Spirit of Capitalism* (1976), p.180

imprudence is one which should be granted, and is a similarity which I have here advocated extends through the neoclassical economic model. Neoclassical economics would tend to cast the failure to defer gratification as a vice. It is argued therefore that when the particular assumptions of neoclassical economics with its optimistic gospel of growth in collective wealth and the individual maximisation of utility compound the eternal need to legitimise a given socio-economic hierarchy, there exists in the culture of neoclassical economics a systemic inclination conducive to perpetuating the association of negative moral judgements with the poor[38].

[38] The poor are increasingly referred to as the "indigent", at least in the United States of America. This semantic shift bears some attention. The 1989 OED second edition lists as its sixth meaning of the adjective "poor": "Such, or so circumstanced, as to excite one's compassion or pity; unfortunate, hapless. Now chiefly *colloq.*" (*Oxford English Dictionary Online*, available at: <http://dictionary.oed.com/entrance.dtl>, retrieved: April 1st 2004). Conversely, for the word "indigent", the same edition could not fairly be said to associate with it any connotation of a "middle class conviction that the poor *deserve* help" (to use Jerald Barry Brown's phrase from *The United Farm Workers Grape Strike and Boycott, 1965-1970: An evaluation of the culture of poverty theory* (Ithaca: Cornell University, 1972), Latin American Studies Program Dissertation Series no. 39, August 1972, p.320). Indeed, the first entry defines indigent as "Lacking in what is requisite; falling short of the proper measure or standard; wanting, deficient" (*Oxford English Dictionary Online*, available at: <http://dictionary.oed.com/entrance.dtl>, retrieved: April 1st 2004).

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