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## Economics and psychology: Economic psychology according to James Mill and John Stuart Mill

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### ABSTRACT

James and John Stuart Mill contributed to shaping both political economy and academic psychology. Their main publications in economics and psychology reflected the state of the art in both sciences and gave new impetus to the thinking. The paper examines to what extent they used academic psychology in their economic writings and economics in their psychological writings. The upshot is that there was little cross-fertilization. The psychological assumptions underlying economics, economic psychology in its basic sense, were in their treatment based on common-sense psychology and not on academic psychology. In his treatise on psychology in which he reviewed current academic psychology, James Mill devoted some chapters to motives related to money and wealth. He thus approached economic psychology in a psychological context. His son John Stuart succinctly formulated the idea of the economic man and explored in depth the simple psychological law that 'a greater gain is preferred to the smaller'. He propounded an important division of labor between economics and psychology.

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## 1. Introduction

### 1.1. Purpose of the paper

Critics of the rationality postulate in economics often point to scientific psychology as support for criticism and as a possible resource for remedies. Cross-fertilization between the fields of economics

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and psychology rarely occurred when the sciences started developing in the 19th century. Interaction may have been possible since some prominent economic thinkers also made noteworthy contributions towards developing the science of psychology. James Mill (1773–1836) and his son John Stuart Mill (1806–1873) were outstanding among those and contributed to shaping both political economy and academic psychology. They used economics slightly more in their work on psychology than they applied psychological science in economics. The paper briefly reviews their contributions to economics and psychology with a view to clarifying how they looked at the borderlines between the two fields. In 1836, John Stuart Mill formulated the basic tenets of economics and proposed a strict division of labor between economics and psychology. His ideas are today still reflected in mainstream economic thinking.

The paper begins with a few remarks on the purpose of looking at the history of relationships between economics and psychology, often referred to as economic psychology. They are followed by reviews of James Mill's and John Stuart Mill's contributions to economics and to psychology. The paper then focuses on the Mills' treatment of expectations, motives, and the love of money and wealth; these are concepts and theoretical notions that are still of use in both economics and psychology. It is concluded that the Mills' nuanced discussion of expectations still has something to add to the understanding of anticipation of the future. The saving motives that the Mills suggested have kept their standing in economic psychology. The topic of love of money and wealth has up to our days been sadly neglected in both economics and psychology and has much to gain from a study of the Mills' psychological writings.

### 1.2. *Why look back on history?*

Writing a paper on the history of economic psychology seems to require an excuse for an apparent waste of time. When Stigler (1950) published his much-cited paper on the history of utility analysis he felt obliged to defend his work by explaining why: 'Or one may, and most often does, simply set forth the major steps in the development of a branch of economic theory, hoping that it can be justified by its contribution to the understanding of modern economics. ...I review the history to answer the question, "Why do economists change their theories?"' (Stigler, 1950, p. 307). In my case, the question is rather, 'Why do economists not change their theories?' Reviewing history to me means looking for invariants of human behavior as well as invariants of thinking about human behavior (cf. Simon, 1990). The topic here involves tracing some of the early roots of economic psychology. Why is this worthwhile? Beside the fact that history, at least to some, may be interesting in itself the study yields material for building a perspective that may be useful for researchers and practitioners in the field. The study, for example, of anticipations and expectations and their relationships to memory can profit from the Mills' thinking. To better understand the role that the future plays in human experience we have to return to history!

## 2. James Mill: Historian, economist and then psychologist

### 2.1. *Political economy with common-sense psychology*

James Mill (JM) who in his youth after his university studies worked mainly as a free-lance writer and journalist is known for three major works: (1) *The History of British India*, (2) *Elements of Political Economy* (Elements), and (3) *Analysis of the Phenomena of the Human Mind* (Analysis). He is also known for the stringent education of his son John Stuart (JSM) who described it in his famous *Autobiography*. JM's books and a number of published articles made him outstanding first in the field of political economy and later in social philosophy and psychology. His early work on India led to an appointment as Examiner of Indian Correspondence with the East India Company. His task involved preparing dispatches: 'Those despatches, in conjunction with his History, did more than had ever been done before to promote the improvement of India, and teach Indian officials to understand their business' (Mill, 1873, p. 28).

JM stated the purpose of the Elements (Mill, 1821), his main work on political economy, as follows:

My object has been to compose a school-book of Political Economy, to detach the essential principles of the science from all extraneous topics, to state the propositions clearly and in their logical

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