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Self as Society

0. Abstract

Several different theoretical and experimental models (including neurobiology, computer science, evolutionary psychology and analytical psychology) suggest that the individual mind can be modeled as a “society” of separate components that are loosely coordinated by a superstructure of consciousness. Economically, we can model individual consciousness and decision-making as the interaction of a society of individuals constrained by various rules. Decision-making can be analyzed as an attempt to maximize the “social welfare function” of the individual, and “irrational behavior” and other anomalies found in behavioral economics, such as preference reversals and other violations of choice theory, can be treated as flaws in the process, and hopefully given an explanation rather than either ignored or treated as “a black box.”

I. Introduction: Psychology and Economics

While my brother is a Freudian, I am a Jungian. So there's no blaming mommy today!

-----Niles Crane

Economists generally tend to ignore or dismiss the relevance of psychology. (Caplan 2003) There are several reasons for this. First, of course, is the undeniable fact that much of psychology is claptrap, either because it is non-falsifiable (Gardner 1983) or because it is actually falsified. (Gardner 1986) One example of a non-falsifiable psychological claim is the stereotypical cliché "X suffers from repressed homosexuality." As both C. S. Lewis (1969) and Martin Gardner pointed out, this is non-falsifiable because if X agrees with the statement then it is proven, while his disagreement is also used as evidence to prove the validity of the statement – after all, if someone is in denial of something (i.e. is suffering from a condition that he either consciously or unconsciously represses) then he will deny it; therefore, if he denies something he must be in denial of it. This is a logical fallacy because it treats "All A are B" as equivalent to "All B are A." Second, it is unfalsifiable and therefore meaningless – if X is always true, then it is true whether Y is true or not, and therefore cannot be used to either prove or disprove the existence of Y. As Karl Popper pointed out, such statements are non-falsifiable but also non-provable and therefore irrelevant.

Another form is psychological "humbug" which is theories which are indeed falsifiable -- and which have been falsified. One example is Freud's theory of dreams, and in fact almost everything original to Freud -- as opposed to Charcot, Locke, Hume, and so forth -- has been falsified. (Gardner)

A third problem of psychological “claptrap” is what Lewis (1970) referred to as “Bulverism” (in his article of the same name) and which is more generally referred to as the “Argument from Motive” or “*argumentum ad baculum*” – essentially, attacking a position by criticizing the motives of those who hold it. More specifically Bulverism means saying that someone makes a particular statement or holds a particular belief only because of (presumably unconscious) psychological motives. The problem, of course, is that Bulverism does nothing to determine the truth or falsity of a particular position, because it cuts both ways. Every single position can be criticized equally by Bulverism; it’s a game that everyone can play.

However, there are important things that economics can learn from psychology. First, there are many branches of psychology which are not Freudian, and therefore not inherently prone to the sorts of faults found in Freudianism. Furthermore, behavioral/experimental psychology is almost entirely empirical, with an emphasis on statistical analysis and materialist explanations, and without the theoretical aspects of most other psychoanalysis; and it has been incorporated into economics in the form of behavioral/experimental economics.

In addition to general reasons for everyone to distrust psychological theories, there are specific reasons for economists to do so. First, economists normally treat preferences as exogenous – and people as rational. Friedman (1986) states that “Economics is that way of understanding behavior that starts from the assumption that people have objectives and tend to choose the correct way to achieve them. The second half of the assumption, that people tend to find the correct way to achieve their objectives, is called rationality.”

The next reason economists dislike and/or ignore psychology is the one explained at length in Becker and Stigler's (in)famous essay "*De Gustibus Non Disputandum Est*"

In their article Becker and Stigler stated that preferences are assumed to be exogenous, independent variables, and therefore that, by definition, psychology is not part of economics. Specifically, they claim that economists should treat preferences as exogenous because, as far as they are concerned, psychology has not been able to come up with a theory of preferences. To quote Caplan disputing Becker-Stigler:

"Economists typically object to preference-based explanations of human behavior; differences in preferences "explain everything, and therefore nothing." But this argument is only correct assuming that no empirical evidence exists to discipline preference-based explanations. In fact, over the past decade, personality psychologists have produced a robust collection of stylized facts about human preferences. While preferences are, empirically, quite stable, they are far from identical, and have proven predictive power for economically interesting variables. The empirical challenge for future research is to jointly estimate the impact of preferences and constraints to obtain unbiased measures of their relative importance."

In other words, "rather than leaving the study of tastes to other disciplines, they essentially concluded that there was nothing to study." (Caplan 2004)

In pure economic theory, consumer choice is always the joint product of preferences and the budget constraint. But applications of the basic choice model typically treat preferences as fixed, leaving the budget constraint to bear the full burden of explaining variation in behavior. Why? The standard answer, which Stigler and Becker helped crystallize, is that preference-based explanations cannot be empirically tested. As they dismissively put it, tastes provide "endless degrees of freedom."

As Friedman puts it, "Any behavior, however peculiar, can be explained by assuming that the behavior itself was the person's objective. (Why did I stand on my head on the table while holding a burning \$1,000 bill between my toes? Because I *wanted* to stand on my head on the table while holding a burning \$1,000 bill between my toes.)" Or, as Becker and Stigler put it, "preferences explain everything, and therefore explain nothing."

But “Economics is based on the assumption that people have reasonably simple objectives and choose the correct means to achieve them. Both halves of the assumption are false; people sometimes have very complicated objectives and they sometimes make mistakes.” (Friedman) The reason for concentrating on rational (in the sense of objective-achieving, utility-maximizing) behavior is much the same as the reason the drunk looked for his keys under the street light: "rational" behavior can be predicted easily but "irrational" behavior cannot. “The only alternative to assuming rationality (other than giving up and concluding that human behavior cannot be understood and predicted) would be a *theory* of irrational behavior--a theory that told us not only that someone would not always do the rational thing but also *which particular irrational thing* he would do. So far as I know, no satisfactory theory of that sort exists.” However, psychology does indeed claim to provide such a theory – or rather many competing theories.

My thesis is that there are other aspects of psychology which can also contribute to economics. Cognitive or “Rational-Emotive” psychology provides a rationally-based theory of behavior and preferences, and analytical or “Jungian” psychology provides a theory of preferences and even one of irrational behavior.

II. Definitions of Rationality and Irrationality

There are two questions that people who say this kind of thing ought to be asked. The first is, are *all* thoughts thus tainted at the source, or only some? The second is, does the taint invalidate the tainted thought - in the sense of making it untrue - or not? -----C. S. Lewis

As previously stated, economists assume that man is rational (“homo economicus”) because if they do not, there is no way for us to predict or even understand human behavior. However, psychology by definition studies irrational behavior as well as rational, and

psychologists have (or at least claim to have) a theory (or theories) of irrational behavior.

How well do these hold up? In order to find out, we must first define irrational behavior; and in order to do that, we must first define rationality.

In economic terms, (ir)rationality may be defined in two very distinct ways. One definition of rationality is (as David Friedman puts it) the theory that “people have goals and act in order to achieve them.” Violations of this version of rationality are presumably either violations of the axioms of choice theory – e.g., preference reversals – or behavioral anomalies in which a person does not pursue the best (known) way to achieve his goals (preferences), thereby failing to maximize utility. Examples of this latter sort would be things like negative discount rates (e.g. the existence of Christmas clubs and income tax refunds, and professors who are paid over 12 months rather than 9), in which someone pursues a goal (such as accumulating wealth) but does so in a less-than-optimal manner, and in a more extreme form they would be cases of behavior which is actually counterproductive, such as gambling away one’s wealth. Of course “self-defeating behavior” is a term which is essentially the textbook definition of neuroticism. The entire field of behavioral economics deals with such “irrational” behaviors, which are all anomalies which appear to violate choice theory.

The second definition of rationality is that used in the theory of rational expectations. Therefore, “irrationality” in this sense is the violation of that theory, i.e. the existence of systematically biased (i.e. non-random) errors. According to rational expectations theory, of course, this is impossible; and yet, as Caplan and others have pointed out, we experience it every day.

In analyzing this second sort of irrationality I rely primarily on Bryan Caplan's work. To quote from his notes at <<http://econfaculty.gmu.edu/bcaplan/e812/micro9.htm>>

Psychologists distinguish between two sorts of bias: cognitive and motivational. Motivational biases are biases where our emotions steer our intellectual faculties away from the sensible answer they would otherwise reach. Cognitive biases are biases where our intellectual faculties give us mistaken answers in the absence of any emotional commitment. Many psychologists - especially those who specialize in cognitive bias - maintain that all biases are, in fact, cognitive. These psychologists have been especially influential in economics. As you might guess, other psychologists disagree. Their objections have received less attention from economists, but they have nevertheless had some influence.

The influence of these "other psychologists" seems to be limited to behavioral economics, but at least economics does acknowledge the existence of motivational or emotionally-influenced biases.

However, as mentioned earlier, psychology in general has plenty of theories which deal with emotional biases, as well as with counterproductive or self-defeating behavior. This paper will limit itself to those in analytical psychology (which is distinct from psychoanalysis).

In summary, then, there are two types of rationality – productive behavior and lack of bias – based on two definitions (choice theory and rational expectations theory); and each of the types has two different types of irrational behavior associated with it: preference reversals and inefficient or counterproductive behavior for the former, and cognitive and emotional biases for the latter.

III. Basics and Economically-Relevant Aspects of Analytical Psychology

What you do speaks so loudly that I cannot hear anything you say. -----Walt Whitman

Economists have taken some aspects of psychology to heart, particularly the quantitative and materialist branches which emphasize repeatable experiments and statistical analysis rather than introspection and theories. One example is behavioral psychology which in its most extreme form completely ignores the existence of thoughts and emotions and merely focuses on physical behaviors. There is groundbreaking work being done by experimental economists and other behavioral economists. However, this paper deals with Jungian or “analytical” psychology, which stands in contrast to the materialist and statistical traditions. Instead, analytical psychology emphasizes introspection and theories to such an extent that some have called it a form of philosophy rather than psychology. Furthermore, Jung himself was interested in mythology and mysticism and wrote about such topics as UFOs, poltergeist phenomena, and so forth, although he is famous for saying that he was more interested in the psychological aspects of such phenomena than in their actual existence. In fact, Jung is also famous for developing the theory that alchemy should be understood as a process for psychological and spiritual transformation rather than physical transmutation of lead into gold. This would all seem to have little relevance for contemporary economics, despite the little-known fact that Keynes himself was interested in alchemy. However, analytical psychology may indeed have useful information for economists.

Certainly Jung was interested in economics. Pierre Janet first coined the term “psychological economics” but Jung used the term heavily, particularly in the book Psychological Types. To clarify, “It is in the nature of the psyche that we inevitably pay a price for every choice we make. In each moment a certain amount of mental, emotional, and

physical energy is available. When we spend that energy in an activity, it cannot be spent on something else.” (Riso and Hudson 1996)

First let us analyze the essence of analytical psychology! There are several key components to analytical psychology. (I use the term “analytical” rather than “Jungian” in order to clarify that some of these theories either were not held by Jung, or else have been modified so they are currently in different form. However, it is also a well-known bromide that Keynesian economics is not necessarily the same as the economics of Keynes...) However, I will focus on the aspects which are particularly relevant to economics. These are Jung’s theory of temperaments (including later modifications such as Myers-Briggs), his theory of the “psyche” including the idea that it is not a monolith but rather contains parts, what those parts are, and Jung’s particular understanding of the Unconscious, particularly the Shadow and the Collective Unconscious (including Archetypes), as well as the personal Unconscious; and finally his theory of decision-making or “psychological economics” including the role of the Unconscious.

Jung classified people’s temperaments along four axes – Introversion/Extroversion, Intuition/Sensation (or Imagination/Physicality), Thinking/Feeling, and Judging/Perceiving (or Organization/Flexibility). This results in sixteen primary temperament types which he in turn sorted into four groups: SJ (Sensing Judging), SP (Sensing Perceiving), NT (iNtuitive Thinking) and NF (iNtuitive Feeling). Jung also, as part of his mystical and historical inclination, correlated these with the four humors of medieval medicine and, in turn, with the four elements of classical mythology. While (as Caplan points out) this system is being supplanted by the so-called Five Factor or “Big Five” system, it nevertheless remains useful.

In particular, it provides an empirically-testable theory of “stable preferences” in contrast to Becker’s and Stigler’s claims that no such theory existed or even was possible.

Jung started with the classical concept of the four temperaments (choleric, phlegmatic, bilious and sanguine) and modified it. He described four independent variables, graphed on separate axes: introversion/extroversion, imagination/sensation, thinking/feeling, and perceiving/judging. This allowed him to distinguish 16 main personality types which he grouped into four overall categories which corresponded to the four classical temperaments. As Bryan Caplan points out, Jung’s theory has been empirically tested and verified, and shows the existence of stable preferences – for example, extroverts prefer group activities whether at work or play; imaginative types prefer intellectual rather than physical activities – which in turn allows us to make predictions about preferences. Thus, Jung provides a theory of (stable) preferences, *contra* the well-known complaints of Becker and Stigler in “De Gustibus.”

Jung’s theory of the psyche is of course complicated and subtle (or perhaps merely poorly-expressed and confusing) but the basics are fairly simple to understand. First, Jung believed the psyche is not a single unit but rather is composed of several different parts. This corresponds to Marvin Minsky’s “Society of Mind” theory, as well as the evolutionary psychology theory that the mind is composed of several “subroutines” which evolved to handle specific tasks, and also seems to be borne out by the results of neurobiology which has identified different parts of the brain with different functions, including “complexes” or circuits of cells in the cerebellum which activate together when a person performs a particular type of task or thinks about a particular subject.

According to at least one version of analytical psychology, known as “Voice Dialogue theory,” the parts of the psyche include “lesser selves” called “voices” which each represent a particular aspect of the self, or a particular perspective. One example of this contemporary Jungian theory is found in the book *Embracing Our Selves* by Hal and Sidra Stone, as well as its sequels, *Embracing Each Other* and *Embracing Heaven and Earth*. They identify various different components of the Self, which include the Awareness or Observer (which is a dispassionate, purely-objective entity which merely notes and remembers what happens without any feelings or emotional judgements); the “voices,” or (lesser) selves, each of which embodies a particular attitude, viewpoint, or preference; the Controller(s), which run day-to-day activities and serve to push and/or repress various voices, as appropriate; and the Aware Ego, which (hopefully) makes informed decisions based upon rational self-interest (in contrast to the Controllers).

Jung is perhaps most famous, however, for his theory (or theories) of the Unconscious, including his concepts of the Shadow, the Collective Unconscious, and Archetypes. First an explanation of the ordinary or “personal” Unconscious.

Jung defined the “psyche” to be the psychological part of the entire self. However, everyone has aspects of themselves of which they are unaware. These can be things that we knew once but forgot (e.g. where we put something, or that we loaned something to someone), or things that we never knew, but which still affect us (such as having high blood pressure without being aware of it). As Stephen K. Hayes put it in “Power, Passion and Anger,” we can be unconscious or unaware of things in our life just as we can be driving and be unaware of another vehicle which is in our blind spot; or we can be unaware of our effects on another, e.g. the effect of borrowing a cell phone and not returning it. In particular, the

Unconscious is that part of the psyche or mind which contains things of which we are unaware. For example, we might be irritated about something but repress it and then blow up at something else. As for those who do not believe in the existence of the Unconscious, I will offer a simple thought-experiment: Have you ever driven somewhere while you were lost in thought, and not paid attention while you were driving, yet you arrived safely at your destination? In that case, *who was driving the car?* On the other hand, for those who admit the existence of the Unconscious but do not understand how it can have its own goals that differ from those of the Consciousness: Have you ever driven somewhere while you were lost in thought, and arrived at a place that you habitually drive to, rather than your preferred destination?

According to Jung, the unconscious part of the psyche has its own motivations and beliefs which may well be different and even opposed to those of the conscious mind. If we have a voice (or, for the materialists in the audience, a “series of neurons in the brain”) which has a particular viewpoint or preference which is opposed to that of the conscious self, it can affect our actions (such as making us feel irritable, or making us ignore or forget something such as an unpleasant duty) which will interfere with the goal-achieving activities of the self. Or perhaps I simply have mannerisms of which I am unaware, or the effects of which I am unaware. In a relatively harmless example, consider a part of the Unconscious, created by habit, which wants to (literally) drive a person to a particular destination (such as a university campus) because that is his normal destination.

However, by becoming aware of an aspect of the Unconscious, that is by acknowledging its existence, I can take steps to “integrate it.” This does not necessarily mean agreeing with it and following its desires; it might mean (for example) taking extra

precautions *not* to give in to those desires (e.g. to cheat on one's spouse). The point is that only by becoming aware of these things can we deal with them properly. Otherwise we will continue to be affected and likely thwarted or at least hindered by ourselves. To quote from *Pogo*, "We have met the enemy and he is us."

The strongest "enemy" in this sense is the Shadow, which is the part of the Unconscious composed of our repressed and otherwise denied aspects, both positive and negative. To clarify, the Unconscious is anything about the self – including external factors – of which we are unaware. The Shadow, however, is those parts of the Unconscious which we are actually in denial of. Perhaps the simplest way to illustrate this is to say that someone who is merely unconscious of something will not get particularly upset when it is brought to his attention, and while they may be skeptical, they will acknowledge clear evidence of it; while someone who is in denial or repression of it will get very upset and refuse to acknowledge clear evidence of it. The Shadow is, then, the blackest and deepest part of the Unconscious – that is, the part which is most different from the self-image found in the Conscious mind, and therefore the part which is most difficult for the Conscious mind to recognize, understand, or even acknowledge -- and so it is often the part which is strongest and has the greatest effect upon our lives.

Jung is also (in)famous for his theory of the Collective Unconscious. The "minimalist" interpretation of this theory is "simply that certain structures and predispositions of the unconscious are common to all of us...[on] an inherited, species-specific, genetic basis." (Gooch 1975) (The "maximalist" interpretation treats the Collective Unconscious as an "immortal energy field" like Star Wars' "Force" or even, according to Stephen Covey, the Holy Spirit of Christianity.) In evolutionary psychology terms, these are

those particular “cultural universals” which are unconscious rather than conscious.

(Presumably it’s possible to bring them from the unconscious to consciousness, just as it is for aspects of the personal unconscious.)

One aspect of the theory of the Collective Unconscious is the theory of Archetypes. Essentially, archetypes are “innate, universal prototypes for ideas.” In less flowery language, an archetype is an example of what Aristotle called a universal, i.e. a general concept or a class, as opposed to a single specific item. According to Jung’s *Archetypes and the Collective Unconscious*, there are four “universal archetypes” -- Mother, Rebirth, Spirit, and Trickster – which are inherently wired into the firmware of the brain, but almost any other concept can be the basis for a less-generalized archetype: Father, King, Death, Judgement, Fairness, Love, and so forth. While many criticize Jung by claiming that archetypes do not exist or that there is no basis for assuming that they are universal, everyone agrees that philosophical universals exist (in one sense or another), i.e. that humans can understand abstract, general concepts such as “chairs” in general, or “redness”; and evolutionary biology shows us that the human brain is indeed hardwired with certain faculties, such as the ability to learn a language. Therefore, Jung’s concept of archetypes is at least a reasonable hypothesis which deserves testing before being dismissed.

Next I would like to deal with the aspect of analytical psychology which is most clearly relevant to economics, at least in a superficial sense, and that is the theory of “psychological economy.” While this term was actually coined by Pierre Janet, who had a “psychiatric terminology with terms like “psychological economy,” “psychological acquisitions” or “mental strengths budget,” it was adopted by Jung as an apt way to describe the behavior of the psyche in general, and especially decision-making behavior. To Jung, as

stated above, the Self was a society in which various entities interacted – and interacted, moreover, in a market-based way, with “exchanges” or transfers of “psychological energy” (i.e. attention – or, in a purely material sense, bundles of neurons) from one part of the psyche to another. Moreover, the resources of the Self – attention, time, and effort -- were limited and therefore needed to be allocated. Jung felt there was competition among the various parts of the psyche for control of these resources. (Hall and Nordby; Riso) Furthermore, Jung emphasized that *all decision-making, all choice, involved picking one alternative and sacrificing others, and that these are based on the relative values of the alternatives* – values to the entire Self, or rather to the decision-maker (whether it is the Aware Ego or one of the Controllers), and that both conscious and unconscious parts of the psyche contribute to the utility function. (Riso; Stone)

Finally, analytical psychologists, even more than most psychologists, emphasize the doctrine of revealed preference. As Walt Whitman put it, “What you *do* speaks far more loudly than what you *say*.” The reason analytical psychologists emphasize this is that they are interested in the unconscious as well as the conscious parts of the psyche. The conscious part of the psyche is the part which generally controls what is spoken – in fact, according to one well-known theory the Consciousness or “persona” is a subroutine of the mind which evolved in order to handle interpersonal communications. (Minsky; Tipler; Jaynes) Since by definition a person is unaware (i.e. unconscious) of their Unconscious, they can’t explain it directly (although the Unconscious can certainly manifest itself in conversation, e.g. in “Freudian slips”). However, the best way to understand the Unconscious is to look at its effects upon behavior; what Freud called “parapraxis.” (Hall and Nordby; Jung, Psychological Types) In essence, then, *analytical psychologists (as well as others who deal*

with the Unconscious) emphasize the doctrine of revealed preference, and seem to have invented it independently of and obviously prior to Samuelson's publication of it in 1938.

IV. Jungian Theories of Preferences and Decision-Making

It is in the nature of the psyche that we inevitably pay a price for every choice we make. In each moment a certain amount of mental, emotional, and physical energy is available. When we spend that energy in an activity, it cannot be spent on something else. -----Carl Jung

Now that we have covered the basics of analytical psychology, we can discuss Jung's theory of decision-making in more detail, and especially the way his theory of the psyche can explain irrational behaviors. **[INSERT ADDITIONAL TEXT HERE HERE.]**

As Caplan points out, Becker and Stigler claimed that there was no scientific theory of preferences, and possibly that such a theory was impossible, not merely within the discipline of economics but even as part of psychology. Caplan also points out, however, that there are now scientific theories of preferences which can be empirically tested and seem to withstand such testing. Jung's theories of personality and preferences are examples of this. As Caplan put it, *"Stigler and Becker sharply redrew disciplinary boundaries; rather than leaving the study of tastes to other disciplines, they essentially concluded that there was nothing to study."* However, as he states, "Personality psychologists do not put it in these terms, but in economic language, they now possess a scientifically credible 'theory of preferences'." (Caplan 2001)

First there is a Jungian theory of preferences, which is based on two of Jung's most famous concepts – both previously discussed: his theory of “temperaments” or personality types, and the theory of “archetypes.”

In Jungian psychology, individual personality, including an individual's tastes and preferences, results from the interaction of the universal aspect of an individual, such as the archetypes wired into his brain, with his specific circumstances. For example, the Mother archetype will manifest itself differently in every culture, and in every individual's life, showing various that are different and possibly even contradictory facets – positive, negative, indifferent, ambivalent -- yet still valid parts of the single general concept of Motherhood. However, the experiences that an individual undergoes are what determine whether his reaction to Motherhood is positive, negative, or neutral, and even more specifically they determine the emotion he feels such as anger, fear, affection, love, envy, and so forth.

Archetypes are probably the most famous of Jung's contributions to psychology, but another prominent contribution is his concept of “temperaments” or personality types.

[INSERT MORE DETAILED EXPLANATION OF TEMPERAMENTS HERE.]

In addition to a “theory of preferences,” psychologists also possess a “theory of decision-making” – or perhaps several theories. We previously mentioned Jung's theory is that a person's Self is actually composed of many smaller selves which interact with each other – essentially what computer scientist Marvin Minsky has called a “society of mind.”

According to at least one branch of analytical psychology, known as “Voice Dialogue” theory, every individual has multiple parts – sub-selves or “voices” -- with different outlooks and preferences; these “voices” interact with each other, cooperating and/or competing for control over the scarce resource that is the Self as a whole. For

example, a person may enjoy both going to a movie and also going to a concert, but be unable to do both, at least in the same evening. One “voice” might want to go to the movie while another might prefer the concert, and they will “argue” or compete within the psyche. The actual decision will probably be made by a Controller (i.e. a “voice” or sub-self which is specialized for controlling behavior, including which other voices to allow and which to repress) or, if the person is very lucky, by their “Aware Ego.” (One of the primary differences between the Aware Ego and all the other voices is that all the other voices, including the Controllers, have a very limited perspective while the Aware Ego is able to acknowledge the validity of the viewpoints of each of the other voices, and then balance them in order to make informed judgement and choose the best course of action. The process is similar to a CEO or other manager who must balance the different perspectives and competing interests of his subordinates and/or their particular divisions – sales, production, human resources, etc. -- in order to make the best decision from the point of view of the firm as a whole. Of course some psychologists believe that the Aware Ego is itself merely a personification of the “enlightened self-interest” decision-making process and that its decisions are designed to maximize the “social welfare” of the entire Self considered as a community; and this “self welfare” function is simply a summation of the utility of each of the lesser selves.)¹

¹ Of course, in another sense, defining each “voice” as a separate individual with its own viewpoint, tastes, and values merely redefines the question to ask what gives each voice its particular characteristics, including both its preferences and its relative power within the individual, much the same way the “Cartesian theater” or “homunculus argument” does with consciousness itself. However, the more sophisticated versions of analytical psychology do deal with these questions, in the form of a more advanced version of the theories of preferences originated by Jung – and this is a topic more appropriate for a book than an introductory paper.

The various “voices” compete for control over the scarce resource(s) of the Self, and decision-making is a result of this competition. However, the competition is often moderated or even usurped by a Controller -- much the same way that the State can either moderate or usurp the decisions of the market. Best of all is for the decision-making to be done by the Aware Ego, which has the best interest of the entire Self at heart. Jungian theory also emphasizes the importance of the Unconscious, and this process is indeed almost always entirely unconscious; only through specific techniques such as the Voice Dialog process can it be made explicit. This matches with several empirical studies and other theories such as Minsky’s “society of mind” which states that the human mind is not a unitary whole but rather is composed of several subroutines, each of which is an independent product of evolution, and which can often act at cross purposes; and empirical evidence, including brain-scan (MRI and EEG) studies such as the one cited in [The Physics of Immortality](#) (Tipler) which found that decisions actually are made unconsciously, up to 1.2 seconds before the decider is consciously aware of them.

V. Jungian Theories of Neurosis and Other Irrational Behavior

Even confirmed economic imperialists typically acknowledge that economic theory does not apply to the seriously mentally ill. -----Bryan Caplan

We have defined three main types of irrational behavior: violations of choice theory (such as preference reversals and intransitive preferences), violations of rational expectations (such as systematic biases), and behavior which is either inefficient or actually counterproductive at achieving an individual’s goals. The theories of preferences and decision-making given in the previous section can provide an explanation for all of these,

specifically by providing a theory of neurosis and other irrationality. (As stated earlier, there are many different theories of neurosis and irrationality in psychology; this paper focuses on those belonging to analytical psychology.) According to Jungian theory, all apparently-irrational behavior, including (but not limited to) neuroses, occurs because of a conflict within the Self, involving either two or more voices, or between the Conscious and Unconscious, i.e. the conscious and unconscious parts of the Psyche. For example, an internal conflict might produce a preference reversal, or it might produce a neurosis as a way of resolving the conflict, depending on the type of conflict involved.

First, of course, preference reversals and other violations of choice theory can be explained simply by using the idea of the psyche as a “society” rather than a monolith. The preferences of the Self as a whole are merely the sum of the preferences of the lesser selves or “voices” and that sum can change as the relative weights of the voices change due to circumstances, either internal or external to the self. Furthermore, the avowed choices of the Self are often made by a controller according to its own values, while the values of the Self as a whole may be different, because the controller may deny or arbitrarily change the weights given to the preferences of certain voices. Therefore, the preferences of an individual can change or even reverse due either a change from one controller to another, or a change in the dynamic or relationship between the “voices” (“lesser selves” or “mental subroutines”) within a person (which may occur due to external factors or internal ones, such as a voice with a particular preference changing in intensity over time). These voices in conflict may be within the Consciousness (as when a person is consciously ambivalent about a decision, such as whether to purchase a new car at a particular price) or one or both of them may be

within the Unconscious (as when a person “suddenly changes his mind for no reason” that even he is aware of).²

It is, by the way, entirely possible for different voices to have completely opposite preferences; one voice might be very risk-averse while another enjoys the thrill of danger, or one voice might be monogamous while another is promiscuous and a third hates sex. In fact, *even intransitive preferences can be explained if we model the voices as “voters” in a two-dimensional grid, as famously done by Buchanan and Tullock in their graphical model of Arrow’s Impossibility Theorem.*

While the basic concept of self-as-society can explain violations of choice theory, analytical psychology, particularly Jung’s theories of the Unconscious, can explain the other types of irrational behavior, i.e. biases and sub-optimal behavior.

The second sort of “irrational” behavior is “emotional bias” (as opposed to “intellectual bias”) – or, in Bryan Caplan’s terms, “cognitive” versus “motivational” biases. (These ought to be italicized rather than in quotation marks.) According to Caplan’s definition, *motivational biases are biases where our emotions steer our intellectual faculties away from the sensible answer they would otherwise reach.* While preference reversals and other violations of choice theory are normally due to conflicts between multiple voices that are both , motivational biases will generally be the result of conflicts between the Conscious

² **Freud discussed the general concept of “ambivalence” but I think that an old joke expresses it best: a psychiatrist tried to explain the concept of ambivalence to a very unimaginative patient this way. “How would you feel if you just bought a new car and before you could get insurance the brakes failed and it went over a cliff?” “I’d feel terrible, of course.” “Okay, but what if your mother-in-law was inside it at the time?” Freud developed the concept of ambivalence as a major psychological factor but Jung’s theory of the psyche, especially the theory of “voices” or multiple parts within the Self, explains it in more detail and actually allows it to be modeled in an economic sense, along with preference reversals and other “irrational” behavior.**

(either in whole or in part) and the Unconscious. It is the Unconscious, or parts of it, which attempts to influence the behavior of the individual indirectly, when it is unable to achieve its goals directly, because they conflict with those of the Consciousness (or at least that aspect of the conscious mind which happens to be in control – that is, a Controller voice). Either the Unconscious, or various voices within the Conscious, can cause emotional bias such as causing us to (for example) forget to do unpleasant tasks, or to ignore evidence which is contrary to our preferences.

Finally, the third type of irrational behavior is “counterproductive behavior” and it is an almost textbook definition of “neurosis.” The existence of neurosis and other counterproductive behavior by using his hypothesis of the existence of the unconscious mind, and particularly that portion of the Unconscious known as the Shadow. The existence of conflicts between the conscious and unconscious portions of the mind results in neurosis and/or other counterproductive behavior for the same sort of reasons as a conflict between voices will result in reversals of preference.

(In a relatively harmless example, consider a part of the Unconscious which wants to (literally) drive a person to a particular destination (such as a university campus) because that is his normal destination.)

Or it might produce simple counterproductive behavior akin to arriving at a different destination than the one consciously intended, or forgetting to take an item such as a particular key ring, and therefore being unable to perform a particular unpleasant task – in other words, having an excuse for not doing so. For a more extreme example, in Kafka’s *Metamorphosis* the central character hates his job but would feel guilty about quitting work because he is responsible for supporting his family, so he suffers a conversion disorder which

renders him physically (rather than simply emotionally) unable to go to work. That is, on a conscious level he suffers the physical symptoms of illness such as pain and a physical handicap that renders him unable to walk or talk, but there is no physical illness causing the symptoms; instead, it is a way to have his cake and eat it too, so he doesn't have to work and doesn't have to feel guilty about it.³ In any case, the Unconscious is able to control or influence the behavior of the person to try to achieve its own goals which conflict with the conscious goals of the person.

VI. Summary and Conclusion

The Austrian school of economics successfully predicted both the great depression and our current recession pretty well. Freud and Jung made quite a few predictions and theories that have turned out to be false. This doesn't mean that the field of psychology is a useless enterprise. That's the nice thing about a science. We make changes as we go along, make better predictions. -----William L. Anderson

For many years economics – or at least most economists – ignored psychology for many reasons, some valid but limited (e.g. prejudices against Freudianism) and others based on either logical fallacies (“irrational behavior is by definition impossible to understand” and “preferences explain everything, and therefore explain nothing”) or simple errors of fact (“there is no empirically-verifiable theory of preferences”).

More recently, however, the field of behavioral economics has arisen, which seeks to study and hopefully explain “irrational” behavior. This discipline utilizes both techniques and theories from psychology, generally from behavioral psychology. Behaviorism is purely

³ **In contemporary parlance, of course, this is known as *being disabled*, and he would be eligible to receive SSI, Social Security, Medicare and/or Medicaid, as well as a Section 8 housing voucher.**

empirical; it can provide a way to measure behavior but not to explain it. For that, we need a theoretical basis which can be found in both cognitive psychology (particularly for rational behavior) and analytical or “Jungian” psychology (particularly for irrational behavior, such as neuroses, as well as a theory of preferences). Furthermore, these fields of psychology have theories which are compatible with, and in many cases parallel to, those of economics; remember, economists such as Locke, Smith, and Hume – and Percival Martin -- were psychologists as well, while Keynes himself spoke of the relevance of psychology to economics (such as the role that “animal spirits” play in determining AD) and shared with Jung an interest in alchemy. I believe it will be fruitful for economists to consider these branches of theoretical psychology as well as empirical, behavioral psychology; perhaps a new understanding of psychology by economists can convert what was previously considered lead into something as valuable as gold.