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The Fictitious Liberal Divide: Economic Rights Are Not Basic

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Abstract: The main question dividing classical and high liberals is about how economic rights rank compared to other rights and public goals. That is, the question is about what can or cannot outweigh such rights. High liberals argue that economic rights can be outweighed by any legitimate state interest, such that they are prima facie rights. Neoclassical liberals, conversely, have recently sought to elevate economic rights to basic rights, which could then only be outweighed by other basic rights. This paper shows where the real debate should be for classical liberals, challenging Samuel Freeman's widely held distinction between classical and high liberalism. Economic rights are prima facie for all liberals in that they can be outweighed by, say, considerations of utility or social justice. Although neoclassical liberals are correct to say that such rights are much more important than high liberals normally recognize, it does not follow that economic rights are basic.

Keywords: basic rights, classical liberalism, economic rights, eminent domain, high liberalism, neoclassical liberalism

JEL Classification: A13, P14, H13

I. Are Economic Rights Basic According to Classical Liberals?

It is common to assume that the core disagreement between classical and high liberals concerns the harmonization of economic rights with a theory of justice. On the one hand, high liberals, like John Rawls and Samuel Freeman, have argued that economic rights can be outweighed by social justice. On the other hand, classical liberals, like Friedrich Hayek and Milton Friedman, are known for defending economic rights against those who would override them so as to pursue extensive programs of taxes and transfers. Therefore, it is usually thought that the main question dividing classical and high liberals is about how economic rights rank compared to other rights and public goals. Such

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was Freeman's argument in his paper “Capitalism in the Classical and High Liberal Traditions”:

Where liberals primarily disagree is on the nature and status of economic rights and liberties, including the extent of freedom of contract and rights to private property in land, raw materials, and other productive resources (2011, 20).

More precisely, Freeman argued that economic rights are “basic” for classical liberals, in the sense that they are restrictable only by other basic rights; by contrast, economic rights are “prima facie” for high liberals, such that they can be overridden to provide the means to ensure that citizens can take advantage of their basic liberties. Recently, neoclassical liberals, like John Tomasi (2012, 42), Jason Brennan (2012), and Daniel Shapiro (1995a), have argued that economic rights are indeed basic in the classical liberal tradition. As such, they embrace Freeman’s widely held view according to which economic rights are basic for classical liberals, and prima facie for high liberals. This paper challenges such a view.

There is no real disagreement about the nature of economic rights within the liberal tradition.¹ Both classical and high liberals, I argue, share the same understanding of economic rights as prima facie rights, not as basic rights as defined by Rawls. One could retort that classical and high liberals disagree about what economic rights people have; but people have mostly the same economic rights according to these two liberal traditions. Both classical and high liberals defend property rights and freedom of contract, although both acknowledge that such rights

¹ The classical liberal tradition emerged in the pioneer writings of John Locke, and it was most famously championed by Adam Smith. Later, it was developed by economists like David Ricardo, Carl Menger, and Alfred Marshall, as well as by philosophers like Bernard Mandeville, Alexander von Humboldt and Alexis de Tocqueville. In this paper, I focus on twentieth century classical liberals, like Friedrich Hayek, Milton Friedman, Ludwig von Mises, and Richard Epstein. The high liberal tradition, conversely, emerged in the pioneering writings of John Stuart Mill, and was later developed by John Rawls. It is most commonly associated, for example, with Ronald Dworkin, Thomas Nagel, Thomas Scanlon, Amartya Sen, Elizabeth Anderson, and Samuel Freeman. The basic principles of classical liberalism are individual freedom, market capitalism, limited government, and the rule of law, while high liberalism is more distinctively concerned with social justice, equality, and poverty. Neoclassical liberals, like John Tomasi and Jason Brennan, combine the ideals of both the classical and high liberal traditions. That is, they adopt the high liberal assumption that the social order must be justifiable to everyone, including the worst-off, and they think that market institutions can be so justified, such that classical liberal conclusions about policy can be derived from the high liberal understanding of social justice.
can be limited, for instance, by regulations on land use, monopolies, and building codes. This paper will therefore attempt to bridge the gap between these two liberal traditions, focusing specifically on the classical liberal side of that gap. The gap, it seems, is due to inflated rhetoric coming from both sides, which overshadows an important consensus regarding the nature of economic rights.

Classical, high, and neoclassical liberals have created a fictitious divide. It is true that these three liberal traditions have different views on, say, social justice. Classical liberals like Hayek (2013, xix), for example, have characterised social justice as a “mirage”, as well as a “fraudulent”, “meaningless”, “thoughtless”, “empty”, and “vacuous” concept. High liberals, following Rawls (1999, 3), have defended social justice as “the first virtue of social institutions”. It is an approach which neoclassical liberals have also embraced, though they highlight the importance of market capitalism for ameliorating poverty. There are enough genuine disagreements between liberals that we do not need to invent fictitious ones, such as the purported disagreement about basic economic rights.

Many high liberals like Rawls, as Freeman noted (2007, 49), have downplayed the importance of economic rights for a theory of justice. Conversely, classical liberals are known for criticizing such “economic exceptionalism”, that is, the undue relegation of economic rights to a lower level of protection (Tomasi, 2012, 58). It would thus appear that although classical and high liberals may agree on a few common redistributive policies to help the poor, they simply cannot agree on the nature of the economic rights behind any such redistribution. This is a mistaken intuition, which may lead one to get the wrong impression about the liberal theory of economic rights. Contrary to what many now defend, following Freeman, economic rights have never been basic in the classical liberal tradition. Both classical and high liberals understand economic rights as prima facie, which means that they can be outweighed by considerations of utility or social justice.

By using the language of basic rights, neoclassical liberals run the risk of misrepresenting their own theory. Because basic rights can only be outweighed for the sake of other basic rights, to say that economic rights are basic is to disallow eminent domain, largely justified by considerations of utility, as well as, to a large extent, the taxes-and-transfers system of the modern welfare state, which cannot entirely be justified by other basic rights. Such a position cannot plausibly be a
liberal one. In fact, “liberalism has always accepted without question”, said Frank Knight, “the doctrine that every member of society has a right to live at some minimum standard, at the expense of society as a whole” (1982, 61f). Provided that such is indeed an accepted liberal doctrine, as both Hayek (2013, 249) and Friedman (2002, 192) acknowledge, the status of economic rights is clearly in need of additional clarification. The notion of economic rights has often been used to exaggeratedly widen the gap between classical and high liberals, while I argue that it can rather be used to narrow such a gap.

This paper will argue that neoclassical liberals, contrary to their own rhetoric, do not in fact regard economic rights as basic, nor do classical liberals. To be more specific, section II provides a reconstruction of the main arguments defended by John Rawls, Daniel Shapiro, and John Tomasi regarding the importance of economic rights for a theory of justice. Section III reviews the debate about the nature of economic freedom within the classical and high liberal traditions, distinguishing four concepts of rights. Section IV then examines three ways in which we may understand the liberal divide between classical and high liberals. The following sections examine two cases of eminent domain to uncover the acceptable classical liberal limits to most economic rights: section V discusses Kelo v. City of New London, which is about the use of private property, and section VI discusses Hawai‘i Housing Authority v. Midkiff, which is about the autonomy of people, and demonstrates why social justice can override economic rights. The paper concludes by arguing that the only difference between classical and high liberals concerns the strength of the reasons required to outweigh economic rights.

II. THE DIVERSITY ARGUMENT FOR ECONOMIC RIGHTS BEING BASIC

Let us begin by a brief reconstruction of what may be called the “diversity” argument for economic rights being basic, which is endorsed by many neoclassical liberals today. Rawls denied that most economic rights counted as part of the “basic” liberties protected by his first principle (2001, 114). Shapiro and Tomasi criticized Rawls, arguing that economic rights should count as basic, which, following Alan Patten, I will show is incorrect. My thesis is that there is no disagreement in the liberal tradition regarding the nature of economic rights, although there is a clear disagreement regarding the importance of such rights for people. In the end, I argue, the diversity argument invalidates the neoclassical liberal conclusion.
A right is basic, according to Rawls, when it can only be outweighed by other basic rights, and when other aspects of justice can be pursued only by those means that fully respect the basic rights. The list of basic rights Rawls (1993, 291) proposed goes as follows: freedom of thought, liberty of conscience, the political liberties, freedom of association, the freedoms specified by the liberty and integrity of the person, and the rights and liberties covered by the rule of law. Yet economic rights are conspicuously missing from such a list, which Rawls explains by introducing the following three arguments:

(Ri) The “moral powers” argument—that is, basic rights must provide the social conditions that enable free and equal persons to exercise and develop his or her most significant capacities. The first moral power is the capacity for a conception of the good, and the second is the capacity for a conception of justice (2001, 112f).

(Rii) The “diversity” argument—that is, basic rights must maintain and protect the flourishing of a wide variety of determinate conceptions of the good within the limits of justice (1993, 303f).

(Riii) The “overlapping consensus” argument—that is, basic rights must help to constitute and promote a stable society under modern democratic conditions (1993, 140ff).

Rawls argues that neither capitalist nor socialist economic rights can “be accounted for as necessary for the development and exercise of the two moral powers” (1993, 298). That is, he insists that his theory of justice has no commitment to either capitalism or socialism, as the economic rights these theories defend are not required to exercise and develop the two moral powers. For this reason, most economic rights are not basic—they do not make up his first principle of justice (Freeman 2007, 49). For example, Rawls states that “the right to private property in natural resources and means of production generally, including rights of acquisition and bequest” is not basic (2001, 114). The only exceptions are, first, the “right to hold and to have personal property” (1993, 298), and, second, a right to freedom of occupation (2005, 308, 335)—both of which are basic because they fall under the “liberty and integrity of the person”. But more conventional economic rights, like a right to free exchange or commercial property rights, Rawls
insisted, are not basic. Such rights can be outweighed by some reasons of public good and possibly even by perfectionist values. The absence of most economic rights from Rawls’s list of basic rights has been a major problem for classical liberals, and has been challenged by neoclassical liberals.

Shapiro objects to the Rawlsian argument detailed above that Rawls was mistaken about the implications of his theory of basic rights. Even though some rights may not be “required” by (Ri), Shapiro notes, they may still be “compatible” with (Ri)—and Rawls clearly thought that both capitalism and socialism were compatible with his theory of justice, for otherwise he would not have said that his theory is indifferent between them. Hence, Shapiro writes that:

> once one shows that a certain right is compatible with the exercise and development of the two moral powers, then the diversity argument can legitimately be used to support that right by showing that the recognition of the right allows a greater diversity of (permissible) conceptions of the good than would exist were the right not recognized (1995b, 63).

Inasmuch as some economic rights are compatible with (Ri), they may be regarded as basic by using the diversity argument (Rii).

Consider the case of the capitalist kibbutz. If your understanding of the good life is to become a businessperson, then you may do so in a capitalist society, though not in a socialist one. If your understanding of the good life, conversely, is to live in a kibbutz or a commune, then you may do so in both a socialist and a capitalist society. The socialist theory of economic rights would not permit some capitalist endeavours, as Shapiro notes, while the capitalist theory of rights is perfectly compatible with socialist endeavours, for instance, people living in a kibbutz. Consequently, “market capitalism allows a wider variety of conceptions of the good to exist than does market socialism” (1995b, 78). Jason Brennan also uses such an asymmetry argument in his critique of socialism—“Capitalism is tolerant. Want to have a worker-controlled firm? Go for it. Want to start a kibbutz or commune in which everything is collectively owned? No problem” (2014, 95). Not only does (Rii) support the capitalist theory of economic rights, but so does (Riii). Whereas market capitalism could indeed be the object of an overlapping consensus, market socialism could not, as it would put a stop to some conceptions of the good life. Liberals should conclude that economic
rights are basic, says Shapiro, as Rawls's arguments for basic rights in the non-commercial realm implies in the commercial realm that capitalism is to be the preferred kind of market economy. People should have a basic right to free exchange and a basic right to own and acquire natural resources and means of production.

Tomasi introduces another formulation of the diversity argument, which he illustrates rather convincingly with the following example. Amy is a college dropout who dreams to open her own business: “Amy saves her money, builds a sterling credit rating, wins a bank loan, and finally opens her own pet shop”, ‘Amy’s Pup-in-the-Tub’. “What does it mean to Amy to walk into her own pet shop each morning”, Tomasi asks (2012, 66), “or, when leaving after a particularly long day, to look back and read her name up on the sign?” According to Tomasi (2012, 182f), it means that economic rights are basic, since they are an “essential condition of responsible self-authorship”. Because many commercial activities within a market capitalist society are a “deeply meaningful” aspect of people’s lives, and because economic decisions can “define” a person and be “bound up with one’s identity”, Tomasi argues that economic rights should be considered basic (2012, 77f). Consequently, like Shapiro, Tomasi “affirms a thick conception of economic liberty as part of a broader scheme of rights and liberties designed to enable citizens to exercise and develop their moral powers” (2012, 69). As Alan Patten notes (2014, 367), Tomasi’s argument is as follows:

(Ti) A sufficient reason for recognizing a liberty as basic is that it protects activities and projects that people regard as highly meaningful.

(Tii) Many people regard private economic activities and projects as highly meaningful.

Therefore,

(Tiii) The private economic liberties should be regarded as basic.

“The main problem with the argument,” says Patten, “as I see it, is that its premise (i) seems badly overinclusive” (2014, 367). Some activities or social practices may be highly meaningful for people, like perhaps dog fighting or going to the shooting range, and yet it is far from obvious that these should be basic rights. We may also note that such a definition of basic rights does not echo the Rawlsian arguments discussed above. In fact, (Ti) is much more inclusive than (Ri), (Rii), and
(Riii) taken together. Moreover, as Patten explains, self-authorship also rests on non-liberty conditions, say, for Amy, winning a bank loan. “When the economic liberties are basic”, Patten notes, “it becomes that much harder for the state to protect and promote the other conditions that must be satisfied if people are to enjoy self-authorship” (2014, 369). If we are concerned with self-authorship, we should not exclusively focus on the protection of economic rights at the expense of the other issues.

I agree with Patten, but I think there is a more fundamental problem with the diversity argument championed by neoclassical liberals, which is that it does not address Rawls’s core definition of basic rights, according to which a right is basic when it can only be outweighed by other basic rights. The neoclassical liberal critique of the high liberal position says that economic rights are more important than high liberals acknowledge. I assume neoclassical liberals are correct, as economic rights are indeed deeply meaningful, and yet it does not follow that such rights are basic. There are two questions that must be assessed separately. First, what is the importance of a given right for some people? Second, what may outweigh a right from the public point of view? The critiques of Rawls championed by both Shapiro and Tomasi focus on the first point, while we should rather focus on the second. In other words, a problem with the diversity argument for basic economic rights is that it only shows that such rights are extremely important for people, not that they are basic in the sense of being restrictable only by other basic rights.

III. DISTINGUISHING ABSOLUTE, LICENSE, PRIMA FACIE, AND BASIC RIGHTS

“The program of liberalism, therefore, if condensed into a single word”, said Ludwig von Mises, “would have to read: property” (1962, 19). The classical liberal tradition has commonly defended a comprehensive theory of property rights, which, following Roman law, accounts for rights of use and disposal—i.e. “usus, fructus et abusus” (see, for instance, Hayek 1978, 20; Friedman 2002, 7-21; Acton 1993, 194f; Epstein 2003, 2). Economic liberties may be divided between the liberties of labour, transacting, holding, and using property, all of which are fundamental for classical liberals. Such an understanding of economic rights is then said to be “thick”, that is, these rights are given a wide scope and their protection is considered particularly important. A
distinction between “thick” and “thin” understandings of economic rights, for that reason, is a widely accepted way to distinguish classical from high liberalism (Brennan and Tomasi, 2012), which is what I will now challenge.

It is commonly thought that high liberals defend a “thin” understanding of economic rights, as they often limit the range of such rights they recognize as a matter of justice. For example, John Stuart Mill wished to restrict the right to bequest, to prohibit the right of property over the raw material of the earth, to restrict the right of property over land, and to abolish the wage relationship (1909, II.ii.4, II.ii.5, II.ii.6, IV.vii.4). Rawls later furthered this approach, as he believed that rights of acquisition and bequest, as well as rights of property over means of production and natural resources, were not basic (2001, 114). Before we conclude that economic rights matter very little for high liberals, however, it may be useful to get a better sense of the debate over the nature of economic rights, as the literature is filled with contradictory, ambiguous, and often confusing definitions of the concept of “right”.

Although there are marked conceptual differences, it might very well be that there is no genuine disagreement between classical and high liberals, but just a confusion about the different concepts of rights. To introduce a bit of conceptual clarity, let me propose the following terminology:

(1) Absolute rights—that is, “A right is absolute,” says Alan Gewirth, “when it cannot be overridden in any circumstances, so that it can never be justifiably infringed and it must be fulfilled without any exceptions” (1981, 2). Example: liberty of conscience.

(2) Basic rights—that is, a right is basic, according to Rawls, when it can only be outweighed by other basic rights, and when other aspects of justice can be pursued only by those means that fully respect the basic rights, or, as Rawls phrased it, basic rights “have an absolute weight with respect to reasons of public good and of perfectionist values” (1982, 8). Example: due process.

(3) Prima facie rights—that is, a right is prima facie when it can be outweighed by some other considerations so as to pursue, say, other aspects of justice or utility.
Example: property rights.

(4) Licence rights—that is, rights that only exist as a creation of some rules, as legal permissions.
Example: the right to practice medicine.

Such a terminology of rights follows the main intuitions we encounter in the literature. The concept of absolute right is simple enough—the exercise of such a right should never be infringed upon. Freedom of conscience immediately comes to mind. “Of that freedom”, Justice Cardozo once proclaimed, “one may say that it is the matrix, the indispensable condition, of nearly every other form of freedom” (*Palko v. State of Connecticut*, 302 U.S. 319, 1937). Hence, liberals will typically say that such a freedom is “of the very essence of a scheme of ordered liberty” to use Cardozo's words, making it immune to legislative judgement.

The concept of prima facie right is much more common. In fact, most rights are properly included into such a category, as we will see. License rights are slightly different in that they refer to a legal permission, normally backed by a legal document attesting the given permission—for example, a licensor grants a license to the licensee. None of these rights are especially controversial, save for the last category of rights, the so-called “basic” one. Economic rights are supposedly basic for classical liberals, but not for high liberals. I disagree, but before I explain my disagreement, let me say a bit more about the terminology of rights I have introduced so as to avoid any misunderstanding.

When different categories of rights are so listed, the typical way to understand the differentiation is through the respective importance of the rights. That is, when classical liberals criticize Rawls for not including most economic rights in his list of basic rights, they often assume that by doing so Rawls downgraded economic rights in general. I do not wish to engage in a hermeneutical argument over what Rawls meant to say. The important point is that the above terminology of rights does not say anything about the importance of rights for people. License rights can indeed be more important than basic rights in many cases. For instance, one may prefer to have access to a doctor than the right to vote, since one may consider one’s health more important than the health of democracy. In this case, then, a license right would be
more important than a basic or a prima facie right, depending on how we decide to categorize political rights.

Therefore, the above ordering of rights is not meant to convey the importance of some rights. The distinction is rather about what can or cannot outweigh these rights. It is not because a given right can be outweighed by some considerations that it is less important in the overall scheme of ordered liberty than another right, which, putatively, could not be outweighed by these considerations. Let me thus be very clear. The fact that most high liberals wish to restrict the range of economic rights they recognize to be basic does not necessarily mean that they equally wish to restrict the range of economic rights to which citizens have access, or that they regard such rights as unimportant. It means that they understand economic rights as being outweighed by some other considerations, say social justice—and yet we should observe that classical liberals think in exactly the same way.

Basic rights delineate the space within which a given state may be authoritative, as Platz noted (2014, 25), such that these rights cannot be sacrificed to pursue some other objectives, like efficiency or equality of opportunity. In other words, there can be no trade-off that sees, for example, several units of economic growth realized at the expense of one unit of a basic right. If economic rights were basic, your local government could not build a major highway crucial for the development of your region if one irritable landlord were to refuse to sell his land. But even classical liberals who have most enthusiastically defended the importance of economic rights accept that a public agency may expropriate someone's private property if it deems it to be in the public interest—say, to build a military base or a highway. As Hayek explains, “that the government may have to exercise the right of eminent domain for the compulsory purchase of land, can hardly be disputed” (1978, 217). Eminent domain is an established liberal practice. Economic rights can be outweighed for many reasons, and the real question for liberals, therefore, as Hayek noted, is about “the conditions under which the particular rights of individuals or groups may occasionally be infringed in the public interest” (1978, 217).

In response, one could retort that the above terminology uses Rawls’s understanding of basic rights, which, as Shapiro notes, is

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2 My argument is aimed at liberal theory, though such theory is also affected by liberal practices. Hence, I will consider American cases of eminent domain in the second half of the paper as a test for the neoclassical liberal theory of economic rights. That it fails to explain such a standard practice, I take it, is indicative of a flaw in the theory itself.
idiosyncratic. We should accordingly adopt a different definition. “A basic right has a considerable degree of moral weight”, said Shapiro, “so that it typically defeats perfectionist claims and claims of societal or aggregate well-being” (1995a, 120). The problem with such a definition is that one must assume that all rights have indeed a “considerable degree of moral weight”, without which they would not be rights, save perhaps for license rights, and yet it does not follow that they will defeat claims of aggregate well-being. Though Shapiro defines basic rights by their moral weight and Rawls by the three arguments detailed above, we should notice that both of these definitions have something in common—they do not allow us to aggregate, thus disconnecting basic rights from the reality of liberal states today where rights are often overridden for reasons of utility or justice, rather than for the sake of protecting other basic rights. This is the crucial feature of basic rights. It is what defines the nature of such rights: one person's basic right cannot be outweighed by less considerations on the part of others, even many others, but only by other basic rights.

If economic rights were indeed basic, as neoclassical liberals say, we would most likely be forced to accept a minimal state of the sort advocated by Robert Nozick, which, as Epstein notes, does not allow for any forced exchange—be it outright dispossesssion, taxation, or regulatory takings like zoning ordinances. In other words, to regard economic rights as basic would be to understate the critical role forced exchanges play in the liberal understanding of the political system. “It is only when some individuals are forced to surrender their individual rights in exchange for the protection the state provides”, says Epstein, “that the emergence of the state becomes possible” (2005, 287).

Now, from a high liberal point of view, it is true that we could still defend the welfare state, even if economic rights were basic. If we have a full set of basic rights, then we might need to restrict basic economic rights to ensure that citizens can take advantage of their other basic liberties. We would need taxation to protect the political and legal rights and, for instance, might need zoning regulations to protect freedom of association.

From a classical liberal standpoint, however, it is not clear that the same is true, because it is not clear that many other rights are basic. Though classical liberals support democracy, for example, their defense has never been particularly enthusiastic, and it was never suggested that political rights can only be overridden for the sake of other basic rights.
The same goes for most rights, like freedom of association, such that classical liberals have indeed argued that they are extremely important, but not that they cannot be outweighed by enough instances of some lesser objectives. If economic rights were basic, while most other rights are prima facie, liberals would then be forced to confine the state to the minimal functions of the night-watchman state, which would make no sense from a classical liberal standpoint.

Therefore, the neoclassical liberal line on economic rights has much more radical consequences than either Shapiro or Tomasi acknowledge; these are consequences that would potentially put them outside the main classical liberal tradition, and even outside the liberal tradition. If the right to live were to be considered basic, at best a theory of basic economic rights could justify a minimal sufficientarian state that would make sure that people would not starve to death, though it would not justify anything else. I assume that such a prospect is unattractive for both classical and high liberals, and consequently what follows will attempt to take additional steps toward a classical liberal theory of the welfare state—steps that could not be taken were we to accept the neoclassical liberal argument that economic rights are basic.

IV. THREE WAYS TO UNDERSTAND THE LIBERAL DIVIDE ON ECONOMIC RIGHTS

There are three main ways in which we may understand the liberal divide concerning economic rights, all of which, I argue, are fictitious. They refer to, the nature, the scope, and the considerations that can outweigh economic rights. Let us now pinpoint the disagreement between classical and high liberals, so that we can then examine the reasons that classical and high liberals may use to override economic rights. Classical and high liberals, I will argue, have the same view of the nature, the scope, and the types of reasons that can outweigh economic rights. The only difference concerns the strength of the reasons that are required to outweigh economic rights.

First, as to the nature of economic rights, we could think that there is a distinction between “thick” and “thin” theories, as do most

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3 Tomasi’s hybrid approach follows the high liberal one, as he labels many rights as “basic” (2012, xxvi)—beside economic rights, the list also includes, for example, civil liberties, like the right to a fair trial, and political liberties, such as the right to vote. But it is not clear that these rights would suffice to justify policies for the betterment of the poor given the stringency of a theory of basic rights.
neoclassical liberals today (Brennan and Tomasi, 2012). “Regarding the liberties of holding (or ‘owning’), for example”, says Tomasi, “classical liberals affirm not only right to ownership of personal property (as guaranteed even by most socialist systems) but rights to the private ownership of productive property as well” (2012, 23). Fair enough, we may say, but so do most high liberals. Tomasi could then retort that the right of productive property is not basic for high liberals like Mill or Rawls, as they repeatedly wished to limit the scope of such rights. Again, we may say, such an observation is correct, but it does not permit us to distinguish classical from high liberalism; that is, the right of productive property is not basic for classical liberals either. For instance, even though one may have a property right over some land, it does not necessarily mean that one may have the exclusive control over that land, as perhaps some other people may have non-possessory interests in the land, and it does not mean that the land cannot be taken so as to build, say, a military base or a highway. Hence, we have to be careful with the common distinction between “thick” and “thin” theories of economic rights. It is not obvious that the high liberal theory is that much “thinner” than the classical liberal one.

Second, we could then think that if the distinction between “thick” and “thin” theories is not entirely appropriate, we may nonetheless distinguish classical and high liberal theories of economic rights through their scope. Consider a case, which could comically be called the “Scrooge McDuck” case. In his book Why Not Capitalism (2014), Brennan criticized those who, like Rawls and Gerald Cohen, establish a distinction between people owning “personal” and “productive” property. The Rawlsian argument is that the right to hold and have the exclusive use of personal property is necessary for a sense of personal independence and self-respect, not a wider conception of property, and therefore these rights ought to be protected in different ways by a theory of justice (1993, 298). Against such a view, Brennan raises the following problem about the Disney character Scrooge McDuck—an exceptionally wealthy business magnate and incidentally also a greedy miser whose fortune was estimated to be about $65 billion by Forbes in 2013: “Is it okay for Scrooge McDuck to have his massive pile of money, so long as he uses it just for swimming and not as capital for investing?” (85). The point is that the high liberal position may seem strange, since, after all, it is not clear why it should matter how McDuck uses his
money. Why is swimming in a pool of gold better than creating jobs by investing money in productive enterprises?

A definition of property that distinguishes between “productive” and “non-productive”, or between “personal” and “non-personal” property, we could think, will therefore be unstable. “For the most part”, says Brennan, “it seems like the difference between productive and non-productive property is just how we use it. So, at most, socialists don’t really oppose allowing people to own private ‘productive property’; they oppose allowing people to use their private property in a productive way” (2014, 85). But then the question is the following—is the high liberal view different from the classical liberal one in any significant way? No. Or, is it true that classical liberals do not care about the ways in which people use their property? Again, no. Classical liberals have also established similar distinctions between “productive” and “personal” property. The issue of patents provides us with a clear example of such distinctions. Indeed, as he argued for the obligation that patent holders have to use their patents in a productive way, Hayek (1980, 114) criticized Justice McKenna, who had previously delivered the following opinion:

As to the suggestion that competitors were excluded from the use of the new patent, we answer that such exclusion may be said to have been of the very essence of the right conferred by the patent, as it is the privilege of any owner of property to use or not use it, without question of motive (Continental Paper Bag Co. v. Eastern Paper Bag Co., 210 U.S. 404, 1909).

Not so, said Hayek: we can indeed establish a distinction between productive and non-productive property, and we may force people to use their property in a given way. That is, we may force patent holders to use their property in a productive way, and we may force land owners to use their property in a non-productive way—as, for example, municipalities commonly do when engaging in town planning, like the landmark case in nuisance Sturges v. Bridgman (LR 11 Ch. D. 852, 1879) established, or later Adams v. Ursell (1 Ch. 269, 1913). This is also true for the doctrine of reasonable use for riparian owners in water law. Hence, this way of understanding the divide between classical and high liberals is fictitious as well.

Third, we could think that the debate is about the moral considerations that can outweigh economic rights. But here again the
The fictitious liberal divide is fictitious. For now, I propose to examine the reason of necessity, where there is no disagreement between classical and high liberals. This will permit us, in the next sections, to consider two other reasons, namely utility and social justice, which will be more fruitful to understand the liberal divide. As we will see, the only difference between classical and high liberals is about the comparative strength of economic rights versus such reasons, though there is no disagreement about the reasons themselves. One unit of economic rights is worth more for classical liberals than for high liberals, and one unit of social justice is worth more for high liberals than for classical liberals.

The idea of necessity does not need more than a few words, and therefore we may dispose of such a question immediately. Necessity has always been a possible justification or an exculpation for breaking the law. The Law allowed the Jewish people to defend themselves on the Sabbath. One may run across the lawn of one’s neighbour if one is chased by ravenous zombies. One may break a window to escape a fire. One may commandeer a vehicle to rush to the hospital. Jean Valjean may steal bread to feed his sister’s starving children. Overall, these cases remind us that forced exchanges can be initiated in cases of extreme necessity. “For all human Laws are, and ought to be so enacted”, said Hugo Grotius, “as that there should be some Allowance for human Frailty” (1625, 1.IV.vii). In the law of restitution, for example, necessity suspends property rights, Epstein explains (2005, 300), as an owner may be considered a wrongdoer if he refuses access to his property to someone in necessity, like the use of a dock to escape the ravages of a coming storm. On this point, again, classical and high liberals will agree, and accordingly we must look elsewhere if we are to pinpoint their disagreement.

V. Kelo v. City of New London—A Reverse-Robin Hood Case of Taking

Let us turn to the question of utility, which is much trickier from a liberal point of view. Following Rawls (2000, 366) and Freeman (2001, 52f), we could think that the liberal divide can be explained by looking at the different types of reasoning liberals use to justify economic rights. Such an explanation was also endorsed by Tomasi (2012, 103) who distinguishes the classical liberal “ends-directed” reasoning from the high liberal “deliberative” reasoning. That is to say, the rationale behind economic rights is often thought to be consequentialist for
classical liberals, though not for high liberals, which, as this section will show, misrepresents classical liberalism.

Consider *Kelo v. City of New London* (545 U.S. 469, 2005), a case of eminent domain. A redevelopment plan was supposed to revitalize the ailing economy of the city of New London, and therefore the city purchased property in the Fort Trumbull neighborhood, through its development agent, and sought to enforce eminent domain to acquire land from owners unwilling to sell. Pfizer Corporation was supposed to build research facilities on the land, and thus the city initiated condemnation proceedings when the owners of the rest of the property, the petitioners, refused to sell. The Supreme Court, in a controversial 5-4 decision, justified the enforcement of eminent domain under the Takings Clause of the Fifth Amendment, saying “nor shall private property be taken for public use, without just compensation”. Economic development, the Court ruled, qualifies as “public use” under the said clause.

Classical liberals disagreed. They endorsed the principal dissent issued by Justice O'Connor. The decision, it argued, eliminates the distinction between private and public use of property. In fact, the redevelopment plan was all for Pfizer, a major pharmaceutical corporation, which subsequently left the land of Fort Trumbull as an undeveloped empty lot. Hence, Justice O'Connor criticized the reverse-Robin Hood understanding of the taking power—taking from the poor and giving to the rich. Justice Thomas (at 518) issued a separate dissent in which he also observed the following: “Something has gone seriously awry with this Court’s interpretation of the Constitution. Though citizens are safe from the government in their homes, the homes themselves are not”.

*Kelo v. City of New London* is indicative of an under-appreciated ambiguity concerning economic rights. We all agree that people have property rights, and that these rights may be outweighed by some considerations of utility, for example to build a highway. But not any consideration of utility will do. In fact, if we were to accept the *Kelo* case of eminent domain, we would have to accept taking from the poor to give to the rich inasmuch as it leads to some economic development, which would make no sense from a classical liberal point of view. This led Richard Posner to ask, “But if ‘economic rejuvenation’ is a public use, what is to prevent a city from condemning the homes of lower-
middle-class families and giving them free of charge to multimillionaires?” (2011, 72).

Though economic rights are fundamental to economic development, we have to remember that the exercise of any such right is also limited by a theory of justice. There is no real disagreement on such a point, which is one thing critics of the classical liberal tradition have often missed since they depict such a tradition as generally based on consequentialist considerations regarding the beneficial effects of economic rights. Indeed, Freeman (2007, 45) understands high liberalism as primarily concerned with the “freedom and independence of the person”, while he sees classical liberalism as focused on “individual happiness”. In so doing, Freeman followed Rawls (2000, 366) who had established a similar distinction between the “liberalism of freedom” and the “liberalism of happiness”—the former being high liberalism and the latter being classical liberalism.

In other words, it is common to understand high liberalism as being moved by a deep concern to respect people as free and equal citizens, and, conversely, to understand classical liberalism as a consequentialist program, the goal of which is to pursue overall happiness. Once we consider Kelo v. City of New London, however, we may understand that such a portrait of classical liberalism is mistaken. Classical liberals, after all, opposed the redevelopment plan in the Fort Trumbull neighborhood, and therefore they opposed a claim of aggregate welfare, which should make us question the usual ways in which we depict the divide between the classical and high liberal theory of rights.

Against this claim, one could argue that the classical liberal critique of Kelo is not principled, as if the redevelopment plan had worked, then classical liberals would have backed the plan. Not so, said Epstein (2014, 358). That the whole redevelopment project fell through, that the land is still an empty lot today, and that the promised new jobs and tax revenues never materialized, does not change a thing from a classical liberal point of view. This case of eminent domain was unacceptable, and it would still have been so had the project succeeded, everyone living happily ever after. We should not take from the least well-off so as to then give to the best-off—this cannot be understood as a compelling state interest.

The Kelo case challenges the assumption of, say, Rawls, Freeman, and Tomasi, according to which economic rights are justified by an “ends-directed” reasoning for classical liberals, and by a “deliberative”
reasoning for high liberals. The classical liberal reasoning is manifestly not “ends-directed”, as it opposed economic development, inasmuch as such development was realized at the expense of the least well-off. Of course, the classical liberal state requires a practice of forced exchanges, which, in turn, will make everyone better-off, and yet the reasoning behind such a practice is often justified by social justice, as the next section will show. A reverse-Robin Hood theory of justice as we can find in Kelo is unacceptable for classical liberals, even outrageous as a matter of policy. But that is not to say that classical liberals cannot accept Robin Hood cases of eminent domain, like high liberals do.

VI. Hawaii Housing Authority v. Midkiff—A Robin Hood Scenario

This section will now explain how social justice may override one's property interest, and why the diversity argument Tomasi championed should lead liberals to the conclusion that economic rights are prima facie. Consider Hawaii Housing Authority v. Midkiff (467 U.S. 229, 1984), which is a case of oligopoly in land ownership. 22 landowners owned about 72 percent of fee simple titles on the island of Oahu, where about two-thirds of the population of Hawaii live. The land being concentrated to such an extent in the hands of a few private owners was a remnant of the feudal system and the caste organization in Hawaii. That is, traditionally, the aliʻi nui and kaukau aliʻi lines ruled and controlled the main Hawaiian Islands. The Hawaii State Legislature, therefore, used eminent domain to take land and redistribute it to private residents. In an 8-0 decision, the Supreme Court held that such redistribution was constitutional, as a legitimate exercise of the police powers so as to correct a market failure.

Once more, classical liberals disagreed with such a decision. In this case, according to Epstein, “there was no serious holdout problem between landlord and tenant to justify a scheme whose sole purpose was to allow sitting tenants to use state force to require their landlords to sell, allowing the tenants to become outright owners of the property they lived on” (2014, 358). I agree with Epstein to say that the test used in that case was unacceptable from a classical liberal viewpoint, namely an extreme version of the rational basis test for which any conceivable public purpose is sufficient to defeat some property rights. However, there was manifestly still a problem that needed to be addressed, and one could have reached the same conclusion through a more stringent
The case is indeed much trickier than the first one we examined—unlike *Kelo* that was moved by a reverse-Robin Hood theory of justice, we now have a Robin Hood scenario. The problem is as follows: people could not become homeowners on Oahu. They could live their entire lives without ever having the opportunity to own their homes. As a result of the feudal system in Hawaii, land was concentrated in the hands of few families, and accordingly homeownership was inaccessible to most residents of Oahu. For families who have lived on Oahu for generations, we may think, not being able to buy a house is indeed a compelling reason to use eminent domain. Property rights are prima facie rights that can be restricted or even denied to secure some social values—and homeownership is probably one such value from a classical liberal viewpoint, especially after we consider the case of Amy, the college dropout, as presented by Tomasi. That commercial activities within a market capitalist society are a “deeply meaningful” aspect of the people’s lives, as Tomasi argued, does not lead to the conclusion that economic rights are basic, as rather to the fact that these rights may be outweighed if only to preserve the values these rights stand for—say, homeownership and autonomy.

It is true that eminent domain is an anti-monopoly device, and thus one could retort that this case of eminent domain is better understood in an anti-oligopoly manner. But *Hawaii Housing Authority v. Midkiff* can also be understood as an attempt to further the liberal value of homeownership. Let me explain. “Real estate is a heterogeneous good”, Posner notes (2011, 70), “and so a particular parcel in the hands of a particular owner will generally yield him an idiosyncratic value that is on top of the market value. Eminent domain operates to tax away that value; if market value is $X and total value (including idiosyncratic value) is $1.2X, then if the government takes property by eminent domain it pays for it in effect by spending $X out of the government’s own coffers and $.2X out of the owner’s pocket”. Simply put, homeownership creates idiosyncratic value, which was manifestly taken in the *Kelo* case in a reverse-Robin Hood manner, while in the *Midkiff* case such a value was given to lessees in a Robin Hood manner. The question, then, is whether the interest of homeownership is compelling enough, and whether the relation of the law to that interest is appropriate enough from a classical liberal viewpoint. If we accept the main classical liberal arguments, the answer is probably yes.
We have now come full circle. Tomasi argued that economic rights should be basic because they are essential for self-authorship. Conversely, Midkiff shows how having the possibility to outweigh economic rights is sometimes essential for self-authorship. Hence, as I announced, economic rights cannot be basic for any liberal.

Notice one important point: classical liberals opposed the *Kelo* case, though they can certainly embrace the *Midkiff* case. Why? Taking from the poor and giving to the rich is manifestly not a compelling state interest, and therefore the *Kelo* case can be pushed aside somewhat easily. However, reducing inequality, ameliorating poverty, and furthering the value of self-authorship are compelling state interests from both a classical and a high liberal standpoint. In other words, social justice is a fundamental concern of the entire liberal tradition, which, we may now understand, can defeat property interests. This is especially true if about three-quarters of the population does not have access to homeownership. In this case, several units of social justice outweigh a few units of property rights. A similar argument could perhaps justify progressive taxation, a basic income guarantee, or some other welfare state policies if there was a compelling problem of inequality that needed to be solved from a classical liberal standpoint (Melkevik 2016; 2017).

**VII. CONCLUSION—ECONOMIC RIGHTS ARE NOT BASIC FOR LIBERALS**

In conclusion, there is no real disagreement in the liberal tradition concerning the nature and the justification of economic rights, as both classical and high liberals agree that economic rights may be limited so as to pursue some other aspects of justice or utility, and they both understand such rights as essential components of a system of ordered liberty. If there is any disagreement, therefore, it comes from some neoclassical liberals who are most probably misrepresenting their own understanding of economic rights by calling such rights basic. Their objection to the high liberal economic exceptionalism is sound, but does not imply that economic rights are basic.

This paper has surveyed different ways in which we may understand the divide between classical and high liberals regarding economic rights, and, in each case, I argued that the divide is fictitious. Both classical and high liberals have the same theory of economic rights. They agree that such rights are prima facie, and accept considerations of necessity, utility, and social justice as potentially sufficient to override economic
rights. Therefore, we cannot be content with Freeman’s distinction between classical and high liberalism, as this paper has shown. It is not the case that classical liberals said that economic rights are basic in the sense of being restrictable only by other basic rights.

It may, however, be difficult to see where the disagreement is between classical and high liberals. Let me offer the following alternative to Freeman’s distinction. The disagreement can be explained by the relative strength economic rights have for classical and high liberals. One unit of economic rights is worth more for a classical liberal than for a high liberal, while one unit of social justice is worth more for a high liberal than for a classical liberal. Several units of social justice can outweigh a few units of economic rights for both classical and high liberals, like in the Midkiff case, and yet several units of economic development cannot outweigh a few units of economic rights if we must also sacrifice a few units of social justice, like in the Kelo case. This way of presenting the liberal divide, while less remarkable, is nonetheless more accurate. It better explains the classical liberal theory of economic rights and its conditional acceptance of eminent domain.

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What Attracted Keynes to Malthus’s *High Price of Provisions*

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**Abstract:** In his biographical essay on Malthus, Keynes highly praised Malthus’s early short pamphlet, *High Price of Provisions*. Yet there have been remarkably few commentators who have paid attention to *High Price of Provisions*, and fewer have taken notice of two underlying but importantly related problems hidden in Keynes’s analysis of this pamphlet. This paper attempts to resolve these problems by providing a more comprehensive explanation for Keynes’s discussion of *High Price of Provisions* than Keynes himself. Not only does this paper reinforce the idea that Keynes discovered the concept of *effective demand* by reading Malthus, but it further proposes that Keynes would have seen other parallels between himself and Malthus, including their methods of approaching practical economic problems.

**Keywords:** John Maynard Keynes, Thomas Robert Malthus, effective demand, poverty, unemployment

**JEL Classification:** B12, B22, B31, B41, E12

This paper reconstructs and extends one part of John Maynard Keynes’s discussion in his biographical essay on Malthus (1972). It is widely known that Keynes praised Thomas Robert Malthus for helping to inspire his own theory of effective demand. Although this subject has been dealt with in many articles and books, the depth and range of Keynes’s debt to Malthus is complex and continues to elicit controversy. In his long essay on Malthus, found in *Essays in Biography* (1933), Keynes highly praised Malthus’s early short pamphlet, *High Price of Provisions* (1800), as “one of the best things Malthus ever wrote” (1972, 90). Yet, as I will show, there are remarkably few commentators who...
have taken notice of Malthus’s *High Price of Provisions*; and even fewer have noticed the two underlying important problems hidden in Keynes’s analysis of this pamphlet.

One probable reason for this neglect is that there is little prima facie evidence for a direct link between Malthus’s pamphlet and Keynes’s own work. First, in *High Price of Provisions*, Malthus attributed the present economic distress and depression to a lack of supply relative to demand in the provisions market. In addressing this state of affairs, Malthus expresses himself like a microeconomic analyst utilising a traditional demand-and-supply approach to the economy, which contrasts sharply with Keynes’s macroeconomic approach. Second, Keynes claimed that he highly valued the *High Price of Provisions* primarily because the pamphlet contained statements that connected effective demand, prices and profits. In reality, however, there is no mention of effective demand and profit in Keynes’s quotations from *High Price of Provisions*. Nonetheless, there are important links between Malthus’s article and Keynes’s work of the mid-1930s, as this article will demonstrate.

The subject of Keynes’s indebtedness to Malthus has given rise to a large and continually expanding literature; but no authoritative literature on this subject has specifically addressed Keynes’s evaluation of *High Price of Provisions*. One could point to some important exceptions, but none of them manages to fully resolve the relation between Malthus’s article and Keynes’s work. This paper attempts to

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1 These two problems ultimately boil down to a single problem: In what sense, and to what extent, did Malthus anticipate Keynes?
4 Noted among them are Carabelli (2003, 217), Hirai (2008, 100-102), O’Donnell (2006, 399-400), O’Leary (1986, 99-100), and Sen (1981, Appendix B; 1994, 75). They did give ample attention to Keynes’s approving discussion of *High Price of Provisions* in which the concept of effective demand was to be found. O’Leary (1986) and O’Donnell (2006) explained, but did not analyse this point. By focusing on economic methodology but not on effective demand, Carabelli (2003) made the brief, but interesting, suggestion that “Keynes’s interpretation of Malthus’s more mature writings (particularly *An Investigation of the Causes of the Present High Price of Provisions* (1800) and his
make clear the precise nature of this relation by providing a more comprehensive analysis for Keynes's discussion of *High Price of Provisions* than his own. To this end, it introduces a missing quotation in his discussion.

This paper not only reinforces the idea that Malthus set Keynes on the path to develop the theory of effective demand, but—given Malthus's distinction between types of poverty in *High Price of Provisions*—it also argues that it is likely that Keynes would have seen other remarkable parallels between himself and Malthus.

It would be beyond the scope of this paper to give a full treatment of the issue that Keynes tried to express in his essay on Malthus. I hope, however, to offer evidence to support the claim that we can add *High Price of Provisions* to the collection of Malthus's writings that inspired Keynes's ideas. Furthermore, I suggest that the research in this paper is

correspondence with Ricardo) introduces aspects which, in my view, tend to reflect Keynes's own approach more than Malthus's" (2003, 217). Through study of Malthus's 1800 pamphlet and his correspondence with Ricardo, Hirai (2008) stressed that Keynes as author of *Essays in Biography* had still been living in the world of the *Treatise on Money* (1930), not yet completely moving into that of the *General Theory* (1936), and therefore concluded that the direct influence of Malthus on Keynes's thinking was rather limited. Regarding the similarity between Malthus's and Keynes's discussions on effective demand, Hirai negatively noted that: “Keynes does not use the term ‘effective demand’ in the same sense as Malthus does” (2008, 101). However, it seems to me that this was not the essential issue to Keynes. As will be discussed in more detail in the remainder of this introductory section and the third and fourth sections, it would be better to think that Keynes's acknowledgement of Malthus's pioneering contribution in the matter of effective demand was not made in terms of pure economic theories but broader economic visions. My own view supports Steven Kates's following assessment: “That Malthus had a different theory of deficient ‘effective demand’ than Keynes would ultimately develop is not really germane. What Keynes takes from Malthus is the desire to demonstrate the importance of effective demand and therefore to refute Say's Law. This is the critical issue” (1994, 18). Amartya Sen critically examined *High Price of Provisions* and discussed its contribution to Sen's own ‘entitlement approach’ to starvation and famines, while bearing in mind that his theory of effective demand in this pamphlet was very attractive to Keynes. Sen stated: “Interesting enough, while Malthus had tended to concentrate rather wholeheartedly on the rhetoric of ‘the proportion between the natural increase of population and food' in his *Essay on population*, in his other works he was very acutely concerned with the role of effective demand and incentives in the operation of the economy. In fact, Keynes's [...] great praise of Malthus [...] was related specifically to Malthus's analysis of ‘effective demand’. This side of Malthusian economic analysis is also well illustrated by his deeply illuminating essay, *An investigation of the cause of the present high price of provisions*” (1994, 75). Sen could also draw interesting lessons on poverty reduction efforts from Malthus's analysis in *High Price of Provisions*, while keeping in mind the causation of the Bengal famine in 1943. However, his main message is that the problem of famines is about food access rather than food supply, which therefore contradicts Malthus's basic argument that famines are caused by the natural tendency of a population to outrun its subsistence.
helpful to our understanding of the contemporary relevance of earlier economic insights in poverty reduction.

A few preliminaries are in order. With regard to the extent of Keynes's debt to Malthus, I do not accept the clear theoretical contrast between Keynes's macroeconomic approach and Malthus's microeconomic one as the complete story; I regard their methodological and epistemological similarities as essential. With regard to the concept of effective demand, therefore, my inquiry is not concerned with a theoretical-level analysis (such as the so-called unemployment equilibrium). Instead, it is concerned with what might be called 'cognitive-level' analysis: it investigates what inspired Keynes to develop the idea that lack of demand is the principal problem of a falling economy. To borrow Toye's turn of phrase, what I am exploring here is Malthus as an “inspirer”, not a “precursor”, of Keynes (2000, 192). To speak more generally in Schumpeter's terms, I am focused in this paper on “Vision” as “a pre-analytic cognitive act that supplies the raw material for the analytic effort” (1954, 41).

The paper is organised as follows. Section I provides the reader with an overview of Malthus’s *High Price of Provisions*. Sections II and III deal with Keynes's reading of the pamphlet, and the last section summarises the main arguments.

I. MALTHUS’S *HIGH PRICE OF PROVISIONS*

Before examining Keynes's discussion of Malthus’s *High Price of Provisions* in his biographical essay (Keynes 1972), it is helpful to begin by dealing with the core claim of this relatively neglected early pamphlet.

In 1800, *High Price of Provisions* was published as Malthus's second work. Its full title was, *An Investigation of the Cause of the...*

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5 No one can initiate an analytic effort without first grasping a rough image of the problems to be tackled. In this respect, there is a critical difference between a precursor (or a forerunner) and an inspirer. Was Malthus the precursor or the inspirer of Keynes? As explained below, I believe he was the latter. It is worth noting that statements, such as “Malthus was not in fact an analytic forerunner of Keynes” (Corry 1986, 76) or “Malthus was not really tackling the same problem as Keynes or using the same tools” (Black 1986, 248), merely deny the direct theoretical influence of Malthus on Keynes, and do not include the idea that Keynes derived a profound inspiration from Malthus. The critical suspicion that Keynes might have been strategising and attempting to find enemies of Ricardo to support his case does not recognise the essential methodological and epistemological level and thus, for the same reason as before, seems to miss the target.
Present High Price of Provisions, Containing an Illustration of the Nature and Limits of Fair Price in Time of Scarcity, and Its Application to the Particular Circumstances of this Country. The economic setting for the pamphlet was the widespread scarcity of grain in 1799-1800. Previously, on a recent visit to Sweden, Malthus observed a bad harvest. After discovering food shortages upon his return to Britain, he noticed the price of daily necessities had increased to a higher level than could be explained merely from the degree of scarcity. His concern was that a proper understanding of the principles of the market’s operation was absent. The task which he set for himself in the pamphlet was not to uncover why the price of provisions had been high, but why it had been abnormally high when accounting for their availability. He wrote this pamphlet in only two days and printed it for the meeting of Parliament on 11 November, 1800. He hoped to enlighten Parliament and influence policy (1897).

Following Adam Smith (Book 4, Digression on Corn, of the Wealth of Nations), Malthus argued against the out-dated and ignorant explanation that the greed of agricultural middlemen caused the extremely high price of provisions:

The continuation of extraordinary high prices, after a harvest that was at one time looked forward to as abundant, has contributed still more to astonish and perplex the public mind. Many men of sense have joined in the universal cry of the common people, that there must be roguery somewhere; and the general indignation has fallen upon monopolisers, forestallers, and regraters […].

I ought first to premise, however, that I am not interested in this question, further than as a lover of truth, and a well-wisher to my country. I have no sort of connection whatever with any of these middle men or great farmers, who are now the objects of public indignation: and, as an individual with a small fixed income, I am certainly among that class of persons on whom the high price of provisions must fall the heaviest (1986, 6).⁶

⁶ Food rioters in the eighteenth and early nineteenth centuries were far from mere unorganised mobs. They were disciplined crowds in pursuit of clear objectives shared by the community. Powerfully informed by a sense of traditional rights and customs, they wished to express legitimate protest against injustice and misrule (such as market manipulation by middlemen or agents) and demanded a fair or just price for the goods. This is the so-called ‘moral economy’. See, for example, Porter (1990, 12, 190-191) and Thompson (1991, Chaps. 4-5). Additionally, as a matter of course, the views Smith and Malthus held about the functions of middlemen in trade is a different issue from the historical correctness and fairness of their views.
So, what was the principal cause of the extremely high price of provisions? Malthus conjectured that “the system of poor laws and parish allowances” generated the upward pressure on prices (1986, 8). This system created an inflationary effect.

In explaining how prices had risen, Malthus referred to Adam Smith’s price theory (Book 1, Chap. 6, of the Wealth of Nations). However, Malthus was not a mere follower and interpreter of Smith, for he contended that Smith’s discussion on natural and market prices should be modified in times of acute scarcity:

Adam Smith has most justly stated, that the actual price at which a commodity is sold, is compounded of its natural price, the price at which it can be brought to market, allowing the usual profit in times of moderate plenty, and the proportion of the supply to the demand. When any commodity is scarce, its natural price is necessarily forgotten, and its actual price is regulated by the excess of the demand above the supply (1986, 7).

Malthus’s own explanation centred on the short-term market price—what Malthus called the “actual price”—not on the natural price, in contrast to Smith’s stress on the market price’s long-term tendency to

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7 The English (old) poor laws from the late eighteenth century up to the Poor Law Amendment Act of 1834 are known as the so-called ‘Speenhamland system’ of providing parish allowances to workers who received wages below what was considered a subsistence level.

8 Malthus’s explanation of natural price in the High Price of Provisions—“the price at which it [a commodity] can be brought to market” (1986, 7)—is very sketchy and not clear enough. Unfortunately, further discussion of it is not discernible anywhere else in this pamphlet. His entire treatment of natural price can be found in Principles of Political Economy (1820), where he elaborated in a manner loyal to Adam Smith: “[...] the price of any exchangeable commodity, may be considered as consisting of three parts—that which pays the wages of the labourer employed in its production; that which pays the profits of capital by which such production has been facilitated; and that which pays the rent of land […]. / The price which fulfils these conditions is precisely what Adam Smith calls the natural price. […] It [the definition of necessary price] will be, the price necessary, in the actual circumstances of the society, to bring the commodity regularly to the market. This is only a shorter description of what Adam Smith means by natural price, as contradistinguished from market price or the price at which commodities actually sell in the market, which […] are sometimes sold higher and sometimes lower than the price which is necessary to fulfil the conditions of a regular supply” (1989, Vol. 1, 82-83). This long quotation shows that Malthus’s definition of natural price basically followed the definition given by Smith.
gravitate to the natural price. \(^9\) “When any commodity is scarce” its market price exceeds its natural price. Malthus inferred that the market price of corn was raised by the parish allowance system “beyond” what the ordinary forces of demand and supply would have generated under conditions of acute scarcity. He stated (Quote M1):

I am most strongly inclined to suspect, that the attempt in most parts of the kingdom to increase the parish allowances in proportion to the price of corn, combined with the riches of the country, which have enabled it to proceed as far as it has done in this attempt, is, comparatively speaking, the sole cause, which has occasioned the price of provisions in this country to rise so much higher than the degree of scarcity would seem to warrant, so much higher than it would do in any other country where this cause did not operate […].

Let us suppose a commodity in great request by fifty people, but of which, from some failure in its production, there is only sufficient to supply forty. If the fortieth man from the top have two shillings which he can spend in this commodity, and the thirty nine above him, more, in various proportions, and the ten below, all less, the actual price of the article, according to the genuine principles of trade, will be two shillings […] (1986, 6-7).

Malthus imagined a ranking of the various demand prices—what we would today call a demand schedule—of fifty individuals for one unit of corn. When a reduction in total supply from fifty to forty units permitted only the top forty consumers to remain in the market, Malthus maintained that the market price of a unit of corn should reflect the demand price of the fortieth consumer, or in other words, should be determined by the purchasing power of the marginal consumer. He subsequently stated (Quote M2):

Let us suppose, now, that somebody gives the ten poor men, who were excluded, a shilling apiece. The whole fifty can now offer two shillings, the price which was before asked. According to every genuine principle of fair trading, the commodity must immediately rise. If it do not, I would ask, upon what principle are ten, out of the fifty who are all able to offer two shillings, to be rejected? For still, according to the supposition, there is only enough for forty. The two

\(^9\) Henceforth in this paper, when I refer to “the short-term” and “the long-term”, I will mean historical (or real) time, not logical (or analytical) time (for instance, Alfred Marshall’s four time periods).
shillings of a poor man are just as good as the two shillings of a rich one; and, if we interfere to prevent the commodity from rising out of the reach of the poorest ten, whoever they may be, we must toss up, draw lots, raffle, or fight, to determine who are to be excluded. It would be beyond my present purpose, to enter into the question whether any of these modes would be more eligible, for the distribution of the commodities of a country, than the sordid distinction of money; but certainly, according to the customs of all civilized and enlightened nations, and according to every acknowledged principle of commercial dealing, the price must be allowed to rise to that point which will put it beyond the power of ten out of the fifty to purchase. This point will, perhaps, be half a crown or more, which will now become the price of the commodity. Let another shilling apiece be given to the excluded ten: all will now be able to offer half a crown. The price must in consequence immediately rise to three shillings or more, and so on \textit{toties quoties}.

(1986, 7-8)

Quotes M1 and M2 clearly illustrate the effect that the system of poor laws and parish allowances had on \textit{food} prices. In Malthus's diagnosis, the excessive rise in food prices was a result of a higher level of expenditure which reflected the transfer of income from rich to poor.\textsuperscript{10}

In the following two sections, I will focus how Keynes interpreted Malthus's 1800 pamphlet.

\textbf{II. HOW DID KEYNES READ MALTHUS'S \textit{HIGH PRICE OF PROVISIONS}?}

Let us now critically examine Keynes's discussion of Malthus's \textit{High Price of Provisions}. That Keynes highly praised Malthus as his intellectual predecessor should not escape the informed reader. In his 1933 essay on Malthus, Keynes lamented that “the almost total obliteration of Malthus's line of approach and the complete domination of Ricardo's for a period of a hundred years has been a disaster to the progress of economics” (1972, 98); he thus paid great tribute to Malthus, an amiable critic of the orthodox and abstract political economy approach originated by his friend and intellectual rival Ricardo. The following quotation is well known: “If only Malthus, instead of Ricardo,

\textsuperscript{10} As will be argued again near the end of section II, the corn market is no ordinary market. Corn is also an input into another commodity consumed by the masses (such as beer). An induced rise in the price of corn is widely effective on other markets' prices and hence can be called inflationary.
had been the parent stem from which nineteenth-century economics proceeded, what a much wiser and richer place the world would be today!” (1972, 100-101). It is worth noting that, among Malthus’s many writings, *High Price of Provisions* was especially praised by Keynes. As he wrote in his biographical essay on Malthus (Quote K1):

Meanwhile Malthus had continued his economic studies with a pamphlet, published anonymously (like the first edition of the *Essay on the Principles of Population*) in 1800, entitled *An investigation of the cause of the present high price of provisions*. This pamphlet has importance both in itself and as showing that Malthus was already disposed to a certain line of approach in handling practical economic problems which he was to develop later on in his correspondence with Ricardo,—a method which to me is most sympathetic, and, as I think, more likely to lead to right conclusions than the alternative approach of Ricardo. [...].

According to Malthus’s good common-sense notion prices and profits are primarily determined by something which he described, though none too clearly, as ‘effective demand’ [...]. Ricardo, in the course of simplifying the many successive stages of his highly abstract argument, departed, necessarily and more than he himself was aware, away from the actual facts; whereas Malthus, by taking up the tale much nearer its conclusion, had a firmer hold on what may be expected to happen in the real world [...].

Malthus’s conception of ‘effective demand’ is brilliantly illustrated in this early pamphlet [...]. He was pondering why the price of provisions should have risen by so much more than could be accounted for by any deficiency in the harvest [...]. He found the cause in the increase in working-class *incomes* as a consequence of parish allowances being raised in proportion to the cost of living. (1972, 87-89, italics in original, underlining added)¹¹

Having written this, Keynes quoted M1 and M2 from *High Price of Provisions*, which he saw as excellent illustrations of Malthus’s approach

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¹¹ According to John Toye’s historical investigation (2000, 44, 190-191), Keynes’s 1912 Cambridge lecture notes on the supply of labour are the earliest version of what became his 1933 essay on Malthus. He continued to expand and modify it (not necessarily regularly), but the final major changes were made between October 1932 and January 1933, when he was in the initial stages of the theorising that would lead, nearly three years later, to the publishing of the *General Theory*. It was during this period that he added many new passages relating to *High Price of Provisions* as well as Malthus’s economic theory and his intellectual relationship with Ricardo. See also Clarke (1988, 266-267).
to effective demand. However, Keynes added “though none too clearly”, for Malthus himself did not use this term in M1 and M2. Nevertheless, Keynes found in them the concept of effective demand, even if only as a pre-analytic cognitive act. It should be noted here in relation to the later stage of discussion that what we now call an outwards shift of the demand curve in a particular market, which was induced by the increase in working-class incomes, was suggestive of the increase of effective demand in Keynes (1933). Following this long citation, he continues (Quote K2):

The words and the ideas are simple. But here is the beginning of systematic economic thinking. There is much else in the pamphlet—almost the whole of it—which would bear quotation. This Investigation [of the Cause of the Present High Price of Provisions] is one of the best things Malthus ever wrote [...]. (1972, 89-90)

Why did Keynes value High Price of Provisions so highly? His remarks are too vague to tell us what he really meant by them. As has already been mentioned, there are two underlying but importantly related problems hidden here. The first problem arises from the fact that Malthus addressed the issue of the extremely high price of provisions from the standpoint of the shortage of supply over demand. This traditional supply-and-demand approach stands in sharp contrast to Keynes's focus on the general excess of productive power over the level of demand. The second problem is that, curiously and surprisingly, in both M1 and M2, Malthus was silent on the topic of profit, while he tried to articulate the process by which the poor-relief system generated the upward pressure on prices through raising the purchasing power of the poor. There is no reference to profit in either M1 or M2, from which Keynes concluded that “prices and profits are primarily determined by [...] ‘effective demand’” (1972, 88). This absence seems strange and worthy of further inquiry.

I will examine both problems in greater detail, starting with the second one. If we take Keynes's words literally, where and how did Malthus discuss the topic of profit? Curiously again, this topic was discussed in the second half of High Price of Provisions, where Malthus espoused short-term advantageous results of the English poor laws in contrast to his full attack on them in the first Essay on the Principles of Population (1798) as the following quotation (M3) indicates:
I do not, however, by any means, intend to infer, from what I have said, that the parish allowances have been prejudicial to the state; or that, as far as the system has been hitherto pursued, or is likely to be pursued, in this country, that it is not one of the best modes of relief that the circumstances of the case will admit. The system of the poor laws, in general, I certainly do most heartily condemn, as I have expressed in another place [the first Essay on the Principles of Population], but I am inclined to think that their operation in the present scarcity has been advantageous to the country. The principal benefit which they have produced, is exactly that which is most bitterly complained of—the high price of all the necessaries of life. The poor cry out loudly at this price; but, in so doing, they are very little aware of what they are about; for it has undoubtedly been owing to this price that a much greater number of them has not been starved.

It was calculated that there were only two thirds of an average crop last year. Probably, even with the aid of all that we imported, the deficiency still remained a fifth or sixth. Supposing ten millions of people in the island; the whole of this deficiency, had things been left to their natural course, would have fallen almost exclusively on two, or perhaps three millions of the poorest inhabitants, a very considerable number of whom must in consequence have starved. The operation of the parish allowances, by raising the price of provisions so high, caused the distress to be divided among five or six millions, perhaps, instead of two or three, and to be by no means unfelt even by the remainder of the population […]

The further effects of the high price have been to enforce a strict economy in all ranks of life; to encourage an extraordinary importation, and to animate the farmer by the powerful motive of self interest to make every exertion to obtain as great a crop as possible the next year. (1986, 13-14)

Here Malthus stated how farmers would behave when faced with an increase in the nominal price of food. As is clear from his comments on profits, this statement seems very helpful in endorsing a more sophisticated interpretation for Keynes’s discussion of High Price of Provisions.

Although M3 is not included in Essays in Biography, there is little doubt that Keynes was aware of M3, given K2: “There is much else in the pamphlet—almost the whole of it—which would bear quotation” (1972,
I contend that M3 is worthy of particular attention because it is very insightful not only in explaining Malthus’s ideas about profit-motivated farmers’ behaviours, but also in conveying quite different views on poverty and the poor laws system from those in the first Essay on the Principles of Population.

How much and how quickly, then, was the additional demand for food expected to increase food production? In the first Essay on the Principles of Population, Malthus assumed price fixity—or, extremely low elasticity—of food supply in the short-term, while perceiving the long-term sequence of events that is shown by such a stream as ‘population growth’, ‘increased effective demand for food’, ‘an increase in the nominal prices of food’, ‘an increase of capital and labour input in the food production sector’, and ‘an increase of food production’. His analysis of the unfavourable consequences of the English Poor Laws rested on this strong assumption (Winch, 1987, 43). He bitterly argued against the system of poor laws and parish allowances as encouraging working-class population growth without increasing the food supply, thereby raising prices, lowering real wages, and spreading poverty to a larger section of the lower classes. There is no doubt that Malthus remained a strong advocate of the (gradual) abolition of the poor law system throughout his life.

By contrast, however, in High Price of Provisions—in particular in M3—Malthus focused on the advantageous short-term results of the poor law system. Now let us carefully analyse Malthus’s short-run and long-run evaluations of the system, which were rooted in his important distinction of the ‘two types of poverty’. He did not unconditionally attribute poverty to personal irresponsibility, but made a sharp distinction between (1) the poverty brought on by idleness, folly, and lack of foresight, and (2) the poverty caused by misfortune or by circumstances beyond one’s control (Winch 1987, 42; Masunaga 2011, 94). The poverty caused by scarcity or by unemployment after the

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12 The fact that Keynes did not quote M3 does not mean that he was unaware of it, just that he merely failed to be fully explicit on profits. In other words, I am not suggesting that he lacked logical coherence, for he was writing a biographical essay, not a step-by-step formal dissertation.


14 Historically less government interference and greater personal responsibility have constituted the core beliefs of conservatism. With this in mind, we need to suspend Malthus’s certificate of qualification as a conservative thinker in spite of his well-
sudden end of war-generated demand is placed in the second category of poverty, to which the principle of personal responsibility is not applicable. It follows that public assistance should be provided for those in need. Presumably guided by this distinction, Malthus could claim that the operation of parish allowances had benefited the whole community during the famine of that time (Smith 2001, 412-414; Winch 1987, 44; 1996, 270, 307; Wrigley and Souden 1986, 36-37).

Malthus’s diagnosis shows that extremely high food prices, led by the allowance system, not only mitigated some particular individual misfortune by spreading the burden over a larger number of people (Sen 1981, Appendix B; Wrigley 1999), but also gave profit-motivated farmers an incentive to increase the crop of next year. He asserted that the allowance system could be justified on humanitarian grounds, and that the high price of provisions was effective in making farmers increase food production in the next period in return for higher expected profits and income.\footnote{In this respect, therefore, it would be an over-simplified, inaccurate, and unfair assessment of Malthus’s thought to conclude that: “Over the years, family allowances have been criticized for promoting population growth, for increasing tax burdens because of the need to finance these benefits, and for lowering wage rates. Malthus [...] was the first and main opponent of aid to the poor because of its impact on population growth. Many have followed this road hewn by Malthus” (Pressman, 2014, 522).}

In opposition to the framework of Ricardo’s theory, in which higher food prices led to higher monetary wages and lower profits, Malthus argued that higher food prices, presumably reflecting the higher marginal propensity of the poor to consume owing to the allowance system, made higher profits for farmers in the next period possible by increasing the demand for their products. M3 is a vital statement for our understanding of the function of profit in High Price of Provisions.

It is true that as the author of High Price of Provisions, Malthus is only dealing with one market—and, hence, partial equilibrium analysis in modern terms. However, this market is no ordinary market because it has huge significance for the bulk of the consuming population as well as many producers. So whatever happens in this particular market has widespread consequences for most of society. These effects are thus not just partial or limited, but widespread and hence virtually macroeconomic or societal in scale. Their widespread nature may have inspired Keynes to shift the ideas of rising demand due to higher

\textsuperscript{15} known attacks on the French Revolution in the first Essay on the Principles of Population.
incomes, followed by rising prices, in turn followed by increased supply induced by higher profits, to the macro stage.\footnote{If the higher marginal propensity of the poor to consume is brought into this story, it strengthens the initial rise in demand, but the story still works even if the rich and poor had the same marginal propensity to consume.}

Now, at last, we have arrived at the point where the previous discussion can throw additional light on why Keynes highly valued \textit{High Price of Provisions}. The principal reasons would seem to be twofold: (1) because Malthus’s emphasis on the demand side as the primary driving force of the economy in this pamphlet paralleled Keynes’s indication that demand was the primary determinant of the level of output as opposed to Say’s Law which emphasised supply and the impossibility of demand deficiencies; (2) because it anticipated Keynes’s vision of the possibilities for economic policy to combat the (involuntary) mass unemployment in interwar Britain.\footnote{My discussion here basically follows that of Steven Kates: “That Malthus had a different theory of deficient ‘effective demand’ than Keynes would ultimately develop is not really germane. What Keynes takes from Malthus is the desire to demonstrate the importance of effective demand and therefore to refute Say’s Law. This is the critical issue; it is Keynes’s determination to refute Say’s Law which becomes the central theme of the \textit{General theory}” (1994, 18; see also Kates 1998, 143). In this excellent paper, Kates persuasively argues that Keynes actually arrived at his central idea as a consequence of reading the Malthus side of the Malthus-Ricardo correspondence whilst revising his biographical essay on Malthus in late 1932. However, my argument is that \textit{High Price of Provisions} is also important in this story.}

For Keynes, Malthus was right in regarding a lack of demand as the major cause of the distress and hardships of the poor. Since they were not responsible for their own poverty, they were not responsible for reducing it either. For Keynes, Malthus was also right in admitting that some forms of government intervention such as the parish allowances in proportion to the price of corn were effective in the short-run reduction of poverty. Thus, it would be legitimate to suggest that there is an intriguing parallel between Malthus’s distinction of two types of poverty and Keynes’s distinction of the two types of unemployment: (1) voluntary and (2) involuntary.\footnote{As Alan Coddington rightly commented: “To say that someone is involuntarily unemployed is to relieve him of the responsibility for his condition; it is to suggest that he is unemployed ‘through no fault of his own’” (1983, 27).}

Moreover, pamphlets usually primarily seek to persuade the reader on a topic of current interest, and so it is natural for their authors to concentrate their interests on short-term issues.\footnote{Keynes himself was in favour of publishing pamphlets on particular subjects, and in fact many of his essays were originally written as pamphlets. He wrote in his famous obituary to Alfred Marshall: “Economists must leave to Adam Smith alone the glory of the quarto, must pluck the day, fling pamphlets into the wind, write always \textit{sub specie}}
Provisions was designed to investigate the short-term causality between increased effective demand and increased food production—a Malthusian “line of approach in handling practical economic problems” (Keynes 1972, 87), which therefore never “departed [...] away from the actual facts” (88) that the poor were starving in the short-term rather than in the long-term (Winch, 1987, 44). Given the above, there should be little doubt that Keynes could find some significant parallels other than effective demand between himself and Malthus while he was reading High Price of Provisions.

It should be kept in mind, however, that all of the above interpretations are reasonable but hypothetical. It is irrefutable that Keynes did not quote M3 from High Price of Provisions, and no one can give an exact answer to the question of how Keynes read M3. Moreover, it is also unquestionably true that there was a fundamental difference between Malthus’s and Keynes’s economics when it comes to the theoretical framework used.

III. HOW DID KEYNES READ MALTHUS’S HIGH PRICE OF PROVISIONS?
—Continued

Here we arrive at the first of those two problems. Malthus attributed the distress and depression of his time to a lack of supply relative to demand in the provisions market, whereas Keynes attributed them in the 1930s to the general excess of productive power over the level of demand. Malthus’s approach is microeconomic, while Keynes’s is macroeconomic. However, this does not mean that Keynes’s debt to Malthus is based on flimsy grounds, much less that we should accept Takashi Negishi’s (1989; 1993) remarkable interpretation of Malthus as rather a non-Keynesian (or, more polemically, an anti-Keynesian), “supply-side economist who emphasized the motives to produce as a function of the rate of profit” (1989, 139; 1993, 116). I think that such an interpretation of Malthus has gone too far and that it can be

temporis, and achieve immortality by accident, if at all” (1972, 199). See also O’Donnell (2006).

20 Following Negishi’s view that “Malthus is not so much an underconsumptionist as a supply sider” (1989, 152), Heinz Kurz commented: “Keynes’s view of Malthus and the classical economists is difficult to sustain. Negishi is right in arguing that Malthus was not a precursor of Keynes, but despite appearances to the contrary, ‘a supply-side economist who emphasized the motives to produce as a function of the rate of profit’” (2011, 357).
subsumed to a considerable extent within a more comprehensive interpretation, such as that provided by John Pullen.\textsuperscript{21}

Malthus must have considered that the high price of grain was caused by the interaction of demand and supply. For he wrote specifically that: “When any commodity is scarce […] its actual price is regulated by the excess of the demand above the supply” (Malthus, 1986, 7). Following Pullen, therefore, I would interpret him as a demand-and-supply economist rather than a supply-side economist. Meanwhile, it should also be noted that Negishi’s comments were made merely in terms of pure economic theories but not in terms of their broader economic implications. This suggests, conversely, that we should not reject, but actually accept, that Keynes’s vision of the possibilities for economic policy had much in common with that of Malthus.

What attracted Keynes to Malthus’s *High Price of Provisions* can be summed up as follows: (1) an alternative approach to economic policy from the abstract approach of Ricardian orthodoxy; (2) the broad principles that lack of demand, not supply, is the principal problem of a falling economy and that income redistribution in favour of the poor contributes to an increase in effective demand; and (3) the idea that public assistance can be legitimately provided for those in need due to causes for which they are not responsible. These ideas are not only those that Keynes thought Malthus “was to develop later on in his correspondence with Ricardo” (1972, 87), but are also those that were much later to become key premises in Keynes’s 1936 book. In the *General Theory*, Keynes wrote: “in the later phase of Malthus the notion of the insufficiency of effective demand takes a definite place as a scientific explanation of unemployment” (1973, 362-363), with long citations of letters from Malthus to Ricardo, dated 7 July, 1821, and 16 July, 1821, as well as of Malthus’s *Principles of Political Economy* (1820).

By focusing on the concept of effective demand, the two great economists agreed on a common “line of approach in handling practical

\textsuperscript{21} Pullen insightfully pointed out that: “In accordance with his ‘doctrine of proportions’ he [Malthus] attempted to formulate a system in which the forces of demand and supply are kept in balance. He recognised that economic growth would be impeded as much by a lack of saving, capital and investment as by a lack of consumption and demand. His intention was to complement the growth theory of Smith by redressing the balance between demand-side causes of growth and the supply-side causes” (1993, 15). For a detailed account of Malthus’s doctrine of proportions, see Pullen (1982). It should also be noted that Pullen stressed the importance of supply in Malthus’s theory from the point of view of his multi-causal methodology. For this, see Pullen (2001).
economic problems” (Keynes 1972, 87), such as the following: ‘A change in demand leads to a change in supply’ and ‘redistribution of income in favour of the poor causes an increase in production at less than full employment’. These are, for Keynes, nothing but “what may be expected to happen in the real world” (1972, 88).

**IV. Conclusion**

In this paper, I have made an attempt to resolve the two underlying but importantly related problems hidden in Keynes’s interpretation of Malthus’s *High Price of Provisions*. As for the first problem, relating to Malthus’s traditional demand-and-supply approach to the economy, while admitting a fundamental difference in the theoretical framework between Malthus’s and Keynes’s economics, I have postulated that Malthus and Keynes shared the idea that demand preceded supply, their approaches to practical economic problems and their economic visions of the possibilities for economic policy. As for the second, relating to Keynes’s seemingly mysterious treatment of Malthus’s *High Price of Provisions*, I have offered a more comprehensive explanation for it than Keynes himself did by introducing a relevant quotation (M3) into the discussion. Malthus’s understanding of the expected profit depending on the current effective demand provided a significant clue in investigating the development of Keynes’s economic ideas in the *General Theory* and the need for suitable policies in the face of the mass unemployment in interwar Britain. Certain economic ideas espoused by Malthus’s *High Price of Provisions*, particularly those relating to the short-run, may have inspired Keynes more than his explicit statements in 1933 indicate. The Malthus who received Keynes’s praise was the Malthus who made much of a short-term-causality-focused approach to practical economic problems—which, to borrow Keynes’s own words, we might call an approach to “the actual facts” in “the real world” (1972, 88).  

These results throw helpful light on the relevance of our economic discussion on poverty reduction. The question of what causes poverty is still debated today, and there is no simple answer. At least, however, the fact that the two great economists commonly treated poverty and

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22 At the same time, however, we should be cautious in order not to take on faith “a Keynesianised Malthus that ignored Malthus’s own concern with long-term growth prospects as well as short-term adjustment problems” (Winch 1996, 27, italics in original). See also Winch (1987, 93).
unemployment as partially involuntary phenomena should make us question explanations which blame poverty on individuals and their idleness. It should also encourage us to refrain from over-applying or abusing the principle of personal responsibility respecting poverty and unemployment, which mirrors overconfidence in the working of the market.

My final suggestion to those interested in understanding the indebtedness of Keynes to Malthus, in several areas, is to not overlook *High Price of Provisions*.

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Nakazawa / What Attracted Keynes to Malthus’s High Price of Provisions?


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A Coasian Solution to Problems of Initial Acquisitions

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Abstract: This article extends the Coase Conjecture to ethical issues of initial acquisitions of property rights. The Coase Conjecture complements the Lockean labour-mixing criterion to limit the boundaries of morally legitimate initial acquisitions of unowned property; whenever the Coase Conjecture applies, the Lockean Proviso that there be “enough and as good” left is automatically satisfied. This holds provided that, when a claim is made, the marginal willingness to pay for the last portion of it is zero (infra-marginally, willingness to pay may be arbitrarily high). Thus, the market price of the claim is zero, except for the part of it that the claimant inhabits or improves. “Excessive” claims therefore come to have a zero market price, so anyone may take possession of them, by purchase or theft. In either case they must compensate the original claimant by a zero amount. It follows that non-claimants do not lose by putatively “excessive” grabs by claimants. This article argues that any initial claims are just under these circumstances.

Keywords: property rights, initial acquisition, labour-mixing criterion

JEL Classification: D60, P14

I. INTRODUCTION

Suppose that you are the first person to come upon a vast area of land that no one has claimed yet, such as an undiscovered island or planet. You announce your ownership of the land in its entirety. If you were then to sell the land, whole or in individual parcels of whatever sizes, and there were just enough interested buyers to purchase and settle exactly all of what you claim to be your newly-acquired possession, how much money would you make? A perhaps surprising answer is that you would make no money at all. This answer holds in general for property

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of durability, and depends neither on the legal status of your property right, nor on any sudden fit of generosity on your part; even if everyone paid the highest price asked, you still would not make any money.

The explanation for this outcome is due to Ronald Coase (1972) and is commonly known as the Coase Conjecture. The conjecture states that, given that all the land will be sold, the price of the final unit sold (be it an acre or a square inch) determines the price of all units. More generally, when the Coase Conjecture applies, price equals marginal cost, since otherwise the monopolist always has an incentive to lower his price.

In the acquired land example, because demand is great enough to settle exactly the claimed area but no more, the buyer who is least eager to settle, is indifferent between buying and abstaining. Hence, he has a willingness to pay of zero. This is the willingness to pay of the buyer of the last plot of land. If it was any lower, he would no longer settle, and the resultant lower demand would not alter the price (the claimant would have to pay people to take the land, which is worse for him than holding on to it). If it was any higher there ought to be more willing settlers, which by assumption there are not.

Under these demand conditions, a price equal to marginal cost will be zero, because cost is the value of the best-foregone alternative. So, if the cost of holding on to a durable good is to sell it, the marginal cost is equal to the price a purchaser is willing to pay for an additional unit of the durable good (the marginal willingness to pay for the last unit sold). Such demand conditions are more likely to apply in circumstances when initial acquisitions are made, that is when there are relatively plentiful durables compared to interested potential claimants, which seems a useful characterization of conditions around the time of the dawn of man.

As Coase explains in his seminal article (1972), the initial acquirer could have restricted himself to selling only half of the land (say), in order for the reduced supply to fetch him a higher price per unit sold. But once this is done, it would make sense to keep selling, which would cause a reduction in price. This holds at every price, as long as the price is above marginal cost (in this case above zero): the initial acquirer gains no utility from the mere possession of land, and purchasers are patient and forward-looking enough to realize that monopoly prices will eventually fall. To wit, the initial acquirer is in competition with his own past actions as he always wants to keep selling off his holdings, but the
more he sells, the more units crowd the market (this is why the Coase Conjecture only applies to durables).

Much of the moral philosophy of property rights is concerned with the question of how they can be acquired in the first place. This question pertains to the legitimacy of any private property, since transfers of property must eventually trace back to unowned things. The Lockean labour-mixing criterion, which states that a property right is rightfully acquired by whomever is first to mix his or her labour with it (Locke 1967), is often thought rather vague with respect to the precise quantity it entitles the labour-mixer, giving rise to the so-called boundary problem. Simmons puts the well-known criticism thusly: “It is not obvious that labor can ground a clear right to anything if it is not possible to specify the boundaries of what is acquired” (1992 268, original emphasis).

The Coase conjecture eliminates the boundary problem. Under the above conditions, if an initial acquirer claims more land than he can use, the market price of the unused land will be zero. Thus, anyone can settle the unused land, the initial settler's claim notwithstanding; whether by purchase or theft, compensation is zero. Moreover, what counts as labour is defined as whatever action increases the value of the acquisition. This definition of labour precisely delimits the extensive boundaries of rightful initial claims (area), while satisfying Locke's labour-mixing criterion. Other apparent problems with property rights, concerning their intensive boundaries (precisely which use rights have been acquired), also vanish when the Coase Conjecture is applied to them, as this article illustrates.

The right to aspects of a resource, such as the exclusive right to till soil but not the exclusive right to trespass on it, may be referred to as the intensive boundaries of property rights.1 If the initial acquirer has raised the price of land from zero to something positive purely by cultivating it, his sale of the land to someone else is really only a sale of the tilling rights. The rights to other aspects of the land, such as trespassing, conflict with tilling rights if the market prices of tilling and trespassing rights are affected, as shall be discussed at greater length in Section III. Henceforth, this article will treat use rights as synonymous

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1 Alchian and Demsetz provide a concise explanation of rights to resources as properly thought of as bundles of rights: “One party may own the right to till the land, while another, perhaps the state, may own an easement to traverse or otherwise use the land for specific purposes. It is not the resource itself which is owned; it is a bundle, or a portion, of rights to use a resource that is owned” (1973, 17, original emphasis).
with *property rights*, and uses the label *Principle of Positive Price* (PPP for short), to refer to the criterion that a rightful initial acquisition is determined by a positive market price.

Apart from the boundary problem, the main critique of the labour-mixing criterion concerns the deprivation of possibilities for non-acquirers to claim unowned property once it has been mixed with someone else’s labour (see, for instance, Kymlicka 1990, 117, *passim*). By the Lockean Proviso, non-acquirers must not be made worse off when claimants privatize unclaimed property, though this condition is found to be objectionable by many. Perhaps most fundamentally, Kantianism seems to require unanimity for original claims to be just, since unilateral appropriations would otherwise impose obligations upon others that they would not otherwise have (Kant 1996, 254; also Pufendorf 2005, Book IV, 322).

Relatedly, Cohen (1995) argues that the Proviso has virtually no domain in realistic cases, and asks why initial acquisitions are not considered “theft of what rightly should (have continued to) be held in common?” (73). His question indicates a conflict with the stress entitlement theorists otherwise put on individual autonomy when access to common property has been restricted (73, 80). Similarly, Waldron (1988, 280) objects that once a fairer distributive mechanism is available than that of Lockean original appropriation, the holdings of initial acquirers lose their legitimacy.

By the Coase Conjecture, the Lockean Proviso is satisfied whenever non-acquirers face a zero price for the property right in question (what distributive mechanism could be fairer?), and is violated for a positive price. *Ceteris paribus*, undifferentiated property will have a lower marginal willingness to pay at any given quantity than will differentiated property. This latter case obtains when X picks up a pretty rock wanted by Y. Now Y is deprived of the opportunity to pick up this particular pretty rock for free. The former case obtains when X and Y are both looking for undifferentiated property such as fertile land or rocks in general.

This article therefore covers the boundary problem and the part of the deprivation argument concerned with undifferentiated property.² By

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² Treatments of initial acquisitions of differentiated property tend to find it questionable whether non-acquirers’ rights are violated since the acquired property was not theirs (see, for instance, Feser 2005). Additionally, there is the argument that, if currently propertyless individuals were given all the pertinent information on how the world would have evolved in the absence of private property rights, it is unlikely
presenting a way in which unowned use rights may be privatized, the present argument may illuminate Lockean labour-mixing (a zero market price implies no labour-mixing). Additionally, since new use rights may continue to be claimed, such as for mineral rights on other planets or for new uses on Earth, this article will have practical importance for future initial acquisitions (a zero market price implies non-acquirers have not been deprived of opportunities).

Throughout this article, it will be assumed that initial claims to property are claims to previously unowned property, rather than to property that was initially commonly owned. This choice of focus is more fruitful because it is more challenging: if something belongs equally to all, then one could show one’s altruism by renouncing ownership of one’s share, thereby increasing the shares of remaining owners, or one could buy out remaining owners. These possibilities illustrate how common ownership is only a special case of private ownership. Under the view that everyone shares equally in the ownership of everything, the problem of how ownership is acquired is assumed away.

The remainder of this article is structured as follows: Section II is the basis of this article. It outlines the Coase Conjecture and argues for its plausibility in delimiting the extent to which labour-mixing entitles one to ownership. It also discusses potential counterarguments and highlights sensitivities to important assumptions underlying the Coase Conjecture. Section III revisits some other problems with moral systems based upon property rights and finds that many of them, especially problems of externalities, lessen in intensity when the zero-price criterion is applied to particular use rights. In other words, Section II focuses on the extensive limits on ownership and Section III on the intensive ones. Section IV concludes.

that they would choose to do away with private property, since doing so would give rise to the so-called commons problem, in which there are no incentives to improve upon anything, because others have the same right to the improvement as the improver.
II. THE COASE CONJECTURE

Because an initial acquirer has an incentive at every margin to keep selling his uncreated acquisition and the increasing supply competes with previously sold land, a positive price for it is impossible under the conditions discussed in the introduction. In an initial situation with no claimed durable property, a person might claim all of Earth. Unless the quantity of land demanded at a price of zero exceeds the land area of the planet, the claimant will not make a penny by selling his holdings. If, instead, he claimed ownership of some fraction of the planet, unclaimed land would be left to compete with his claim for buyer-claimants, dragging down the price to zero again. What causes this outcome is the durable characteristic of initially acquirable property; given that the entire quantity will be supplied, the market price reflects that amount.

The defining characteristic of a monopolized market is that output is lower (or at least no higher), and price is higher (or at least no lower), than they are under competition. It immediately follows that one person’s monopolization of some resource maximizes potential harm to others, since in no non-monopolistic situation can output be lower or price higher. Since prices measure this damage in the form of a comparative loss to non-claimants (due to the fact that someone else happened to announce ownership first) the application of the Coase Conjecture to original appropriations is useful in its ability to measure such losses, a quantification that is made more interesting by the zero-price outcome.

Figure 1 illustrates the basic price theory behind the Coase Conjecture. $Q_{\text{TOTAL}}$ denotes the total amount of the property in question and DD shows the demand schedule with marginal willingness to pay for each quantity in DD. Where DD and the horizontal axis intersect, marginal willingness to pay is zero. In panel (a), $Q_{\text{TOTAL}}$ is above the point where marginal willingness to pay is zero, which, by the logic presented in the preceding discussion, indicates that all of the acquisition would sell for a zero price. In such a scenario, it is hard to see what a non-acquirer’s complaint would look like.

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3 The convention of calling this result a “conjecture” is due to its initial controversy among economists and masks its importance. The result has indeed been affirmed by numerous other economists. See, for instance, Gul et al. (1986). Certain refinements that nevertheless do not upset the main result are found in Bulow (1982) and in Tirole (1988). Readers unfamiliar with the Coase Conjecture should take care not to confuse it with the Coase Theorem (Coase, 1960).
The Coase Conjecture says that sales will be made at marginal cost, so this point illustrates that under conditions such as those of panel (a), marginal cost equals zero. Since cost is the value of the best alternative not used, it follows that possessing a durable thing foregoes the revenue generated by its sale. Consequently, marginal cost is equal to the price a purchaser is willing to pay for an additional unit of the durable thing, which is zero in the diagram on the left. In panel (b), by contrast, the total quantity is less than the amount that exhausts positive aggregate willingness to pay, which causes the boundary problem to reappear and necessitates some form of competitive allocation (whether or not one individual announces ownership of the amount $Q^{\text{TOTAL}}$).

The usefulness of the PPP in determining rightful initial acquisitions may be illustrated by a reply to Nozick (1974, 175), who inquires whether his pouring a can of tomato juice into the sea, so that the juice’s molecules mingled “evenly throughout the sea”, would make him the rightful owner of the sea (see, for instance, Sanders 1987). Under the PPP, Nozick may be said to own the (hitherto unclaimed parts of the) sea, but the resultant market price of his holdings would make his proprietorship irrelevant. If someone else claims some small part of Nozick’s holdings, Nozick can take legal action, but what restitution can he demand? The market price is zero. If people were willing to pay somewhat more for a part of the sea due to the presence of tomato juice molecules in it, that could cause the market price to rise above zero (and then Nozick would have improved the sea), but given the small amount of tomato juice, even the presence of a million cans of it would hardly cause the price to increase.
Later in the same passage, Nozick also asks why the labour-mixing requirement should not apply only when the holding increases in value, or only to the *added value*. According to the PPP, these two criteria come to the same thing, because with an initial sale price of zero the addition of, say, a house on land is *both* the increase *and* the full value of the property right.⁴

**Sensitivity to Assumptions:** The assumption of *durability* is important, because the Coase Conjecture applies only to durable resources; if an initial acquirer of something non-durable were to make “excess” claims, his past sales would not compete with his current supply, which means that he can much more easily charge a positive price. But the problem of initial acquisition in moral philosophy is essentially limited to things that are not created, or at least not created in significant part. This is indicated by the fact that the most common example philosophers use when discussing initial acquisitions is land; it is further supported by the fact that unappropriated non-durables will soon perish, which ensures that acquisitions do not deprive non-acquirers.

There are sensitivities to note other than eliminating future possibilities to stake claims to unowned property. Clearly, if the quantity demanded exceeded total supply, the last buyer would not have a willingness to pay of zero and the initial acquirer would therefore receive a strictly positive price for each unit of land sold. Under these conditions, it would be profitable to merely announce ownership of Mars, say, or of anything presently unowned. Although the resultant allocation by valuation (willingness to pay) may be relatively less objectionable than other allocation mechanisms, this would be orthogonal to the case of a zero market price.

⁴ Conversely, one could reduce the value of one’s claim so that the last unit sold would fetch a negative price. In such cases, whether one is liable to compensate other acquirers is a trickier issue because one could always abandon one’s property in case of such retrogression. The situation is as if one went into unowned land and reduced its quality. At the time of one’s action, there is evidently no one to claim compensation, but eventually someone may claim the negatively priced land (presumably because he has an idea that can turn it into land fetching a positive price). Should this claimant be compensated by the destroyer because of the extra efforts he had to exert? Someone else may have claimed the land before him if it were not negatively impacted by the destroyer’s actions. It is possible that retrogression of initially acquired property makes the destroyer duty-bound to make amends. However, for the purposes of this article, it suffices that reducing the quality of an unowned resource does not make one a rightful property-holder.
Notice, however, that low demand is the norm whenever initial acquisitions are likely to take place. It is only when uncreated things can be connected to markets that they acquire commercial value. Barring serendipitous cases, such new connections are necessarily discovered by persons of exceptional ability, who perceive possibilities that no one else sees. Otherwise the property would not have been left unclaimed. Much American land was settled only when advances in transportation made it profitable for agriculture, pasturing, or other uses (see the various discussions of land in North et al. 1983). Before connections to markets had been established, the land was hardly useful to anyone and it was not certain that it ever would be. Indeed, those who speculated on such land made highly variable returns, losing or gaining fortunes (as documented in Bogue and Bogue 1957).

Counterarguments from Industrial Organization: Monopolists committed not to lower their prices will trivially succeed at charging more than marginal cost for their durable products. However, while the textbook case in which lower profits temper temptations to increase sales by supplying more than the quantity at which marginal cost equals marginal revenue for perishable products, buyers know that in the next “period” (that is, when the monopolist adjusts his price), the present period’s supply will compete with whatever else he sells, forcing down the price.\(^5\)

The field of Industrial Organization has also produced other qualifications for the Coase Conjecture. For example, commitment may be achieved through the destruction of the monopolist’s factory, but since the present article deals with uncreated goods, this commitment device does not apply. An alternative method is to promise to repurchase whatever one sells at a given price, but doing so has the unhappy consequence of leaving the monopolist overstocked and consequently incentivized to give secret discounts to new consumers, a possibility which renders his commitment less credible.

A well-known result suggests that a monopolist can avoid marginal-cost pricing by leasing his product rather than selling it. However, leasing has problems of its own. When a monopolist recognizes his clients, he will over time infer their willingness to pay. This reduces demand as future-orientated high-valuation consumers can mimic low-

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\(^5\) Many textbooks state the technical condition for the Coase Conjecture to apply as these periods being of very short duration; that is, when monopolists cannot commit not to lower their prices in the next instant—see, for instance, Tirole (1988, 82-83).
valuation ones, forcing the monopolist’s price to go down. Hart and Tirole (1988) show that, absent anonymity, leasing will tend to yield lower profits than do sales. Additionally, issues such as moral hazard (lessee’s lack of care) and adverse selection (lessors attracting careless lessees) reduce the attractiveness of leasing independently of the problems raised by Hart and Tirole.

Another technical assumption underlying the Coase Conjecture is that the monopolist’s pricing horizon must be infinite. While this assumption may sound demanding, it is only made to ensure that there is no known last period, as that would eliminate possibilities for further intertemporal competition. This assumption is also more natural when considered in light of a monopolist’s concern for his children (who in turn care for their children, and so on).

The Coase Conjecture has sparked an enormous amount of research in Industrial Organization and the precise domain of the Coase Conjecture is still not clear. This means that its applicability to ethical issues of initial acquisitions may depend on highly situation-specific circumstances, which is always inferior to results that will obtain under any circumstances. At any rate, one may safely say that the Lockean Proviso will be satisfied whenever the Coase Conjecture can be applied.

**Counterargument from Links to Adjacent Property:** Could one not hold the right to a certain kind of view from a rightfully acquired claim? If so, one would have the right to limit the appearance of adjacent property, including the right to prohibit new structures from being erected. However, the part of the resource to which a claimant can justly hold a property right extends only so far as the aspects of it that have increased in market value. A view over surrounding areas has experienced no such change and therefore, by the PPP, cannot be claimed.

On the other hand, views from adjacent land may have increased in value if the structure the initial acquirer erected on his claim raises the market price of viewing it. In this way, the initial acquirer would come to rightfully possess the views from adjacent land, but not the view from the land he acquired. If three points are located on a line so that an initial acquirer holds the leftmost point A, could he prevent an acquirer of the middle point B to block the view of his structure from the rightmost point C? In other words, may the first acquirer in an area legitimately prevent others from settling in the vicinity, if doing so impairs the view of the first acquirer's structure from somewhere?
Notice that this takes the reasoning back to the original monopolist’s pricing problem analysed by Coase, for a view is certainly a durable consumption good, and so any positive price that the first acquirer asks of new settlers to compensate the alteration of his view rights will be too high as the quantity sold at that price will be lower than the quantity he could sell at a lower price (assuming, again, that all the surrounding land could not be sold until the price dropped to zero). He is tempted to keep lowering his price and under the conditions discussed previously in this article, the first acquirer will charge a zero price.

**Counterargument from Conflict Settlements:** So far, it has been assumed that conflicts over property rights to durable resources with a market price of zero are settled by letting the intruder take possession of the property right, against compensation to the initial acquirer by the amount of the market price. If instead the initial acquirer could turn down this settlement, or if a court ordered that the intruder leave, the problem of excessive initial acquisitions would reappear (see, for instance, Calabresi and Melamed 1972).

A related point is that mere ownership could yield utility, such as when an original acquirer simply enjoys being in possession of vast tracts of land. One argument against the likelihood of situations like these is that the intruder could come again and again (or other intruders could come), eventually exhausting the initial acquirer’s patience so that the property right is ceded to the intruder against zero compensation. Knowing this, the initial acquirer might as well acquiesce to ceding his property.

**Summing up:** In light of this discussion, initial claims beyond those that the claimant inhabits, works, or can hire people to work for him, seem practically irrelevant. Many details may alter the applicability of the Coase Conjecture, but its zero-price implication serves as a useful existence theorem for rightful initial acquisitions and highlights several situations where appropriations are clearly delimited in the same way. When defining the rightful extent of initial acquisitions, the Coase Conjecture can prove quite useful.

Applied to the moral permissibility of initial acquisitions, the power of the Coase Conjecture is conditional on zero prices. Since one cannot be certain that the conditions for zero pricing apply, this article merely argues for their probability. Nonetheless, the idea of pricing an acquisition and the prevalence—at least under the highlighted circumstances—of zero prices, appears to agree with common sense.
ethic ethical views: Farmers of virgin soil acquire the plots they plough, but not parts of adjacent plots; fishermen may gain a right to the area where they throw their nets, but not to waters several knots away; and space travellers acquire rights to the parcels of previously uninhabited planets they settle, but not to the whole planet.

III. NEW SOLUTIONS TO OLD PROBLEMS OF PROPERTY RIGHTS
This section discusses some of the classic problems with property rights that concern mainly their intensive extent (that is, the particular uses of a resource which are owned), and how the PPP may illuminate such issues. By the definition of property rights employed in this article, they refer to uses of resources rather than to the resources themselves, so new property rights may be claimed on existing resources as long as those uses do not interfere with the market prices of the existing use rights. For instance, if B claims an easement after A has claimed a piece of land, B’s claim is illegitimate if honouring it would reduce the market price of A’s use right to the land, and legitimate otherwise.

The easement may consist in the transmission of radio waves across a piece of land used for agriculture, or a right of passage. It can in principle be qualified so that B has the right to (say) trespass a certain number of times per day. If someone else, C, wants the same easement, he can obtain it, provided—again—that it does not reduce the value of A’s use right or B’s easement. In this way, the PPP determines the intensive boundaries of property rights. If a further easement reduces the market price of extant easements, or of A’s use rights, those easements are illegitimate.⁶

The introduction mentions how original appropriations have been criticized for enabling unilateral impositions of duties by the initial acquirer on everybody else (Kant 1996; Pufendorf 2005). Since property rights refer to rights to use resources in certain ways rather than to the resources themselves, the PPP applies even in a world in which all resources have some use that has been appropriated. If the actual resources were owned, it would be problematic to acquire new property rights on a finite planet, but since human ingenuity could prove capable of finding limitless new uses, initial appropriations may go on forever.

⁶ Of course, if A rightfully holds an easement and B wanted it strongly enough, there is no stopping B from buying it. If so, the easement would go to the person valuing it most intensely. This outcome would be efficient in the sense of maximizing well-being as captured by willingness to pay, and happens to be another result due to Ronald Coase known as the Coase Theorem (Coase, 1960).
Moral objections to initial appropriations are much harder to make if acquirers do not deprive non-acquirers of anything. True, original acquirers do unilaterally impose duties on others by claiming some use right, but when the market price of the use right is zero, the weight of this duty would seem to be zero as well. A zero price implies that “enough and as good” of undifferentiated use rights remain.

A few examples may usefully illustrate how prices and initial acquisitions work at the intensive margin. Sally’s watching TV near a window in her house causes the emission of photons to her neighbour Bob’s property. Bob demands that Sally cease the unwelcome intrusion. Sally might say that she only emits a few photons that are hardly noticeable, but Bob insists that it is for him to know whether her actions inflict harm upon him.7 Airplanes flying over one’s house typically interfere in the same minute way with one’s property value (‘minute’, provided they maintain a sufficient altitude), and offer an additional example, as do the radio waves.

The issue here is whether the easement to transmit the number of photons coming from Sally’s TV set (or noise from airplanes, or radio waves) would reduce the market price of Bob’s existing use rights to his home. If the answer is no, then Bob has not in fact acquired the disputed use rights; trespass rights for (a sufficiently low number of) photons remain unclaimed. The impact of an easement on the market price of the other use right determines whether there has been a violation.

This criterion may seem unfair on highly original persons who believe themselves to have made rightful claims, but who will not be listened to. However, in a world with a ten-digit population, all of whom are potentially in the market for some odd property right, one would have to be highly original indeed to suffer from the PPP. Moreover, even if one is that original, the option remains open to purchase the disliked use right.

The present argument is distinct from the claims that, if no loss is experienced, no harm has been done. Such normative ethical theories might justify the (prophylactic) raping of unconscious persons or the usage of cars at times when their rightful owners are known never to use them (provided their condition was completely restored afterwards). It might seem that price consequences are absent because so are experiences of loss. But this is a mistake. Price consequences are present.

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7 David Friedman cites this scenario as an argument against relying on property rights for moral reasoning (1989, chap. 41).
because prices do not come from changed personal experiences but from market expectations of experiences. For instance, market participants are likely willing to pay more for a car that they can use at any time. The same argument, mutatis mutandis, may be applied to putatively insignificant amounts of pollution and other external effects. Supposing only a limited number of pollutants may legitimately traverse on someone’s property, the property-holder can demand that polluters reduce their emissions once this threshold is hit. As before, the threshold would be at the point where the price of an emission right turns positive, which is likely to vary with affluence, geographical features (such as the smog-prone Los Angeles Basin or San Fernando Valley), and so on.

Low-probability disasters that harm third parties without their consent, like airplanes crashing on somebody’s property, may also be allowed as easements. At-risk individuals have a right to ban air travel if they have claimed that part of the bundle of rights attached to their property that governs subjection to harmful events of a miniscule probability. And as before, the test of the rightfulness of this claim is whether it can be sold for a positive price in the market, the PPP.

If the low-probability disasters affect human life rather than inanimate property, a similar case may be made. On this view, one owns oneself, but one may not have claimed every aspect of oneself. Rights not to be killed with certainty or with non-miniscule probabilities would certainly be sold for positive prices, for others' holding such rights would enable extraction of a great deal of resources from the person to whom the rights apply. But rights not to be killed by certain freak accidents of vanishingly small probability (such as satellites crashing on one’s head) quite possibly would fail to fetch a positive price (in which case launchers of satellites do not have to ask permission from all of us). Whether the right not to be put at risk by such events of miniscule probabilities would fetch a positive price or not is ultimately an empirical question. One indicator for the rightfulness of claims not to be the victim of freak accidents is a positive (minus administrative costs) actuarially-fair insurance premium.

IV. CONCLUSION
The Coase Conjecture was first published in 1972 and while its precise domain is still not clear, this article attempts to show how the Lockean Proviso that “enough and as good” unowned property remains, will tend
to be satisfied when the Coase Conjecture does apply. This may help to
defuse certain points of contention in moral philosophy regarding the
justice of initial acquisitions in general.

An important problem with the Lockean labour-mixing criterion is
its vagueness vis-à-vis what constitutes labour and precisely what it
means to mix labour with property. The Coase Conjecture sharpens the
labour-mixing criterion by examining its consequences for price. In
particular, a positive price determines whether a claim is legitimate. A
zero market price means that new claimants effectively cannot be
turned away, while non-claimants have no reason to complain that the
commons disappear, since they, too, could be zero-price initial
acquirers.

The main contribution to the moral philosophy of property rights by
the present article is therefore two-pronged. Firstly, the boundary
problem of determining the extent of a particular use right is in
principle solved by examining the market price of each portion of the
claim. Where positive, the claim is legitimate; where zero, it is not.
Secondly, initial acquisitions are delimited intensively by a similar
examination of market prices to sundry uses of a resource, as in the
potential for tilling, passage, and radio transmission rights belonging to
different people even though their rights refer to the same physical
location.

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Reflections on the 2017 Nobel Memorial Prize Awarded to Richard Thaler

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Richard Thaler received this year's *Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel*. In my view, this is an outstanding decision that puts the spotlight on an interesting and controversial field in economics, with many fascinating methodological and foundational questions yet to be answered. I therefore gladly accepted the editors’ invitation to reflect on the methodological and foundational aspects of Thaler’s research.

The Economic Sciences Prize Committee (consisting of five economists and a philosopher, Peter Gärdenfors) explicitly mentioned many methodological aspects of Thaler’s work in its motivation. In particular, it refers to interdisciplinary integration, realistic assumptions, explanation vs. description, normative implications of cognitive limitations, and policy design. This offers me a good opportunity to structure my discussion here.

1. Integrating Economics with Psychology

The committee wrote that Richard Thaler’s research has been “instrumental in creating [...] behavioral economics”. Historically, this claim seems uncontroversial. A number of historical accounts already have identified Thaler, amongst others such as Daniel Kahneman, George Loewenstein and Eric Wanner from the Sloan Foundation, as key figures in the development of behavioral economics (see, for instance, Angner and Loewenstein 2012; Heukelom 2014). However, the committee went on to describe the development of behavioral

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1 I am referring here to their press release (Royal Swedish Academy of Sciences 2017a). All references in these reflections are to the press release, except if otherwise indicated. You can also read the Economic Sciences Prize Committee’s essay-long summary of Thaler’s research (Royal Swedish Academy of Sciences 2017b), and watch an interview in which Gärdenfors explains the decision (Rose and Gärdenfors 2017).
economics as an interdisciplinary achievement. Thaler, the committee stated, incorporated “psychologically realistic assumptions into analyses of economic decision-making”, built “a bridge between the economic and psychological analyses”, thus “integrating economics with psychology” (my emphasis).

Philosophers often characterize integration as the increase of unity between two scientific disciplines or sub-disciplines. This might consist of theory reduction, unification of explanations, integration of methods, or integration of data (Brigandt 2013; O’Malley 2013). But behavioral economics is not the result of integration of economics and psychology in this sense, for the following three reasons.

The two disciplines were firstly very selective in their appropriation and importation from each other. Disciplinary differences that were upheld despite these exchanges included the continuous focus on axiomatization in economics, which never became prominent in psychology, and the differences in both experimental methodology and explanatory strategies between economics and psychology. I have described these differences in a study of the field of intertemporal choice (Grüne-Yanoff 2015), to which Thaler has been one of the key contributors, both through his empirical (Thaler 1981) and his theoretical work (Shefrin and Thaler 1981; Thaler 1985; Shefrin and Thaler 1988).

Second, behavioral scientists had to admit relatively early on in their research that their new models had substantial difficulties in quantitatively capturing stable deviations from standard theory. This held (and still holds) both for the domain of intertemporal choices, where the slope and even the shape of the discounting function is a matter of debate (see, for example, Frederick et al. 2002), as well as for the domain of risky choices, where the form of risk preferences remains a controversial issue (see, for example, Harrison and Ross 2017). Behavioral economists and psychologists have reacted rather differently to this problem. Behavioral economists have typically fallen back on more abstract models that can be axiomatised and whose effects can be shown through theoretical proof. Psychologists, in contrast, have typically narrowed the domains of their hypotheses, trying to respond to the divergence of measurements by a more piecemeal approach (Grüne-Yanoff 2015). This difference puts further doubt on the integration claim.
What is often forgotten by those arguing for the integration claim is, thirdly, that psychology is a much more heterogeneous science than economics. Multiple theoretical and methodological approaches currently coexist, and none can claim dominance over the others. For example, dual process theories, while certainly prominent in psychology, in the last years have come under increased scrutiny with the publication of a number of replication failures (for a recent overview, see Lurquin and Miyake 2017). That economists currently champion such dual process accounts—perhaps through the influence of Kahneman’s Thinking Fast and Slow (2011) and Thaler’s planner-doer model—does not constitute an integration of psychology and economics, even in the sub-domain of self-control.

I focused here on intertemporal choice. Others have argued for similar claims for choice under risk (such as Sent 2005; Davis 2013; Heukelom 2014), namely that behavioral economics is a very selective and limited inclusion of psychology into economics, and that it more often amounts to an inspiration for a change in economic modeling than a genuine integration of psychological concepts, theories, models or methods.

2. REALISTIC ASSUMPTIONS
The committee stressed that Thaler “has incorporated psychologically realistic assumptions into analyses of economic decision-making” and “has shown how these human traits systematically affect individual decisions as well as market outcomes”.

“Realistic assumptions” of course is one of economic methodologists’ favored bêtes noires, and for good reason. First, the concept is ambiguous. To say that an assumption is realistic might mean either (i) that it describes its target correctly in every aspect (‘the-whole-truth’ view), or (ii) that it describes at least some aspect correctly (‘nothing-but-the-truth’ view), or (iii) that it approximates all or some aspects of its target (Mäki 2011). This, secondly, drives a wedge between realisticness and truth. A theory with unrealistic assumptions may be true, for example when it correctly describes some aspect of the target, even though some of its assumptions are considered unrealistic because they violates the-whole-truth view. For this reason, thirdly, realism (as a theory of theories) is perfectly comfortable with unrealistic assumptions, as has long been established by Cartwright (1989), and Mäki (2011). But then realisticness of assumptions by itself is not a good
criterion for assessing models, nor is unrealisticness by itself a reason to reject a model. Instead, what matters is whether these assumptions are considered relevant for the modeling purposes. Here economists continue to disagree.

Robert Shiller, in his Guardian article congratulating Thaler with the Nobel, names two late economists (Merton Miller and Stephen Ross) who considered “stories of such [psychological] mistakes almost completely irrelevant to finance” (2017). They did not deny that biases and psychological mistakes described by Thaler exist (that is, they agreed that these were realistic assumptions), but argued that when modeling the dominant factors determining prices, demand and production, such biases—despite being realistic—could be legitimately neglected. In fact, models that neglect them and thus are unrealistic would sometimes be better models, precisely because they avoided the distraction by all these realistic but quite irrelevant assumptions. Now, Miller and Ross are dead—and perhaps Shiller suggests that their methodological views should be on their way out as well. But I suspect that plenty of economists alive today harbor similar sentiments, and I certainly think that their insistence on relevance and their skepticism against realisticness is legitimate.

In any case, endowing models with more realistic assumptions was not Thaler’s original motivation, as a closer look at his early career shows. Instead, he was grappling with a measurement problem that arose from his attempts to systematically measure subjective evaluations of fatality risk, crime control, and other non-monetary features (for instance in Thaler and Rosen 1975; Thaler 1978). For example, Thaler and Rosen developed a willingness-to-pay (WTP) concept for a marginal change in mortality risk and estimated it from salary data for different professions with differential fatality risks.\(^2\)

Yet, soon it turned out that willingness-to-accept (WTA), another measure which according to standard theory should yield identical results to WTP, yielded systematically higher results. This is a classic case of a failed convergent validity, and, as such, poses a problem for the measurement construct. Thaler’s subsequent work on identifying the culprit of the WTP-WTA divergence—in particular, his (1980) proposal of loss aversion as the explanation—thus can be understood as a search for systematic measurement errors. Systematic errors, however,

\(^2\) This was explicitly based on a neoclassical framework, “follow[ing] up Adam Smith’s ancient suggestion” (Thaler and Rosen 1975, 266)
are properties of the measurement instrument, and do not concern the assumptions of the model whose parameters are being measured.

By identifying systematic measurement errors, one can explain why an empirical test of a theoretical hypothesis yields a negative result, without being forced to reject the main hypothesis. Instead, the blame can be put on the auxiliary assumptions regarding the measurement: it was the non-validity of the measurement instrument that brought about the negative test result. In this sense, Thaler’s early work, instead of attacking mainstream economic theory for being unrealistic, rather could be said to have protected it. Furthermore, identifying systematic biases (and here the term bias has a precise meaning, namely as a deviation of measurements from the true value) does not commit one to considering these biases relevant for the theoretical core of economics. Skeptical economists can thus accept Thaler’s empirical findings and still argue that for their predictive and explanatory projects, these factors are ‘almost completely irrelevant’.

Thaler, I suspect, would disagree. His writing from the mid-1980s onwards suggests that he took aim at economic theory itself, not just at auxiliary measurement assumptions. His famous “Anomalies” series in the Journal of Economic Literature from 1987 to 1991, and then irregularly from 1995 to 2006, is perhaps the clearest expression of this. The first two papers of the series quoted Thomas Kuhn’s Structure (1970). From the third onwards, Thaler gave his own definition of an anomaly: “An empirical result qualifies as an anomaly if it is difficult to "rationalize", or if implausible assumptions are necessary to explain it within the paradigm” (Thaler 1988, 191). Here failure of expectation or prediction had been replaced by the failure of rationalization or explanation. The aim is clear: it is the “paradigm”, which fails to explain adequately. No doubt Thaler was aiming at core theory here.

Whatever the precise goal, these anomalies were conceived as a collection of exhibits: empirically observed phenomena that economists should be able to explain, but couldn’t. The main focus thus was on

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3 The quotation from Kuhn is: “Discovery commences with the awareness of anomaly, that is with the recognition that nature has somehow violated the paradigm-induced expectations that govern normal science” (1970, 52-53). In the same paragraph, Kuhn continued: “And it closes only when the paradigm theory has been adjusted so that the anomalous has become the expected.” It is perhaps telling that Thaler chose not to make these revisionary intentions explicit at that point.

4 Given the popularity of Friedman’s methodological argument at that time, I suspect that economists’ main goal in the 1980s was still prediction. So, Thaler’s pronouncement here constitutes a noteworthy methodological shift that I believe would merit further investigation.
phenomenal description, with theoretical development to come later. Not by coincidence have some fellow methodologists described the behavioral economics project in its entirety as such a collection of exhibits or “bottled phenomena” (Guala 2005; Sugden 2005). Even if economists could have agreed that these phenomena should be properly accounted for by their theories, how core theory was to be changed, and what kind of assumptions in particular should be reformulated in the models, remained a contentious issue.

Thaler, it seems, had clear views about this from early on: namely to make model assumptions more “psychologically realistic”, whatever that exactly means. That, rather than correcting measurement errors or providing bottled phenomena, he got the Nobel Prize for. In fact, the committee mentions his extensive experimental work only in passim (and then only in its role as a measurement tool for social preferences) and does not mention anomalies at all. Clearly, behavioral economics today is seen as more ambitious than merely improving measurements and collecting anomalies. Rather, it strives to introduce “more realistic” assumptions into economic models, and for these new assumptions to provide (i) explanations of economic decision-making, (ii) normative justification of intervention in the decision-making process, and (iii) a basis for designing interventions in the decision-making process. To these three aspirations I turn now.

3. EXPLAINING COGNITION AND BEHAVIOR
The committee lauded Thaler for developing theories to “explain why people value the same item more highly when they own it than when they don’t” and for “explaining how people simplify financial decision-making”. But are these actual explanations?

Most philosophers today agree that scientific explanation involves identifying some relevant contributing cause (see, for example, Woodward 2003). At the very least, to answer whether Thaler's theories provide explanations requires determining whether they identify relevant contributing causes of the behavioral or social phenomena to be explained.

Clearly, behavioral economists often use causal language. For example, Thaler (with co-authors Tversky, Kahneman and Schwartz in the title of a 1997 QJE paper) investigates “the effect of myopia and loss aversion on risk taking” (my emphasis). Loss aversion here is declared a
cause of behavior, and thus loss aversion becomes a potential *explanans* of this behavior.

By loss aversion, Thaler meant people’s tendency to prefer avoiding losses to acquiring equivalent gains. To make this more precise, he employed Kahneman and Tversky’s *Prospect Theory* (1979) to represent people’s reference-point dependent subjective evaluations of certain outcomes: a continuous value function is concave to the right of the reference point and convex to the left of it (Thaler 1980).

Prospect theory (in particular the 1992 version of *Cumulative Prospect Theory*) is itself a modification of von Neumann-Morgenstern (vNM) utility theory. It shares with vNM the view that choice options are lotteries—that is, sets of uncertain outcomes, whose value is identified through a value function, and whose uncertainty is quantified through an (objective) probability distribution. Prospect theory adds to this that the value function is reference-dependent as described above, and that the choosing agent imposes a subjective weighting on the probabilities, with higher probabilities being overweighted relative to smaller probabilities. The value of choice options then is calculated as the weighted average of the thus-valued outcomes, and individual choices are predicted as the optimization of these choice option values.

What matters for explanation here is that some economists argue that vNM theory (as well as its Bayesian relatives) must not be interpreted causally. Utility functions can be fitted to human behavior, but it would be a fallacy to claim that the behavior is *caused* by subjects—consciously or unconsciously—maximizing the fitted utility function inside their heads (Binmore 2008, 7). This argument also applies to prospect theory, as it is just an expansion of vNM theory, with a few more free parameters that allow more flexible fitting. Consequently, if Binmore’s argument is correct, then Thaler’s claim that prospect theory identifies a contributing cause of behavior, or that indeed it is explanatory, seems dubious.\(^5\)

In a similar vein, it has been argued that behavioral economists typically engage in developing *as-if* models: namely, models that fit the behavioral phenomena, but that makes no (legitimate) claim to the underlying psychological mechanisms that brought about this behavior. Such strategies have been explicitly used by, theorists such as Milton Friedman and Jimmy Savage to defend standard utility theory (Starmer

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\(^5\) I should mention that this argument received considerable criticism from philosophers (see, for instance, Hausman 2011).
Berg and Gigerenzer (2010), for example, argue that behavioral economists have largely inherited the strategy from neoclassical economics. Behavioral economists’ claim to improved empirical realism, so they argue, is based only on adding new parameters to fit behavioral data, rather than specifying psychological processes that genuinely explain these data.

The alternative that Gigerenzer and colleagues have proposed is to abandon the vNM framework altogether and instead to investigate the actual psychological processes that produce behavior. The result of their substantial work so far indicates that such an endeavor will not yield any unified and universal framework of rational decision-making, but rather a collection of heterogeneous processes whose application is highly context-dependent.

Whatever the merits of this and other alternatives, my point here is only to document some of the substantial criticism that claims about the explanatoriness of constructs like loss aversion, reference dependence, altruistic preference, or hyperbolic discounting face. To critics, such constructs refer to experimental phenomena, rather than causal mechanisms. Consequently, in their view, these constructs could not be considered either causes or explanantia. Behavioral economists have, in my view, done little to counter these arguments, and thus it remains an open question whether their contributions so far have provided any explanations.

4. NORMATIVE JUSTIFICATION OF POLICY INTERVENTIONS

In its motivation, the committee also noted that Thaler studied “how cognitive limitations influence financial markets”, and that the result of these investigations “may help people” to overcome these limitations. Concepts like bias, cognitive limitations, bounded rationality that Thaler and his colleagues have coined all have a normative connotation. People in their day-to-day deliberation and cognition systematically fail to achieve a normative ideal, and therefore are biased, limited or bounded.

Yet what is this normative ideal, and is it applicable to the cases that behavioral economists ultimately are interested in?

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6 The term “bounded rationality” of course is older than behavioral economics in its current form. Herbert Simon (1982) arguably employed the term in the sense of "bounded in cognitive capacities, yet rational", while behavioral economists tend to use it as “limited in rationality".
Thaler early on (1980) proposed to distinguish descriptive models of consumer choice from normative ones. The former predict what consumers actually do, while the latter describe what rational consumer should do. Thaler's explicit aim in 1980 was to improve the descriptive models by revising them in the light of the recent experimental evidence: “exclusive reliance on the normative theory leads economists to make systematic, predictable errors in describing or forecasting consumer choice” (39). Importantly, he left the normative model untouched, in effect asserting that the standard economic models of choice were normatively valid. The thus-opened chasm between descriptive and normative models led behavioral scientists to think about ways to lead people back from how they actually behave to how they should behave, and hence provided both motivation and justification for behavioral interventions. This was a new role for decision theory—as long as its models were considered both descriptively and normatively adequate at the same time, this question simply did not arise.

With the normative-descriptive distinction also came renewed worries about the justification of normative models. This is somewhat curious, as neither Thaler nor his colleagues changed anything in the normative models. Yet the new role that came with the distinction made the question of normative validity much more pressing, and so it has remained until today.

As mentioned above, in standard economics, choice under uncertainty is modelled according to the vNM expected utility model. This model is highly restrictive: it requires both an exhaustive set of mutually exclusive states, each to be part of an objective probability distribution, as well as a set of outcomes, each evaluated by a utility function. Economists had, long before vNM, distinguished between situations where states, outcomes, probabilities and utilities are known (called situations of risk) and where some or all of this information was missing (called situations of ignorance). vNM models are only applicable to situations of risk—in particular, because they require objective probabilities. For situations under ignorance, they do not provide a normative benchmark.

Economists, when faced with this restriction, will typically reply that Bayesian decision theory fills this gap. Bayesian theory does not require objective probabilities but instead assumes that probabilities are subjective epistemic attitudes. The normative significance of these
theories lies in their consistency mandates, cashed out as choices that can be represented by consistent utility and probability assignments. When behavior best fits a descriptive model deviating from these consistency requirements, Thaler and his colleagues speak of systematically irrational behavior.

There is a substantial and often technical literature on the normative validity of the standard model. Here are just three thoughts that worry me about it. First, models like prospect theory indicate inconsistency only if objective probabilities are available. As I mentioned above, prospect theory introduces a subjective weighting on the probabilities of outcomes, thus allowing that higher probabilities are overweighted relative to smaller probabilities. If objective probabilities are available (for instance, as frequencies of numbers coming up on a roulette wheel), the subjective weights can be interpreted as cognitive mistakes: the deliberating agent distorts the available information in a systematic way. However, if objective probabilities are not available, this distinction disappears. It is entirely unclear how to distinguish subjective weights on probabilities from subjective probabilities. Yet without this distinction, one cannot tell apart normatively correct and incorrect deliberation with the help of Cumulative Prospect Theory.

Second, although Bayesian theory can deal with a lack of objective probabilities, it has much greater problems dealing with lack of information about states and outcomes. In such cases of deep uncertainty, the standard model is not applicable as a normative benchmark. Yet arguably, most questions of interest in macroeconomics of finance are riddled with such deep uncertainty—so that exactly here, economists lack a normative standard.

It should, finally, be noted that the founder of modern Bayesianism, Jimmy Savage, was much more careful about the applicability of his theory than many of his followers. He argued that his theory required “artificially confining attention to so small a world that the [expected utility] principle can be applied here”, but also admitted that he was “unable to formulate criteria for selecting these small worlds and indeed believe[d] that their selection may be a matter of judgment and experience about which it is impossible to enunciate complete and sharply defined general principles” (Savage 1954, 16). Yet clearly, which small world is selected to represent a grand-world problem will affect consistency judgments about that grand world—so that without reasons
for selecting it, no small world model in itself can claim to be a rational benchmark for any real, grand-world problem.

As long as one stays in the model world (and to some extent in the behavioral laboratory), these issues don’t really arise. Models and many lab settings are the closest we have to Savage’s small worlds. The question is whether a given model or experiment is an appropriate small-world representation of a grand-world problem from macroeconomics, finance, or many other walks of life. Yet if these standards of appropriateness cannot be completely and sharply enunciated, then most of the normative claims professed by behavioral economists lose their teeth. Unless behavioral economists were willing to restrict themselves to judging abstract model situations or designing laboratory scenarios (which I am sure they are not), they would have to admit that the normative standards they are using are much less powerful than often claimed.

5. DESIGNING NUDGES
The committee also noted Thaler's key role in defining the nudge concept and proposing a host of behavioral interventions to improve people's welfare. This contribution is a direct consequence of the conceptual distinction between descriptive and normative models, and draws both motivation and justification from it. Already in the 1980s, Thaler addressed public policy questions regarding consumer choice, retirement savings, and stock market investments. In collaboration with legal scholar Cass Sunstein this cumulated in Thaler's probably most popular book Nudge: Improving Decisions about Health, Wealth, and Happiness (2008), which proposes to use knowledge of psychological biases in order to influence people’s decisions for their benefit.

Critics of the nudge approach often point out that it contains really nothing new—those kinds of strategies had been known for a long time and found countless applications in advertisement and marketing departments of this world. Yet this overlooks that Thaler and Sunstein's central contribution is conceptual, not in the development of any particular new strategies. What is indeed novel about their approach is (i) that it proposes to use these strategies for the benefit of those influenced, (ii) that it co-opts the identified biases in order to exert this benevolent influence, and (iii) that it claims to be compatible with liberal principles, first because it aims to improve people's behavior according
to their own evaluation, and second because people can always opt out of these interventions.

Philosophers and many social scientists have eagerly seized on the various ethical questions that such a proposal raises, including what it means to improve people’s behavior according to their own evaluation, whether it is manipulative, whether it is non-transparent and whether people like being nudged or not. I have surveyed this discussion elsewhere (Barton and Grüne-Yanoff 2015).

Instead, I want to briefly mention a few worries about how to evaluate the effectiveness of nudges. One problem for many nudge interventions is that the only evidence in their favor is the effect size from experiments in a specific laboratory or field setting. This evidence says little about whether these interventions can be transferred to some other setting. For this, evidence for the mechanisms through which the interventions operate is required (Grüne-Yanoff 2016). Yet Thaler and other behavioral economists have largely eschewed investigating such mechanisms.

Mechanistic evidence is important because mechanisms help understand which conditions must be in place for a policy intervention to be effective. For example, a nudge like Thaler’s Save More Tomorrow (Thaler and Benartzi 2004) will be effective if most people’s discounting function is hyperbolic in shape, and doesn’t change form under the intervention. If however people have widely differing discount functions, or their discount functions are not stable under intervention, then such a nudge is unlikely to be effective. Consequently, one should pay more attention to the mechanisms through which nudges operate, and use this knowledge to select those situations in which nudges are most likely to be effective (Grüne-Yanoff et al. in press). Furthermore, once one pays more attention to mechanisms, it will also become clearer that nudges are not the only kind of behavioral interventions, but just one amongst many (Hertwig and Grüne-Yanoff 2017). Thus, while the nudge proposal has opened new conceptual avenues for policy-science interaction, the underlying behavioral evidence is still far from providing solid answers to questions like what kind of causal pathways these interventions take, how effective they will be in different environments, and how to systematically design new interventions.
6. CONCLUSION

Robert Shiller has called Richard Thaler “a controversial Nobel prize winner—but a deserving one”. I agree with that appraisal. In my commentary here, I hope to have demonstrated that the controversy is also for the philosophers and methodologists of economics to engage in: plenty of the achievements that Thaler has been praised for—including interdisciplinary integration, realistic assumptions, explanation vs. description, normative implications of cognitive limitations, and policy design—raise yet unresolved methodological and foundational questions. I sometimes wondered while writing this commentary “perhaps the award motivation even contains a subliminal message?”—although I doubt that the Economic Sciences Prize Committee did this on purpose. Whatever their intention, I hope that philosophers and methodologists of economics make good use of this renewed focus, pick up the message and engage with these fascinating questions.

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*Inclusive Ethics* develops a moral theory governing any conduct that affects individuals that are, or could be, conscious. This is an ambitious task, and the book covers many topics—including the ethics of procreation, the disvalue of premature death, anthropocentric speciesism, the ethics of defensive killing, distributive justice, personal identity, strategies for increasing one's life-satisfaction, and the point of doing moral philosophy. *Inclusive Ethics* has something for anyone interested in normative or practical ethics.

The book is in three parts. Parts I and II focus on the two central components of Persson's moral theory: a principle of beneficence and a principle of equality. Part III focuses mainly on practical issues concerning the implementation of these principles.

Part I argues that there is moral reason to benefit individuals that are, or could be, conscious. Such beings include not only *persons*—those capable of rationality and self-awareness—but also barely sentient beings (such as lizards and frogs), non-conscious beings with the potential to become conscious (such as 3-month-old human fetuses), and even non-existent beings that would have the potential for consciousness if they were to exist (such as the fetus that would exist if some particular sperm and egg were to fuse). We benefit these individuals by promoting what is intrinsically good for them, and by reducing what is intrinsically bad for them.

Chapter 1 develops an account of what is intrinsically good (and bad) for individuals. On what Persson calls the *double-aspect account*, the only two things that are intrinsically good for one are (i) *well-being*, which is construed entirely in terms of experiences that are intrinsically good for one (one's pleasures), and (ii) the fulfillment of one's autonomous desires, those that are formed under certain ideal conditions that include one's being rational and well-informed. (i) and

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(ii) jointly constitute one’s \textit{welfare}, which means that, for Persson, ‘well-being’ and ‘welfare’ are not synonymous.

Chapter 2 argues for an inclusive view of beneficence (IVB) according to which we can, and can have moral reason to, benefit individuals by creating them. On this view, our moral reasons to create individuals with positive welfare are \textit{person-affecting}; these reasons derive not from the impersonal value of an individual’s welfare, but from the fact that bringing this individual into existence would benefit it. Typically, those who defend IVB deny that the sense in which one benefits from being brought into existence entails that one is thereby made \textit{better off} than one would have been had one not existed. For example, Jeff McMahan (2013, 6-7) argues that one’s coming into existence could benefit one only in a \textit{non-comparative} sense—that is, only in the sense that one’s life contains more of what is intrinsically good than bad for one.

However, according to Persson, the fact that an act would benefit someone in this non-comparative sense is insufficient for there being any moral reason to perform that act. He points out that benefiting an individual in a non-comparative sense could also make that individual worse off than it would otherwise have been. For example, I could perform an act that results in your life containing more of what is intrinsically good than bad for you \textit{and} prevents you from having \textit{even more} of what is intrinsically good for you and no more of what is intrinsically bad for you. In this case, the fact that my act would benefit you in a non-comparative sense provides no reason for me to perform it. Rather, I have reason \textit{not} to perform this act, since my not performing it would leave you better off. According to Persson, examples such as this strongly suggest that the benefits that we have moral reason to bestow are \textit{comparative} in the sense of making individuals better off than they would otherwise have been.

But if this is right, then, as Persson acknowledges, IVB implies that causing someone to exist can make her better off than she would otherwise have been; and this seems to imply that if she had not existed \textit{she} would have been \textit{worse off}. While most find this implication absurd, Persson accepts it. On his view, merely possible individuals can be worse off than they would have been if they had existed. His argument for this view is based on two claims: (1) for one who has never existed nothing is either intrinsically good or bad, and (2) a state of affairs in which nothing is either intrinsically good or bad for one is \textit{worse} for one than a state of affairs in which things are overall intrinsically good for one.
Claims (1) and (2) jointly imply that (3) it is worse for one not to have been brought into existence with a life that is overall good for one (61). A shortcoming of Persson’s discussion of this argument is that he ignores the objection that a state of affairs in which nothing is either intrinsically good or bad for a being and a state of affairs in which things are overall intrinsically good for that being are incomparable with respect to that being’s good. If this objection succeeds, then claim (2) is false and Persson’s argument fails.

Persson argues in Chapter 2 that claims such as “There are (i.e. there exist) merely possible individuals that would have been better off had they begun to exist” are perfectly coherent and can be true (60). He considers the obvious objection that such claims are paradoxical because they seem to assert the existence of merely possible, and hence, non-existent beings. His response to this objection is that such claims are paradoxical only if ‘exist’ has the same meaning in all of its occurrences, but that, in fact, different occurrences of ‘exist’ can have different meanings.

In one sense of ‘exist’, it is true that [there exist] merely possible beings because this follows from the clearly true claim that it is possible that some beings will begin to exist in the future. This is the sense in which I believe there to [exist] merely possible and, thus, non-existent beings. I cannot provide a philosophically adequate explication of this sense, but there are many commonsensical claims to which we can permissibly help ourselves, though we cannot accurately expound their sense philosophically (60-61).

However, this is puzzling because the true claim ‘It is possible that there exists a being’ does not obviously entail ‘There exists a being’. Thus, the claim that there exist merely possible beings does not obviously follow from the clearly true claim that it is possible that some beings exist (or will exist). There are controversial views on which inferences of this kind are valid (see, among others, Lewis 1986, Linsky and Zalta 1994, and Williamson 2013). Unfortunately, Persson neither considers nor defends any such view.

As Persson acknowledges in chapter 3, IVB seems to imply that merely sentient beings (sentient beings that are not persons), and perhaps even persons, are replaceable. That an individual X is replaceable means that there is no more reason to benefit X by extending X’s life than there is reason to kill X and benefit some other
individual Y of the same kind as X, by bringing Y into existence with a good life, assuming that either alternative would produce the same total of benefits. In what follows, I will call the act of replacing an individual in the manner described above replacement, the alternative to it non-replacement.

Persson claims that in real-world conditions IVB does not imply that merely sentient beings are replaceable. Instead, he claims, IVB implies that replacement would typically be worse than non-replacement. His most intriguing argument for this claim appeals to a version of what Larry Temkin (2012) calls the disperse additional great burdens view, according to which it is better to inflict a very small harm on each of many individuals than to inflict a very serious harm on a single individual, even if the total amount of harm associated with the former option is greater.

According to Persson, the disperse additional great burdens view supports the claim that in most real-world conditions replacement would be worse than non-replacement. Whereas non-replacement bestows a significant benefit on a single individual, a merely sentient being, replacement is tantamount to giving each of many possible individuals a very small chance of a significant benefit. In any act of procreation there are many different sperm-egg combinations, each corresponding to a different possible individual. Hence, there are many possible individuals each with a very small chance of coming into existence. According to Persson, denying each of these possible individuals this very small chance of existence would inflict on each only a very small harm, whereas significantly shortening the life of a merely sentient being by killing it would inflict on it a very serious harm. Thus, given how procreation normally works, replacement would inflict a serious harm on one individual, whereas non-replacement would inflict only a very small harm on each of many individuals. And so according to the disperse additional great burdens view, replacement would be worse than non-replacement.

Persson neither gives an argument for the claim that a mere chance of a benefit is a benefit, nor for the claim that foregoing a mere chance of a benefit is a harm. But even if we accept these claims, Persson’s argument is problematic. It ignores the fact that on IVB, replacing individual X with individual Y would not only give a very small chance of existence (and hence, let us suppose, a very small benefit) to each of
many possible individuals, but might also bestow a *very significant benefit* on \( Y \).

Persson’s rationale for ignoring this benefit to \( Y \) is as follows. Before one makes the choice between replacement and non-replacement, there is no possible individual of whom it is determinately true that it will receive the benefit of coming into existence if replacement is chosen. Therefore, on a *person-affecting* view of beneficence, there is no non-instrumental moral reason to produce this benefit. But this seems false. If replacement is *in fact* chosen, then there will *in fact* be an individual \( Y \) of whom it is determinately true that he is better off than he would have been if non-replacement had been chosen. One can therefore accept a person-affecting view and recognize the significance of the benefit that \( Y \) would have if \( Y \) were to exist.

Surprisingly, Persson claims that although merely sentient beings are not replaceable under real-world conditions, *persons* are replaceable in certain hypothetical situations. A person could rationally consent to being killed and replaced by an intrinsic duplicate of her, and perhaps even by someone with values sufficiently like hers. Persson’s claim that persons are replaceable is inspired by Derek Parfit's well-known view that what matters in survival is not identity but psychological connectedness and/or continuity with any cause (Parfit 1984, 281-306). However, according to Persson, what matters in one’s survival is not psychological continuity (with or without causation) but rather continuity of one’s values or ideals.

Another challenge for IVB, discussed in Chapter 4, is that it seems to imply what Parfit called

*The Repugnant Conclusion.* Compared with the existence of very many people—say, ten billion—all of whom have a very high quality of life, there must be some much larger number of people whose existence, if other things are equal, would be *better*, even though these people would have lives that are barely worth living (Parfit 1986, 150).

According to Parfit, one’s quality of life or life-quality is determined by how much of “the best things in life” (such as the most profound human relationships, or the most exquisite aesthetic experiences) one’s life contains (1986, 150).
One argument for *The Repugnant Conclusion* involves a sequence of outcomes in which the number of individuals gets progressively larger while average life-quality gets progressively lower. Suppose outcome $A$ contains ten billion individuals all with very high life-quality, while outcome $B$ contains five times as many individuals (50 billion) each with a life-quality just minimally lower than that of each individual in $A$. $B$ seems better than $A$. Moreover, Persson claims that his view of beneficence supports the view that $B$ is better than $A$ (104). Not only do the individuals in $B$ vastly outnumber those in $A$, but the individuals in $A$ and $B$ have *benefited* from coming into existence, and the benefit that each individual in $B$ enjoys is only slightly smaller than the benefit that each individual in $A$ enjoys. For this reason, it seems, the total amount of benefit in $B$ is greater than in $A$.

Next consider $C$, “which is related to $B$ as $B$ is to $A$” (104). $C$ seems better than $B$ for the same reason that $B$ seems better than $A$. And again, Persson claims, his view of beneficence supports this result. We can continue in this way until we reach an outcome $Z$ which contains an enormous population (many billions of people) in which each person’s life-quality is so low that her life is just barely worth living. Yet intuitively, and on Persson’s view, $Z$ is better than $Y$, which is better than $X$, ..., which is better than $B$, which is better than $A$. If the relation *better than* is transitive, $Z$ is better than $A$. But that is *The Repugnant Conclusion*!

Persson argues, against Parfit, that what makes *The Repugnant Conclusion* repugnant isn’t that the larger population with lives barely worth living is devoid of the best things in life. Instead, he argues, the root of its repugnance is embodied in the following claim:

*Root*: For every intensity of (positive) well-being, however low, there is an instance (or set of instances) of it of sufficient (aggregate) duration for this instance (set of instances) to be better in respect of well-being than a (minimal) instance of a higher intensity of well-being, however high it may be (105).

Persson rejects the *Repugnant Conclusion* and *Root* by denying that *better than* is transitive. His argument against transitivity is novel in that it does not appeal to what Temkin (2012) calls the *essentially comparative view of outcome goodness*—according to which an outcome's goodness can depend not only on its internal features but
also on what other outcomes it is compared with. On Temkin’s view, transitivity fails only if the essentially comparative view of outcome goodness is true. However, Persson argues that the failure of transitivity follows from the claim that value is a supervenient property. On Persson’s view, the supervenience of value entails the non-transitivity of perfect similarity with respect to value, which entails the non-transitivity of better than. On Persson’s understanding of the notion of supervenience, ‘S is a supervenient property of X’ means there are more basic or subvenient properties B of X in virtue of which X has S. This is stronger than standard definitions of ‘supervenience’ according to which the supervenience of A-properties on B-properties means that two worlds differ in their A-properties only if they differ in their B-properties.

Persson’s argument from the supervenience of value to the non-transitivity of perfect similarity in value proceeds as follows (107-110). Suppose X, Y, and Z are three different painful (bad) experiences. Suppose S is the felt badness of an experience and B the basic physical properties in virtue of which an experience has S. There can be differences in respect of B between X and Y, and between Y and Z, which are not sufficient for differences in respect of S between X and Y, or between Y and Z, but that are sufficient for differences in respect of S between X and Z. As a result, it is logically possible that X is perfectly similar to Y, and Y to Z, with respect to S, and yet, X and Z differ with respect to S.

For example, the difference between two patterns of the firing of C-fibers in a subject’s brain may be so small that the subject cannot feel any difference between the corresponding pains that these two patterns produce; yet if the difference between two such patterns were sufficiently large, the subject would feel that one was more painful than the other. We can therefore imagine that while the differences in such patterns between X and Y, and between Y and Z are not large enough to produce a difference in felt painfulness, the difference between X and Z is large enough. Thus, it is possible that X and Y, as well as Y and Z, are perfectly similar with respect to the felt badness of pain, while X and Z are not.

Persson shows how his putative counterexample to the transitivity of perfect similarity in the (dis)value of pain can be extended to produce putative counterexamples to the transitivity of better than. Suppose Y’s duration is noticeably slightly shorter than X’s, while there is no
difference in felt *intensity* between X and Y. Assuming intensity and
duration are the only relevant bad-making features for pain, it seems Y
is *better than* X. Next, suppose Z is noticeably slightly shorter than Y but
there is no difference in felt intensity between Y and Z. Again, it seems Z
is *better than* Y. Still, Z may *not* be better than X “because Z is felt to be
more intense than X, and this difference is judged to outweigh the
longer duration of X” (114).

By rejecting transitivity, Persson blocks sequential arguments for
*The Repugnant Conclusion* and provides a defense of the *disperse
additional great burdens view* to which he appeals in Chapter 3. As
Persson acknowledges, the rejection of transitivity implies that value
cannot be quantified.

Part II of *Inclusive Ethics* develops and defends the second main part
of Persson’s inclusive moral philosophy—an egalitarian principle of
justice. Chapter 7 defends *Extreme Egalitarianism* (EE) according to
which justice requires that everyone capable of being well or badly off is
equally well off unless some autonomously choose (or would choose) to
be worse off (163). According to Persson, if some autonomously chooses
to be worse off, the resulting inequalities in welfare are neither just nor
unjust. Justice simply fails to apply to them. EE is extreme in that it
rules out the possibility of *just* inequality. In defense of this, Persson
argues that there is nothing that can *make* inequalities in welfare just.

His argument is as follows:

(1) Nothing can make it just that some are better off than others,
    unless this is something for which they are responsible.
(2) There is nothing for which anyone is *ultimately responsible.*

From (2), we get

(3) There is nothing for which anyone is ultimately responsible
    that can make it just that some are better off than others.
(4) If there is nothing for which anyone is ultimately responsible
    that can make it just that some are better off than others, then
    there is nothing for which anyone is *responsible* that can make
    it just that some are better off than others.

From (3) and (4), we get

(5) There is nothing for which anyone is responsible that can make
    it just that some are better off than others.

Finally, from (1) and (5), we get

(6) There is nothing that can make it just that some are better off
    than others.
Persson calls this the *Demolition Argument* against just inequality (158) since it demolishes what he takes to be the only plausible candidate explanations of how inequality can be just. One such candidate is that some people deserve to be better off (or worse off) than others. Another is that some people have a right to be better off (or worse off) than others. According to Persson, such claims are true only if those who are better off (or worse off) are ultimately responsible for certain of their actions. But according to the *Demolition Argument’s* premise (2), there is nothing for which anyone is ultimately responsible.

Persson’s argument for premise (2), an argument against the possibility of ultimate responsibility, resembles familiar arguments in the literature on free will (see, for example, Strawson 1994). One’s being ultimately responsible for a certain fact \(F\) requires that the fact that one is responsible for \(F\) obtains only in virtue of facts for which one is also responsible. But as Persson convincingly argues, when one is responsible for a certain fact \(F\), the facts in virtue of which one is responsible for \(F\) always seem to include facts for which one is not responsible, for example the fact that one was born with certain genes, or that the atoms in one’s brain have a certain configuration.

Persson’s intuition is that one’s lack of ultimate responsibility undercuts the significance of one’s responsibility as it pertains to matters of justice (160). I think that many (including me) share Persson’s intuition, but I also suspect that many would have the opposite intuition, namely that one’s being responsible for \(F\) can be relevant to matters of justice even if one is not ultimately responsible for \(F\). Folk intuitions appear to be split on the question of whether physical determinism would undermine free will (see, for instance, Nahmias et al. 2006). Since this question seems closely related to the question of whether lack of ultimate responsibility (in Persson’s sense) would undermine responsibility *tout court*, one might expect folk intuitions to be similarly split on the latter question.

Part III discusses the implementation of Persson’s moral theory—the inclusive principle of beneficence and the egalitarian principle of justice. Chapter 11 argues that given the current state of the world, the morality that follows from Persson’s theory is of little or no practical use, and that therefore morality (currently) has no point. Persson assumes that for morality to have a point it must be implementable. One putative necessary condition for a principle’s being implementable is that it must
be practically possible for people in general to follow it (234). Persson thinks his two principles probably do not satisfy this condition. These principles conflict starkly with common-sense morality (CSM), and so wouldn’t be generally accepted. Persson concedes that his morality is very demanding especially for well-off members of affluent nations. His morality includes nothing that permit these well-off people to retain their enormous wealth rather than use it to help the world’s poor, which, if done effectively, would not only greatly increase the sum of individuals’ benefits but also greatly reduce unjust inequality. Persson concludes that unless the current political and economic climate, or the moral psychology of human beings changes dramatically, morality will have no point.

According to Persson, if morality has no point, moral philosophy could still have a point by engendering rational consensus regarding the truth of a moral theory. Chapter 12 argues that the prospects for such a consensus are dim. According to Persson, moral philosophy is likely to remain inconclusive because philosophical “disagreements—such as between consequentialism and deontology—are too deep to be settled by arguments acceptable to all parties” (234). Contemplating the history of analytic moral philosophy, Persson “cannot think of a single instance of [its] having definitely resolved a pre-theoretical disagreement about what is morally right or wrong” (236).

But perhaps a point of moral philosophy is to steer morally motivated individuals in a better direction, allowing them to have a more positive impact. Moral philosophy seems to have already accomplished this to some extent. For example, the growing movement known as effective altruism has been influenced by philosophical pioneers like Peter Singer. Key figures in this movement, such as William MacAskill, report being inspired by the philosophical arguments of Peter Singer (Rogan 2017). This point of moral philosophy is admittedly less ambitious than what the method of philosophical argument seems designed to do. Nevertheless, it seems extremely important.

Chapter 13 presents a philosophy of life—a set of recommendations for coping with general features of life such as the dominant role of luck in shaping one’s prospects and the fact of one’s inevitable death. A philosophy of life focuses mainly on the intrapersonal dimension of morality, which is concerned only with how one’s acts affect one. Persson’s philosophy of life emphasizes autarchy—“the attitude of striving to change our own affective and conative attitudes so as to
make them conform to the world around us” (250). Autarchy is contrasted with what Persson calls heterarchy—the attitude of striving to make one’s environment conform to one’s desires.

Persson’s autarchic philosophy is inspired partly by the writings of the Stoic Epictetus (2004), although Persson’s philosophy is much more reasonable than Epictetus’s. Persson rejects Epictetus’s absurd advice that we stop trying to avoid disease and famine because they are beyond our control. He also offers interesting advice that one won’t find in Epictetus. For example, Persson suggests increasing one’s level of contentment with one’s life by contemplating how unlikely it was that one came to exist in the first place. He also suggests contemplating the view, considered in Chapter 3, that what matters in one’s survival is not one’s identity but that one’s values are carried forward.

Persson emphasizes a connection between his philosophy of life and the problems concerning the implementation of his morality (260-261). A possible result of becoming more autarchic is that one finds morality less demanding. Much of morality’s demandingness comes from a conflict between it and desires to accumulate wealth and social status. By becoming more autarchic, one’s desire for these things diminishes, making it easier to act morally.

_Inclusive Ethics_ is incredibly ambitious. It seeks to develop not only a general framework for evaluating behavior that impacts individuals that are or could become conscious, but also a general philosophy of life, an account of the purpose of morality, and an account of the purpose of doing moral philosophy. The book is filled with novel and intriguing arguments, many of which have not been touched upon here. However, some of the book’s central claims, such as the claim that non-existent individuals can be worse (or better) off than if they had existed, are vulnerable to crucial philosophical objections that Persson does not consider. Though less carefully argued than one might hope, the book is interesting, remarkably innovative, and overall well worth reading.

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Erwin Dekker's book, which grew out of his dissertation at Erasmus University Rotterdam, and is published in the renowned series *Historical Perspectives on Modern Economics* by Cambridge University Press, is an ambitious attempt at studying the work of Austrian economists from the perspective of cultural economics. In contrast to the vast literature on Austrian economics that has been published in recent decades, the work of Carl Menger, Eugen von Böhm-Bawerk, Friedrich Wieser, Ludwig von Mises, Joseph Alois Schumpeter, Friedrich August Hayek, Fritz Machlup, and other economists is not analyzed from the viewpoint of economic theory, but from the cultural or civilizational context in which these scholars lived and shaped their ideas. As Dekker argues with regard to Wieser: “customs, traditions and the governing morality [...] are the most powerful forces in society” (59). In the same mood as his mentor Wieser, Hayek had stated: “Economic laws are no longer natural; they are cultural or civilizational processes” (65).

Dekker opens his work with an introductory chapter, which centrally discusses the work *Last Visitors to Pompeii* by the Dutch painter Carel Willink (which also covers the front page of the book) to illustrate the pessimistic intellectual mood that prevailed in Vienna already long before World War I. This period—Vienna's “golden autumn”—began after Austria's defeat against Prussia at Königgrätz in 1866, and the subsequent “Ausgleich” with Hungary, which broke the Danube monarchy apart and ended the “golden age” of liberalism that had only just started with the launching of the first liberal constitution in 1861. In analogy to Willink's painting, Dekker argues that the Viennese students of civilization felt that this civilization was worth preserving.

Editors’ note: This is a review of a book written by a current editor of this journal. Erwin Dekker joined the editorial board after this review had been commissioned. He has not been involved in editing it.
but was in decline as a result of a series of crises; and, in the 1930s, increasingly under threat to be destroyed.

Vienna produced a galaxy of creative genius: Gustav Mahler and Arnold Schönberg, Gustav Klimt and Egon Schiele, Sigmund Freud and Alfred Adler, Adolf Loos and Oskar Kokoschka, Ernst Mach and Ludwig Wittgenstein. Although the Danube monarchy had collapsed at the end of World War I, hunger and poverty impaired the living conditions of the masses, and the hyperinflation at the wake of the war contributed to an erosion of the middle classes, the intellectual life continued to flourish in the capital of the former Habsburg empire that was now disproportionately large in relation to the small post-war Austria.

Dekker rightly points out that the context of the Habsburg Empire played an important role, but he overstates his case when he argues that the label “Austrian” is misplaced and should be substituted by “Viennese”. In the German language area the terms Österreichische Schule (Austrian school) and Wiener Schule have always been considered as synonymous. The University of Berlin, founded by Humboldt in 1810, has never played as dominant a role in Germany as the University of Vienna, founded in 1365, played in Austria. For example, of 51 scholars in economics who emigrated from Austria in the 1930s, 50 had a PhD degree from the University of Vienna, 13 from before and 37 from after 1918. This shows that the University of Vienna had almost monopolized academic education in Austria, a situation substantially different from the one in Germany.

Career opportunities for outstanding young economists were limited. Economics in the interwar period was still taught at the law faculty, with only three chairs in economics. All three, formerly held by Böhm-Bawerk, Wieser as the successor of Menger (from 1903-22), and the economic historian Carl Grünberg, became vacant between 1919 and 1926. Of the newly appointed professors, only Hans Mayer, as Wieser’s handpicked successor, stayed within the tradition of the Austrian school, but his contributions did not make a lasting impact, and his later behavior in the period 1938-45 was morally and politically dubious. The other two chairs were given to Othmar Spann, a reactionary and anti-semitic supporter of the corporatist state, who vehemently opposed methodological individualism and instead favoured a holistic intuitive universalism; and Count Ferdinand Degenfeld-Schönburg, who is hardly remembered today. Neither Schumpeter nor Mises, who were the two most qualified candidates from Vienna, well-known internationally and
in the proper age for being appointed, became professor at the University of Vienna. The signals for the most promising of the younger generation of theoretically inclined economists were clear. They had to look outside Austria for professorships. Even in the years of the Republic, the law faculty was not inclined to offer substantial career prospects to Jews, social democrats, liberals, women, or other "suspicious" persons. Machlup was even denied the habilitation. This explains why the emigration of scholars began long before the "Anschluss" to Nazi Germany in March 1938.

Furthermore, it also explains why a great part of the intellectual debates took place outside the institutional structures of the university, in the famous Viennese circles. In chapter 2 of his book, Dekker rightly emphasizes the important role of these "Wiener Kreise" in cultivating economic knowledge (see page 33, where Dekker lists eight important circles together with the main participants and indicating relevant overlaps and differences.) The main emphasis of these circles was different: such as philosophy in the Wiener Kreis of Moritz Schlick, Rudolf Carnap and Otto Neurath; economics in the Mises seminar; or mathematics in the Colloquium of Karl Menger. One common element, however, typical for intellectual life in Vienna and enhanced by the fact that the debates took place outside disciplinary boundaries, was that the members had a strong interest in philosophy, politics, economics, mathematics, law, literature, music, and the arts. The Geistkreis, founded by Hayek and Herberth Fürth in the early 1920s, typifies this, and it is expressed in figures such as Alfred Schütz or in the verses of Felix Kaufmann. Dekker emphasizes the interdisciplinary discourse in the various Viennese circles and the fact that their intellectual concerns were driven as much by political and social concerns as personality.

However, there was not only mutual inspiration and identity-forming within the circles, but also rivalry, and scientific as well as political differences. Methodological individualism is widely considered as an essential component of Austrian economics. Emphasis on the subjective theory of value is typically a key element of most of the Viennese students of civilization. As one notable outcome, first, Mises launched the socialist calculation debate in the German-language area in the 1920s with his famous thesis that economic calculation in a socialist commonwealth is impossible, because there is no price formation on free markets. And, later, Hayek was involved in the controversial British version of the debate with Lange, Lerner, and Dickinson in the 1930s.
However, leading Austro-Marxists such as Otto Bauer and Rudolf Hilferding had been fellow students of Mises (and Schumpeter) in Böhm-Bawerk’s seminar, and it was Otto Neurath who was among the first main critics of Mises in “red” Vienna. Morgenstern, on the other hand, objected against the political nature of the works of Mises as well as of the Austro-Marxists.

Subjectivism took a special blend in the elite theories of Wieser and Schumpeter who attributed a key role to the dynamic entrepreneurs in promoting economic development. Emphasis on entrepreneurship, tastes and preferences, the concept of opportunity costs, marginalism, and the time structure of production are normally considered as essential components of Austrian economics. Dekker reflects on the tendency among “Austrian” economists in America to place the work of Schumpeter and the later work of Wieser outside the Austrian school because they represent a deviating current. I think Dekker is right to disagree with this assessment.

It is a pity, however, that he almost completely abstains from economic theory. Fragments are contained in two boxes on “the case of interest” and “the socialist-calculation debate revisited” (85-86), but emphasis is given to the “moral effects of markets”. In that sense, box 1 ends with the statement: “A relatively low interest rate can then be interpreted as a sign that people are relatively easily motivated to abstain, and the Viennese students of civilization did not hesitate to consider low interest rate as a sign of an advanced civilization.” This is true if the low rates of interest would reflect time preferences of individuals, but definitely not if they are the consequences of easy-money policies of central banks, whether by Draghi’s ECB in the period 2010-17, or earlier on by Greenspan’s Fed. It is not difficult to imagine Viennese students of civilization such as Mises and Hayek, whose “Austrian” theories of the business cycle are essentially monetary overinvestment theories, among the fiercest critics of such modern monetary policies. Monetary factors cause the cycle but real factors constitute it. Dekker refers to Menger’s goods of higher order several times, indicating thereby the importance of the time dimension, but he does not enter into a discussion about the Austrian theory of capital, shaped by Böhm-Bawerk, and integrated as an important element in Hayek’s business-cycle theory.

Instead, emphasis is placed on markets as fundamental cultural institutions, indispensable for informed decision-making. Moreover, it
creates moral effects by taming animal spirits and executing a disciplinary function. Dekker rightly points out that “Mises and Hayek… believe that markets are the central elements of our civilization, both as products of civilization, and as means to preserve that civilization” (89). Dekker repeatedly puts emphasis on restraints, or “strains of civilization”, due to individuals’ necessary submission to impersonal rules.

Dekker has a special chapter (chap. 6) on the “therapeutic nihilism”, widespread among Viennese students of civilization, which he confronts with social engineering or Keynes’s famous statement where he compares economists with dentists who could cure a disease successfully. In contrast, therapeutic nihilism is “diagnosing social ills without prescribing remedies for them” (111). Now, medicine metaphors were quite common in business-cycle theories—with expressions such as ‘diagnosis’ or ‘pathology’ of the crisis, and ‘therapy’ being used prominently in the crisis theory of Wilhelm Roscher, to whom the founder of the Austrian school of economics, Carl Menger, had dedicated his Principles. For the Viennese students of civilization, it creates one of several tensions. Should one maintain the role of a detached observer, who passively looks at and analyzes the patient who is incurably ill? This sentiment is expressed most cynically in Schumpeter’s statement: “If somebody wants to commit suicide it is a good thing if a doctor is present” (121). Or, should one actively intervene politically to avoid the worst?

In the Great Depression of the 1930s, economic and political liberalism was in its greatest crisis. This crisis manifests itself not only in Austria and Germany, where Ordoliberalism developed as a response to the challenges of the devastating economic and political conditions. Interestingly, we can also observe a tension here between the members of the Frankfurt Institute for Social Research, who, as a kind of left-wing analogon to the extreme liberal Viennese students of civilization, remained mainly in the role of passive observers and analysts of the collapse of civilization; and a scholar such as Adolph Lowe, who, like Norbert Elias, was at the Goethe University in Frankfurt until he was dismissed in 1933, when the Nazis came to power. Lowe, like Keynes, was a social liberal, always actively engaged in reformist policies and in fighting for the defense of the democratic Weimar Republic.

From 1926-30, Lowe served as the head of a new research department of statistical international economics and trade cycles at the
Kiel Institute of World Economics. His questioning the compatibility of the incorporation of business cycles within the prevailing equilibrium theory became a main challenge for Hayek, who became the founding director of the Austrian Institute of Business Cycles in Vienna in 1927, as chapter 1 of Hayek’s Monetary Theory and the Trade Cycle (1933) indicates. Most interesting in Dekker’s context, however, is The Price of Liberty (1937), written in British exile, in which Lowe inquired into the conditions of political freedom. Here, the author is a shrewd historical, political, and sociological observer praising “spontaneous conformity” of liberal Britain as “the only mode of life through which a large-scale society can reconcile the conflict between freedom and order” (Lowe 1937, 6). The price of liberty is individuals' readiness to conform to particular constraints and controls that are manifested as structures, institutions and rules. The functioning of the latter depends on subjective factors such as the understanding and approval of their purpose by those who are restrained.

Many of these topics reappear in Lowe’s last book Has Freedom a Future? (1988), which deals with the conditions under which freedom can be established and maintained vis-à-vis the radical transformation to which contemporary Western society is exposed. This concern with a viable order, both stable and free, permeated Lowe’s entire work. Emphasis is on the revitalization of the Western tradition properly understood; for example, the individualism rooted in social responsibility. What is at stake here is the problem of balancing the private and the public domains, where the latter is conceived as the guardian of viability of the former. This explains his plea for a new communal ethic in Has Freedom a Future? Lowe is considered by Kenneth Boulding—whose reflections on economics as a moral science figure prominently in Dekker's book (105ff.)—as “one of the few people in the world today who deserves the title of economic philosopher” (Boulding 1965, 139, my italics). It is a pity that Dekker does not compare Hayek with Lowe. In Lowe’s work, like in that of other social scientists at the Goethe University in Frankfurt in the second half of the Weimar Republic, disciplinary boundaries did not exist, just as in the intellectual environment of the Viennese students of civilization in the interwar period.

Dekker’s attempt has some similarities with Wittgenstein’s Vienna by Janik and Toulmin (1973), who placed the work of the famous philosopher into the life and culture of his native city to better
comprehend his work. To a great extent, Dekker succeeds in arguing in favour of studying economics and the history of economic thought from a cultural point-of-view. It is not surprising that in a project like this many open questions remain. But it has to be stated that the author covers and manages a great amount of the relevant literature. Thus, Dekker also emphasizes that in their postwar works, Viennese students of civilization, such as Hayek and Popper, have “reconceptualized the future as open, and its course as a shared responsibility for mankind” (152). Sick patients clearly favour doctors who propose active treatments to cure the disease and disdain therapeutic nihilists. This is a main explanation for Keynes’s success in the Great Depression over economists such as Hayek and Mises who were preaching that the market and the private sector are best left alone to heal themselves. Dekker elucidates that Hayek’s engagement in the Mont Pèlerin Society does not only reflect the tradition of the Viennese students of civilization in providing a platform for scholarly debates transgressing disciplinary boundaries, but also indicates a more activist stance to promote (neo)liberal policies.

Hansjörg Klausinger (2006) has shown well, based on four of the leading representatives of the Austrian School (Haberler, Hayek, Machlup and Mises), how the emigration to the United States contributed to a process of de-homogenization. This process reflects different processes of acculturation and stretches across the full range from perfect assimilation to isolation, and niche cultures, as a consequence of the fact that “the Austrians drew on a specific tradition that was rather alien to Anglo-Saxon economists” (Klausinger 2006, 627). Mises was alienated by the rise of econometrics and mathematical economics after the war, and between 1945 and 1969 offered a seminar at New York University in the style of his earlier private seminar in Vienna, thereby at the same time an outsider to the mainstream of economics and instrumental in creating an Austrian School in America. The others, as well as Morgenstern and Schumpeter, on the other hand, made careers at leading universities. But some of their main works, such as Hayek’s The Constitution of Liberty (1960) or Machlup’s pioneering study The Production and Distribution of Knowledge (1962), which emphasizes the crucial role of knowledge and information for a society, remain firmly within the tradition of the Viennese students of civilization. Dekker addresses all these aspects well, which makes his book worth reading and stimulates further reflections on the conditions
of founding and maintaining an international civil society, in the present and in the future.

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Like analogue radio, progressive taxation is a creature of the twentieth century: After enjoying a rapid rise in the early decades of the century, it suffered a marked decline as the century came to a close. Unlike analogue radio, progressive taxation might still be worth having. This motivates an inquiry into what force can account for its varying fortunes over time.

An intuitive explanation for the emergence of proportionately higher taxes on the rich appeals to the development of universal suffrage and the associated move towards representative democracy. Most countries that have practiced progressive taxation tend to have undergone a process of 'democratization' prior to raising taxes on their wealthier citizens. The late Industrial Revolution saw a growth of labour movements that finally upset the historical monopoly that the economic elite (and, then, only its male members) had with respect to effective political influence. As legislators began to represent the wider public, governments started taxing the rich just because that’s what voters demanded. This intuitive view seems equally able to explain the subsequent fall of progressive taxes as the century wore on: legislation has once again become steadily captured by the influence of wealthy individuals and corporations, depriving the masses of their representation among policy makers.

The hypothesis that progressive taxation rides on the back of representative democracy typically goes unexamined, though I suspect that most people—inosfar as tax policy is something they think much about—are disposed towards accepting some version of it. I was certainly so disposed myself, prior to reading this excellent book. Over nine chapters, Kenneth Scheve and David Stasavage take a proper look at what actually explains the fast growth followed by the slower but
certain decline of progressive taxation, and how this should guide our expectations about taxation in the future.

Based on an extensive study of available data, they show that the intuitive hypothesis—the idea that taxing the rich is merely a by-product of effectively representative democracy—is false. Instead, the more decisive factor is shown to be the mass mobilization of the population that occurs (or used to occur) in the event of a state embarking on a large-scale war. Such mobilization is precisely what took place in various countries in the early twentieth century, specifically those that participated in the wars of 1914-1918 and 1939-1945. These wars were fought in ways that exposed very large swaths of the general public to being killed. Just as crucially, the changing nature of conflict since the mid-twentieth century—with less emphasis on manpower and more on sophisticated weapons technology—has meant that governments can project military force without calling on their populations to make the ultimate sacrifice. These facts, according to the authors, account for both the rise and fall of taxes on the rich within the same century.

The more precise view that Scheve and Stasavage defend goes something like this: On the whole, progressive taxation becomes politically viable when a sufficiently compelling “compensatory argument” (33) becomes popular. Broadly speaking, such an argument exploits the idea that progressive taxation is a way of correcting for whatever privileges the state grants to people, at least when there is no easy or desirable way of removing the source of the privilege in question. The World Wars of the twentieth century enriched a small class of people who owned capital (which became profitable due to the war effort) and were generally too old to fight. It was considered grossly unfair to conscript the manpower of young men without also introducing the “conscripting of wealth” (150). The important consideration, according to the authors, is that it takes something as dramatic as large swaths of the population getting killed before compensatory arguments become compelling enough to cause a serious increase in progressive taxation. While the viability of progressive taxation is apparently dependent on a moralized concern about fairness rather than one about efficiency, the unequal treatment of citizens needs to become rather severe before taxing the rich will become a serious goal for policy makers.

A brief synopsis of the book will give a sense of how the authors develop and defend this claim. Chapter 1 identifies the intuitive
hypothesis about the dependency of progressive taxation on political representation, and separates it from the logic of compensatory arguments. Chapter 2 then traces the intellectual origins of compensatory arguments, distinguishing them from the superficially similar idea of ‘ability to pay’ as a principle of tax justice. It then discusses some experimental evidence suggesting that fairness norms are embedded in human practice in ways that dispose us to treat compensatory arguments as compelling when certain conditions obtain.

Subsequent chapters get stuck into reviewing the data on actual tax policy. Chapter 3 examines the history of the income tax, which was pioneered by the British in 1799. With the partial and temporary exception of the American civil war, it took over a century before income taxes were designed in ways that made them progressive. Data for belligerent nations after 1918 shows a clear spike in income tax progressivity. Data for non-belligerent countries shows no such spike, though some of these countries adopted progressive taxation in the years after World War I. Chapter 4 examines inheritance taxes, for which the data are somewhat parallel: Again, inheritance taxes stayed low in the nineteenth century (often single rates that stayed within single percentage digits) and rose among belligerent nations at the onset of World War I.

Chapter 5 turns to the details of what made compensatory arguments forceful in the context of the First World War, with reference to such things as the growth in war profits (where owners of certain forms of capital gained a windfall from government spending on the war) and the general discrepancy between those who were most at risk of being killed (typically young men) and those who tended to own capital (typically older men). Chapter 6 then examines how these conditions obtained in slightly different ways in the various belligerent nations.

Chapter 7 deals with the evolution of technology associated with waging war in the second half of the century. Here the emphasis is on the fact that transportation technology evolved ahead of weapons technology. This created a period during which the projection of military force remained dependent on human labour, as opposed to missiles, aeroplanes, and the like, but where technology was available to greatly improve governments’ ability to move human labour around. According to the authors, this explains why mass mobilization arose
after the introduction of railways, before declining with the emergence of precision weaponry after the Second World War.

Chapter 8 moves on to the decline of progressive taxation in the second half of the twentieth century, as compensatory arguments lost their popular force. Finally, chapter 9 offers some brief suggestions about the prospects under which compensatory arguments might make a comeback without the help of mass mobilization for war.

In appraising this book, I might begin with a caveat: By and large, this book’s main claims are about causation in fiscal policy. The author of this review is a philosopher whose training lies more towards the analysis of concepts and moral arguments, not in asking what sort of historical data provides what sort of evidence. Accordingly, I will not try to dispute the authors’ central hypothesis. I should say that the authors have done an excellent job of making their project accessible to non-specialists and I would heartily recommend this book to any philosopher (or other outsider) who works on anything to do with progressive taxation. It is worth mentioning that Scheve and Stasavage frequently connect their claims with philosophical principles or ideas about tax justice, which philosophical readers will appreciate.

That caveat made, I will nevertheless raise some critical reactions to this book. First, there is the question of whether the huge level of sacrifice associated with mass mobilization is both necessary and sufficient to bring about progressive taxation, or merely necessary. At times, the book gives the impression that mass mobilization is all it takes, that is, that the former claim is true. The latter claim—that mass mobilization is merely a necessary condition—is still an impressive conclusion. But it allows that other factors remain important.

Relevant here is an important complication about causal priority that the authors themselves acknowledge. Participation in a war of mass-mobilization or conscription may well popularize a compensatory argument of the sort that compels a government to introduce progressive taxation. But wars of mass mobilization don’t just cause unfairness. The great wars of the twentieth century were also an existential threat, at least to the European belligerents. This suggests one alternative hypothesis, namely, that increases in progressive taxation come about at least partly due to government suddenly needing to raise a lot more cash. If states’ real (or primary) motivation for raising taxes on the rich was just to pay for the wars they were fighting, then any official appeal to compensatory fairness, though popular, may have
been *post hoc*. That is to say, states may have simply taken advantage of compensatory sentiments among their public when the motivations of actually policy makers were somewhat different, but merely converged on the same sort of end. This would suggest that mass mobilization may indeed be a necessary condition for the emergence of heavier taxes on the rich, but one that is only one member of a set of *jointly sufficient* conditions.

To their credit, Scheve and Stasavage identify this complication and take considerable pains to address it, particularly towards the end of chapter 5. In effect, their answer is that while an existential threat may explain a rise in taxes, it does not explain a rise in progressive taxation in particular. For one thing, progressive taxation could easily have been employed by many states during the nineteenth century, particularly with respect to inheritance, but was consistently avoided. This is in spite of the fact that states frequently needed to raise revenue during this time, in part to fund participation in war. Crucially, these wars did not involve mass mobilization or high levels of conscription. This can be explained by the absence of effective transportation technology. Conscription for the large European conflicts of the early nineteenth century tended to be near locations in which military hardware was concentrated, such as port towns with naval dockyards. In sum, existential threats aren't the decisive factor. All in all, then, the evidence suggests that mass mobilization is a decisive factor in bringing about progressive taxes.

This response is persuasive as far as it goes. But there may be other reasons to think that the burdens of mass mobilization are merely a necessary condition for bringing about taxes on the rich. Some countries with relatively undemocratic conditions have continued to practice mass mobilization after more democratic countries started to switch to technology. The Iran-Iraq war of the 1980s involved high levels of conscription (and casualties) between two belligerent nations that did not grant their citizens democratic freedoms. This war was expensive enough to motivate Saddam Hussein's subsequent invasion of Kuwait. But I am not aware of any spike in progressive taxation that occurred after its commencement. It would have been nice to see Scheve and Stasavage offer some comment on any case where a non-democratic state forced its people to fight on a relatively large scale without adjusting its tax policy in the manner of belligerent nations during the World Wars. Without testing for what happens when countries practice
mass mobilization without democracy, it will be difficult to wholly dismiss the democracy hypothesis as having some explanatory power even if mass mobilization is the more crucial factor.

Second, I think it’s fair to say the book spends rather more time trying to explain the rise of taxes on the rich than trying to explain their subsequent fall. Much, however, might be asked about exactly what is behind the gradual decline of progressive taxation. It would be interesting to look into whether progressive taxes have held up more in countries that continue to practice conscription, such as South Korea and Turkey (both of which have granted their citizens relatively strong conditions of democracy in recent decades). Israel is an example of one country that operates as a democracy under the fairly constant prospect of sending members of the general public into battle.

Whether or not the decline of progressive taxes is greater in countries that have abolished conscription, it is unlikely that this can be explained wholly by this factor, given the presence of other plausible candidate explanations. Australia, for example, got rid of inheritance taxes relatively soon after Second World War (while retaining relatively progressive income taxes). The standard explanation is that fiscal policy had been devolved to the level of state governments. Consequently, the inheritance tax was a casualty of domestic tax competition as different states fought to attract wealthy retirees (Pedrick 1981). This has little to do with citizens becoming relieved of a duty to fight in wars. Scheve and Stasavage offer some discussion of tax competition in chapter 8, but focus more on the international variety associated with globalization and the international mobility of capital. Overall, more might have been said about factors contributing to the ebb of taxes on the rich besides the receding memory of mass mobilization and the casualties it inflicted on the wider population.

I hasten to add that these critical remarks seek to highlight omissions and not oversights. There is something churlish about responding to a detailed data-driven study by simply asking why more data wasn’t unearthed and examined, as if social scientists can simply perform this task as easily as scholars from more theoretical disciplines can demand that they do it. I am able to advance these criticisms, so far as they are cogent, only because the book makes the sort of progress that enables them to spring to mind.

To summarize, Scheve and Stasavage have produced an outstandingly valuable history of progressive taxation. It will be
enormously informative to anyone labouring under the misapprehension that achieving a fair income or inheritance tax is simply a matter of having legislators represent the people rather than the economic elite. But the book will be almost as informative to anyone else, just because of the impressive level of detail it contains, and the power with which the authors handle their data. Political philosophers will disagree about the moral case for or against taxing the rich, but I think Scheve and Stasavage’s work will become essential background reading for anyone who thinks they can make this case one way or the other.

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Economics, as the volume editors Ivan Boldyrev and Ekaterina Svetlova submit, does not merely describe or explain, but also actively shapes—“performs”—the economy. This is how we may understand the performativity-of-economics thesis: Economists shape markets either directly, through the design of theories and policies based on them; or indirectly, through shaping cognitive infrastructures that economic agents use to make economic calculations, buy, and sell.¹

Boldyrev and Svetlova are interested in understanding what performativity is (and whether there is such a thing at all), and how the performativity of economics matters for social life (for example, in individual and collective sense making, or in the stabilization of collective practices). And indeed, both the existence and relevance of performativity are hotly contested issues. This, if anything, is what *Enacting Dismal Science* manages to prove. When it comes to performativity, careless generalizations have been overabundant—making it difficult to have a sensible conversation about the impact that economists may have in shaping the social world that they study. This volume takes on the challenge and struggles to get over bitter and unresolved disputes.

Conversations on performativity might at times give the impression that the world we live in has been prefabricated by an almighty clique of ivory-tower residents without whom, as Fabian Muniesa (chap. 5) implies, “things such as ‘economic preferences’, ‘marginal utility’,

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¹ The seminal contributions to this thesis have come from Callon (1998) and Mackenzie (2006). More broadly, the performativity thesis may be read as an aspect of the discussion on whether economic ideas have consequences (see, for example, Colander 1991, or Šťastný 2010). The standard answer to this question is usually: “Yes, economic ideas influence policymaking”. The performativity thesis, however, wants to go beyond such an answer and look into diverse manners through which economics shapes everyday understandings.
‘transaction costs’, ‘equilibrium prices’, ‘rational expectations’, ‘aggregate demand’, ‘credit risk’ or ‘cost of capital’” would be much less prominent then they are today, or they would not exist at all (111). Muniesa follows Michel Callon (1998) arguing that economies are embedded in economics, rather than in, say, civil society.

Contrary to such strong claims, many practicing economists affirm that they merely describe—or, perhaps, now and then manage to discover and explain—routines that have already been out there, and that would have existed regardless of whether we theorize about them or not. While the former view overestimates the ability of economics to shape the economy, the latter neglects it almost completely (Dequech 2008).

One of the main issues that Boldyrev and Svetlova (chap. 1) set out to shed light on is “the familiar question on why some forms of knowledge become performative while others do not” (17). To answer this question, we need to make clear what we mean when we say that knowledge becomes performative. If we abandon the metaphysical worldview where everything (or nothing) is performative, we might identify a specific kind of performativity that makes a difference in the world even after we account for economic interventions based on economic reasoning or vested interests so that, had it not been for a particular set of ideas, the world would have been a different place.

This kind of performativity is often illustrated by the use of the Black-Scholes model which was meant to provide a short-hand for calculating risk and return of financial assets, but, once adopted by market participants, came to be a near-perfect description of that market (Mackenzie 2008). The key point is that the model—which is first developed to describe or explain a set of phenomena—in fact starts to influence these phenomena to correspond more to the assumptions of the model, regardless of whether the agents know the model or not. This influence does not happen merely through changing beliefs, although how people understand the world is clearly important; it also happens through technological changes that start reflecting the new theory. In the case of the Black-Scholes model, an important

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2 Mackenzie points out that the Black-Scholes model provided legitimacy for trading with derivatives, making it conceptually distinct from gambling: “At least a small part of the [performative] process, however, was the way in which, by making options trading seem legitimate, option theory contributing to the emergence of the high-volume, efficient, low-transaction-cost liquid market the theory posited” (Mackenzie 2007: 256-257).
technological artifact was simply a sheet of paper full of seemingly randomly scattered numbers that made it possible for buyers and sellers in markets to communicate in a wholly different way. As Francesco Guala (chap. 2) argues, economic theory thus arguably provided a conventional way to set prices, making the Black-Scholes model effectively performative. It seems that, at least for a particular period of time, the formula made a difference by shaping the world it had intended to explain in the first place.

Was the IS-LM model performative in the same way as the Black-Scholes formula might have been?3 Hanno Pahl and Jan Sparsam (chap. 7) are skeptical. Few people will deny that the mathematical incarnation of Keynes's macro-economic theory as incorporated in the neoclassical synthesis developed by Hicks, Hansen and Samuelson did not make a difference in terms of policymaking. The technocrats of the world are often accused—and, often, rightly so—of seeing and treating world economies as if they were hydraulic machines. But if the IS-LM model indeed were performative, it seems to have been so in a generic way through policymaking, economic analyses, fiscal activism and monetary policies. It does not seem to be the case that a widespread use of the IS-LM model shaped the world to make it truer (or less true, for that matter) to its economic representation.

Did the IS-LM make wages stickier? Was stagflation a case of the counterperformativity of the Phillips Curve? Was there any aspect of the model that shaped the world, regardless of whether the agents understood the model? While economics, and the IS-LM model in particular, does shape the world in a generic way—by, among other things, providing tools for policymakers—the nature of such effect seems to matter for an understanding of the impact of vested interests, rather than for disentangling the impact that ideas have on molding the social life.

Philip Roscoe (chap. 6) calls for radicalism when it comes to performativity of economics. Roscoe wonders whether “an economist [would] be upset if ‘accused’ of designing markets?” (131) But what kind of an economist do we have in mind here? It seems to be abstruse for some non-economic critics of economic performativity that economics is not a homogeneous mass that unambiguously produces consensus

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3 We might, of course go beyond and ask whether the introduction of Gross Domestic Product made a difference for the actions and interactions of economic agents. What about the efficient market hypothesis, or, perhaps, the Doing Business index published by the World Bank Group? Do these theories or their aspects perform the economy?
about how to efficiently allocate resources by way of fine-tuned competitive markets. Instead of reifying economics as such a homogeneous mass, we should consider which economic theories are performative and why, rather than merely say that economics, as a whole, is performative.

A brief overview in history of economics should be sufficient to show that political economy, or economics, has been a perpetual debate over key issues producing disagreement, diverse schools of thought, and competing methodologies. The seeming post-WWII triumph of neoclassical economics is undeniable, but if it is the case that economics is based on a pluralist methodology that produces anything but a consensus on a number of key issues, then we should be skeptical when we hear, as Roscoe contends, that merely through describing the world in a particular way, economists in fact create that world (133f). If neoclassical economics is performative, does post-Keynesian economics also have the capacity to perform the economy? If so, “how could multiple conflicting theories coexist and create incompatible worlds?” (Hodgson 2010, 403) Does anything go or are there some limits on performativity (Felin and Foss 2009a; 2009b)?

I will address limits on performativity below, but I suggest we now pause to think about what economists actually do agree on. If there is one thing that economists seem to agree on almost without exception, it is that incentives matter. Carsten Herrmann-Pillath (chap. 3), however, argues that incentives are nothing else than a kind of signs and, as such, they must therefore be interpreted by those who perceive them. If all economic agents interpret incentives in the same way, we may, indeed, infer that under such a system of tight institutional constraints, the same set of incentives will lead to the same action—given a stable set of preferences. If, however, incentives and preferences are not perfectly separable, then incentive structures may, in fact, not be neutral with respect to preferences as economists often assume. In such a case, we may say that incentive structures are performative. This, in turn, implies that we cannot expect any universal regularities, because the same set of signs or incentive structures may mean different things to different agents and may thus lead to different behavioral outcomes.

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4 For a theoretical account of tight system constraints and their effect on economic coordination, see Koppl (2002). To see how researchers might—intentionally or not—have created such a system of tight constraints in the lab, thus conditioning the outcome of their experiment, see the chapter by Juliane Böhme (chap. 4).
If theories are made of signs and symbols and if these signs need to be interpreted before they can influence agents through their preferences, why should we then expect that an economic theory, or a model, will shape the reality it is supposed to explain in a particular way? Will a particular economic model have a performative effect at all? And if so, how can we know that the effect will not be “counterperformative”, in the sense of making the explained reality correspond less to the assumptions of the model (Mackenzie 2006, 31)?

To avoid dead-ends and to help resolve bitter disputes, the concept of performativity must become useful and, above all, operational in answering such questions. Boldyrev and Svetlova suggest that, to that end, we zero in on a couple of key questions: Why do some ideas become performative while others do not? Why do some forms of knowledge affect the reality in a particular way, making the reality more (or less) like the knowledge we have of it?

First, to help the performativity discussion progress, we need a criterion that will help us make the concept of performativity less metaphysical and more empirical, by saying when a theory performs the economy and when it does not (as opposed to saying that everything/nothing is performative). Secondly, we must specify conditions that a theory needs to satisfy in order to perform, rather than (merely) explain economic phenomena. These two criteria may tell us something about what makes new ideas, theories, or models sound, and conceivably coordinative.5

Svetlova (chap. 8) argues that ideas perform economies by means of the causal process of persuasion. But trying to explain the emergence of novelty, be it in new theories, new products or in new institutional rules, we cannot help but notice there are limits to entrepreneurial persuasion. The entrepreneur must make sure that a critical mass buys into the new idea, thereby adjusting its conduct with respect to it. A novel idea or a new theory may require that it is more sound—or, perhaps, more coherent with the existing structure of knowledge—than its counterparts in order to succeed. Thinking about economic theories and models in this way sheds new light on the active role that economists

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5 “Soundness” of new ideas alludes to the concept of “saleableness” (Absatzfähigkeit) introduced by Carl Menger (1892) to explain why certain commodities are more likely to spontaneously become a universally accepted means of exchange. Perhaps, as it is the case with commodities, all ideas are not equally “saleable” or “sound” and understanding what determines the “saleableness” of ideas may help us understand which ideas are performative and why.
play in developing the organized body of knowledge as well as on the kind of reality checks they need to consider when proposing a new theory. We can now better understand the space for the academic entrepreneur who needs to sell academic ideas to particular constituencies, before these ideas can start molding the institutional infrastructure. Ideas do have consequences, but not without an active process of ‘selling the idea’.

Besides persuasiveness, the present book offers three other factors that might explain the success of some economic models acting upon the social world. Guala (chap. 2) suggests that, in the case of the Black-Scholes formula in particular, it was the epistemic authority of economics, the simplicity of the formula, and its uniqueness (39-40). These three factors, suggests Guala, could help us understand why the formula became a focal convention: People must have faith in the idea (even if they do not understand its underlying logic). They must be able to easily apply that idea to identify an adequate course of action. And the idea must be fairly unique so that no prominent competitor can cast doubt on it (39-40).\(^6\) While certainly not final, such a list of factors that explain the potential performativity of ideas makes the idea of performativity more tangible. A list of factors explaining performativity is a step in the right direction helping us to understand why, for example, economists cannot implement just about any kind of market design without respecting the conventional context.

Boldyrev and Svetlova have set out a challenging and important task to push forward the dispersed streams of thought on performativity of economics. While this volume offers a solid reconstruction of the historical origins of the concept, and while it addresses some of the main criticisms of performativity, the question remains whether we are converging to anything like a theory of performativity. If so, it seems we still have a long way ahead.

\(^6\) Relatedly, Brisset (2016), suggests that for a theory to become performative, it must be empirical, self-fulfilling and coherent. In other words, the theory (or its aspect) must identify exclusive forms of conduct constituting clearly identifiable frames for such a conduct (an example is the “nudge” theory classifying behavior as rational or irrational). Secondly, a theory should become true when people (intentionally or unintentionally) accept it. And, thirdly, a theory must survive a reality check to become performative. In other words, it must fit within existing understandings (social frames) meaning that not all theories can be made to perform the reality. For a related notion of institutional coherence, see Lachmann (1971).
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Alexander Linsbichler’s Was Ludwig von Mises a Conventionalist? marks a significant contribution to and advancement upon the existing literature concerning Mises’s epistemology. Linsbichler reviews the primary and secondary literatures on Mises’s epistemology through the lens of contemporary philosophy of science, and clarifies several confusions that have long confounded these literatures. Possessed of a seemingly encyclopedic knowledge of twentieth-century philosophy of science, Linsbichler shows what can happen when non-epistemologists try to do epistemology without an adequate understanding of the relevant philosophical history, theories, and methods.

After considering the possible interpretations, Linsbichler makes a compelling case that practicing Austrian economists should adopt conventionalism about Mises’s assertion of the a priori nature of the so-called ‘action axiom’ (‘Man acts’) which underlies praxeology, Mises's general science of human action. Whatever the master himself may have believed about epistemology and economic methodology, Linsbichler argues that the action axiom is best interpreted as an analytic sentence—one of many in principle defensible definitions of the proper sphere of economic inquiry, to be defended by Austrians on pragmatic grounds, rather than a synthetic proposition about what humans do in the world of experience. This argument exemplifies the humble anti-dogmatic approach that Linsbichler brings to a literature too often riven by intransigence on all sides.

This well-deserved praise notwithstanding, however, a few worries remain. Elegantly executed though the project is—and, as the remainder of this review is mostly critical, I want to emphasize that I did learn much from Linsbichler's analysis—there are aspects of the argument that strike me as somewhat misconceived. Linsbichler offers a rational

AUTHOR’S NOTE: Many thanks to Alexander Linsbichler for his comments on an earlier draft of this review. Any errors that remain are my own.
reconstruction of Mises’s epistemology that is, as he acknowledges, mostly removed from Mises’s historical context. Linsbichler reconstructs Mises’s position according to a taxonomy of epistemologies due to Karl Popper and further developed by Karl Milford. It is not obvious that this classification scheme is relevant to the problem of categorizing Mises’s epistemology.\(^1\) Surely, if we wish to reconstruct Mises’s epistemology, we want a categorization that expresses the epistemological possibilities as Mises understood them. If the Popper-Milford taxonomy reflects Mises’s epistemological understanding, then all to the good. But, if this categorization includes epistemological possibilities that Mises failed to recognize, or excludes epistemological possibilities that he did recognize, then its significance for the problem at hand is dubious.

The grounds that Linsbichler adduces for the relevance of the Popper-Milford scheme in this regard are, I think, not adequate. No case is made that this categorization reflects Mises’s epistemological milieu. Instead, Linsbichler argues that, as a methodologist, Mises was primarily concerned with finding a solution to the problem of induction in the social sciences. The Popper-Milford taxonomy classifies epistemologies according to responses to the problem of induction. Therefore, the argument seems to go, the Popper-Milford classification scheme is applicable to the problem of reconstructing Mises’s epistemology.

However, saying that a methodologist is concerned with the problem of induction in their respective field of inquiry is a bit like saying an economist is concerned with prices—it does little to distinguish the methodologist in question from any other methodologist. Linsbichler provides no evidence that Mises was more profoundly disturbed about the significance of the problem of induction for the social sciences than any other methodologist of his own, or any other, era. If the application of the Popper-Milford taxonomy is licensed by Mises’s concern for the problem of induction, then this same taxonomy is relevant to virtually every epistemologist and methodologist of (at least) the last three hundred years. But, this conclusion is problematic from a historical perspective.

Without evidence to the opposite effect, one might worry that the Popper-Milford scheme either includes or excludes epistemological innovations of more recent vintage that had yet to be explicated in

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\(^1\) In Linsbichler’s defense, the relevant chapter of the book opens with a rather cryptic epigram that seems to warn the reader that the relevance of any classification is always a matter of perspective.
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Mises’s day, much less three hundred years ago. Note that I am not arguing for the irrelevance of the Popper-Milford taxonomy, but merely asking for better substantiation of its relevance. Perhaps the Popper-Milford taxonomy is the most appropriate scheme for reconstructing Mises’s epistemology, but this thesis is not adequately established by the claim that Mises was concerned with the problem of induction.

However, I think there is a problem that runs deeper than the absence of a sufficient argument for the applicability of the Popper-Milford classification scheme. The book’s central, if unexamined, assumption that there is some coherent Misesian epistemology to be rationally reconstructed ignores the fairly extensive evidence manifested in both the primary and secondary literatures that Mises was simply, and thoroughly, confused about matters epistemological. Linsbichler correctly identifies the problem of the epistemological status of the action axiom as the key to properly categorizing Mises’s position (Scheall 2017). Mises repeatedly and forcefully insisted that knowledge of the action axiom is entirely a priori, that contact with the world of experience is neither the source of, nor a guide to knowledge of human action (Mises 2003, 13-14; 1998, 64; 1962, 71-72). He never explicitly rejected this claim in print.

Yet, if Israel Kirzner (2001) is to be believed (and I do not doubt his testimony), Mises “told him [Kirzner] that the action axiom was derived from ‘experience’” (quoted in Leeson and Boettke 2006, 248, fn2). Mises (1998, 34) also insisted upon the “essential and necessary […] character of the logical structure of the human mind” immediately before claiming that “[m]an acquired […] the logical structure of his mind in the course of his evolution from an amoeba to his present state” (Mises 1998, 35). The evolutionary epistemology implied by this latter statement would, if adequate, undermine the former assertion of the necessity of the mind’s logical structure. If it is a contingent fact that we evolved as a species in the way that we did—which is, of course, an implication of biological evolution—then the logical structure of the human mind could have been different than it is and, thus, cannot be essential and necessary. This conjunction of propositions suggests confusion, either about the multiple meanings of necessity by then common in the philosophical, logical, and scientific literatures, or about the highly contingent nature of evolutionary processes.² The problem of rationally reconstructing

² There are passages in Mises’s methodological writings that suggest he was either not privy to or did not appreciate the significance of many developments in contemporary
Mises’s epistemology is that of reconciling these (and other) instances of seeming epistemological incoherence.

I do not doubt that there is some way to remove the tension from these seemingly inconsistent propositions. However, Mises provided no such unifying explanation himself, leaving the task mostly to his intellectual descendants. Unfortunately, these scions have never agreed among themselves on a single understanding of the epistemology of the action axiom. Mises provided no criteria for choosing between secondary interpretations. Thus, the apparent inconsistency of the primary literature is recapitulated in the secondary literature. Mises’s epistemology can be and, in fact, has been interpreted in ways that are mutually exclusive. This is not a good thing. Rather, together with the apparent inconsistency of the primary literature, it is a bright, burning, hot-pink neon sign marking the epistemological muddle left by Mises. It is of course perfectly normal to discover tension in some body of secondary literature. It is not normal to find in the secondary literature of a coherent thinker mutually exclusive interpretations each more or less equally supported—and undermined—by the relevant texts. So, the worry is that Linsbichler has set himself a hopeless task, that of reconstructing a position that may not be reconstructible, or, more carefully, a position that can be reconstructed in myriad ways, with few grounds for choice between them.

One obvious response to this predicament is to choose the most generous rendering of Mises's position. Unfortunately, Mises made it difficult to treat his epistemology charitably. It is obviously more generous to interpret Mises’s apriorism as ‘moderate’—as less extreme than it seems at first glance. It is more charitable to attribute to Mises some conception of the relationship between perceiver and perceived that soothes the rationalist sting of the claim of the epistemological impotence of experience with regard to knowledge of the action axiom. A charitable interpreter—and Linsbichler is certainly a charitable interpreter—wants to read this as something other than what it appears, an overweening rationalistic claim for some mysteriously perspicacious powers of the human mind.

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philosophy and natural science. For example, as late as his last methodological work, 1962's *Ultimate Foundations of Economic Science*, Mises (12-14) argued for Euclidean geometry as an example of the Kantian synthetic a priori, a position undermined by the discovery of non-Euclidean geometries in the nineteenth century (Caldwell 1984, 368 makes the same point) and further confounded by Einsteinian relativity. Similarly, Mises (1998, 72-91) continued to argue against the possibility of polylogism long after the existence of multiple logics had been established empirically.
However, any such attempt to read Mises’s apriorism as merely “moderate” runs up against the extensive evidence of his epistemological extremeness. In effect, one is forced to choose between a charitable reading that is, at best, weakly supported by the available textual evidence, or an extreme interpretation that is well-supported textually, but patently ungenerous. One is forced to choose between taking seriously, for instance, the perhaps offhanded comment recounted by Kirzner that knowledge of the action axiom is derived from experience, or the many places in Mises’s writings where he explicitly, and forcefully, denies experience any role in our knowledge of human action. One is made to choose either Mises’s claim of man’s epistemic fallibility, or his assertion of man’s infallibility about the action axiom.

Any proposition can be inferred from a contradiction. The fact that many mutually impossible epistemological propositions have been inferred from Mises’s writings is an abductive warning that there may be nothing of substance—no ‘there’—there. That is, the best explanation of the chaotic state of the literature is Mises’s own epistemological confusion. Ultimately, we simply do not know what the historical Ludwig von Mises believed about epistemology.

Linsbichler’s analysis exemplifies this quandary. Linsbichler asks: Was Ludwig von Mises a conventionalist? Given that Mises explicitly rejected a conventionalist reading of his apriorism in several places (1998, 39-40, 86; 1962, 17-18), the answer is plainly: ‘No, Mises was not a conventionalist’. Yet, because it is possible to interpret various of Mises’s other comments as consistent with conventionalism, Linsbichler reads Mises as almost a conventionalist. At the same time, he also recognizes Mises’s fundamental incoherence: “Mises repeatedly and vehemently insists on the aprioristic character of praxeology. However, as a closer look shows, it is not clear what exactly he claims by stating ‘Praxeology is a priori’, and how his scarce arguments therefore are to be interpreted” (73; see also 114). It is difficult to avoid the conclusion

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3 Linsbichler (45) is such a charitable interpreter that he claims Mises was a fallibilist. Unfortunately, the quotation he chooses to substantiate this claim actually undermines it, as the quotation also has Mises defending infallibilism about the action axiom. “Man is not infallible”, Mises (1998, 68) writes, “…All that man can do is submit all his theories again and again to the most critical reexamination. This means for the economist to trace back all theorems to their unquestionable and certain ultimate basis, the category of human action” (emphasis mine). Apparently, according to Mises, man’s knowledge of the category of human action is infallible. This is not fallibilism properly understood.
that Linsbichler would have been better served to follow up the implications of this incoherence than to worry whether someone who explicitly rejected conventionalism might, in a roundabout way, be read as an unenthusiastic, self-hating conventionalist. The available evidence suggests that Ludwig von Mises was thoroughly out of his depths in matters epistemological. Without quite explicating it, Alexander Linsbichler has written a convincing defense of this thesis.

REFERENCES


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