

## William Kapp's Theory of Science Integration and Substantive Rationality:

Reconstruction of the "Social Cost Theory" from a Human Sciences Perspective

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By exploring a theory of human sciences that is the basis of Karl William Kapp's concept of institutional economics, this paper aims to clarify the originality of his social cost theory. The difference between the so-called external dis-economy theory, which is part of mainstream economics, and Kapp's social cost theory is a disagreement about rationality. The former assumes that entrepreneurial behavior to maximize profit is simply rational. Therefore, the cause of social loss, such as environmental disruption is not attributed to the entrepreneurial behavior *per se*, but is attributed to externalities called "exceptional cases."

On the other hand, in Kapp's social cost theory, irrational human actors are assumed. Kapp, who lived through Nazi oppression, and who was inspired by the methodology of psychologist Erich Fromm, sought to explain human irrationality by people's self-deceptive behaviors. In the background of conscious corporate desire for money and profit are the wholly unconscious hu-

man needs for stability, continuity, power, and social approval. And the fulfillment of these needs might be pursued even at the price of one's existence or well-being. For Kapp, social cost is a socio-pathological phenomenon generated collectively by enterprisers who, in their conscious minds, firmly believe themselves to be "sane." While mainstream economics might define rationality solely from the perspective of monetary desire, Kapp takes unconscious needs into consideration as well as conscious needs, and seeks to define rationality within a comprehensive structure of human need, including biological and cultural needs. This is what is called substantive rationality. In order to develop this standard, Kapp's theory had to integrate economics with other social sciences, and even with the natural sciences.

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