



**ERASMUS JOURNAL FOR PHILOSOPHY AND ECONOMICS
VOLUME 12, ISSUE 2, WINTER 2019**

The Erasmus Journal for Philosophy and Economics (EJPE) is a peer-reviewed bi-annual academic journal supported by the Erasmus Institute for Philosophy and Economics, Erasmus School of Philosophy, Erasmus University Rotterdam. EJPE publishes research on the methodology of economics, history of economic thought, ethics and economics, and the conceptual analysis of inter-disciplinary work relating economics to other fields. EJPE is an open-access journal. For additional information, see our website: <<http://ejpe.org>>.

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TABLE OF CONTENTS

ARTICLES

- A Theory of Joint-Stock Citizenship
and its Consequences on the Brain Drain,
Sovereignty, and State Responsibility
RAUL MAGNI-BERTON [pp. 1-23]
- Relational History: Adam Smith's
Types of Human History
JOE BLOSSER [pp. 24-48]

SPECIAL CONTRIBUTIONS

- Reflections on the 2018 Nobel Memorial Prize
Awarded to Paul Romer
BEATRICE CHERRIER AND AURÉLIEN SAÏDI [pp. 49-64]
- Entangled Economists: Ragnar Frisch and Jan Tinbergen
ERWIN DEKKER [pp. 65-85]

BOOK REVIEWS

- Rudi Verburg's *Greed, Self-Interest and the
Shaping of Economics*
A. M. C. WATERMAN [pp. 86-96]
- Thomas Mulligan's *Justice and the Meritocratic State*
ANDREA KLONCHINSKI [pp. 97-105]
- Elizabeth Anderson's *Private Government*
SAVRIËL DILLINGH [pp. 106-111]
- Robert Sugden's *The Community of Advantage*
THOMAS NYS [pp. 112-117]
- Vernon L. Smith and Bart J. Wilson's *Humanomics*
BLAŽ REMIC [pp. 118-134]

A Theory of Joint-Stock Citizenship and its Consequences on the Brain Drain, Sovereignty, and State Responsibility

RAUL MAGNI-BERTON

Sciences Po Grenoble

Abstract: Recent discussions about global justice have focused on arguments that favor the inclusion of political and social rights within the set of human rights. By doing so, these discussions raise the issue of the existence of specific rights enjoyed exclusively by citizens of a given community. This article deals with the problem of distinguishing between human and citizen rights. Specifically, it proposes a new concept of citizen rights that is based on what I call ‘the stockholder principle’: a principle of solidarity that holds within a specific country. This concept, the paper goes on to argue, is compatible with a broad idea of human rights defined by international law and enforced according to territorial authority. The stockholder principle is further compatible with the psychological concept of citizenship based on a specific collective identity and it leads to fair consequences at the domestic and global levels.

Keywords: citizenship, human rights, global justice, community, brain drain

JEL Classification: D630, K400, F220

I. INTRODUCTION

The French Revolution has passed down an ambiguous legacy: The Declaration of the Rights of Man and Citizen (Paine [1789] 1951). The rights of ‘man’ refer to human rights and apply to every human being without restriction. In contrast, the rights of citizens only concern a political community—the citizens—and therefore exclude any out-group individuals. The distinction between human rights and citizens’ rights is still discussed. For example, should we restrict rights such as a fair trial, access to healthcare, or voting only to citizens, or should we extend them to everyone? Today, civil rights (such as the right to a fair trial) aim at all

humans. Social rights (access to healthcare or education) have also been included among human rights—in spite of some still relevant controversy about ‘welfare chauvinism’ (Kymlicka 2015; Bauböck and Scholten 2016). Hence, political rights, such as voting or standing in elections, were the last rights to be specifically set aside for citizens and they have been used to solve this demarcation problem: citizens differ from non-citizens in that citizens are entitled to political participation. This criterion is intimately linked with the idea of sovereignty insofar as collective problems must be solved only by the members of the country, i.e. citizens, and by nobody else.

This criterion, however, is sometimes challenged—not only in debates within ethics (see Beckman 2006; Abizadeh 2008; Song 2009) but also in practice using real policies. The right to vote, for example, is enjoyed by permanent residents in New Zealand and by fifteen-year residents in Uruguay. Several countries grant such rights with respect to local elections, and more and more political manifestos endorse such an expansion of voting rights (Bosniak 2006). The main argument for the enfranchisement of foreigners indicates that people should participate in the collective choices of the community in which they live, instead of (or in addition to) those communities in which they have legal citizenship, because only in the first case do they interact with other people in a way that causes positive or negative externalities (Bauböck 2009; Shachar 2009). This argument leads one to conclude that citizenship should be derived from territorial presence instead of national belonging (López-Guerra 2014). The idea of dissolving one’s citizenship status into a set of easily acquirable rights challenges, however, the ability of specific communities to self-govern (Thaa 2001; Smith 2008). The concept of citizenship also includes a collective attribute: citizens are a stable and durable group which decides the rules which every member is subject to (Bauböck 2014). Such rules organize mechanisms of intra-generational (the rich pay for the poor) or inter-generational (the workers pay for the education of the youth and the retirement of the elders) solidarity. This collective self-government is negatively affected by globalization: when entry and exit costs decrease, some citizens have an incentive to leave to avoid being coerced by the rule to which they are bound. In the same token, wealthy individuals who have benefited in the past from generous public investments, may opt for joining another community in which they do not have to pay for public investments benefitting others (for other similar consequences, see Cremer et al. 1996). This collective dimension of citizenship rights has

led many scholars to argue for a delay in the acquisition of political (Bauböck 2008; Rubio-Marín 2000; Carens 2015) or social rights (Richter 2004).

In fact, increasing human mobility has created a dilemma between two concepts of citizenship that, in a less transient world, are easily consistent: first, a set of individual rights based on one's actual territorial presence and on one's submission to law and, second, a collective right based on a future and durable community belonging. If the citizenship status is stable across time and non-expandable, the second concept is fully realized, while the first is violated. Citizens' rights would then be promoted to the detriment of human rights. If the citizen status evolves in line with individual mobility, the first concept of citizenship is promoted, but the second is undermined. Human rights, then, dissolve citizen rights.

This article deals with this problem by proposing a theory of citizenship—called joint-stock citizenship—which aims to satisfy the protection of individual rights while giving “voice and agency” to citizens, otherwise deprived of it (Thaa 2001, 520). It does not aim to provide a criterion for classifying specific rights into categories such as ‘human rights’ or ‘citizens’ rights’. Rather, the aim of this paper is to develop a concept of citizenship compatible with the promotion of substantial universal rights.¹

The defining feature of joint-stock citizenship is that, while individual human rights are guaranteed through territorial presence, citizen rights are derived from the fact that individuals are (partly) tied to a specific community. Such ties are acquired when the community has invested in them. Therefore, citizenship is defined by a public investment in one's life projects. Free education or infrastructure, grants, and loans are examples of such investments in individual life projects. On the other hand, specific taxes can be viewed as returns on investment.²

The concept of joint-stock citizenship is a metaphor according to which individuals shall be regarded as joint-stock companies, and

¹ Some legal realist approaches reject the language of human rights (Strang 2018). This article assumes the existence of human rights based on the idea that persons have a moral claim to benefit from some liberties, protections and services regardless of where they live and regardless of their citizenship. In particular, I also assume that a person does not need to be a member of a community to claim their wish to take part in decisions that concern their own present, and near future.

² One could object that this definition excludes libertarian states. If some (libertarian) states do not want to invest in their citizens, there is for them no difference between human rights and citizen rights. Therefore, these states do not need to give citizenship to their people, except as a symbolic status.

communities as stockholders. When a given community invests in an individual, it acquires a 'stock' in this individual, which produces shared benefits and shared losses. This metaphor is not strict because, ethically, communities are not economic agents and citizens are not companies. However, the bottom line consists in giving citizens and companies opportunities to grow and, because of that, the stockholder principle is appropriate for both. Next to this metaphor, I will discuss how sovereignty and political agency may be conceptualized in a globalized world without violating individual human rights.

The article proceeds as follows. In section 2, I introduce the problem of citizenship in a globalized world, and I underscore the merits and limits of the solutions based on territorial requirements. In section 3, I present the core of the stockholder principle and its difference from other similar principles. Section 4 describes how political obligation defined by the stockholder principle can be justified on consensual grounds. In section 5, I analyze how the stockholder principle works without territorial borders and sheds new light on the brain drain problem. Section 6 discusses the concept of state responsibility which underpins the stockholder principle. Finally, in section 7 some specific ethical issues are investigated.

II. THE CITIZENSHIP PARADOX AND RESIDENCE-BASED SOLUTIONS

Any theory of citizenship must account for two requirements: first, it has to be consistent with the existence of civil, social, and political rights for foreigner residents. It has to also safeguard the right of citizens to emigrate and live abroad, because freedom of movement is a fundamental right (Carens 1987; Dumitru 2012). This also implies that, unlike human rights, citizen rights must be conditioned on a person's consent as they have to remain free to choose *not* to be members of the community in which they live (Bauböck 2008, 6). Second, the theory needs to lead to specific forms of solidarity between fellow-citizens and an attachment to a community which is, at least partly, a source of collective identity and reciprocity.³ The latter feature does not only have a legal but also a psychological dimension (Carens 2000, 166). This aspect is important as it

³ This does not mean that citizenship is either the only or the main source of identity and solidarity. For example, communities as different as Amish and hipster communities, when they have the same citizenship should accept to be submitted to the same law, including to redistributive taxation and military defense. Therefore, as soon as they do not consider the national community as illegitimate, they acknowledge the existence of some levels of solidarity and identity between each other.

favors high levels of cooperation among community members; this in turn is a condition for someone to commit to the development of the political community. To promote such commitments, community members have to feel they are citizens and care about the other members. The link between legal status and the psychological dimension has to exist in the form of incentives, obligations, or social integration and whatever “draws a body of citizens together into a coherent and stably organized political community, and keeps that allegiance durable” (Beiner 1995, 1).

As I have pointed out, the current practice is generally based on a set of political rights. Only citizens can vote, hold political and administrative offices, serve on a jury and, more broadly, be included in collective decisions. They are, above all, political agents and their specific rights, duties, as well as their sense of belonging, arise from that fact.⁴

However, this set of political rights—conceived as specific citizen rights—are neither necessary nor sufficient to describe the aforementioned idea of citizenship. First, they are not necessary because political decisions concern not only citizens, but also a large set of resident and non-resident people (Beckman 2006). Unless one considers that a large part of the world population has the right to be a citizen (Abizadeh 2008), we cannot isolate citizens of a country as the only people concerned by their country’s political decisions. This argument is particularly relevant in the current globalized context. As the number of immigrants increases, the percentage of residents entitled to vote decreases. Although no restrictions in political rights have been voted, current societies are moving away from universal suffrage due to a spectacular increase in cross-border mobility. In such a context, those citizens entitled to the right to vote are making decisions knowing that other residents cannot. Therefore, the first requirement is not fulfilled because some individuals are coerced but cannot take part in decision-making processes where such coercions are defined and enforced. This violates the principle of *all affected interests* (Goodin 2007) or *all subjected to political coercion* (Abizadeh 2008), both aiming to protect individual (human) rights. Second, they are not enough because some choices typically considered as non-political, such as family and child care, can have a greater impact on the public sphere than many classic political decisions (Okin 1989, 124–131). Thus, to promote

⁴ Political rights could be extended to activities aiming to influence political decisions such as freedom of speech, of association, or the right to petition. These are open to non-citizens. The set of political rights specifically reserved for citizens consists in being directly granted access to political decision-making, which goes far beyond influencing them.

citizens' collective agency there is no reason to limit citizenship to a restricted number of political activities. If political rights are extended both to people concerned by political decisions and those who are involved in care and public activities, we should conclude that every person who cooperates and interacts within the social network defined by the territorial law should be a citizen.

However, as Song (2012) and Bauböck (2014) point out, this approach is over-inclusive. Tourists, non-permanents residents, as well as people who request an entry visa, are all affected by and subjected to the host countries' laws and, therefore, according to both principles acquire a moral claim to become a citizen. This leads to a violation of the second requirement: there is no incentive for citizens to be bound to each other and produce solidarity. This is why several scholars have deemed that a transitory residence period which allows the development of social ties and attachments is necessary for the acquisition of national membership and franchise (Rubio-Marín 2000; Bauböck 2008; Carens 2015; Shachar 2009; Kostakopoulou 2009; Smith 2008).

In what follows, I will focus on Bauböck's stakeholder citizenship model which broadly includes the main arguments of other approaches. Bauböck (2009) developed the stakeholder principle which is a long-term and prospective version of the above two principles: "individuals acquire a stake in that polity whose future collective destiny is likely to shape their own life prospects" (479). Therefore, people should obtain the nationality of the country when they live in it and when they have a permanent interest in enjoying membership. This attempt to reconcile the two abovementioned requirements is, however, unsatisfying. On the one hand, the stakeholder principle does not entirely fulfill the first requirement according to which human rights should include the right to vote on the issues that strongly affect individuals' interests. On the other hand, the transitory period which would favor the development of social ties and attachments is only a proxy for long-term community belonging. Some people do not need time to feel included in a collective destiny, while other people, even after several years of residence do not feel any moral ties with their neighbors. The second requirement is therefore only imperfectly fulfilled.

For these reasons, the stakeholder principle—as other criteria based on a transitory period of residence—is not really a solution for the dilemma, but simply a balance between the two requirements. Some human rights are together with some aspects of collective rights. In the next

section I put forward the stockholder principle with the aim to better respect both human and citizen rights.

III. THE STOCKHOLDER PRINCIPLE

To clarify what kind of rights or duties are implied in the legal status of citizen, we need to have a clear idea of what rights are enjoyed in virtue of our personhood. It is possible to consider civic rights, some political rights and minimal social rights as fundamental and granted for all. As I have noted above, in some countries these rights are allocated to foreign residents although it does not imply any obligation to deliver the status of citizen. However, enjoying these rights does not imply either feelings of solidarity or specific political agency.

This claim leads to two assumptions: first, within their jurisdictions, people and states have to provide respect (civic and political rights) and assistance (social rights) to everyone. Second, such respect and assistance cannot be an appropriate criterion to distinguish citizens from non-citizens. Thus, citizenship should imply more than people's fundamental rights and duties: it should also imply some specific duties and rights resulting from solidarity that citizens have with each other.

These specific rights and duties are at the core of the concept of joint-stock citizenship, according to which citizens have two features: first, each of them is like a joint-stock company in which fellow-citizens invest. For instance, individuals become citizens through public investments in free education and training, in family policies or in support for entrepreneurship. The consequence of these public investments is a shared responsibility for individuals' achievements: individual successes or failures are imputable partly to individual choices and partly to the collective investment. This active support of the community for achieving individual goals is what differentiates citizens from non-citizens. Such support justifies feelings of membership among the citizens, which can be associated with gratitude and solidarity, exactly as it happens inside families, teams or among colleagues. More generally, getting public support through welfare state policies produces many civic attitudes and greater involvement as citizens—including an increase in electoral turnout and political participation (Campbell 2003; Dupuy and Van Ingelgom 2014).

Second, the right to benefit from public support is associated with the duty to invest in the other fellow-citizens' life projects. These duties are usually embodied in specific taxes for public investment. Thus, each citizen is also a stockholder with respect to other citizens.

In liberal societies, each citizen could be considered as the main stockholder of their own life, and as a small-scale stockholder in fellow-citizens' lives. Thus, individual freedom is protected and "the person whose life it is has primary and non-delegable responsibility for that success" (Dworkin 2000, 240). But non-liberal citizenship is a possibility, based on the right for fellow citizens to interfere with individuals' choices.⁵ This possibility makes joint-stock citizenship compatible with liberal democracies, although it is conceptually independent.

The main issues raised by the concept of joint-stock citizenship are linked to the concept of 'investment'. Why do investments differ from human rights provision? And, how can we determine the level of investment necessary for someone to become a citizen? In this article, I remain vague about the types of rights that individuals unconditionally deserve. What is important here, is that when human rights—whatever their definition—are implemented in a given territory, we may consider this territory as a minimal state. It is minimal because it enforces nothing but human rights. There is therefore no (further) investment.

However, some states may decide to increase the cooperation between their members through the provision of (more) public services, social security, public insurance, or education. These kinds of investments may produce collective wellbeing and social justice although they require high levels of solidarity and reciprocity among the citizens to justify membership. In this respect, the stockholder principle could be viewed as a version of the principle of fair play, according to which benefiting from mutual cooperative practice is by itself sufficient to generate rights and obligations (Simmons 1979; Dagger 1997). Indeed, both principles regard society as a cooperative enterprise and view citizens' obligations as the result of fair and reciprocal relationships with their fellow-citizens. However, the principle of fair play argues that obligations are non-voluntary and backward-looking, contrary to contractual obligations which are voluntary and forward looking (Dagger 2000). Therefore, according to the fair play principle, citizenship is not a contractual arrangement between fellow citizens under basic liberal rules. This is fundamentally different

⁵ One difficulty with the non-liberal view is that in circumstances in which only one state wishes to invest in an individual, the state will be in the position of offering a 'deal' according to which it invests a small amount in the individual, but retains virtually all of the pay-out. Given a lack of interest from elsewhere, it could be rational for individuals to consent to such offers. Despite being consensual, it is not clear that we would regard such deals as fair or rights-conferring. The liberal principle according to which individuals are responsible for providing for themselves (they are *the main stockholders of their own life*), prevents this possibility.

from joint-stock citizenship, which is a contractualist theory of citizenship. In other words, people become joint-stock citizens only with a voluntary and forward-looking agreement, regardless of what happened in the past. This argument is developed in the next section.

The second issue deals with the level of investment individuals shall receive from a state before becoming citizens. Some of them may be strongly bound to their fellow-citizens, because they have been largely invested-in by receiving, for instance, free education, healthcare, and access to facilities for many years. Others may only be slightly invested-in, for example, by benefiting from a public training for one year. Indubitably, in both cases individuals and the state have a mutual interest in their mutual success. This means that as soon as the individual has received investment by the state, she has a moral claim to be a citizen.⁶

To conclude, the concept of joint-stock citizenship does not only include a set of political and social rights, but also a set of duties (specific taxes, solidarity) which are associated with the existence of a system of cooperation and reciprocity. In contrast, as far as the minimal state is concerned, the rights of citizens and non-citizen residents are equivalent.

IV. COMMUNITY BELONGING AND LIBERAL RIGHTS

As with several theories of citizenship, joint-stock citizenship could be considered as an agreement between a person and a community, if people were always responsible for their actions. The example of the naturalization of residents is typically easy to solve because they choose to accept or refuse to be invested in by a community. But communities do not wait for citizens to come of age to invest in them. In fact, an investment in children may be regarded as the most relevant feature of a community. This is why citizenship differs from club membership: children have been included in the community and are partly committed alongside with people whom they have not responsibly chosen. Additionally, children do not take part in decisions that affect them and others since their parents and the state make choices for them. In these conditions, a purely contractualist approach cannot be entirely satisfied. This problem must be addressed on counterfactual bases: what would children have decided if they were adults?

I argue that the parents (or those who are legally responsible for a child) have the possibility to commit their child to a social agreement, in

⁶ Some concrete issues on such a claim will be discussed in section VII.

which the child contracts citizenship rights and duties when fellow citizens invest in them. Of course, the parents can refuse this collective investment. When this is the case, fellow citizens would be the stockholders of the child's future career, and they should invest in these opportunities efficiently. This constraint can be viewed as incompatible with basic liberal claims, according to which, nobody should be chained to a community. The right to emigrate, for example, prevents communities from forcing people to be included (Whelan 1981, 638).⁷

Joint-stock citizenship implies a kind of not fully consensual agreement between individuals and their community. However, it can be considered compatible with liberal principles on the basis of three desiderata, viz. the individual, the family, and the global point of view. From the individual point of view, two kinds of 'chains' should be distinguished: the 'hard chains', clearly incompatible with liberal principles, and the 'soft chains' which can be spotted in liberal societies. Chains are hard when they prevent people from choosing another community they wish to belong to, as, for instance, not allowing their citizens to renounce citizenship. In this respect, the stockholder principle is acceptable because it admits the possibility of changing community and identity. In contrast, chains are soft when people can leave their community, but keep some loose ties with their past community. Everyone has soft chains: their education, knowledge, language, relationships and, generally, family, and policy choices are examples of legacy from their first community. People can try to change community, but they remain partly linked to their origins. The stockholder principle, in taxing people for past investments their community made in them, offers a similar legacy.

One could argue that this legacy would be fixed by law. Joint-stock citizenship introduces legal ties contracted in individuals' childhood. But this is exactly what already happens. All of us are tied to a community by a birthplace often chosen by our parents. Our citizenship rights are already a legacy of our parents and, sometimes, our grandparents. We are already the legal beneficiaries (or the victims) of our parents' choices.

It is possible, however, to conceptualize this difference in a different way. Several soft chains, like one's mother tongue, is due to what a community—or a family—*did not do* for its members. For instance, if people do not learn English or Chinese during their youth, they will remain more attached to their linguistic community and they will lack opportunity to change their community in a globalized world. On the contrary, the soft

⁷ Article 13 of the Universal Declaration of Human Rights.

chain implied in the stockholder principle can be described as a consequence of what a community and a family *did* for its members. A community spends resources in increasing citizens' skills and in broadening their choices, but these resources imply a specific taxation-repayment. Similar policies can currently be observed in liberal democracies. Loans for public education for instance, have to be paid back even if the payee lives and works in another country.

Therefore, what would children have chosen if they had been adults—or, say, chosen from behind a veil of ignorance? Considering they will pay back only if they are economically successful, it is rational for them to increase their opportunities by contracting a debt with their community rather than receiving only what the universal rights of children and the willingness of their family can provide them. At worst, this choice is reasonable enough to justify allowing communities to offer their citizens this possibility.

Let's now examine this issue from the family point of view. According to the stockholder principle, the state cannot invest in children without the families' consent. Parents can request that the state invests in their children's education, but they can also refuse and take the costs upon themselves. As I noticed below, parents' choices already have a considerable impact on their children's tastes and opportunities. Suppose they discover in a child a great talent and a taste for playing the trumpet, but they do not have enough money to pay for the lessons. Should they be able to pay for the lessons with the money earned during their child's future career? If we consider our society as being based on families' educational choices, we should allow this possibility because it increases the opportunities that children can receive from their parents. As liberal societies are based on the autonomy of the family (Fishkin 1983), they must give families the right to paternalistically engage their children and improve their well-being.

To sum up, while joint-stock citizenship partly chains people to their country, those chains are soft, reasonable and approved of by the families. The stockholder principle is thereby compatible with liberal principles. On this assumption there is a third reason to adopt it, based on utilitarian arguments. If all collective agreements with people under eighteen are void, communities are deterred from investing in their members under eighteen, because the latter are free not to respect the terms of the agreement. Thus, banks do not lend, schools do not loan, and so on. This is a paradox in contemporary societies, because youth is an ideal and

efficient age for investments. On the other hand, people should be free to choose what investments they wish to receive, and children are not considered really free to make such a choice. The non-democratic effect of generalizing specific training for children—compared to providing a broad-based education—leads to a reduction of people’s opportunities. This dilemma is solved if people remain free not to comply with those investments. Suppose the community and the family invest in trumpet lessons for their daughter, but the latter decides to be a carpenter. In this case, whatever her earnings might be, she will not refund this training, because, it can reasonably be assumed, it has not influenced her career. To avoid such risks, the community has an incentive to provide a broad-based education able to open up the child’s future career, except when specific talents and motivations clearly appear.

Given this common incentive to invest in the youth, the stockholder principle maximizes the provision of skilled young people as well as opening up careers to talents. This point is more broadly discussed in the next section.

V. THE ‘BRAIN DRAIN PROBLEM’ AND THE BHAGWATI TAX

In this section I discuss the brain drain problem, described as a collective action problem.⁸ In a globalized world, with low mobility costs, countries (and firms) are in competition to attract high skilled workers. There is a trade-off between investing in high salaries to attract such workers and investing in education to train new high skilled people. The educational choice is both a long-run and uncertain investment. It is uncertain because the trained workers can decide to work in another country (or firm) that offers higher earnings. In such a situation, the best strategy could be a non-cooperative one, i.e. consisting in increasing high-skill salaries and in decreasing spending on education. If states do not cooperate, they will tend to decrease spending on public education to finance high salaries. In doing so, global public education would be underprovided for.⁹

If we consider public education as a citizen’s investment in their fellow-citizens, its under-provision denotes a lower citizens’ ability to invest

⁸ In international organizations, the brain drain problem has often been conceptualized as a kind of exploitation of the poorest countries by richer countries. However, the existence of such a phenomenon has been reassessed by many scholars. See Kapur and McHale (2006).

⁹ This argument has sometimes been challenged. Emigration of highly skilled persons can under certain conditions lead to individual investment into education and training among those remaining in the state of origin. See Stark (2004).

in fellow-citizens' projects. Moreover, each citizen who finances public education suffers from lack of reciprocity due to high-skilled fellow citizens who leave the country. This is because she or he does not see any return on investment. Inversely, new citizens and immigrants are unfairly treated by the new community in which they live, because they pay taxes for services that they did not receive.

This is an example of the tension between the state's accountability to its citizens and the state as a territorial jurisdiction (Bauböck 2008). Nevertheless, a 'duty of sedentism' would infringe on the fundamental right to free movement and could be particularly unfair in terms of equal opportunities (Dumitru 2012).

Joint-stock citizenship provides a way to solve this issue. When people move across countries, they do not lose their citizenship, or the specific duties and rights attached to it. Particularly, they have to respect the agreement between them and their fellow citizens. The state remains their stockholder because a consensual agreement has been concluded.

So, concerning the fellow-citizens' stock dividends, the agreement does not change if citizens change the country in which they work. In any case, the agreement signed between the state and the citizen continues to be binding, exactly as it happens when people invest in a joint-stock company. In such a perspective, international mobility for fellow-citizens could even be encouraged if states consider that this enhances the expected success of their citizens.

Of course, these dividends should be proportional to past public investments and to the actual financial success of the citizen. If a citizen did not benefit from state school, or, more generally, from public services, there is no reason to share the responsibility of their potential achievement. Therefore, a state cannot demand the same taxation for foreign residents as for citizens, because it has not invested in them. Assuming they have not benefited from any public investment, they should only pay the tax necessary to guarantee their fundamental rights inside the country. It should be noted that in this system, residents are taxed not only based on their resources, but also according to their past choices. This results from a consensual and transparent agreement between the state and the individuals, exactly as it is already the case for specific taxes for specific activities and tastes (such as drinking alcohol or smoking cigarettes). In both cases, some individuals pay more than others because of

their choices. This argument justifies a dual tax system.¹⁰ One tax is based on territorial presence and aims to ensure human rights in the territorial jurisdiction. A second tax applies the same tax regime to all citizens, according to the degree of public investment in them, regardless of where they live.¹¹ This tax-system gives the state an incentive to provide education and to invest in fellow-citizens, contrary to what currently happens in most countries. Moreover, it offers states an incentive to be efficient in helping citizens to develop their life projects, even when it implies a cross border movement.

This last feature points out to some similarities and differences with Bhagwati's arguments in favor of a specific tax for people who emigrate. According to Bhagwati, emigrants have to compensate fellow citizens for what they could have contributed if they had chosen to stay. Indeed, "the diaspora approach is incomplete unless the benefits are balanced by some obligations, such as the taxation of citizens living abroad" (Bhagwati 2004, 215). This Bhagwati tax supposes a duty based on the fellow-citizens' past investment, which is coherent with joint-stock citizenship. But it also supposes that emigration is a regrettable event that people should compensate with a specific tax. In citizen-based taxation justified by the joint-stock citizenship concept, there is no difference between migrants and sedentary people, and emigration could be, in some circumstances, even encouraged. Both forms of this citizenship-based taxation already exist. The U.S.A. taxes those citizens who stay abroad based on their worldwide income in a similar way to that described here, whereas Eritrea imposes a special 2% tax on all Eritreans living abroad, in line with the Bhagwati tax.

In spite of some criticism, some articles argue in favor of levying the tax on the basis of citizenship, particularly in a globalized world (Kirsch 2007; Zelinsky 2010). The existence of tax treaties and of international law facilitates the enforcement of such a law. Thirty years ago, the Philippines turned out to be unsuccessful in enforcing its tax on emigrants (Pomp 1989). This led to the abolishment of citizenship-based taxation in 1997. But exchange of information is easier than before, thanks to the

¹⁰ Technically, this is not a major issue. We already have such a dual tax system—residents pay additional taxes, for example, municipal taxes. In the present case, each state collects taxes to guarantee fundamental rights, but citizens' taxes are collected at the level in which public investments are made. It could hence be made at the institutional (e.g. schools), municipal, regional or national levels.

¹¹ This statement suggests that there may be several degrees of citizenship. This point will be developed in section VI. For arguments along these lines, see Beckman (2006).

development of Tax Information Exchange Agreements (TIEA's). Also, international law allows the implementation of national laws through foreign jurisdictions. Finally, when two countries have a citizen-based taxation, they can implement it with mutual-agreement procedures for tax treaties. Such tools tend to increase countries' fiscal control, even outside their borders.

Let us suppose now that foreign citizens have the right to be invested in by another state. For instance, they obtain the right to go to medical school for free, in exchange for an obligatory tax whose level depends on the economic achievement of that person. The investment into foreign citizens by local citizens enables the foreigners to claim citizenship. But they retain the possibility not to become a new citizen of the country which has invested in them. In this case, we can consider such a deal as an agreement between a state and a foreign private person, defined by the Institute of International Law, at the Session of Athens of 1979. Thus, the stockholder principle can also be regarded as a private agreement which includes citizens' rights, without feelings of identity. But even in this case, such an agreement brings about a special relationship between a person and a given community, which looks like the citizenship concept.

Such juridical tools tend to prove that globalization trends strengthen, rather than weaken, the case for taxing the income of citizens abroad, regardless of whether the income is earned from working or investments (Kirsch 2007, 448). This possibility of setting up such taxes gives citizens the alternative of investing in fellow-citizens, thanks to the chance of recovering their investment. This could provide a solution to the brain drain problem. Moreover, it reverses the current trend of under-providing resources to public education. However, such a system implies a specific idea of the role of national states in the economy. This point will be developed in the next section.

VI. DEFINING STATE RESPONSIBILITY

When citizens invest in fellow citizens' achievement through tax and transfers mechanisms, they become partly responsible for this achievement. This responsibility can be conceptualized in three ways:

First, the state is thought of as a referee. It only gives people rights, like access to medical care and education. In this case, the state is thought of as allocating rights so that nobody can complain about what she received. If these rights are properly distributed, the state is no longer responsible for people's condition. The state as referee comes from a liberal

tradition and can be summarized in the following way: “Let the holders of authority confine themselves to being just. We shall assume the responsibility for being happy for ourselves” (Constant [1819] 1988, 6). The second concept of responsibility is illustrated by the example of banks. The state provides citizens with loans, but citizens have to pay them back. Public education loans are such an example. In this case, the state invests in citizens, but it expects to recover its investment. The third concept refers to the state’s responsibility as a stockholder. Here, the state invests in citizens and the latter have to pay back according to their success in life. Thus, the state and individuals’ investments are evaluated *ex post*: when there is failure both are penalized, while in success both win. The progressive nature of income tax can be justified in this way. In 2013, the Oregon Working Families Party proposed a bill called “Pay It Forward” which guarantees free higher education to students in exchange for 3% of their earnings over the next twenty-four years, which would go into an education fund (Hoogeveen 2014). As far as I know, this is the closest example of stockholder responsibility.

The former two concepts subscribe to the idea that the state is responsible only for inputs, not for outputs and that it is only citizens who are responsible for the consequences of their choices. The third concept does not separate individual and state achievement: everyone loses or wins, as in a team. In such a way, the state undertakes a consequentialist choice: the quality of its investments in its citizens is partly captured by their effective achievement.

Some liberal scholars have underlined the difficulty of identifying subjective achievement with objective measurement (Dworkin 2000). Presumably, measuring success with individual earnings is the most reliable technique because, all choices being equal, it indicates quite well the relative success in a given profession. Of course, some ‘successful lives’ are compatible with low incomes. Let’s take, for instance, Van Gogh’s life: he preferred to paint high quality pictures rather than paintings that sold well. In his case, the community gave him excellent training, but it received no taxes out in return. On the other hand, the community was not only responsible for Van Gogh’s training, but also for the economic success of his high-quality pictures. And, for this second dimension, the collective performance was lower than Van Gogh’s. The accountability for Van Gogh’s pictures’ lack of commercial success does not reasonably lie only with the painter.

This example illustrates why the stockholder's responsibility is fair: when a failure occurs, the responsibility should not only be individual, but also collective. The state could be wrong in distributing opportunities, or in choosing how to invest. So, even when individuals assume most of the responsibility, fellow citizens have to accept their fair share.

Let's analyze these concepts of responsibility with respect to individual rights. A person has the right to be respected even when she does not want to be a citizen in a given community. Tourists, non-permanent, or permanent residents could refuse to weave special relationships with the people around them. Even in this case, they should keep human rights. Thus, the state in which they live has to be considered responsible for these rights as a referee: it fairly allocates and enforces fundamental rights. All residents—citizens or not—have to pay a territorial tax to finance which ensures their fundamental rights inside their country.

However, when people are or become citizens, the stockholder principle is the most appropriate concept of responsibility. When people accept that fellow citizens invest in them, they also accept to share their achievements and failures with the rest of the community. They choose to belong to a specific community, and their loyalty does not depend on the territory in which they live, but on a reciprocal investment in the future. Moreover, sharing responsibilities implies taking care of individuals' aims, which is a favorable ground for solidarity among citizens.

VII. FOUR APPLIED ETHICAL ISSUES

I have investigated two principles used to define rights and duties in a society. The territorial principle is responsible for the enforcement of human rights. The stockholder principle governs specific kinds of solidarity which are adopted in a given society, in addition to human rights. To discuss this claim, four main applied ethical issues are addressed.

1. How should the tax system work? First of all, not all taxes should depend on citizenship, because they are not based on shared investment that defines the stockholder principle. Some taxes are not used to invest in people, but to assure the functioning of fundamental rights, such as security, property, the right to a fair trial, to social security etc. In other words, some taxes aim to provide each human being with rights, and this depends on the territory in which people live, regardless of their nationality. This tax regime and these rights are based on the stakeholder principle because they concern all people who live in a given community and

are applied to citizens as well as non-citizens.¹² The enforcement of human rights has to be protected by the territorial law and, therefore, the cost of such implementation is also paid for by residents and, generally, by people who live in a given jurisdiction.

Citizen rights can be provided in a community in which there is specific solidarity and feelings of identity. In such a view, the tax system should be separated so as to provide two separate services: whereas human rights enforcement follows the territorial principle, citizens' rights are enforced by the stockholder principle. Every person who accepts to benefit from a special investment from a community has the legal status of citizen and pays taxes to invest in fellow-citizens regardless of where she lives. This double tax-system, based on different requirements, implies that it is possible for people to pay taxes in two different countries. But this does not imply a double taxation, because the territorial and the stockholder principle clearly define the amount of tax that each state may claim. Current multilateral tax treaties are capable of solving international disputes through the aforementioned principles.

2. *Is joint-stock citizenship really an advantage for citizens?* Compared to current citizenship, the stockholder principle hardly appears advantageous for citizens because it involves more duties (paying taxes to the country in which one was trained or educated). Citizenship so defined appears to be a burden to be avoided rather than a privilege to be sought out or earned. This consequence is only partly true. On the one hand, if being citizen of a given country was an undisputable advantage, citizenship would seem more of an aristocratic title than a set of protected rights, while citizenry would be conceived more as a highly selective club rather than a highly cooperative group. This scenario is somewhat similar to the current situation (Shachar 2009). This is why citizenship must not be conceived as a set of privileges. On the other hand, joint-stock citizenship is definitely not only a burden. Although people pay taxes due to their past investment, they also benefit from taxes from their successful fellow citizens. Of course, the richest citizens pay much more than the others, but this is also the case for many other theories of citizenship.

¹² This point is confirmed by the Universal Declaration of Human Rights, which says "Everyone is entitled to all the rights and freedoms set forth in this Declaration, without distinction of any kind, such as race, colour, sex, language, religion, political or other opinion, national or social origin, property, birth or other status. Furthermore, no distinction shall be made on the basis of the political, jurisdictional or international status of the country or territory to which a person belongs, whether it be independent, trust, non-self-governing or under any other limitation of sovereignty" (Art. 2).

Generally, sharing the responsibility of achievements and failures reduces the risk of future income loss and increases investments which, in turn, can lead to an increase in the collective growth. In this sense, belonging to a community is an advantage.

3. *Would individuals have an incentive to avoid accepting publicly funded education?* Wealthy individuals or families who are assured of their future social success could opt not to be invested in by the citizenry and instead invest their capital in themselves. This would be likely to widen the gulf between a privately funded education system for the rich and a publicly funded educational system for the poor that already exists in many countries. The existence of stateless wealthy people is likely to appear in a context in which citizenship implies some degree of solidarity. However, we should also consider that this choice puts people outside solidarity networks. For example, *ceteris paribus*, economic agents could prefer to trade with a person whose achievements lead to an advantage for their community. Moreover, the price of benefiting from public infrastructure is fixed by citizens. Switzerland, for example, only sells annual highway toll passes and this system ends up being more expensive for non-residents. This example could be followed for citizens who benefit from free public infrastructures. All in all, being excluded from public cooperation is a risky undertaking, even though it remains a valuable choice. On the contrary, people who accept to be included in the citizenry receive greater guarantees that fellow citizens will have an incentive to favor their achievements.

4. *Would states have an incentive to avoid admitting immigrants whose taxes would be sent to the country where they were educated?* This concern is the exact opposite of the one discussed in the previous paragraph. As stateless wealthy people could be discriminated against in the national market, immigration could end up being discouraged. However, the entirety of international mobility should be analyzed. Immigrants who invest and accept to be invested in by the host country's citizens will become citizens themselves. Although they do not pay taxes for the initial education, they can contribute to the national economy and they could pay taxes for what the new country has done for them. That is why we can expect that young unskilled immigration could be as welcome as highly skilled immigration. Although the latter are more productive, the former will pay less to their native country. As a consequence, and compared to the current situation, the stockholder principle gives unskilled people incentives to move elsewhere, with a substantial improvement in

global equality of opportunity. On the other hand, although it can be expected that states would be less open to high skilled immigrants, they would be also more motivated to produce high skilled emigrants. All in all, it is difficult to say if high skilled international mobility would decline.

These subjects are a sample of the main issues which could be discussed. Their answers provide some clues about the level of inclusiveness of such a concept of citizenship. On the one hand, over-inclusiveness—i.e. giving individuals status and rights in a country to which they are no longer attached (Bauböck 2014)—is avoided by the fact that the attachment of members is guaranteed by the taxation on past investments. Such an attachment includes individual costs that restrict the number of people claiming citizenship. On the other hand, under-inclusiveness is also avoided by the fact that each individual can chose to be citizen of a given country. Of course, the aim here is not to cover the question in its entirety, but only to suggest some trails which allow us to see how joint-stock citizenship can concretely work. In order to decide which rules govern the level of specific investments and repayments, one must determine who makes the decisions. Again, citizens' rights must be ruled by stockholders, in the same way decisions concerning human rights must be ruled by residents.¹³ In this view, citizens retain some very specific political rights essentially centered on the regulation of individual and firm subsidies, methods of funding and terms of repayment agreements. Technical issues related to investment policies, and systems of taxation are not developed here.

VIII. CONCLUSION

The theory of joint-stock citizenship aims to provide a concept of citizenship that protects the psychological needs and the material advantages of belonging to a specific community, in a way that is compatible with the free movement principle and with the widening of human rights. The main thesis is that social and political rights have a dual aspect. For human rights (such as being protected by police) all residents should vote and pay taxes for that, whatever their nationality. The territory in which they live defines who is included in the decision-making processes and in taxes. In contrast, when other policies are concerned—such as public investments in education or in the economy—only members vote and pay

¹³ Note, however, that having different people voting on different areas of the budget can be problematic. If non-citizens only vote for some matters, say the police, they could have incentives to raise or lower the budget of those issues as opposed to other issues.

taxes, wherever they live. And when people benefit from these investments, they also accept to self-commit to pay taxes and vote and, automatically, become citizens. This compatibility between human and citizen rights has to be understood as ‘as compatible as possible’. As Pevnik (2011, 116–117) wrote, “because equality of opportunity and self-determination conflict with one another, insisting on wholehearted support for both is platitudinous”. Indubitably, joint-stock citizenship does not eliminate this conflict. However, it offers a fair compromise between equality of opportunity and self-determination. Indeed, by keeping a kind of self-determination, it creates an incentive for communities to increase the opportunities of their members and, at a global level, increase the opportunities for people as a whole. On the other hand, it offers a way to maximize free movement and individuals’ opportunities without depriving people of their need to belong to a community that takes care of them. This approach also gives an answer to the dilemma summarized by van Gunsteren (1988): “the price for effective standing and equality among citizens apparently is inequality between citizens and noncitizens” (731). By distinguishing between human rights and citizen rights, joint-stock citizenship accepts inequality between citizens and noncitizens only beyond human rights. The latter have to be implemented by each state assuming the full equality between all human beings.

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Raul Magni-Berton is a professor of political science at Grenoble University, Institute of Political Studies. He received his Ph.D. in Sociology from the University of Paris IV-Sorbonne. Then he worked at the Universities of Montreal and Bordeaux. He works on the impact of individual rights and democratic institutions on opinions, behaviors and social justice. Contact e-mail: <raul.magniberton@iepg.fr>

Relational History: Adam Smith's Types of Human History

JOE BLOSSER

High Point University

Abstract: Adam Smith writes history to teach people how a plurality of forces informs our moral and economic actions. He employs the stadial theory—prevalent in his day—to explore four different states, or kinds of society, but he does not intend to use these to write a simple, linear history of the ‘stages’ of human progress. This article employs Smith’s typological method for writing history to create a four-fold typology of how contemporary scholars have interpreted Smith’s use of history. By using an approach, drawn from Smith’s historiography, to understand his later interpreters, this article demonstrates that Smith’s approach to history is about telling a story that embraces plurality, holds differences in tension, and resists simplification.

Keywords: Adam Smith, historiography, stadial theory, civic humanism, natural jurisprudence

JEL Classification: A110, B120, B310, B410

I. INTRODUCTION

Adam Smith forms an approach to moral and economic practices that takes history seriously. He shows that the way humans act as moral and economic agents depends on how we understand the story of human history. He sees that this story develops using the same tools of imagination and sympathy that help build moral judgment and form the basis of economic exchange. He writes history to persuade us to see ourselves in a particular kind of world, and his work commends to us a world that must continually mediate tensions and contradictions.

Smith’s historiography captures the variety and dynamics of human life in different places and times. He uses a four-fold typology to capture these dynamics: the social types of hunter/gatherer, herding, agricultural,

and commercial life. In a similar manner, this article uses Smith's methodology to develop a four-fold typology for the ways in which contemporary scholars have interpreted Smith's view of history. I argue that Smith believes all four of his historical types are vital to his argument about who humans are, and, similarly, I argue all four types of Smithian interpretation are vital. By using the term 'types', I am suggesting general heuristic categories with permeable boundaries that capture different approaches without being limited by any particular historical example. I will also argue that what scholars have typically understood as Smith's 'stages' of historical progress are better understood as 'states', which can, but do not have to, be analyzed in historical sequence.

By using Smith's typological approach, drawn from his historiography, to understand his later interpreters, this article makes evident that Smith's approach to history is about telling a story that embraces plurality, holds differences in tension, and resists simplification. Rather than seeing any of the four types of later Smithian interpretation as fundamentally flawed or his project as inescapably vague or contradictory, scholars should recognize the tensions in his narration of history as reflective of his historiography and of the tensions in the world that people must understand in order to be prudent moral and economic actors.

II. SMITH'S APPROACH TO HISTORY

In order to speak of 'history' as a singular concept, one has to have a way to bring the multiplicity of past events into a contemporary unity. Some thinkers tie events together with a notion of spirit. Others speak of history as singular because they believe they can—through God or philosophy—gain a perspective on the whole of human life. For other thinkers, history is a way to speak of how the material forces of the past have led us to where we are. A return to Smith's writing shows that he understood the imagination as the tool that helps tie together the individual events of the past. History for Smith is a work of the imagination. That is not to say that he simply makes it up, but he uses the imagination to unite past events into a new whole that is better aligned with experience and offers meaning to current events. As Smith writes in *The History of Astronomy*:¹

¹ This and all subsequent references to *The History of Astronomy*, abbreviated as 'HA', will be to the Glasgow edition (Smith [1790] 1982c). References include, in this order, section (in upper case Roman numerals), and paragraph (in Arabic numerals).

While we have been endeavouring to represent all philosophical systems as mere inventions of the imagination, to connect together the otherwise disjointed and discordant phaenomena of nature, have insensibly been drawn in, to make use of language expressing the connecting principles of this one, as if they were the real chains which Nature makes use of to bind together several operations. (IV.76)

Like philosophy, history employs the imagination to transform the chaos of reality into a coherent story of linkages that gains the approval of the people who hear it. The particular kind of history Smith writes uses a constructive cycle of imagination, sympathy, and the writing of history. That is, imaginative history helps people understand the situations of others so we can better sympathize with them, and it is through such sympathy that we are able to enter past events and give them more appropriate meaning.

III. Relational History: Imagination and Sympathy

Smith engages in the study of history through two concepts that are also vital to his understanding of moral and economic action: the imagination and sympathy. He uses these concepts to describe how human beings connect with other people, how we understand the values that structure our lives, and how we build a narrative that fits empirical data and nurtures the development of character.

Smith begins *The Theory of Moral Sentiments*² with the argument that though humans are not always motivated by selfishness, we “have no immediate experience of what other men feel” (I.i.1.2). Because Smith believes that the happiness of others is necessary for our own happiness, he must provide some way to experience others’ feelings of happiness. He offers the imagination as just such a tool. As embodied creatures, Smith does not believe that we can leave our bodies to understand the sensations in someone else’s body. Our “experience is essentially private”, in James Otteson’s (2002, 20) words, and the only way to transcend our private experience is through the imagination. Smith’s moral theory thus rests on the imagination because it is only through the imagination that we can understand others and form our actions in relation to them.

² This and all subsequent references to *The Theory of Moral Sentiments*, abbreviated as ‘TMS’, will be to the Glasgow edition (Smith [1759, 1790] 1982a). References include, in this order, part (in upper case Roman numerals), section (in lower case Roman numerals), chapter, and paragraph (in Arabic numerals).

Smith argues that moral action most broadly conceived must be action that issues from sympathy with other humans. But because we cannot immediately experience what others feel or know, sympathy itself must be a function of the imagination. Though as Charles Griswold (1999, 85) notes, “not every act of imagination is an instance of sympathy”. Imagination is the larger category. It allows us to enter other’s lives, to judge works of art against what we imagine to be perfection, to come up with explanations for the natural universe, and to re-conceive the symbolic universe that governs the meaning people ascribe to events (*TMS*, I.i.5.10; *HA*, IV.76).

Sympathy, in Smith’s technical sense of the word, is a work of the imagination (Otteson 2002, 18). Smith does at times use sympathy to speak of a ‘fellow-feeling’, often one of ‘pity or compassion’, but when he uses sympathy in its moral sense, he means the harmony of passions between people.³ Because we cannot actually enter the bodies of others or know their feelings, Smith believes that the imagination places us into the other person’s context. Our ability to sympathize with another arises not so much from observing the other person as from putting ourselves into the other’s context: “Sympathy, therefore, does not arise so much from the view of the passion, as from that of the situation which excites it” (*TMS*, I.i.1.10). It is no easy task, however, to understand another’s context. To be able to sympathize with another person, one has to be able to see the world as the other sees it, to understand her material conditions, to know the pressures and conditions working on her, and to understand the traditions that guide her life—to embody her experience of history.

Though history in Smith’s work is a function of the imagination, it is not mere fancy. He uses the imagination to unite the diverse empirical events he studies and to render that diversity of information meaningful. His use of history, though, does not just set the stage in which moral judgments and actions occur. Doing history demands moral judgment; it depends on sympathy. When, for instance, he writes approvingly about the origin of money in the *Wealth of Nations*,⁴ he sympathizes with people in the past and perceives that he too would have done as they did in their situation (I.iv; Fleischacker 2004, 49–50). But when he imagines his way

³ The meaning of sympathy is highly contested in Smith. See, for example, Otteson (2002, 17–18), Raynor (2006, 239), Raphael and Macfie (1982, 20–21), and Montes (2004, 45).

⁴ This and all subsequent references to the *Wealth of Nations*, abbreviated as ‘WN’, will be to the Glasgow edition (Smith [1776] 1982b). References include, in this order, book (in upper case Roman numerals), chapter (in lower case Roman numerals), part (if applicable), and paragraph (in Arabic numerals).

into the European transition from agricultural to commercial life and sees that the transition was driven by the cities over and against the countryside, he cannot sympathize with the situation (*WN*, III.iii.7). Because Smith cannot sympathize with either the situation itself or the outcome it produces, he disapproves and finds demerit in the trajectory of commercial development in Europe, calling it “an unnatural and retrograde order” (*WN*, III.i.9). The point is that when the imagination unites diverse empirical events, it does so with the aid of sympathy in order to render a normatively meaningful history. As we increase our ability to sympathize with others, we increase our ability to judge and imagine history. And a more robust view of history increases our ability to understand the context of others and to enter into sympathy with them. The cycle should be self-reinforcing so that better history leads to better sympathy and, eventually, to better history.

A problem arises with all such cycles because they can also be mutually destructive. Bad history can lead to worse moral judgments and so on down. Smith recognizes that the main threat to his history and moral theory is the personal biases that cloud our imagination and sympathy. He believes, however, that we naturally correct for such bias by using our imaginations to enter what he calls ‘the impartial spectator’. Smith believes that we turn to the impartial spectator to help us see the situations of others and of ourselves more clearly. Smith writes, “it is only by consulting this judge within, that we can ever see what relates to ourselves in its proper shape and dimensions; or that we can ever make any proper comparison between our own interests and those of other people” (*TMS*, III.3.1). He describes the impartial spectator as a tool that enables a relational view of moral action because it helps us see how we are *related* to others and it helps us form ‘proper comparisons’ with others. We imagine our way into the impartial spectator in order to better situate ourselves amidst the conflicts and complexities of history (Garrett and Hanley 2015, 249).

As a product of the imagination, Smith’s use of history remains open to the same flaws as his concept of sympathy, but he shows that when practiced together history and sympathy can reinforce one another and improve their work.⁵ And when personal biases threaten the cycle, Smith believes that the impartial spectator can help people do history and sym-

⁵ For more on the connections between sympathy, the impartial spectator, and the narrative of history that Smith develops, see Weinstein (2013, 230).

pathy more objectively. He casts the imaginative work of history as a necessary first step in our ability to sympathize with others, but he also shows that we use our ability to sympathize in order to construe a compelling and meaningful view of history that informs our moral actions. Together history and sympathy rely on and broaden the powers of the imagination. And they contribute to a relational view of moral action that seeks to understand difference, to hold together the tensions that comprise the whole, and to form ever new responses in the form of acts that others both approve of, because of their own motives, and consider meritorious because of the consequences of these acts.

II.II. Smith's Way of Writing History

Smith writes history to teach a particular way of seeing the world that demands moral action be fitting action—action that mediates the differences in a situation and reacts to them with ‘propriety’. In the student notes that remain from his *Lectures on Rhetoric and Belles Lettres*,⁶ he discusses his views on the art of writing history, science, and oratory. He contends that every act of writing intends either to relate a fact or to prove a proposition. Among the forms of writing that convey facts, Smith includes history or narration (*LR*, i.149). He writes that the task of the historian is “to relate the remarkable transactions that pass in different nations, and the designs, motives and views of the most remarkable men in those times, so far as they are necessary to explain the great changes and revolutions of states which it is intended to relate” (*LR*, i.150–151). History describes not only the visible facts, but also invisible facts, like human character, by relaying the effects of such invisible forces. Smith contends that a good historical argument is impartial to both sides and does not “leave any chasm or Gap in the thread of narration” (*LR*, ii.70, ii.36–37). He calls the historian “an impartial narrator of facts” (*LR*, i.82–83). Good history is a narrative of carefully supported causes and effects (*LR*, ii.19, ii.32).

Dugald Stewart (1982) coined the term ‘conjectural history’ to describe Smith’s method of connecting known historical events together, despite their often invisible bonds, to show how progress occurs from one stage of life to another (Evnine 1993, 589–90; Evensky 2015, 23). While many Smith scholars from Stewart to Christopher Berry (2013) have

⁶ This and all subsequent references to the *Lectures on Rhetoric and Belles Lettres*, abbreviated as ‘*LR*’, will be to the Glasgow edition (Smith [1963] 1985). References include, in this order, volume (in lower case Roman numerals), and paragraph (in Arabic numerals).

read Smith's history in this light, this is not the full story on how Smith wrote history. "Conjectural history", in Höpfl's (1978, 23) words, "did not conform to *philosophe* paradigms, and the Scots' explicit doctrine of history did not adequately describe any of the sorts of history that they wrote". Smith always seeks to prove a point when he writes history, not just to connect events. He tells the history of European development so he can show that in the end it has "been, in many respects, entirely inverted" (*WN*, III.i.9). He writes history to imagine the world in a particular way that shows people how we should act in it. As Nathaniel Wolloch (2017, 79) puts it, "Smith did not write historical works in the strict sense". Describing origins and progress was important to Smith, but as Garrett and Hanley (2015, 259) point out, he also wanted to teach how we can implement policies or plans for better future outcomes.

The way Smith writes about history must then fall under one of the two forms of writing that seek to prove a proposition: oratory or didactic. His work is not an oratory that seeks to persuade people at all costs because he pays close attention to empirical events, so it must be an exercise in didactic writing. Though he allows that the didactic writer will slip into oratory at times—which Smith surely does—the goal of didactic writing is to teach. The didactic writer first lays down a proposition and then proceeds to support it with evidence (*LR*, ii.125–126). The writer wants to be persuasive, but no more so than the evidence allows (*LR*, i.150). Smith uses this didactic form of writing in each of his major works (Griswold 1999, 79; Otteson 2002, 13). The first sentence of *TMS*, for example, states the proposition that the rest of the text develops (I.i.1.3). *WN* begins with the role of the division of labor in the increase of opulence, which is a claim developed throughout the text. Even particular sections of *WN* often begin with propositions. For instance, Book I, Chapter II begins with the basic proposition that humans have a natural propensity to "truck, barter, and exchange one thing for another" (*WN*, I.ii.1). In most all of Smith's writing, "his historical discussions", in Wolloch's (2017, 85) words, "are almost always directly connected with prescriptive recommendations regarding contemporaneous governmental policies". By using the didactic form, Smith shows that he intends to teach a particular understanding of history and moral action so as to offer a more beautiful and complete system.

Smith's historical writing strives to satisfy both empirical and normative criteria. "So far from conceiving of history as a descriptive enter-

prise”, write Garrett and Hanley (2015, 252), “Smith regarded it as valuable chiefly for its normative implications”. Smith wrote history to conform to known empirical realities and the experiences people have of the world, and he wanted it to teach a way of construing the world that would receive the moral approbation of its hearers. Just as an individual act is approved of when those who perceive it can bring the situation of the agent home to themselves and concur with the actions, so too a version of history is ‘good’ when people are able to sympathize with it and approve of the way it depicts the world (*TMS*, VII.ii.4.14). Smith’s view of history has a dynamic relationship with morality. The way we understand history affects the way we act, and our ability to sympathize with others also shapes our perception of history.

Smith’s method uses the imagination to develop typologies that make meaning out of the diversity of human life. His most significant typology is the one he forms to deal with the diversity of social forms. He uses the four social types of hunter/gatherer, herding, agricultural, and commercial life. These four states of human society should be understood not as ontological categories or universal laws, but as ideal types that capture the dynamics of different social forms. “The aim in establishing historical generalizations” like Smith’s types of society, according to Quentin Skinner (1966, 200), “seems not to be the statement of general laws but rather the illumination of particular facts or events”.

Smith’s “loose sequence of stages, gives [the four states of society] an air of an ideal type”, for Gavin Kennedy (2005, 91), “rather than a dated historical sequence”. Or as Berry (2013, 49) puts it, “It functions, in a manner akin to what is later called an ‘ideal-typical’ way”. If we look back at Smith’s introduction of the four social states in his *Lectures on Jurisprudence*,⁷ we see that he begins the analysis with a story:

If we should suppose 10 or 12 persons of different sexes settled in an uninhabited island, the first method they would fall upon for their sustenance would be to support themselves by the wild fruits and wild animals which the country afforded. (*LJ(A)*, i.27)

⁷ This and all subsequent references to the *Lectures on Jurisprudence* will be to the Glasgow edition (Smith 1982d). The *Lectures* are abbreviated as ‘*LJ(A)*’ if the reference is to the report of 1762–1763, and as ‘*LJ(B)*’ if the reference is to the report dated 1766. References to *LJ(A)* include, in this order, volume (in lower case Roman numerals), and paragraph (in Arabic numerals). References to *LJ(B)* include the respective paragraph in Arabic numerals.

From there people learn to domesticate animals, do agriculture, and start trading. Each type, though named after a mode of subsistence, brackets a particular instance of human experience in order to understand its dynamics. Like the kind of didactic history Smith sees himself writing, the types are not empirical statements. They are heuristic devices that synthesize empirical material culled from history with normative claims about how societies work.⁸

In fact, Jerry Muller points out that the diversity of life in Scotland during Smith's life facilitated the study of all these different types at the same time: "Within Scotland there were regions at very different stages of social and economic development, creating what one scholar has described as a 'social museum at Edinburgh's back door'" (1993, 22). The four types help Smith craft a symbolic universe that sees all of the types—and the tensions between them—as part of present Scottish life. The types can be historical in sequence, and Smith uses them to illustrate differences in the kinds of society in different "ages". But the four types are not only about linear historical progress, and calling them 'stages' (which Smith rarely does) would limit readers' perception of how the types are used. Hollander (1998, 89) goes so far as to describe Smith's reference to the "hunting stage" as a "fiction for analytical purposes". Smith is telling a story, crafting a way of seeing the world. He forms a philosophical system that in its effort to connect together a few events ends up creating "another constitution of things, more natural indeed, and such as the imagination can more easily attend to, but more new, more contrary to common opinion and expectation, than any of those appearances themselves" (*HA*, IV.33, IV.76). The perfection of such a 'constitution of things' is that it no longer appears as a product of the imagination, but becomes the assumed framework for all daily experience. The degree to which some Smith scholars read his 'stages' as real history—and not his imaginative production—is, therefore, a testament to the enduring quality of his imaginative history to appear real to his audience.

III. FOUR TYPES: SMITH'S STATES AND LATER INTERPRETERS OF SMITH

Some scholars have turned Adam Smith's story of history into one of inevitable progress, leading from barbarous peoples to civilized nations, from paucity to prosperity, from hunters, to herders, to husbandmen, to hucksters. Others see it as a story of failure, reversals, downfalls, and as

⁸ Wolloch (2017, 76) claims that the "four stages theory, metamorphosed in Smith's work from a historiographical outlook into a distinctly political-economic one".

a story that sometimes repeats itself. Ecem Okan (2017, 1248–1249) argues that Smith uses history in different ways throughout his corpus. I argue that the complexity of Smith’s story of history is best seen when—using a typological approach from Smith’s own historiographic toolkit—scholars sympathize with the breadth of Smithian interpretations, hold them in tension, and explore what the dynamics in each interpretation say about the human condition.

The following sections demonstrate the plurality of values in Smith’s construal of history as the sections sympathize with four types of interpreting him, discern the central values in each, and name the tensions the types bring to light. Scholars influenced by Marx read in Smith a kind of determinism in economic modes of subsistence, so I refer to them here as *Economic Materialists*. Liberal economists, on the other hand, typically believe that Smith depicts history as a record of how a stable human nature adapts to different circumstances. Because they assume that human beings have consistent economic behavior, I label such liberal economists *Economic Behaviorists*.⁹ The *Civic Humanist* type emphasizes the cycles of virtue and corruption that are present in Smith’s view of history. And, finally, the *Natural Jurisprudence* type emphasizes the role of law in Smith and the diversity of influences in each of the states of society. Each of these types grasps at an ideal presentation of a particular approach to Smith, though none of the types exists in any pure form. They are all imaginative productions.

A full account of Smith’s history embraces the tensions that come to light in the midst of these four types, including the tensions between freedom and determinism, between historical particularities and universals, and between individuals and communities. If one does not recognize the tensions in Smith’s construal of history, one eradicates difference, which for Smith is the very thing that draws us to imagine, sympathize, and build our historical and moral worlds. Smith, like the “plain man” style of writing he praised, “is not at all ruffled by contradiction” because we live and act in a world filled with it (*LR*, i.85–91).

III.I. Economic Materialists

The *Economic Materialist* type emphasizes the natural progress human beings make toward the commercial state of society. This type focuses on

⁹ I do not intend the term to be confused with behavioral economics. I owe my use of ‘behaviorist’ in part to Gibson Winter’s description of economics, see Winter (1966, 41, 175–181, 236–238).

those places where Smith speaks about how different modes of subsistence characterize and drive human history. It is scarcely concerned with how much liberty human beings possess or if human beings can pursue their needs and desires uninhibited. Rather, it studies how the economic prerequisites of life determine social and political forms.

Economic Materialists often group Smith with Adam Ferguson, John Millar, Lord Kames, and William Robertson as part of the Scottish Historical School. As Roy Pascal put it in his pivotal 1938 article, these men developed a “new science of civil society” (169). It was a science that employed what Dugald Stewart referred to as “theoretical or conjectural” history and what Andrew Skinner renames philosophical history (Skinner 1975, 154). As *Economic Materialists* like Pascal, Ronald Meek, Skinner, and Nathaniel Wolloch see it, Smith developed a scientific approach to history in which he first laid out some basic principles and then used those principles to account for the different revolutions in human history.

According to Meek (1977, 19), Smith’s four “stages” constitute “*a*, if not *the*, materialist conception of history”. Instead of seeing the states as ideal types, *Economic Materialists* believe that the four types describe how changes in the ways human beings make a living cause subsequent changes to political and social arrangements (Skinner 1996, 80). *Economic Materialists* see through the four stages that Smith develops the dynamics of authority and dependence and a proto-Marxist theory of classes. Skinner (1967, 43–44), for example, argues the stages “explain the whole pattern of social change itself”. But he knows Smith is no vulgar Marxist who insists that all change results from economic factors. Smith, rather, “would appear to come close to Engel’s general position in arguing that the economic finally asserts itself as the ‘ultimate’, rather than as the sole, determining factor” (Skinner 1975, 175).

Economic Materialists tend to slide from seeing Smith’s modes of subsistence as characterizing different *states* of society to seeing them as modes of production that drive the transition between *stages* of society. Though Smith is certainly interested in progress and talks about the different ages of society, he rarely speculates on the transitions between states, usually just noting that shifts from hunting to shepherding and from shepherding to agricultural are driven by population growth.¹⁰ While the stadial theory is prevalent in this era, Smith does not really talk about ‘stages’. There is one instance in *LJ(B)* in which the student records Smith

¹⁰ On population growth as a driver of change between states, see *LJ(A)* (i.28, i.30) and *WN* (V.i.a.5).

referring to the four states as “stages”, but, as student notes, it is difficult to know what word Smith specifically used (*LJ(B)*, 149). Berry, like other *Economic Materialists*, continually assumes that Smith is talking about “stages” like the other scholars of his day, but when Berry quotes Smith, Smith’s quotes speak of “states” or “periods of society”, which is how Smith refers to these ideas—not as “states” (Berry 2013, 42, 44, 47). Furthermore, when it comes to economic analysis, Smith uses the states, as types, to create a “static comparison” between the “early and rude state” and advanced societies, showing how capital accumulation and the division of labor create wealth (Okan 2017, 1271). After Meek’s (1976) formative study of Smith and Scottish history promoted the “four stages”, many scholars have accepted this framework for viewing Smith. Unreflective references to his ‘stages’ show the implicit bias that these scholars bring to Smith’s history. These are valuable readings, but they are not the only valuable readings.

III.II. Economic Behaviorists

In a sentiment echoed by many liberal economists, Eric Roll (1954, 150) refers to Smith as the “apostle of economic liberalism”. *Economic Behaviorists* believe that Smith develops an economic system that shows how giving human beings the greatest amount of freedom from coercion that is possible within the law leads us to act in such a way as to bring about the greatest amount of economic growth. Joseph Schumpeter (1954, 572) calls the classical system of economics developed out of Smith by John Stuart Mill and Jean-Baptiste Say “hitchless”. There are never “obstructions” to the system of savings, investment, and capital growth as long as freedom is not unnecessarily surrendered. As long as there is sufficient freedom, our natural human inclinations toward self-interest will drive us to the intended end of opulence. As Justman (1993, 128) writes, “Smith uses a linear model of the progress of human society from the hunting stage to the commercial stage”. The “Author of Nature” seems to intend such an end of progress for humans (*TMS*, III.v.7).

When one sympathizes with the *Economic Behaviorists* type, one finds ample textual support for their view of Smith, especially in *WN*.¹¹ Smith shows how natural inclinations drive economic history. In an often-cited passage, he describes how the division of labor that drives a commercial society is the product of human nature:

¹¹ Alvey (2003) does a particularly exceptional job of developing the liberal—or *Economic Materialist*—reading of Smith on history and progress.

[The division of labor] is the necessary, though very slow and gradual consequence of a certain propensity in human nature which has in view no such extensive utility; the propensity to truck, barter, and exchange one thing for another. (*WN*, I.ii.1)

It is in our nature to persuade others to trade with us, and as we do so, Smith argues that we should not appeal to their benevolence or good natures—we should appeal to their self-interest. Because human nature is basically stable, *Economic Behaviorists* see that human beings are interchangeable exchange partners. Though Smith shows the differences between human societies throughout history, *Economic Behaviorists* focus on what they see as the two constants of human behavior that facilitate anonymous exchange: sociability and self-interestedness (what Smith calls the “desire to better our condition” [*WN*, II.iii.28–36]). Samuel Hollander believes that these two assumptions are all one needs for a capitalist system of exchange to work. He argues that Smith’s historical analysis may show that human sociability and self-interestedness exist, but once this conclusion is reached, history itself is inconsequential to economic analysis. Hollander (1979, 77) writes, “once the basic framework relevant for a capitalist exchange system had been constructed, the historical scaffold was no longer formally essential and could be removed”. Thus, *Economic Behaviorists* do not dwell for long (or at all) on the historical aspects of Smith’s work.

Economic Behaviorists open up several aspects of Smith’s work. They suggest that Smith sees an underlying consistency in human nature. They show a strong tendency toward progress in his work. They highlight his advocacy of freedom. And they suggest that though Smith may have a moral theory in *TMS*, he sees economic exchange as anonymous and amoral. “In his economic analysis”, writes Jacob Viner (1972, 82), “Smith operates from the categorical premise that the economic relations between men are in effect fundamentally impersonal, anonymous, infinitely ‘distant,’ so that the sentiments, with the one exception of ‘justice,’ remain dormant, are not aroused into action”. Though other types see the moral system of *TMS* more thoroughly infused into *WN*, *Economic Behaviorists* suggest that Smith’s story of history interprets economic exchange as a value-free activity.

III.III. Civic Humanism

For John G. A. Pocock, Smith’s use of the virtues mirrors that of other eighteenth-century Scottish scholars, which Pocock believes shows

Smith's reliance on a *Civic Humanist* paradigm. *Civic Humanists*, like Adam Ferguson, use the language of virtue, corruption, and reform in their schemes of historical development, and Pocock traces the vocabulary and ideology it expresses back to Machiavelli and Aristotle (Pocock 1972). The *Civic Humanism* type is concerned with virtue as it appears in autonomous citizens who participate in a political community, which is conceived on institutional and constitutional grounds. Citizens should be able to participate freely in government, and they should be active in the defense of the country through militias (Robertson 1983, 138). *Civic Humanism* sees that human beings are essentially public beings, and thus personality is "fully expressed only in the practice of citizenship as an active virtue" (Pocock 1983, 235). Because virtue is central to the tradition—and specifically virtue as developed within a political community—it is understandable that the tradition is also concerned with the way corruption erodes the practice of virtue and restricts the autonomy of citizens.

The *Civic Humanism* type emphasizes Smith's warnings about the moral and material dangers of commercial life. Pocock suggests that Smith creates the typology of the four states of society to show that the "normative control" of historical development is not one's mode of subsistence, but "the humanist concept of the personality's integrity" (Pocock 1989, 102). Each state involves different forms of political community and thus different forms of citizenship, freedom, virtue, and corruption. No state of society is immune from corruption, and thus no inevitable linear view of history suffices.

Because of the presence of corruption in history, *Civic Humanists* read Smith as holding a cyclical rather than a linear view of history (Winch 1978, 63). In regards to the commercial state of society, *Economic Behaviorists* may speak of the "degree of opulence" for which nations are "naturally destined", but *Civic Humanists* point out that only a few paragraphs later Smith writes that "the course of human prosperity, indeed, seems scarce ever to have been of so long continuance as to enable any great country to acquire capital sufficient for all those three purposes [i.e., agriculture, manufacture, and trade]" that lead to opulence (*WN*, II.v.20–22). In fact, Smith contends that rarely does human prosperity endure longer than 200 years in any given nation (*WN*, III.iv.20). *Civic Humanists* argue

that the commercial state is by no means a permanent one, even today.¹² The culmination of the commercial state seems to be not perpetual growth, but stagnation and perhaps even decline. Though Smith knows that no society has reached the point of saturation, it is notable that he envisions the culmination of the commercial state as a saturated plateau (WN, I.ix.14–15).

The *Civic Humanism* type suggests that virtue and corruption are important historical hermeneutics for Smith, but they too narrowly restrict Smith to their language of virtue. He sees virtue and corruption in history, but he also sees a plurality of other forces at work, like changes in forms of governance, modes of subsistence, social forms, moral laws, and much more. Also, his particular virtues differ from those of the *Civic Humanists*.¹³ Because his virtues differ, the kind of community needed to develop them also differs. He believes we need a plurality of communal forms because the wealth of a nation depends on strong relationships between the country and the towns. For Smith, *Civic Humanists* too narrowly place their emphasis on the moral strength of agrarian communities, which they view in opposition to the cities.

III.IV. Natural Jurisprudence

The *Natural Jurisprudence* type contends that history is the place in which legal precedents are formed and laws are crafted in a dynamic relationship with changing contexts and needs. This fourth type sees Smith's interest in economics as a subset of his larger concern with jurisprudence. At the beginning of Book IV of *WN*, Smith defines political economy as "a branch of the science of a statesman or legislator" (IV.1), and the lecture notes from his 1762–1763 course on jurisprudence include under the topic of "Police" material that is similar to what one finds in *WN* (*LJ(A)*, vi). The *Natural Jurisprudence* type reads *WN* as a text that shows legislators how to structure the laws and practices of a nation to encourage maximum economic growth. Smith's version of *Natural Jurisprudence* is typically seen as most indebted to Hutcheson, Hume, and Montesquieu, but it also has roots in the continental natural law tradition

¹² Alvey develops the more pessimistic *Civic Humanist* assessment of history, showing that progress is neither inevitable, nor permanent because of "the necessity of a legislator, yet the improbability of having one; the influence of climate, terrain and custom; and the persistence of slavery" (2003, 15).

¹³ See McCloskey (2008, 50). Brown (1994, 208–212) also makes a strong case for the differences between Smith and the *Civic Humanist* tradition, citing specifically the apolitical nature of Smith's virtues.

of Pufendorf and Grotius. Knud Haakonssen argues that, viewed from the perspective of *Natural Jurisprudence*, Smith's use of history serves two functions. It helps us "gain an understanding of how the principles of the impartial spectator work in practice", and it "explains the present state of the law which is the object of critical evaluation from the standpoint of natural justice" (Haakonssen 1981, 154).

Smith's desire to demonstrate how the impartial spectator functions in the formation of law arises in *LJ(A)*. In his treatment of the five origins of property, Smith contends that the first rights to property come through "occupation" or the simple fact that someone has something in his physical possession. Because such exclusive property rights arise in the hunting state before a separate judicial branch exists, Smith contends that the right of occupation is first judged by the impartial spectator. That is, if I pick up an apple with my hand and someone comes and rips it out of my hand, the impartial spectator will perceive the injury done to me and rule in my favor. Through sympathy the spectator brings my situation home to himself and decides the case based on "reasonable expectation" (*LJ(A)*, i.36-37).

As society moves into the shepherding and agricultural states, additional ways to obtain private property form, but like the rights of occupation and accession, all forms of ownership are originally based on the judgment of the spectator. When Smith explains the right of prescription, which means being granted ownership based on the attachment one has to something she has had for a long time, he turns to the spectator:

For in the same manner as the spectator can enter into the expectations of the 1st occupant that he will have the use of thing occupied [. . .] in the same manner, the right of prescription is derived from the opinion of the spectator that the possessor of a long standing has a just expectation that he may use what has been thus possessed. (*LJ(A)*, i.77)

Similar to the early examples of the spectator assessing what constitutes reasonable expectations, Smith shows how the spectator functions in the commercial state to assess the fairness of contracts (*LJ(A)*, i.41, i.57). By illustrating how the spectator functions in different times and places, Smith helps the future leaders to whom he offers his lectures learn how to respond to complex situations. Haakonssen (1981, 154), thus, believes that Smith uses history to teach through examples.

The four states of society in the *Natural Jurisprudence* perspective depict not determined material relationships between modes of subsistence, kinds of property, and forms of government, but complex relationships (*LJ(B)*, 11). Donald Winch suggests that the dynamic relationship between property and government “was to be one of the main themes of Smith’s historical account of progress, though it should be noted that, contrary to more deterministic interpretations, the relationship envisaged between government and property is a reciprocal one” (1978, 51).¹⁴ The four states tell “the story of how the possibility of strong government slowly emerges hand in hand with the need for it. And at the end of the process so many institutional factors have developed in mankind’s [*sic*] situation that we can no longer explain the further social evolution by reference to the simple needs of survival” (Haakonssen 1981, 157). Only by studying and understanding the dynamic relationships of property, government, and justice can a legislator organize a nation to be capable of providing well for itself.

Like *Civic Humanists*, the *Natural Jurisprudence* type does not read Smith as suggesting a linear progression through the four states of society. But unlike the *Civic Humanism* type, *Natural Jurisprudence* does not believe history simply turns in on itself in a continuous cycle; it is more like a spiral—circular, but going somewhere. Another difference between *Natural Jurisprudence* and *Civic Humanism* lies in the norm through which they understand history. Pocock explains that “the basic concept in republican thinking is *virtus*; the basic concept of all jurisprudence is necessarily *ius*; and there is no way of representing virtue as a right” (1983, 248). The problem with many interpretations of Smith is that they see virtues and rights as necessarily opposed (Pocock 1983, 249). The narrow focus of *Civic Humanism* on virtue leads to a more provincial formation of morality through small communities. And the narrow focus of *Natural Jurisprudence* on rights promotes a cosmopolitan view of morality because the basis of rights and law pervade the particularities of communities (*LR*, i.v.30–31).¹⁵ Instead of insisting that Smith squeeze into the narrow confines of *Civic Humanism* or *Natural Jurisprudence*, attention to his texts shows that he wants it both ways—he embraces a plurality of approaches, using both the language of virtues and rights. He wants small

¹⁴ Winch writes that “the whole unilinear stadial sequence begins to seem highly contingent on circumstances that are by no means traceable merely to economic causes” (1983, 259).

¹⁵ For a reading of Smith’s work as a kind of provincialism, see Phillipson (1983). For a reading of Smith as a cosmopolitan, see Winch (1983, 267).

communities with pure languages to form the moral sentiments and virtues of individuals, but he also wants the simplification of language, the spread of international commerce, and universal conceptions of laws and rights.¹⁶ Smith's use of both virtues and rights demonstrates the plurality of approaches to moral action that his symbolic universe uses to describe and guide the complexity of human life.

IV. PRODUCTIVE TENSIONS IN SMITH'S HISTORY

The four types developed here are simple, broad depictions of how scholars have approached Smith. They do not exhaust all possible interpretations and are not exclusive of each other, but each of them reveals a unique layer of reality. And while Smith's types often do align in a historical sequence, the types of Smithian interpretations are not aligned here to demonstrate a historical sequence (though historical connections between these interpretations could be traced). Smith uses the four states to talk about human progress, and he also uses them to understand the dynamics within states of society.

Smith uses history, not just to tell a story of progress, but to highlight the complexity and plurality of human nature, institutions, and moral and economic development. James Alvey (2003) explores the apparent paradox between Smith's positive, teleological, liberal reading of history (here named the *Economic Behaviorist* type) and his negative, cyclical, *Civic Humanist* reading. Alvey confines himself to these two views on Smith's history, and in doing so, brilliantly highlights their contrasts. In the end, Alvey concludes that Smith does not leave a fully coherent doctrine, but I want to suggest that coherence may not have been the goal. Weinstein (2013, 7) is right that Smith is no post-modern pluralist, but that his openness to difference, integration of otherness, and form of dialectic "prefigures" what one finds in the twentieth and twenty-first centuries. For Smith, the historical narrative is always caught betwixt and between: between a teleological ideal and an empirical reality, between freedom and determinism, between communities and individuals, between virtues and rights. The aim is not unified coherence, but a kind of dynamism that feels more like the moral complexity of lived experience, and that can better earn the sympathy of Smith's audience—in his day and ours.

¹⁶ One benefit Smith reaps by incorporating both perspectives is that he does not allow his analysis to be reduced to a debate between Tory and Whig ideologies. See Pocock (1983, 247).

Though Smith typically refers to his typology as ‘states’ or ‘periods’ he treats the states in a particular order and leads the reader to think that the basic principles of human nature cause societies to move naturally from one state to the next—as *Behaviorists* and *Materialists* emphasize, albeit in different ways. Though we may even move through the agricultural state in an altogether ‘inverted’ way, we still emerge into a kind of commercial life for Smith. But he also shows how all the types of society include within them dangers and pitfalls. The states of society are fluid and open to both regression and progression, and the choices of individuals and legislators do tend to matter—as the *Civic Humanism* and *Natural Jurisprudence* types emphasize. Whatever constants may exist in human nature, they do not determine the direction of history completely. Each type alone runs into errors because of its narrow reading of Smith, but together they reveal the tensions and complex reality to which moral action responds.

The *Civic Humanism* type, for example, illuminates the paradox of freedom in the *Economic Behaviorist* approach. *Civic Humanists* emphasize the ability of human beings to form virtue and to change their tastes, preferences, and desires over time, but *Economic Behaviorists* see human tastes, preferences, and desires as stable (basically always self-interested). Even though *Behaviorists* are the biggest advocates of free choice, they allow individuals no real power to change their characters—no ‘growth-mindset’ we might say today. Otteson (2002, 93) attempts a middle way between the two types, arguing that “Smith believes that the various characteristics one finds in human nature do not automatically lead to specific behaviors or specific rules of conduct. They are interests, inclinations, proclivities”. Though Otteson offers a constructive synthesis, the two types highlight an important tension in moral action. The degree to which we can call an action ‘moral’ seems to imply some freedom of choice (either in the present or in the past when the virtues were formed) about whether to engage in the action. It should not surprise one then that *Economic Behaviorists* see economic actions as ‘amoral’ because they believe that such self-interested actions are a determined (or ‘natural’) part of human virtue. Though such a narrative fits with the *Behaviorists’* accounts of their value-free science, it does not fit with Smith’s interest in educating workers, cultivating virtues, forming good legislators, or increasing the wealth of the nation because these all intend ‘good’ or moral consequences beyond mere desire satisfaction.

My point is not to conclude whether Smith endorses determinism or freedom because that would be a false choice. Smith sees moral action and history as existing in tension with both—human beings are both free and determined. Smith shows that moral action is *relational* action (bound to relationships and contexts, but not determined by them) that arises in a historically embedded person who cultivates the best resources of her tradition to sympathize with others and to enter the impartial spectator. Garrett and Hanley (2015), especially, demonstrate how the impartial spectator ruptures deterministic views of morality, even as it strives for impartiality. Though people owe much to our communities and histories, the marvel of relational moral action is that we are never completely bound to what has come before. Novelty exists in history. It is not about libertarian freedom versus material determinism, but about relationships, which both bind us and promote creativity.

A second tension suggested by the types of Smithian interpretation plays out between historical particulars and universals. Both the *Economic Materialist* and the *Natural Jurisprudence* types emphasize how Smith's history shows that moral action takes place in the presence of universal laws. Laws, like a prohibition against murder or the Golden Rule, seem universal and fundamental to society. *Civic Humanists* and *Economic Behaviorists* come at it from the other side. They emphasize the historically particular origins of moral action through the virtues and self-interested behavior. *Behaviorists* emphasize Smith's advocacy of the liberty of the individual to follow her desires, and *Civic Humanists* emphasize the particular kinds of virtue Smith wants people to cultivate.

Smith, however, sees how universals and particulars work in tandem to form moral action. He acknowledges that an elite group of people—himself among them—know that laws only have value because of the many individual actions that give rise to them (*TMS*, III.2-3).¹⁷ He thinks that most people orient their lives around such laws without even considering that they might not be universal or “manifestations of God's will” (Otteson 2002, 76).¹⁸ Smith argues that if it were not for the impartial spectator, there could be no moral judgments, and without judgments there would be no law.¹⁹ And yet the impartial spectator seems to be the

¹⁷ See also Otteson (2002, 105).

¹⁸ See also *TMS* (III.5.3).

¹⁹ Haakonssen (1981, 61) writes, “general rules of morality are thus the unintended outcome of a multitude of individual instances of natural moral evaluation”. Notice here that Haakonssen emphasizes that rules result from both particular decisions and from the ‘natural’ or universal form of evaluation that undergirds them.

result of unchanging human nature. That is, while laws might be the result of generations of particular and relative decisions human beings have made through our impartial spectators, the spectator develops because of a universal human desire to be in mutual sympathy with others. Once we realize that others' biases prevent them from being in sympathy with us, we learn—and eventually they do too—to enter the position of the impartial spectator so our biases do not prevent us from being in sympathy with others. The desire for mutual sympathy appears universal in Smith's account, and yet, it is a principle Smith culls out of his empirical investigations into the nature of virtue and why we value the virtues (*TMS*, VII.i). He suggests that laws get their value out of the many individual actions that give rise to them (*TMS*, III.2-3). Another way to state this tension is as one between relativism and universalism. Smith's historical method and view of human action attends to particular and relative events and yet it often relies on seemingly universal claims.

Moral action must also navigate a third tension. It is one between individuals and institutions. Individuals who have lived forever in isolation cannot create laws, modes of subsistence, the arts, science, and government. From the earliest hunter and gatherer groups, individuals have lived together in increasingly complex forms. *Economic Behaviorists* see the history of moral action from the vantage point of the autonomous individual or economic agent pursuing his self-interest, but the full history of human action cannot be told from the vantage point of the autonomous citizen or economic agent pursuing his or her self-interest because individuals live in communities and communities are organized through institutions. The other types of Smithian interpretation insist that individuals live in communities and that communities are organized through institutions. But we must also admit that the *Natural Jurisprudence* emphasis on institutions over individual virtues, choices, and imaginations at times fails to shed light on the motivations that prompt individuals to pursue particular courses of action. "In Smith's analysis", according to Jerry Evensky (2005, 53), "individuals are social beings *and* they are sovereign beings". *WN* is not just a manifesto for the autonomous economic agent (*Economic Behaviorists*) or one for an institutional revolution (*Economic Materialists*). It also simultaneously cultivates the virtues of the commercial life (*Civic Humanism*) and instructs young legislators in how to reform the nation's legal structure to increase opulence (*Natural Jurisprudence*). The four states of society depict the ways in which individual motivations interact with social and institutional forces. They show the

necessary provincialism of the small early human groupings, and they show the cosmopolitan tendencies of commercial states. But just as the commercial state cannot exist without the small communities of herders and husbandmen, so too cosmopolitanism requires strong local communities. In the end, *WN* and *TMS* offer a relational view of moral action that only arises when individuals stand in relation to each other and to social forces. The tension cannot and should not be dissolved.

V. CONCLUSION

Writing history requires that we imagine our way into different contexts, sympathize with others, and build a story that coheres with empirical experience and offers a persuasive meaning to past, present, and future actions. Smith engages in writing history in order to teach people a narrative that embraces the plurality of values in modern life to help them understand their lives and make moral judgments.

The differences in the four types of Smith scholarship described here do not reveal a lack of clarity in Smith's work, but rather they show his ability to hold together plurality and to teach a view of history that is complex. Human beings always seem to struggle to understand moral action amidst the tensions between freedom and determinism, particularity and universality, and individuals and institutions. The ideal types Smith used to describe the four states of society highlight the complex realities to which moral action must respond, and it has been my intention to demonstrate Smith's enduring contribution by applying such a typology to his work, showing his similarly complex theory. While these types can capture some of the complexity of the world to help people undertake prudent moral and economic action, they should never be confused for the far more complex realities in which our decisions actually take place.

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Rev. Dr. Joe Blosser is the Robert G. Culp Jr. Director of Service Learning and Associate Professor of Religion and Philosophy at High Point University. He specializes in the ethical implications of economic theory and Christian theology. He has published in the *Research in the History of Economic Thought and Methodology*, *Journal of Religious Ethics*, *Journal of the Society of Christian Ethics*, *Journal of Cultural and Religious Theory*, *Journal of Business Ethics Education*, and more.
Contact e-mail: <jblosser@highpoint.edu>

Reflections on the 2018 Nobel Memorial Prize Awarded to Paul Romer

BEATRICE CHERRIER

CNRS & THEMA, University of Cergy-Pontoise

AURÉLIEN SAÏDI

EconomiX, University of Paris Nanterre

The 2018 Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel was awarded for “addressing some of our time’s most basic and pressing questions about how we create long-term sustained and sustainable economic growth”. It was shared by Yale’s William Nordhaus, for portraying negative externalities due to greenhouse gas emissions in growth models (Kelleher 2019), and New York University’s Paul Romer, “for integrating technological innovations into long-run macroeconomic analysis”. The press release concludes that their contributions are “methodological . . . [The] Laureates do not deliver conclusive answers” (The Royal Swedish Academy of Sciences 2018). Yet, the methods here acknowledged are very different in kind. Nordhaus is praised for his development of a quantitative “integrated assessment model” of how climate and economic growth affect each other, a model largely used to run simulations. Romer, by contrast, was crowned for his 10-year effort to develop a theory of endogenized growth, which culminated in the 1990 paper “Endogenous Technological Change”.

According to the scientific background document written by the Committee for the Prize, “Romer’s work was motivated by the data on macroeconomic aggregates and a more comprehensive cross-country data set which had just become available (Summers and Heston, 1984)” (The Committee for the Prize in Economic Sciences in Memory of Alfred Nobel 2018, 10). This statement is historically ambiguous, since such data did not exist when, as a graduate student, Romer decided to engage in a reconsideration of the source of growth. It also overshadows the primarily mathematical nature of Romer’s quest and achievement, one that this paper strives to capture. His work stands as a reminder that non-empirical

endeavors in economics are grounded in and fueled by economic reality, one that Romer sought to transform during his career. After unlocking the mathematics of growth, he went on to found an educational technology company, Aplia. It offered online homework products for college students. After selling it in 2007, he became an advocate of *charter cities*. Looking for institutional arrangements (*rule of law*) fostering growth, he suggested that the governance of developing economic regions should be outsourced to a more stable foreign nation.¹ A controversial stint as chief economist of the World Bank followed, before he resumed his inquiry into how urban management can “improve the health, safety, and mobility of their citizens” and “help traditionally disenfranchised populations share in the benefits of rapid urbanization” (Romer 2019). This involved attending the *Burning Man* festival to understand its urban planning model (Badger 2019).

Romer is not just unusual in his career path, straddling intellectual, policy and advocacy endeavors, and in his public persona; he is also the only economist whose work was the subject of a thorough historical account years before it was recognized by a Nobel Prize. David Warsh (2006) has provided a thorough account of the bustling intellectual and institutional milieu throughout the 1980s in which Romer articulated the mathematical representation of the role of knowledge in the growth process. Drawing on the interviews, materials, and narratives assembled by Warsh, we thus begin by reconstructing the process whereby Romer came to write two path-breaking articles (1986b, 1990), each cited more than 27,000 times,² which contributed to the launching of a large reinvestigation of the endogenous causes for growth in developing and developed countries. Because we interpret these papers as path-breaking contributions to mathematical theory, we then relate Romer’s perception of his own work to his recent controversial statements on the uses of mathematics in theories of economic growth and in macroeconomics (Romer 2015a, 2016). Romer holds a unique view about how mathematics should be used in economic theorizing, and we situate his disagreement with other economists, in particular Robert Lucas, with respect to their beliefs about the correct degree of correspondence between real-world objects, economic concepts, and their mathematical representations.

¹ See Romer’s TED talk (2009).

² According to Google Scholar citation data, consulted on October 15, 2019.

PROVIDING A RICHER AND MORE SATISFYING POSITIVE THEORY OF GROWTH

A salient feature of Warsh's account of Romer's early student years is how unfashionable working on growth had become at the turn of the 1980s. Even Robert Solow had declared the field asleep.³ At the time Romer took his first economics classes at MIT (1977–1979), Solow was telling students that “anyone working inside economic theory these days knows in his or her bones that growth theory is not a promising pond for an enterprising theorist to fish in”, also adding, “I think growth theory is at least temporarily played out” (quoted in Warsh 2006, 401).

Halfway through his graduate training, Romer decided to move back to Chicago. During a transition stint in Canada, he was introduced to John von Neumann's model of growth, which he found at odds with the rise of private research labs, universities, and patents he was observing. As he settled in Chicago, mathematical economist José Scheinkman had agreed to supervise his dissertation and allowed Robert Lucas to sit on his committee. As explained in the opening sentences of his dissertation, Romer's ambition was to “provide a richer and more satisfying positive theory of growth than is possible in the new standard formulation” (Romer 1983, 1). This was primarily intended as a mathematical endeavor, aimed at providing (and solving) a generic theoretical framework. He explained: “since the kind of model is applicable in a wide variety of economic problems, the mathematics per se may be of more fundamental interest than the specific application to growth” (Romer 1983, 1). Yet he also immediately acknowledged a tension between the mathematics and the objects they represent. The “mathematical appeal” of the optimizing models of Frank Ramsey (1928), Tjalling Koopmans (1965) and David Cass (1965) was “clear”, he wrote: “the study of competitive equilibria can be reduced to the study of a familiar maximization problem”.⁴ This, he reflected further, “must surely explain their general acceptance in the economics profession, for they are inconsistent with two basic observations” (Romer

³ Solow wrote the reference model in which countries only escaped a stationary equilibrium (in which output per capita stalled) thanks to a mysterious exogenous “technological change” variable.

⁴ The Cass-Koopmans model, based on Ramsey's 1928 pioneering work, was an attempt to refine Solow's 1957 exogenous growth model. This was done by replacing the Keynesian consumption function with optimizing behavior (a consumption/leisure tradeoff) in the investment/consumption plans of an infinitely lived household. It used mathematical programming (especially calculus of variations and optimal control), and was usually taught to students as an extension of Solow's model where consumption decisions are endogenized.

1983, 2). First, technological change was clearly “the result of actions taken by economic agents” (Romer 1983, 2) rather than a spontaneous and occasional improvement in the production technology.⁵ Second, he drew on per capita growth rates collected by Simon Kuznets (1971) to highlight that growth in Western countries had been accelerating over the twentieth century. Romer wanted a mathematical model consistent with these observations.

The problem with the mechanisms that had been postulated to endogenize technical change and generate constant positive growth rates involved increasing returns to scale. Such a modeling strategy was difficult to handle mathematically, for it introduced non-convexities in the production set that ruled out standard optimization techniques.⁶ When Arrow first introduced learning-by-doing in growth in 1962, he was able to bypass the problem through simplifying hypotheses. Intrafirm increasing returns to scale also created an economic puzzle, one that was well-known since Adam Smith. They fostered concentration, and thus perfect competition could not be preserved—the more firms produce, the lower the unit cost, and thus the higher the profit for constant input and output prices. Conversations with Sherwin Rosen led Romer to read Allyn Young’s (1928) literary exposition of “economic growth driven by increasing returns resulting from specialization” (Romer 1983, 7). Without having read Alfred Marshall’s *Principles of Economics* (1890), he modeled spillover effects internal to a sector but external to the firm, thereby avoiding the trend toward firm concentration and preserving a price-taking perfect competition setting.⁷ That was the only way “to deal with the technical problem, to make sure the math came out right”, he later reflected (quoted in Warsh 2006, 567). While the resulting decentralized equilibrium could be proved to exist, it was necessarily suboptimal since firms do not take into account the positive social externalities they impose on each other. This created space for government intervention

⁵ Romer’s approach diverged from the one Finn Kydland and Edward Prescott (e.g. 1982) were developing around that time, one relying on stochastic exogenous technological shocks.

⁶ From a technical viewpoint, maximizing over a convex set ensures the existence and uniqueness of an optimal solution. Relaxing this assumption may violate this property.

⁷ Sectoral spillovers (in the form of knowledge production) are considered by firms as given when searching for the firms’ optimal production decision, and are compatible with constant returns to scale (and so private decreasing returns to knowledge) at the firm level. At the aggregate or social level however they induce increasing returns to scale since spillovers increase with production.

aimed at forcing agents to internalize the external effects and to invest more intensively in the production of knowledge.

The spillover model Romer had conceived in his dissertation was soon highlighted by Robert Lucas. Invited to give the Marshall lectures in Cambridge in 1985, Lucas chose to walk the audience through a menagerie of models which had something to say about countries' differentiated growth rates. By this time, important new data had become available. Carrying over a project launched by Irving Kravis at the University of Pennsylvania in the 1960s, Alan Heston and Robert Summers collected GDP, consumer expenditures, capital formation, public expenditures and other data for more than 100 countries (Summers and Heston 1988). Country data was made comparable through the development of purchasing-power parity indexes. What came to be known as the Penn World Tables was published in 1982 and updated regularly afterwards. These data documented at great length the lack of convergence between countries.⁸ Lucas (1988a) considered both capital accumulation and what he called, in the Chicago tradition of Schultz (1963) and Gary Becker (1964), *human capital* accumulation, through either schooling or learning-by-doing. He outlined a two-sector growth model where human capital was used to produce (and accumulate) human capital according to a non-decreasing returns technology. He replaced Romer's sectoral spillovers with the idea of a human capital externality. Like his former student, he obtained a suboptimal social equilibrium. But unlike Romer, he did not discuss possible public intervention.

By the time his model of endogenous growth with spillovers went to press (Romer 1986b), Romer had however started to work with models of monopolistic competition. In doing so, he was connecting with longstanding debates which had been reignited with Arrow's 1962 article. Harold Demsetz (1969) challenged Arrow's ambition to draw relevant conclusions about the optimal allocation of resources for invention and associated economic policy prescriptions from a pure theoretical framework of perfect competition. Rather, he pushed for a monopolistic framework, one later developed by Partha Dasgupta and Joseph Stiglitz (1980). Their

⁸ In Solow's (1957) model, countries with similar characteristics (relating to technology and demographic growth) but lower states of 'development' (more precisely lower capital per capita accumulation) benefit from a higher growth rate which allows them to catch up with the most advanced countries. This phenomenon known as 'absolute convergence' is clearly rejected on the ground of empirical plausibility. Subsequent models, and especially models of endogenous growth, aimed at resolving the discrepancy between theory and data, and at explaining persistent growth gaps across countries (for a more exhaustive treatment of absolute and conditional convergences, see Romer 1994).

article articulated an endogenized market structure and introduced R&D expenditure.⁹ It was only after he defended his thesis in 1983 and moved to Rochester that Romer took up these themes. There, he pursued extensive discussions with fellow assistant professor Robert Barro and general equilibrium theorist Lionel McKenzie. He read the work of Avinash Dixit, Joseph Stiglitz and Paul Krugman on specialization, and performed econometric work to explain the hot topic of productivity slowdown in the United States. Finally, he reflected on which characteristics of knowledge would make agents produce and spur growth. In 1988, he presented a paper entitled “Micro-foundations for Aggregate Technological Change”, providing a rationale for agents to pursue knowledge. This was an early version of the paper to which he later gave the simpler title “Endogenous Technical Change” (1990).

It was a paper on the pricing of ski-lifts, written with Barro (Barro and Romer 1987), that led Romer to reflect on Paul Samuelson’s (1954) work on public versus private goods and James Buchanan’s (1968) intermediate notion of *club goods*. In the process, Romer refined what he believed were the crucial characteristics of knowledge: they were not indivisibility, as Arrow had previously emphasized, but a combination of non-rivalry and partial excludability. The latter, Romer claimed in his (1990) paper, explains why economic agents might choose to invest in the production of new ideas. He proposed a model in which profit-maximizing entrepreneurs hunt for new ideas because of the gains temporary patents would provide them. Romer thus made producing knowledge a profit generating activity in a monopolistic competition framework. Because those ideas are non-rivals, that is, can be used by many agents at the same time without being depleted, the resulting knowledge spillovers create sustainable growth.

SOLVING MATHEMATICAL RIDDLES OR MATCHING DATA?

Romer’s contribution was thus primarily a mathematical *tour de force*, transposing in a neoclassical dynamic general equilibrium framework both Young’s ideas about the specialization origins of growth and those of Marshall on increasing returns. He detailed his mathematical treatment of non-convexities and associated non-conventional solutions (such as chattering equilibria or equilibria with jumps) in an article published in *Econometrica* (Romer 1986a). Romer’s original ambition and mathemati-

⁹ These are just two examples of the many reactions to Arrow’s (1962) paper. See Backhouse (1999) for a thorough survey.

cal accomplishment gave rise to a *new growth economics* and spurred thousands of research articles. They are, however, missing both from most textbooks and from the Nobel committee's review, which did not mention the above article. What was retained was the general idea of knowledge accumulation, and the conditions for sustainable growth. The preservation of a general equilibrium framework was also important for Romer:

Remember my thesis, and how it was articulated, I had these general equilibrium ambitions, I was hoping people would pay attention to that, but they didn't. On the other hand it was a little too abstract for the Solow types, the MIT types, who said, just give me the equation, don't worry about the logic and assumptions. I don't think either of those paths ultimately would have led to the clarification of what do we mean by an externality, as opposed to what do we mean by a non-rival good. That's where the rigor and logic of General Equilibrium math really paid off. (quoted in Warsh 2006, 595)

At the same time, Romer insisted that mathematical modeling needed to be checked, *ex ante* and *ex post*, by empirical evidence. "I often draw a picture for my students of different levels", he later explained. "The highest degree of abstraction is at the top, the closest contact to the world of our senses at the bottom. The theorist follows a trajectory within these bounds. You zoom up, spend some time, and zoom back down again" (quoted in Warsh 2006, 568). Such a process is echoed in the structure of his papers. From Kuznets' data which featured in his dissertation, he gradually came to introduce historical data on growth gathered by Angus Madison (Romer 1986b) and Summers and Heston (Romer 1987a), as well as histories of innovation and technological progress by Stanford economists Nathan Rosenberg, Moses Abramovitz and Paul David. Invited to present at the macroeconomics conference of the NBER in 1987 (Romer 1987b), he wrote his first empirical defense of long-term economic growth driven by increasing returns and spillovers effects.

Nearly a decade later, an American Economic Association (AEA) session on "New Growth Theory and Economic History: Match or Mismatch" offered him the opportunity to articulate more strongly his vision of the interplay of theory and historical evidence (Romer 1996). He faulted those economists, who, like Gregory Mankiw (1995), retained a price-taking competitive framework (especially at the time it was becoming common to use imperfect competition in DSGE models). When they assume that "technology is the same in all countries and conclude that exogenous

differences in saving and education cause all of the observed differences in levels of income and rates of growth” (Romer 1996, 202), they disregard the most elementary facts, Romer bemoaned. But he also rejected the proponents of “history without theory” who believe that “these equations are so simplistic, and the world is so complicated” (ibid.). He went on to offer a defense of formal methods, some geared toward the explanation of observed patterns: “What theories do is take all the available complicated information about the world and organize it into this kind of hierarchical structure . . . What growth theory must do is provide a good, simple split of the opportunities available in the physical world” (Romer 1996, 203).

Romer’s contribution to the 1996 session foreshadowed the attack he would launch on growth theory and more largely macroeconomics at the AEA annual meeting, almost twenty years later. During a session on “Reflections on New Growth Theory”, Romer bluntly accused Lucas, who had just presented on human capital and growth, of indulging in ‘mathiness’. The word echoed entertainer Stephen Colbert’s remark that some statements have an air of truth in spite of being grounded in no evidence, one he called ‘truthiness’. Mathiness, Romer (2015a, 89) wrote in the published version of his talk, “uses a mixture of words and symbols, but instead of making tight links, it leaves ample room for slippage between statements in natural versus formal language and between statements with theoretical as opposed to empirical content”. What he targeted was Lucas’ assumption that every present and future productive technology is already used at time zero and the observationally equivalent interpretation proposed. He faulted other economists with similarly ‘dishonest’ practices, which seemed to include a mix of unrealistic assumptions, shaky interpretations of mathematical symbols, and mistakes in manipulating those symbols (Warsh 2015).¹⁰

That most of them were associated with Minnesota and Chicago and used price-taking models reveals that what Romer was reeling against was their lack of endorsement of his monopolistic competition framework, which he argued prevented economists from moving toward the ‘shared consensus’ characteristic of a healthy science.¹¹ Romer did not accuse Lucas of using questionable methods in order to reach specific policy prescriptions, but Lucas seems to have understood their exchange that way:

¹⁰ Romer (2016) elaborated on what he considered mathiness in a follow-up paper targeting macroeconomics, one again largely aimed at Lucas.

¹¹ Duarte (2015) argues that it was precisely the consensus around stylized facts on the business cycle which needed to be explained that created a trading zone where macroeconomists could negotiate their theoretical disagreements in the 1990s.

“If anyone sees anything like politics in Romer’s JPE [1990 *Journal of Political Economy*] article, let me know” he responded (quoted in Warsh 2015). “What I’m saying does not line up with familiar critiques about political ideology in economics”, Romer (2015b) later clarified in a blog post. What Romer indicted was academic politics and methodological dogma: “[the people I criticize] are fighting to preserve a sense of academic group identity grounded in a common defense of this dogmatic position” he outlined in that same blog post.

WHY (AND HOW) THEORISTS MAKE ASSUMPTIONS: CARVING A SYSTEM AT THE JOINTS?

The endogenous growth literature honored by the Nobel committee was underpinned by a shared methodology. Models were built in response to patterns observed in the data that were inconsistent with the main conclusions of the standard model, with the mathematics being used to bridge the gap between facts and theories. Like Romer (1986b), Lucas opened his seminal “On the Mechanics of Economic Development” (1988a) with a survey of The World Bank’s *World Development Report* (1983) and of Summers and Heston’s data (1988), documenting sharp divergences between per capita income across countries. He then explained that he was looking for a theory of economic development “to provide some kind of framework for organizing facts like these, for judging which represent opportunities and which necessities” (Lucas 1988a, 5). Romer acknowledged that, in those years, a consensus existed both on which observed patterns were problematic and on how to approach them: “both Robert Lucas (1988[a]) and I (Romer, 1986[b]) cited the failure of cross-country convergence to motivate models of growth that drop the two central assumptions of the neoclassical model: that technological change is exogenous and that the same technological opportunities are available in all countries of the world” (1994, 4).¹²

However, Romer’s attack on mathiness shows that he and Lucas disagreed sharply on how mathematics and the real world should interact in the process of developing theoretical assumptions. When he attacked Lucas for relying on an unrealistic assumption on the degree of technological knowledge possessed by the model’s agents, Lucas responded: “Every theory contains assumption [*sic*] that are not quite true. That’s what

¹² Hirschman (2016) documents how economists and other social scientists came to call these empirical regularities in search of theoretical, causal explanations “stylized facts”. See also footnote 7.

makes it theory” (quoted in Warsh 2015). In his (1988a) article, Lucas elaborated what he means by “theory”:

An explicit dynamic system, something that can be put on a computer and *run*. This is what I mean by the ‘mechanics’ of economic development – the construction of a mechanical artificial world, populated by the interacting robots that economics typically studies, that is capable of exhibiting behavior the gross features of which resemble those of the actual world that I have just described. (Lucas 1988a, 5)

Here, Lucas summarized what he has claimed in many other publications and speeches: that models are “artificial” worlds (1980, 696) and abstractions (1990, 664), but that they need to be good “imitations” of real facts (Lucas 1980, 697; 2011, 105) and of “some of the main features of the economic behavior we observe in the world economy” (Lucas 1988a, 39; see also Sergi 2017; Goutsmedt 2018; and Goutsmedt, Guizzo, and Sergi 2019). In a commencement address delivered at the University of Chicago the same year, he explained that the task of economists was to look for “better and more instructive analogies”. Economists “are storytellers, operating much of the time in worlds of make believe”, he explained, “We do not find that the realm of imagination and ideas is an alternative to, or retreat from, practical reality. On the contrary, it’s the only way we have found to think seriously about reality” (Lucas 1988b).

Lucas’ view on the relation between assumptions and reality has been interpreted as ‘ambivalent’. Sergi (2017) points out that Lucas generally prioritized the internal consistency of theoretical assumptions, yet sometimes he wrote that there must be some ‘analogy’ between assumptions and reality if policy conclusions are to be drawn. In contrast, our hypothesis is that what matters for Lucas is not the analogy between assumptions and real behavior, but between model and real-world outcomes. In testimony before the Pontifical Academy of Sciences in 2011, Lucas (2011, 105–106) acknowledged that the *homo oeconomicus* model describes a way “actual people never are”, but he considered that the resulting “situation”, in which each agent is acting in a way that is individually rational yet collectively irrational, to be “common in actual society”.¹³ In a review of Elhanan Helpman and Paul Krugman’s *Trade Policy and Market Structure* (1989), he further justified the unrealism of assumptions as providing a tractable and unique general model: “One is able to see which

¹³ Mancur Olson’s paradox of collective action is perhaps the most striking example (Olson 1965).

assumptions are essential to which results with a clarity that is just not possible through the study of special cases as they appear in journal articles” (Lucas 1990, 664). If realism had to be traded for tractability, then so be it. Lucas viewed the kind of theoretical model that he, or Helpman and Krugman, produced as a first stage in a larger process whereby the model is subsequently tested against out-of-sample data (Lucas 1988a, 5). The model was then used to fashion more “specific models that seem to capture situations in particular industries, and thus they permit *the exercise of judgment and the use of evidence* to help determine which theoretically possible effects are small and which are critical” (Lucas 1990, 665; emphasis added).

The general patterns of growth researched in the 1980s saw Romer’s and Lucas’ research questions coming together, and formed the benchmark against which their models of growth needed to be evaluated. But Lucas was willing to adopt assumptions which did not reflect economic agents’ observed behavior if they allowed him to devise a ‘mechanism’ that replicated a wider range of phenomena, possibly isolating a common effect. He would come up with a mathematical expression, then some stories about the underlying economic behavior. In contrast, Romer drew on the history of technological innovation to develop conceptual distinctions between “ideas” and “things”, and behavioral assumptions on what drives entrepreneurs. This would determine the type of framework and mathematical solution concept he adopted.

Though Romer’s early contributions did not feature any epistemological statements, he articulated such a framework in his (1996) contribution to an AEA session on theory and economic history. Drawing on Richard Dawkins’s “hierarchical reductionism”, Romer (1996, 203) explained that the task of the scientist is to describe real-world phenomena by distinguishing, classifying and combining their main structural elements. For instance, he contended that distinguishing between “ideas” and “things” was a better classification of growth input than public versus private goods. Romer explained that the original phenomena can thus be progressively reduced to a conjunction of interacting atomic elements:

Explanation operates on many levels that must be consistent with each other. What theories do is take all the available complicated information about the world and organize it into this kind of hierarchical structure. In building this structure, good theory indicates how to *carve a system at the joints*. At each level, theory breaks a system

down into a simple collection of subsystems that interact in a meaningful way. (1996, 203; emphasis added)

In his paper addressing mathiness, Romer further insisted that each theoretical element remained empirically interpretable, i.e. analogous to an identifiable object in the real-world, as they become encapsulated in mathematical symbols. He praised how Solow's mathematical theory of growth "mapped the word 'capital' onto a variable in his mathematical equations, and onto both data from national income accounts and objects like machines or structures that someone could observe directly", and how Gary Becker's theory of wage likewise "gave the words 'human capital' the same precision and established the same two types of tight connection—between words and math and between theory and evidence" (2015a, 89). He concluded that maintaining a "tight connection" between the data to be explained, the words used to denote abstract concepts such as "technology", and the mathematical symbols and equations used to represent their relationships with one another was key. He faulted economists, such as Lucas, for using words *and* mathematical assumptions which have no meaning and no precise counterpart in reality. He rejected hypotheses based on "immaterial entities or processes, such as disembodied spirits" (to quote philosopher of science Mario Bunge 1983, 224). This is the case not only for words like 'technology', but also for 'technological shocks', which he believes Kydland and Prescott "might as well have called . . . gremlins or unicorns" (Paul Romer, personal correspondence, October 2015).

The fundamental divide between Romer and Lucas, therefore, appears to be the degree of correspondence they believe should exist between real-world entities and concepts expressed through words and mathematical entities. What remains unclear for Romer, is how to define the acceptable degree of convergence or divergence. He questions the way macroeconomists use the word 'technology' and the way technology is represented, but he does not question other abstractions such as capital-labor substitution, firms (in the neoclassical sense of the term, i.e. without any social structure) or production functions. He even accuses economists who openly challenged the existence of the kind of production functions Solow used, such as Joan Robinson, of engaging in mathiness (Romer 2015a, 89).¹⁴ However, as both the two Cambridges controversy and Romer's own endogenous growth theory show, all important economic

¹⁴ See Backhouse (2014) for an account of the two Cambridges controversy.

abstractions and associated mathematical representations are meant to be challenged by more specific and therefore empirically relevant ones. Lucas' endorsement of artificial worlds dodges the issue of the proper degree of connection to the real world altogether, yet it does not seem to shield his models from criticism.

The question of the convergence between theoretical categories and real-world objects has, in fact, been a major concern in the epistemology and philosophy of science, as exemplified by the debates surrounding Romer's use of a quote by Plato. His idea that "good theory indicates how to carve a system at the joints" (Romer 1996, 203) was, in fact, a rendition of a famous line from the *Phaedrus* (265e): "The second principle is that of division into species according to the natural formation, where the joint is, not breaking any part as a bad carver might" (translation by Benjamin Jowett). The resulting phrase, "carving nature at its joints", had generated centuries of debates about whether the world possesses "joints" upon which "natural kinds" of entities can be distinguished. In association with these debates is the question of whether scientific knowledge depends upon the *discovery* of new categories or the *invention* of them (Slater and Borghini 2011). In the end, it seems that Romer and Lucas have been caught in another ripple of the millennium-old science debate of whether to become a butcher or a toymaker.

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Beatrice Cherrier is a researcher at CNRS and CY Cergy Paris University. She researches the history of the ‘applied turn’ in economics since the 1970s, with some focus on the history of female applied economists, institutional markers of disciplinary structures such as the JEL codes or the John Bates Clark medal, and the history of applied fields including macroeconomics, public, and urban economics.

Contact e-mail: <beatrice.cherrier@gmail.com>

Aurélien Saïdi is an associate professor at the Department of Economics at Université Paris Nanterre. His research focuses especially on the macroeconomics of self-fulfilling prophecies and the history of economic thought in the 20th century. He has coauthored several papers with Beatrice Cherrier.

Contact e-mail: <aurelien.saidi@parisnanterre.fr>

Entangled Economists: Ragnar Frisch and Jan Tinbergen

ERWIN DEKKER

Erasmus University Rotterdam

Abstract: It is 50 years since the first Nobel Prize in economics was awarded to Jan Tinbergen and Ragnar Frisch. This article analyzes the collaborations between these pioneers of econometrics which spanned four decades and various subfields in economics, based on records of their correspondence. It is demonstrated that, while Frisch was largely responsible for theoretical breakthroughs, Tinbergen was responsible for making them public and popularizing them. This is especially relevant for understanding the development of econometric models in the 1950s, decision models of the 1950s, and subsequent work on utility measurement. This division of labor is analyzed in relation to the goals they pursued in their research and their respective perfectionistic (Frisch) and pragmatic (Tinbergen) approaches to economic science. Both men shared a sense of deep social responsibility, but differences in their personalities and approaches to science generated important differences in scientific recognition and policy influence. Although they are both widely remembered for helping to turn economics into a quantitative empirical science, this article shows that they were motivated by separate personal and political goals which shaped their scientific approaches.

Keywords: Jan Tinbergen, Ragnar Frisch, history of econometrics, Nobel Prize in economics, policy models

JEL Classification: A14, B23, B20, C18

I. INTRODUCTION

It is not infrequent that the Nobel Prize in economics is awarded to a duo. On some occasions, the two laureates may share little else than their field of research. In 1974 Hayek, a staunch liberal, shared the Prize with Gunnar Myrdal, critical man of the left. Similarly, in 2013, Eugene Fama, a resolute defender of the rational expectations hypothesis in economics, shared his prize with Robert Shiller, who is famous for his rediscovery of

AUTHOR'S NOTE: The author would like to acknowledge the generous suggestions offered by Ariane Dupont and Marcel Boumans on earlier drafts of this paper, as well as their encouragement to explore the similarities and differences between Frisch and Tinbergen generally.

the Keynesian notion of animal spirits. At other times, the winners have made the discovery independently of each other, as was the case in 1975, when the Prize was awarded to Tjalling Koopmans and Leonid Kantorovich for the development of the linear programming method for optimal resource allocation. But in no other instance did the Prize go to two individuals whose professional careers so closely overlapped as that of the first winners Ragnar Frisch and Jan Tinbergen.

Frisch was eight years Tinbergen's senior, and perhaps for that reason appeared to be a small step ahead of Tinbergen throughout their long co-evolution. But it was Tinbergen who often made the ideas prominent and who developed much more of a public persona. In fact, many of Frisch's most important contributions remained unpublished, appeared only as memoranda from his research institute (or other institutions), and were known only to relevant insiders. Tinbergen's contributions, on the other hand, often became standard reference works. He left little if anything unpublished: even a conservative estimate suggests at least 30 books and about 1,500 articles from his hand (Tinbergen 2003).

In 1926, Ragnar Anton Kittil Frisch coined the term *econometrics* in his first economic publication. The opening sentence was bold: "In between mathematics, statistics, and economics, we find a new discipline which for lack of a better name, may be called econometrics" (Frisch 1926b, 2). Four years later, he founded the *Econometric Society* and not much later became editor of the associated journal *Econometrica*, a post he would hold for twenty-two years. Tinbergen followed swiftly, and though not among the founders of the Society, he did attend the first meeting of the Society in Lausanne in 1931. He reported to his PhD supervisor, Paul Ehrenfest, that he had met some very good people, but one stood out as "the soul of the conference".¹ That was Ragnar Frisch.

During the 1930's, the two made seminal contributions to an endogenous theory of the cycle, and Tinbergen's report for the League of Nations, with its macro-econometric model of the United States, was designed in close conversation with the work of Frisch. After the war, both men led important economic policy institutes. It was again Frisch who made a breakthrough when he 'inverted' the logic of econometric modelling into the logic of economic planning (Andvig 1988; Dupont-Kieffer 2003). But it was Tinbergen's name which became associated with the new methodology of economic policymaking through his seminal book *On the Theory of Economic Policy* (Tinbergen 1952). The language of policy targets and

¹ Jan Tinbergen to Paul Ehrenfest, 26 September 1931, archives Boerhaave ESC 10 21.

instruments has become so standard that most could not imagine we ever worked without them. Later in their careers, both men expanded their vision beyond that of their own continent and became increasingly occupied with issues of development planning. Both were involved with the planning efforts in India and later Egypt. Most importantly, perhaps, both were strong believers that economic expertise deserved a prominent place in the modern state. To that end, both were instrumental in the creation of world-class economic institutions. They also were among the very few modern economists who believed that utility could be measured and who attempted to do so.

In 1969, they were both awarded the first Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel, popularly known as the Nobel Prize in Economics, for their work on the business cycle in the 1930s. If it had not been for a broken thighbone that prevented Ragnar Frisch from attending the ceremony, it would have been the crowning achievement of a lifelong collaboration and entangled career. This article will detail the entanglement of these men who shared both a scientific approach and a deep sense of social responsibility (Frisch 1946; Tinbergen 1970). But it also aims to illustrate how, through their different personalities, they came to occupy quite different positions later in their careers.²

II. ECONOMETRIC ENDEAVORS

Much of early twentieth century economics was occupied with two major theoretical inquiries: the nature of the business cycle and value theory. Frisch and Tinbergen became best known for their contributions to business cycle theory, but both got their start in the field of value and utility theory. Tinbergen's first economic publication was a defense of the use of mathematics in economics with an application to value theory in marginal and Marxist economics. In fact, this publication attempted to reconcile the two (Tinbergen 1925). In particular, he suggested that economics needed to be quantitative because seemingly fundamental theoretical differences were essentially about the value of particular coefficients: how much the relative elasticities differ between workers and employers. Frisch also explicitly sought to make the theoretical economics of the early twentieth century quantitative. He identified the fields of monetary

² The author is also working on an article on the work of Jan Tinbergen and his brother Niko Tinbergen. They are unique in that they are the only siblings to have both received a Nobel Prize, and in different fields with rather different methodologies.

theory, production theory, and value theory as prime candidates (Frisch 1926b, 1926a).

Both men came into economics as relative outsiders. Tinbergen completed his training at university with the physicist Paul Ehrenfest. And, although his dissertation extended the analysis of minimum-problems from physics to economics, he was never trained formally in economics and never really had a direct mentor in the field. That being said, Ehrenfest did encourage his economic investigations, and also had some connections in the field (Boumans 1992). Frisch did study economics; but he did so in Oslo, where the field was new and consisted only of a 2-year program. He soon realized that in order to become an economist he needed to study abroad—and during much of the early 1920s Frisch travelled around to come into contact with economists in France, Germany, Great Britain, and the United States.³

It is value theory that, early on, intrigued them both. Unlike many later modern economists both Frisch and Tinbergen were defendants of a cardinal notion of utility, which could be measured. Many other economists rejected this assumption and sought to develop an ordinal notion of utility, which consequently was not directly comparable between individuals. Frisch, on the other hand, spent much of his earlier career attempting to measure utility from the demand for sugar and other commodities (Frisch 1932b, 1932a). His idea was that the theoretical measurement of the utility derived from particular goods could lead to a generalized measure of utility (Dupont-Kieffer 2013). This work inspired Tinbergen, who instantly recognized not only the scientific desirability of the measurement of utility, but also the practical implications. If utility could be measured, the ethical notion of justice could be based on scientific measurements. The ideal of justice could be defined in terms of utility rather than income or opportunities. This was preferable since equal outcomes in material goods would, given different circumstances and preferences for individuals, lead to unequal outcomes (Tinbergen 1930).⁴ For both Tinbergen and

³ There is a good description of Frisch's life and work in Bjerkholt (1995), upon which I draw for this article. For the details of Tinbergen, I am drawing upon my own forthcoming intellectual biography of him.

⁴ The measurement of utility had another important significance for both men. They both had religious leanings and more generally were concerned with welfare broadly conceived. When the OECD developed standards for the measurement of national income, Frisch sought to mobilize Tinbergen in an effort to include broader concerns than just material production into this statistic. See Frisch to Tinbergen, 8 October 1949. For the correspondence between Frisch and Tinbergen, I am drawing upon the archive at the Nasjonalbiblioteket in Oslo, Box 761A and B: Correspondence from and to Frisch. A

Frisch, early econometrics was as much concerned with the scientific measurement of welfare as it was with the development of quantitative models of economic dynamics. In 1936 Tinbergen could still write to Frisch that: “The task of the econometrician [is] to calculate as exactly as possible and with utmost care, how human well-being, in the material sense of the words as well as in the spiritual sense, can be increased”.⁵

The extensive travelling early in his career put Frisch in an ideal position to connect various people who were working on similar topics but who lacked a research community. The founding of the *Econometric Society*, with the financial help of Alfred Cowles, would help set up such a community. It was at the first meeting of the *Econometric Society* that Tinbergen and Frisch met for the first time. As the founder of the Society and the central intellectual leader of the new field of econometrics, Frisch recognized Tinbergen’s talent and requested one of his articles for the first issue of *Econometrica*. But the relationship was not yet one of equanimity. Frisch, eight years the senior of Tinbergen, acted more like a mentor to the younger Tinbergen in these first years.

The second meeting of the *Econometric Society* was planned in Leyden, the home of Paul Ehrenfest. And Tinbergen, ever the educator, had scheduled lectures by both Ehrenfest and Frisch for the meetings.⁶ In the early years, econometrics was not yet clearly defined and both men were actively trying to shape what it entailed. For Frisch, this included developing a standard notation system in the new field. In 1935, an informal committee was formed with this positivist aim, but nothing came of it (although Frisch never abandoned the ambition).⁷

The goal Tinbergen and Frisch pursued most successfully in these early years was the development of a dynamic apparatus for the analysis of the economy. Frisch developed (circa 1929) what is now regarded as a classic distinction between static and dynamic economics, which refers to the *tools* used in analysis. An analysis is dynamic when it makes use of a variable and its rate of change (or lagged value); when it is not, it is static (Bjerkholt 1995; Bjerkholt and Dupont-Kieffer 2010). During the Leyden

much smaller subset of these letters is also available in the Tinbergen letters project: <https://tinbergenletters.eur.nl>.

⁵ Tinbergen to Frisch, 20 March 1936.

⁶ Ehrenfest commits suicide just before the meetings would start (Klein 1958). Ehrenfest was scheduled to lecture on harmonic oscillations.

⁷ Frisch to Tinbergen, October 1935. See also the reminiscences of Haavelmo (Jolink and Barendrecht-Tinbergen 1993, 50).

meeting, they established a so-called dynamic team, consisting of themselves, Charles Roos, Felice Vinci, Jacob Marschak, Henry Schultz, Harold Hotelling, Charles Evans and Michael Kalecki.⁸

Among other things, this involved the exploration of what a dynamic equilibrium is precisely, which Tinbergen explored in relation to expectations (Tinbergen 1933) and Frisch in relation to the business cycle (Frisch 1929, 1936). Quite early in this development, both Tinbergen and Frisch hit upon the idea of formulating a complete dynamic theory of the economy. Frisch, with his knack for coining new terms, called this the exploration of macrodynamics (as opposed to microdynamics). Around 1930, a wider variety of economists were developing dynamic models of particular markets, perhaps most famously the pig market by Hanau (1928). But the goalposts had been moved quickly by Tinbergen and Frisch: the goal was now a dynamic model of the (national) economy as a whole.

It was a project that combined their search for quantification with their dream of a dynamic model. But in both fields, much had to be developed. In the early 1930s, national income accounts had not yet been developed, and therefore the most central variable in most macro-economic models, GDP, was not even available. At their respective research institutes, Tinbergen and Frisch did much to improve the statistical material. In the meantime, they were already using whatever meagre statistical material they had.

Frisch's breakthrough publications, among them *Statistical Confluence Analysis by Means of Complete Regression Systems* (1934b), created the possibility of developing a macro-economic quantitative model (see also Frisch 1934a, 1933). In it, he described the way in which the (then) very new technique of multiple regression analysis could be used to estimate the parameters in systems of equations. Such a system of equations describing an entire (national) economy was first presented by Tinbergen (1935). His work showed full awareness of the quantitative challenges involved in estimating such a *model* (a word that Tinbergen now explicitly used), and it relied heavily upon Frisch's work from the year prior. But, it was not until 1936 that Tinbergen actually estimated a model for the Dutch economy based on statistical data of the past decade (Tinbergen 1936).

The theoretical developments followed each other quickly in these crucial formative years in econometrics. What both men were developing was not merely a quantitative model of the *macro-economy* (a word that

⁸ Frisch to Tinbergen, 4 January 1934.

did not even exist two years prior); but, it was a model that incorporated as best as possible an endogenous business cycle mechanism—one that, moreover, could be used in policy or even planning of the economy (Frisch 1934a).

Based on the success of his Dutch model, Tinbergen was invited to write a prestigious report on business cycles for the League of Nations (Tinbergen 1939a, 1939b). It was a demanding project to which many other leading economists contributed. But for Tinbergen, the most important interlocutor was Frisch. During an expert meeting in 1937 the draft of Tinbergen was discussed. In attendance were Francois Divisia, Erik Lundberg, Jacob Marschak, Arthur Bowley, Roy Harrod, Dennis Robertson, and Tjalling Koopmans.⁹ They would soon be, or already were, pioneers of the new economics. Frisch promised to join as well but cancelled because he was too busy working on his own project on the measurement of utility.¹⁰ His memorandum, now famous, on Tinbergen's draft report arrived two days after the expert meeting, much to the chagrin of Robertson and Loveday who jointly oversaw the project.¹¹

Tinbergen, however, knew how much of his project was built on the foundations developed by Frisch and decided to plan a trip up north from his temporary stay in Geneva. Not only the multiple correlation was drawn from Frisch, but also an estimation technique known as *bunch maps* (Hendry and Morgan 1995). A big obstacle for any extensive quantitative analysis at this point in time was calculation power, which was still a completely manual process (with the help of a slider). So, any technique that allowed one to explore the data, or to (pre-)estimate certain relationships before doing the full calculation was more than welcome.

The memorandum of Frisch praised Tinbergen's work as possibly the greatest breakthrough in business cycle research—a possibly gratuitous compliment, since he was aware of the Dutch model which contained the same techniques—but it also heavily criticized the results. Frisch worried about the *autonomy* of the relationships (another term he coined): autonomy refers to the degree of independence of relationships from changes in the institutional or policy structure. The degree of independence from policy changes was important to both of their projects, since they were still primarily interested in the formulation of better economic policy. If a certain relationship, believed to be crucial, breaks down with a change

⁹ Memorandum, League of Nations Archive, Series 32649, Code R, Box 4454, Document 36596.

¹⁰ See their correspondence in September 1937.

¹¹ League of Nations Archive, Series 12653.

in policy then the findings are of little use. But even aside from policy considerations, the autonomy of relationships is important from a scientific perspective. The goal is to arrive at generalizable models that can be used both over time and across space. If the findings are too dependent on the particular (historical) circumstances they are of little use in uncovering stable causal mechanisms.¹²

It was not so much the critical nature of the memorandum that demonstrated a somewhat growing divergence. Tinbergen was more than interested in Frisch's criticisms, as became clear from his desire to include the Frisch memorandum as a preface to the second volume of his study. But, whereas Tinbergen's approach was more and more pragmatic and aimed at practical results, in part driven by the worsening political and economic circumstances of the 1930s, Frisch appeared to be increasingly committed to the scientific soundness of the method. The very fact that Frisch was absent from the expert meeting for the prestigious League of Nations to work on his measurement of utility book is indicative of this commitment. Previously, he had refused to cooperate with Tinbergen's plan to draw up a petition of the *Econometric Society* against war and in favor of peace.¹³

A very similar dynamic repeated itself in the years following WWII. Ragnar Frisch was appointed as member of the chair of a U.N. Sub-Commission on Employment and Economic Stability in 1947. Frustrated with the one-sided focus on inflation, he drew up several internal memoranda which sought to integrate different policies, the most important one of which was presented in the spring of 1949. This memorandum upset the way econometric modelling would be done (Andvig 1988; Dekker 2020, chap. 9; Dupont-Kieffer 2003; Bjerve 1995). Whereas econometric modelling in the pre-war period mainly aimed to explain movements in the past with the hope of predicting those of the future, econometric modelling after the war was explicitly designed to reach certain policy targets. Tinbergen had already attempted to model different policy scenarios in the 1930s: what would happen to the economy if the government decided for major public works, or for devaluation? But such explorations were limited to a few scenarios, with policies modelled as changes in the external environment or 'data' in the model. After the war, Frisch proposed to invert what was considered fixed and variable in the econometric models:

¹² Similar critiques are later voiced in the famous takedown of Tinbergen's report by Keynes (1939).

¹³ Tinbergen to Frisch, 20 March 1936.

in his decision model, so-called policy variables could be decided upon. These policy variables should be chosen such that so-called target variables (economic growth, unemployment rate) reach the desired level.

It was precisely this approach—although much more applied and with a variety of practical examples—that Tinbergen presented in his classic *On the Theory of Economic Policy* (Tinbergen 1952). The approach in Tinbergen's presentation was practical and easy to apply, and it demonstrated to policymakers what policy could, but also could not, achieve. Frisch, however, was unhappy with the approach. He argued that the goal should be a model that could be maximized based on an underlying social preference function. And a considerable portion of his efforts afterwards were directed at the discovery of such a social preference function. Frisch hoped that sophisticated interviewing techniques would allow him to develop a social preference function of those currently in government (Johansen 1974). Although in theory Tinbergen did not disagree with that goal, he was convinced that it was untenable in the medium run.

As Herbert Simon correctly observed, Tinbergen's approach was pragmatic and satisficing. If a set of targets had been established, he could check whether they could be simultaneously achieved (Simon 1976, 75). Frisch on the other hand was more ambitious scientifically and wanted an optimal policy, not merely a satisfactory policy. This difference was also evident in the way both wrote. Whereas for Frisch theoretical and scientific goals were primary, for Tinbergen policy goals were more important. This ensured that the relative impact of their contributions was rather uneven. Today, Frisch's memorandum is barely acknowledged, and most of the credit for the development of macroeconomic decision models goes to Tinbergen.¹⁴ Frisch appeared to be aware of his own perfectionism—in his work leading up to the decision models, he suggested: “you may even find that we are aiming at something which is too formidable to be practicable. However, we have been specializing in unsolvable problems of this type and rather like to play with them, and we certainly want to be optimistic even in the face of difficulties that seem formidable” (Frisch 1948, 367).

What might also explain part of the difference between the two men is that Tinbergen no longer primarily worked at an academic institute, but rather at a government planning agency. Frisch's pragmatic decision model was designed for the U.N., but as a contribution to econometrics it

¹⁴ The idea was in the air around 1950, for example Guy Orcutt pointed in the same direction (Orcutt 1952).

did not satisfy him. Tinbergen was increasingly less concerned with making contributions to science and more and more concerned with making contributions to society. In this setting, the imperfection of the decision-model approach based on a set of targets, rather than a comprehensive social preference function, was a feature, not a bug. Frisch, on the other hand, strongly argued for academic freedom in research (Frisch 1946).

This difference was also evident elsewhere. Tinbergen was in a position of control, or sometimes of influence, of a variety of crucial knobs to manipulate the Dutch economy. He was not only the director of the most important economic policy bureau but occupied several other key policy positions during the first postwar decade, including a prominent position in the socio-economic council. Frisch, at this time, similarly had great influence with his decision models on Norwegian policymaking and the relevant policy institutions (Bjerve 1995, 13–15). Nonetheless, Frisch remained restless and soon suggested that the method of target-setting was primitive. He wanted a more comprehensive optimization method, but it proved a step too far for policymakers. Although his extraordinary expertise was recognized, as it had been by the League of Nations, his advice was considered to be somewhat abstract and too little concerned with political constraints. The League of Nations memorandum was internally criticized for bordering on the pedantic. Dennis Robertson wrote to Loveday that he “couldn’t make much of the Frisch’ portentous document!”¹⁵ It mostly discussed general results of Frisch, and only briefly cared to relate these to Tinbergen’s study. This pattern repeated itself in interactions between the Norwegian government and Frisch (Bjerkholt 1995, 26).

III. INTERNATIONAL INTERESTS

Nonetheless, as if their lives were fully in sync, the early 1950s marked the moment that both Tinbergen and Frisch moved away from national concerns and moved into development economics. In both Egypt and India they did important work, although not much of it together. Both men shared an admiration for the prime minister of India, Jawaharlal Nehru. He was a strong believer in the importance of the use of statistics and planning techniques in the newly independent state of India and invited many Western economists to his country. Not insignificantly, he also founded the union of non-committed countries, which sought to find an

¹⁵ Robertson to Loveday, 25 August 1938, League of Nations Archive.

own development path that was neither capitalist (United States) nor communist (Soviet Union). It was a vision that was much to the liking of Tinbergen and Frisch who both in their own ways believed that Western Europe should provide an alternative model to these two extremes. Ever since the 1930s they had thought of their own planning techniques as a middle ground between the two systems.

In this spirit, Tinbergen and Frisch were both interested in the construction of a method of planning that was more coordinative than comprehensive. As Nehru put it: “of course, no plan can have finality in a moving and changing world, but anyhow one must have some ground to stand and to work upon and we hope that that plan will give us that standing room or jumping off place” (Nehru 1952).

Tinbergen first visited the International Statistical Institute in 1951 and was deeply shocked by the living conditions of the poor in India. He remained in close contact with the people at the Institute and sought to arrange a prolonged stay. But in 1953 he finally heard, discreetly, from the United Nations that because of a lack of funds they could only send one expert to India. The candidate from another country, who remained unnamed in the letter, was Ragnar Frisch.¹⁶ It would take until 1956 that Tinbergen would finally spend some more time in India to work on development planning. That pattern would repeat a few years later when a planning expert had to be sent to Turkey. The reluctant Turkish government refused the proposed Norwegian candidate, and a few months later Tinbergen travelled to the country (Dekker 2020, chap. 12).

Around 1950, some differences between them were already visible, though nationally they occupied similar positions as the premier economists and economic policy experts of their respective countries. During the 1960s, the underlying differences became more visible. Frisch’s theoretical models became ever more demanding in terms of both data and computation. It was precisely data and computation power (in the form of expertise) that were in short supply in the developing world; and although India was the exception to the rule in this respect, implementation still often required quick-and-dirty solutions, at the expense of theoretical soundness. With the rise of computers, Frisch became increasingly interested in realizing the dream of the 1930s of a full dynamic model of the economy (Bjerve 1995, 16–17). Tinbergen, on the other hand, was turning more and more away from pure theory. His contributions to the development literature were either about institutional design (Tinbergen 1958) or

¹⁶ Donald B. Kennedy to Jan Tinbergen, 25 November 1953, Tinbergen Letters.

smart estimation techniques that allowed one to do planning in the absence of data and a comprehensive theory of development (Tinbergen 1965). An example of this is the semi input-output method (Tinbergen 1966). Frisch, on the other hand, developed sophisticated techniques to optimize non-linear systems with his multiplex method, and later with his nonplex method (Bjerkholt 1995). Where Tinbergen introduced additional simplifying assumptions, Frisch sought to do without the need for simplifying assumptions, such as the linearity assumption.

Tinbergen and Frisch, however, were still united in their deep concern with the poor and in their beliefs that economics could do much to improve the world. Their work in developing countries was driven by a shared sense of responsibility and hopes for a more peaceful world. But, at the international level, there was also one important political difference between the two men. In 1963, Jan Tinbergen was invited to give the Wicksell lectures—all the more significant since Wicksell was the great intellectual hero of Ragnar Frisch. Tinbergen chose as his topic a long-standing difference between them (Tinbergen 1974): the official topic of his lecture series was whether the European Union is progressive or conservative, but the real theme was whether Norway (and Sweden) should join the European Union (Tinbergen 1963b).

Initially Tinbergen's lectures focused on economic matters. Tinbergen defined the essence of the European Economic Community (EEC) to be the elimination of national trade borders, which might over time come to include the harmonization of tax regimes and the integration of currencies. But it is not there that their true difference of opinions lies. The real question was the extent to which the EEC is a democratic entity, and moreover, whether the progressive and protestant forces would win out from the more conservative catholic forces, the so-called *black* forces. Tinbergen tried to identify some progressive trends in the social policies—a rather heroic task given the fact that General De Gaulle, who had recently come into power, represented the clear antithesis of such modern social and international policy to both Tinbergen and Frisch: “all of us hope that France will soon again show its real face—which, by democratic measures, is federalist” (Tinbergen 1963b, 38).

At the heart of the disagreement between Frisch and Tinbergen was the question whether the EEC can provide a credible alternative on the international scene. Could it fulfill the role of an exemplary model that can stand beside that of the United States and Russia, and thereby serve

as an exemplar for the non-committed developing countries? Frisch remained unconvinced and believed that Norway as such better represented such an exemplar than the imperfect EEC. Tinbergen, on the other hand, believed that only a democratic EEC could provide a credible alternative. Norway had not joined the EEC, and would never join the (later) Union. Frisch actively contributed to the political debate surrounding this issue. He rejoiced when the Norwegians rejected membership in the 1972 referendum (Bjerkholt 1995).

But beneath the disagreement over the status of Europe was an underlying agreement. It was about the desire for a synthesis between the systems of East and West. Frisch suggested a joint Nobel Peace Prize for Kennedy and Khrushchev for the efforts they had made to decrease tensions between the East and the West. During the same period, Tinbergen launched his convergence theory, which argued for an optimal regime that took the best from both regimes (Tinbergen, Linneman, and Pronk 1966; Linneman, Pronk, and Tinbergen 1965). Although both men were committed democratic socialists, they believed that a truly stable and just world order should include the Soviet Union.

IV. ALTERNATIVE ASPIRATIONS

In a 1934 paper on circulation planning, Frisch writes: “we have here one of those cases—so frequent in economic practice—where it can be ‘proved’ by abstract reasoning that a solution is not possible, but where life itself compels us nevertheless to find a way out” (Frisch 1934a, 274). It seems that throughout their careers, however close Tinbergen and Frisch were in both vision and intellectual interests, they chose opposing sides when such problems presented themselves. Frisch tended to seek some theoretical way out of the problem. What could he do to make the unsolvable *solvable*? In his Nobel lecture he went so far as to suggest that it was human to do so: “deep in human nature is an almost irresistible tendency to concentrate physical and mental energy on attempts at solving problems that *seem to be unsolvable*. Indeed, for some kinds of active people only the seemingly unsolvable problems can arouse their interest” (Frisch 1976b, 2).¹⁷

Tinbergen’s Nobel lecture, on the other hand, is a confident overview of the more recent developments in the field. It presented the modelling

¹⁷ The Nobel lecture, which Frisch did not give in 1969, is an odd document lacking in structure, with (at best) a loose association and no conclusion at all.

approach he and Frisch pioneered as a flexible tool that has been successfully applied in a wide variety of fields, and that has much further potential. There is a brief word of caution about mistaking the model for the real thing, but the overall story is one of confidence and belief. Models help us solve the most important problems in the world.

This has resulted over the decades in radically different publication patterns between Frisch and Tinbergen. Tinbergen published over 1,500 articles in academic and professional journals and at least thirty books, most of these written for the educated layperson. Frisch's most important results were often buried in memoranda that, although they circulated among the select few, never received general readership, not even within the economics profession. They were, however, equally numerous: between 1947 and 1964, 240 of such memoranda were published ranging from 2 to 250 pages (Bjerve 1995, 22). But, much important work was published in Norwegian and not translated until late in his life. Frisch was never satisfied with his own efforts and regarded virtually all his work as tentative: still falling short of perfection. Tinbergen regarded all his work as work-in-progress. When he published, it was just one phase in the development of an idea, after which others would respond, disagree, and improve. In one of his articles, he even joked that professor Frisch would undoubtedly over the years find something wrong with it.

Frisch's work on the social preference function led to frustrated efforts to uncover the preferences of politicians, despite his tiresome attempts to develop such functions (Johansen 1974, 48). And however much his search for a social preference function was motivated by scientific concerns, it also reflected his position outside of the political domain proper. Although he sought to have an influence on Norwegian economic policymaking, his main concern remained the decision to be optimal. This was perfectly justified from the perspective of the scientist, and his rejection of the target method in decision models was a clear critique of Tinbergen. But the logic of politics demands imperfect decisions in the present, not some ideal or optimal decision in the future. Hence, while Tinbergen was willing to develop tools to make practical choices and trade-offs, Frisch preferred to develop tools for making optimal decisions. Tinbergen developed the practical planning technique at the Dutch planning agency and wrote various manuals on development programming. Frisch, on the other hand, notoriously locked his assistants in the lab to finish the calculations.

Despite such differences, many of their students followed quite similar trajectories. Many of Tinbergen's students went on to have posts at the intersection of politics and science, for example Johan Witteveen at the International Monetary Fund and as minister in the Dutch Government, or Jan Pronk as functionary at the United Nations and the first undersecretary of development co-operation of the Netherlands. Frisch's students at his own Institute often also went on to become high-ranking civil servants or ministers of finance (Bjerve 1995, 22).

Frisch could not hide his disdain later in life of some of Tinbergen's more practical solutions. They wrote to each other about development models and optimal growth rates, a theme to which Frisch returned in his essay on the co-operation between politicians and econometricians. In the article, he attacked Tinbergen's approach of setting a particular growth target and suggested that such a method should be replaced with an investigation into the preference function of the current government. He would present the relevant political decision-maker with a set of hypothetical scenarios and, based on the answers, would construct a preference function. Afterwards, the econometricians would use this preference function to arrive at an optimal policy. Although Tinbergen sometimes harbored such desires, in which the experts would be able to dictate the optimal policy, in practice he often settled for less ambitious strategies. Although Frisch's essay is supposed to be on the 'co-operation' between experts and politicians, it is clear that he seeks something closer to a technocratic system: "Their Excellencies, being intelligent persons, will understand the philosophy of the preference questions and the expert's study of the core, and will therefore acquiesce in a solution which is not quite what they like" (Frisch 1976a, 46). And then, Frisch drove his point home: parliament should be concerned with the formulation of a set of preferences. In that way, it would concentrate its efforts on the truly vital issues.

Tinbergen, although he too has been accused of technocratic tendencies, was much more successful in achieving co-operation with politicians. Sometimes this was against his will, as when the Central Planning Bureau of which he was a director between 1945 and 1955 was made less prominent in economic policymaking than he had hoped (Don 2019). But generally, he was well aware of the importance of the appropriate institutional position of policy advice within the polity (Tinbergen 1954), and the practical usefulness (and costliness) of particular methods was always on his mind. When he spoke to policymakers, he also showed awareness

of the personal qualities one needed to convince politicians, especially in developing countries (Tinbergen 1963a). That awareness and his constant search for consensus both in science and economics worked to his advantage in the political and especially diplomatic arena. Frisch instead preferred a more polemical style, not uncharacteristic of scientific disputes.

The story of Tinbergen and Frisch is also one of how differences in personality can lead to subtle but important differences in one's approach to science. Both men sought to turn economics into a quantitative science, and both felt a deep social responsibility to make that science useful for society. But Frisch, the perfectionist, struggled to balance these two goals, and often ended up, willingly or unwillingly, sacrificing relevance for scientific demands. Tinbergen, the pragmatist, can easily be accused of sacrificing scientific rigor in favor of relevance. But it made him much more successful in the policy arena. These differences also had something to do with their respective personalities. Frisch was demanding of those around him and often unwilling to compromise. When he had missed a lecture, he would make up for it by giving double lectures which could take three uninterrupted hours. By the 1960s, he became frustrated that old fictitious beliefs were returning in government policies, a one-sided reliance on monetary policy instruments (Bjerve 1995, 25). He warned of a return to unenlightened plutocracy. It was perhaps a response to the perceived failure of his efforts to influence policy, but it also reflected an uncompromising stance about the position of econometric methods in politics.

Tinbergen, on the other hand, never tired of engaging different publics. Whether addressing policymakers, other economists, religious groups, or simply a small group of interested laymen, he was always willing to explain his views. He increasingly became a public intellectual, more so after his retirement. His tolerance and modesty suited him well on such occasions. Although he held equally strong views as Frisch, he virtually never engaged in disputes. In policy organizations, he was often asked to chair committees: it was trusted that he would be able to bring others together. That was also how he formulated his scientific goal, after receiving advice from his mentor Ehrenfest: conflicts or differences of opinion had to be formulated in a nobler way. One could demonstrate, for example, that if $a > b$ then scholar *A* is right, and when $b > a$, scholar *B* is right (Tinbergen 1979, 331). It was with this same spirit that he sought to

overcome deep ideological differences such as those between the capitalists of the West and the socialists of the East.

It is tempting to believe that precisely for those who turned economics into a science, subjective and personal factors are of little relevance. But quite the opposite is true. For Tinbergen, the appeal of science was precisely that it provided grounds for finding a consensus. He hoped others would adopt his modelling technique in part because it would provide a neutral and objective ground for discussion. That ambition was driven by his political ideals. He had experienced plenty of socialist debates in the 1920s, which made him weary of dogma and ideology. Science provided a means to overcome such ideological differences, a hope embodied in his convergence theory. This was a theory about the optimal socio-economic regime, but it was equally an expression of hope that both the West and the East would come to realize that the differences between them were ultimately reconcilable. It was an attempt to start a conversation across deep ideological differences in the guise of scientific theory (Linneman in Jolink and Barendrecht-Tinbergen 1993, 115–116).

Frisch had equally high hopes of science and shared Tinbergen's political idealism, although he never formally joined the Labor Party. But he was more uncompromising in his pursuit of scientific endeavors, although he recognized that scientific knowledge too had its limits (Bjerkholt and Dupont-Kieffer 2010, 66–68). Science, for Frisch, was not only the most rational form of discussion, it also provided clear, or at least the best available, answers to some of the most difficult political questions. Frisch was convinced that scientific techniques should be the primary basis for political decision-making. In order to make this happen, it was of the utmost importance to perfect the techniques (Bjerve and Frisch 1971).

Tinbergen was happy to work with imperfect techniques if these proved more appropriate or more useful in the policy arena. But over time, he increasingly thought of his own position as that of someone providing guidance, and long-term perspectives. When Tinbergen wrote a visionary article favoring the convergence between East and West, Frisch responded enthusiastically. In the article, Tinbergen argued for stronger international institutions to strengthen the global (economic) order necessary to ensure a peaceful co-existence of East and West. He sketched a general framework consisting of political and socio-economic questions, which can serve as the basis for a shared discussion, concluding: "I repeat that the purpose of this article was to invite discussion" (Tinbergen 1964,

20). Frisch responded in a letter to Tinbergen that he shared his vision and believed that his own work on a mathematical coalition preference function could be of much help in defining the concept of Co-Existence.¹⁸

At that point, they had pointed their hopes for the future in two different directions. Tinbergen hoped that by sketching out vistas for the future he could be most effective. He did so as chair of Development Decade II for the U.N., in his report for the Club of Rome, *Reshaping the International Order* (1976), and for the Dutch public in books like *An Inhabitable Earth* (Tinbergen 1970). He wrote to Frisch that: “I am less of a scientist than at any time and deeply involved in some sort of policy-making”.¹⁹ Frisch on the other hand believed that by perfecting and extending his decision models he could be of more value. There was some symbolic significance that Frisch was absent when their joint Nobel Prize was handed out in 1969. The public face of their joint program was there to accept the Prize, the scientific pioneer was hidden from sight. Not for the first time in their long collaboration. Tinbergen was more than aware of that; he wrote to Frisch about the celebrations accompanying the Nobel Prize: “in Stockholm as well as in Uppsala we were much aware of your being the real man [*sic*] had to be thought of”.²⁰

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Erwin Dekker (1984) is a post-doctoral researcher at the Erasmus School of Economics, and has been a post-doctoral fellow at the Mercatus Center at George Mason University. He is currently finishing the intellectual biography of Jan Tinbergen, the first Nobel Prize winner in Economics; the biography *An Economist Looking for Peace* will be published in 2020 by Cambridge University Press. His book *The Viennese Students of Civilization* (2016) on the cultural context of the Austrian school of economics was published by Cambridge University Press. His research focuses on the intersection of art, culture and economics. He has published articles in the fields of cultural economics, Austrian economics, economic methodology and intellectual history. He is currently working on a book project about the way in which knowledge commons sustain and facilitate markets.

Contact e-mail: <e.dekker@eshcc.eur.nl>

Review of Rudi Verburg's *Greed, Self-Interest and the Shaping of Economics*. San Francisco, CA: Routledge, 2018, 216 pp.

A. M. C. WATERMAN

St. John's College, University of Manitoba

Rudi Verburg “tells the story of the rise and shaping of economics as a tale of the evolving relationship between greed and self-interest” (4–5). There is much in his story that is both interesting and true. But in my opinion, he has greatly exaggerated the importance of ‘greed’, and has failed to perceive the shape of modern economics and its evolution.

VERBURG’S STORY

Greed, Self-Interest and the Shaping of Economics contains eight chapters, the first of which is introductory, and the last of which is a summary and a conclusion. In-between come (ii) “The rise of greed in early economic thought: from deadly sin to social benefit”; (iii) “The Mandevillean triangle”; (iv) “Adam Smith’s struggle with Rousseau’s critique of commercial society”; (v) “Self-interest after Smith: from passion to behavioural assumption”; (vi) “The wheels of ‘greed, and the war amongst the greedy’”; and (vii) “The neoclassical turn and the fading-out of greed and pride”.

Verburg gets a lot of the history right. He is right about the Jansenists—Nicole and Domat—and the pioneering work of Boisguilbert (24–33); he correctly reports Mandeville’s important contribution and the adoption of its analytical insights by Hume, Smith and others (45–50); he is correct to identify a drastic shift in economic thinking produced by Malthus’ first *Essay* (105–123) and the stimulus this produced for radical reform in Britain (117–123); he correctly reports the English Romantics’ revulsion from Radical-Whig reform, and from the political economy that informed it (130–136); and his account of Engels and Marx is at least as good as that of most textbooks (151–165). Verburg makes extensive and intelligent use of a wide range of the secondary literature, including some of my own work on Malthus; and his discussion of many aspects of eighteenth-century intellectual history is scholarly and interesting in itself.

Yet despite these many virtues, his book is ill-conceived and its message—insofar as it is clear—is wrong.

Verburg's study "aims to answer two questions. [. . .] how did philosophers in the seventeenth and eighteenth centuries construct a narrative of a positive-sum world? [. . .] what happened to this narrative so that greed and vanity [. . .] disappeared from the theoretical framework of mainstream economics?" (3). The book appears to have been inspired by the financial crisis of 2008 which many blamed on "greed" (1-3). It is ill-conceived, in my opinion, because what counts as 'economics' is never made clear; because many of the philosophical doctrines reported are therefore irrelevant; and because Verburg often confounds the positive with the normative, which gives his narrative a somewhat polemical tone. It is wrong because 'greed' has little or nothing to do with 'the shaping of economics'.

'Economics' is never defined in this book, and therefore "mainstream economics" (3) as distinct from any other 'economics' is left vague and uncertain. The term appears to designate discourse about production and trade, and though scarcity is occasionally mentioned there is no recognition that 'economics' is about 'economising', and that 'economising' is about scarcity. Verburg therefore fails to see that 'economics' is not a body of doctrine about how production and trade *ought to be* ordered, but a method of thought about how production and trade *actually do* take place; and how they arise from the attempts of individuals to cope with scarcity. We now call this method of thought 'economic analysis' and can trace an unbroken continuity of analytical development from Boisguilbert: through Cantillon and Hume, Quesnay, Adam Smith and his successors in the 'English School', including Marx (Waterman 2008; Hollander 2008), to the latest Nobel Prize winners. Many economists and historians of economic thought, therefore, might quarrel with Verburg for taking Marshall (1890) as his *terminus ad quem*. He was indeed modern—and defined the 'mainstream' at that time—by comparison with Malthus in 1815; as Malthus was in 1815 by comparison with Boisguilbert in 1696. But we are now a century on from Marshall and his *Principles*. Notwithstanding Boisguilbert's claims, Roger Backhouse (2017) in his new biography simply calls Paul Samuelson the 'Founder of Modern Economics'—and knows that few, if any, will disagree with him.

Verburg seems obsessed by 'greed', which is not a *positive* term in social-scientific discourse but a *normative* one. It conflates two of the Seven Deadly Sins: Gluttony and Avarice. If we observe either in others we disapprove. If we recognise either in ourselves we are ashamed and repent. But it is not always possible to recognise them clearly in ourselves

and others, for human motives are usually mixed. Suppose my income is in the top 2%: yet I desire, and take lawful measures to procure, an extra \$50,000 per annum. Why? To enrich my grandchildren? To give more to the church or the symphony orchestra? To buy champagne and lay down vintage wines to impress my guests and/or to cater to my gluttony? To make a large donation to some new public building and get my name on the wall with the local plutocrats? To enjoy ‘tyrannising over my bank balance’ as Keynes put it? Some or all of these? My act is certainly rational and self-interested. But is it ‘greed’? Who is to say? The most we can say is that what some would call ‘greed’ may be part of my mixture of motives.

What this means is that it is pointless to investigate the way in which ‘greed’ affects economic behaviour. We can’t know and it doesn’t matter. For self-interest is not “conditioned and disciplined greed” as Verburg tendentiously asserts (5). It is a survival mechanism implanted in us by natural selection that we humans share with all other sentient beings, without which we would not exist. Greed is simply a particular manifestation of self-interest that we disapprove of on moral or religious grounds. *Self-love*, which played an important part in Verburg’s story for about five decades, is simply *self-interest* in theological disguise: as used by the Jansenists and Mandeville to discredit self-interest; and by Butler and Josiah Tucker—and Adam Smith—to rehabilitate it. The concept of ‘self-interest’ has everything to do with ‘the shaping of economics’: the concept of ‘greed’ very little. Much of Verburg’s discussion of eighteenth-century philosophy therefore, well-informed as most of it is, has little or no bearing on ‘the shaping of economics’.

All would agree, however, that the most important single text in the shaping of what has become modern economics is *Wealth of Nations*.¹ Smith was a ‘philosopher’. What then of Smith’s philosophical contemporaries, and of his long ‘struggle with Rousseau’s critique of a commercial society’ (chapter 4)? There is no doubt that Smith did ‘struggle’ with Rousseau through six recensions of *The Theory of Moral Sentiments*,² and Verburg’s chapter 4 is a useful summary of this episode. But what has that to do with ‘economics’? Like most other eighteenth-century ‘philosophers’, Smith wore more than one hat. In *TMS* he wore his moralist’s hat.

¹ This and all subsequent references to the *Wealth of Nations*, abbreviated as ‘WN’, will be to the Oxford edition (Smith [1776] 1976). References include, in this order, book, chapter (in lower case Roman numerals), part (if applicable), and paragraph (in Arabic numerals).

² This and all subsequent references to *The Theory of Moral Sentiments*, abbreviated as ‘TMS’, will be to the Oxford edition (Smith [1759, 1790] 1976).

In *WN* he wore his political economist's hat. So do we need *TMS* in order to understand *WN*? It is fashionable to say so, especially among those historians and philosophers who now dominate Smith studies. But in my opinion this is to misunderstand *WN*, the central message of which is the social optimality of “the natural system of perfect liberty *and justice*” (*WN*, IV.vii.c.44; my emphasis).

Economic analysis in *WN* shows how ‘perfect liberty’ works if individuals are motivated by self-interest and their economic actions coordinated by markets: *provided* that “every man [. . .] does not violate the laws of justice”—where ‘justice’ means commutative justice (*WN*, IV.ix.51). For unless most individuals obey the rules of the game even when the referee is not looking, the market game will quickly cease to be worth playing, and ‘perfect liberty’ will lead to anarchy. But they will only do so if just behaviour is habitual. Conscience is not innate, and just behaviour must be learned. *TMS* shows how this happens, and is therefore an integral part of Smith's complete social theory. It explains how a sense of commutative justice comes into being, and why this is a necessary condition of a well-functioning market economy. *But we do not need it in order to understand the economics of WN*. Given only the assumption of a widespread sense of justice, *WN* is a free-standing account of economic growth and development driven by the private motivation of individuals (Waterman 2015).

Verburg's often illuminating accounts of Rousseau and Hume are therefore redundant, as are subsequent accounts of Robert Owen, William Thompson, Veblen, and Tawney (chapters 6 and 7). They have nothing to tell us about economics. It is astonishing that the only major philosopher to have played a leading part in the shaping of modern economics, Joseph Butler, is completely ignored in this book.

ECONOMICS AND GREED

For a brief period, circa 1690–1730, greed did indeed have an important part to play in the shaping of economics.

Economics is a putatively scientific study of the way in which human societies cope with scarcity. It emerged in the early eighteenth century as a gradual mutation of Montchrétien's *économie politique* ([1615] 1889) as it came to be realised that the King's ministers could never have the information necessary to manage a large, complex modern economy like that of France or England (*WN*, IV.ix.51).

Jansenist theologians had perceived that many socially beneficial acts are the unintended consequence of ‘cupidity’; and they understood this

as an example of Augustinian theodicy, whereby God uses human sin as a remedy for sin. ‘Cupidity’, an inordinate desire for wealth, is a species of *Greed*, which itself conflates two of the seven deadly sins. Thus greed, in the second sense (Avarice), could be regarded as a motor of economic activity, and so a remedy not only for sin but also for scarcity, itself a consequence of primordial sin (Genesis 3: 1-18).

Pierre de Boisguilbert (1646-1714) had been a pupil of the Jansenists, and he generalised their pregnant insight. Abstracting from theology and ethics, he explained how general economic activity in France was an unintended consequence of private, self-regarding acts of individuals. It was impossible for the King to control the economy; and unnecessary to try, since competition maximized wealth at equilibrium. His *Détail de la France* ([1695] 1966) is now regarded as the origin of modern economics (Faccarello 1999).

Mandeville grasped Boisguilbert’s key insight. But (along with Pride, another of the seven deadly sins) he gave [Greed=Avarice] centre stage in his notorious slogan ‘Private Vices, Publick Benefits’: a *reductio ad absurdum* of the Augustinian theodicy employed by the Jansenist moralists, whose doctrine he knew. Like the Jansenists, Mandeville seems genuinely to have regarded *self-love* as an ‘evil passion’ (Faccarello 1999, 27). The ‘Publick Benefits’ of market exchange are driven by this ‘Private Vice’. But Mandeville’s doctrine was reviled in England as blasphemous, and his book indicted by the Grand Jury of Middlesex as a public nuisance.

For Calvinist theology, which had fostered that Augustinian account of self-love assumed by Jansenists and Mandeville, was long dead in England. And even in Presbyterian Scotland, a remarkable affirmation of self-interest in business appeared in the *Shorter Catechism* promulgated in 1647, the high-water mark of British Calvinism:

Q.74. What is required in the eighth commandment?

A. The eighth commandment requireth the lawful procuring and furthering the wealth and outward estates of ourselves and others.

The increase of one’s own wealth is made a Christian duty. As Michael Lessnoff (1994, 63) has shown in detail, we have here “a profit-seeking ethic totally congruent with Weber’s ‘spirit of capitalism’”. As a child, Adam Smith could repeat the whole of the *Shorter Catechism* by heart (Kennedy 2013, 465).

Those who sought to purge Mandeville's doctrine of its objectionable features whilst retaining its valuable account of a market economy driven by private interest, had therefore to differentiate self-love from 'vice'. The greatest to do so was Joseph Butler (1692–1752). His fifteen *Rolls Sermons* ([1726] 1969) were preached in the immediate aftermath of the public outcry aroused by the 1723 edition of the *Fable*. As against Shaftesbury's *Characteristicks* (1711), Butler ([1726] 1969) showed that the ends of private good and public good “do indeed perfectly coincide” (36); that “self-love is one chief security of our right behaviour towards society” (36); that under Providence much unintended social good is produced by self-regarding actions (37–38); and that “there is seldom any inconsistency between what is called our duty and what is called interest” (67). Sermons XI and XII, “On the Love of our Neighbour” (164–202), recognize that self-love is a duty commanded by Christ himself (Waterman 2014b).

David Hume's essay ‘Of Luxury’ ([1752] 1994) which was also a response to Mandeville, acknowledged him in the Introduction to his first work—along with Locke, Shaftesbury, Hutcheson, and Butler—as one of those “who have begun to put the science of man on a new footing” (Hume [1739–1740] 1888, xxi). Of these, Hume was indebted in particular to Butler: not only for the vindication of self-love but also—far more important for his philosophical project—for Butler's powerful demonstration of “the Ignorance of Man” (Sermon XV). For given the moral acceptability of self-love together with the limited power of the human mind to comprehend the working of Divine Providence, the way was open to build on Mandeville's foundations that theory of ‘spontaneous order’ in human society seen today as the characteristic contribution of the Scottish Enlightenment to social theory (for example, Hamowy 1987). The multifarious activities of any large human society, most notably its economic activities, arise *and can only arise* in a gradual, unplanned, accidental, piecemeal fashion in response to the incentives to a myriad individual, self-regarding actions created by others' needs and desires. Butler had established that this seemingly providential outcome might arise from a wholly virtuous attention by all individuals to their ‘interest’ as determined by the Christian duty of self-love.

Like Butler's chaplain and friend, Josiah Tucker ([1755] 1993, 58), whose writings he knew, Adam Smith made self-love “the governing principle in the intercourse of human society” (*WN*, I.ii.2–3). *Self-interest*—often used synonymously with self-love—was used as a purely positive term

without normative significance, and Greed became otiose as an *explicans* in economic discourse.

THE SHAPING OF ECONOMICS

Adam Smith began the ‘shaping’ of modern economics by distinguishing it clearly from the tradition of Political Economy from Montchrétien to Sir James Steuart (1712–1790), which rested on “the old idea of an entity called the state or the nation existing outside the individuals who constitute its subjects or members” (Levy and Peart 2013, 372). Individual motivation drives economic activity. Individual needs and preferences determine social welfare. “What is *properly* called Political Economy” Smith defined as “a branch of the *science* of a statesman or legislator”, an “*inquiry* into the nature and causes of the wealth of nations” (*WN*, IV.ix.38; IV.Intro; my emphasis): a heuristic enterprise that is in principle disinterested, open-ended and scientific. Every English author after Smith insisted that Political Economy was strictly a science, and unlike ‘the foreign school’ distinguished it sharply from ‘the art of government’. Its business was to find out: not to advise or to recommend (Waterman 2008).

In keeping with the scientific claims of ‘classical’ Political Economy, Smith’s *Inquiry* relied heavily on what we now call ‘economic analysis’ to elucidate the working of a modern, commercial economy. Pioneering work had been done by the French successors of Boisguilbert: Cantillon, Quesnay and Turgot, from whom Smith learned much. *WN* digests French economics but adds much that is new: systematic price theory in Book I and a sophisticated macrodynamics in Book II—somewhat in the manner of present-day introductory textbooks.

Smith’s successors in the English School took *WN* as their analytical starting point. All accepted the standard eighteenth-century macroeconomic conceptions of the surplus (for example, *WN*, IV.ix.27–38), of ecological population growth (*WN*, I.viii.39–40), and of the dynamic character of economic analysis that follows from these (Waterman 2014a). But in his polemic against Godwin, Malthus combined population growth with the assumption of land scarcity, which has no analytical function in *WN* and is largely ignored. Thus was born the new concept of ‘diminishing returns’ to a variable factor when applied to a fixed factor. Scarcity entered the picture formally for the first time, the ‘marginal’ analysis was born; and *Political Economy*, the science of wealth, began its gradual, century-long mutation into *Economics*, the science of scarcity. Smith’s own conception of ‘increasing returns to scale’ arising from the division of

labour, which operates to alleviate scarcity, was virtually ignored by all his successors save Marx (Waterman 2008).

The self-regulating economy assumed by Smith and the English School depends upon product and factor prices to ration and allocate scarce resources. Smith's own labour theory of price (*WN*, I.vi) developed by Ricardo and Marx turned out to be a blind alley (Jevons 1879, 72; Samuelson 1957). But his supply-and-demand analysis (*WN*, I.vii), adopted and improved by Malthus (1800), eventually "won out" (Schumpeter 1954, 482), and was canonised by Marshall (1890). The Demand Curve implies marginal *utility*, recognised by Condillac in 1776 but ignored until the 1870s. Malthus's theory of 'Ricardian rent' rested on diminishing returns to a joint "labor-*cum*-capital" variable factor (Samuelson 1978), which implies marginal *product*. By the end of the nineteenth century marginal product was generalised to all factors, constant returns to scale were assumed, and the 'classical' concept of the surplus was eliminated. Marshall's famous textbook (1890), which grudgingly recognised the work of Jevons and paid tribute to Cournot and Thünen, defined the 'shape' of modern economics for half a century. Radically new theoretical work by Wicksell, Tinbergen, Hicks, Keynes, Harrod and others was not fully digested by 1945. What completed 'the shaping' of present-day economics was the Harvard doctoral thesis of Paul Samuelson (1947).

Adam Smith, Hume and all their successors insisted that political-economy/economics is a 'science'. But what can this mean? By the 1930s philosophers of science had arrived at some form or other of 'operationalism' as a criterion of scientific method Samuelson defined *operationally meaningful theorems* in his thesis as "hypotheses about empirical data that could conceivably be refuted" (Backhouse 2017, 199–216, 275–276). In supply-and-demand analysis, for example, we can only predict that price will rise if demand increases (a refutable hypothesis), if market equilibrium may exist, if supply and demand curves have the proper slopes, and if a new equilibrium will appear after the demand increase. We must therefore study the existence, uniqueness and stability of equilibrium, and we must do so for a complete set of interdependent markets. Since stability of equilibrium is necessary for prediction, we can deduce from the stability conditions the restrictions which must be placed on the partial derivatives of the behavioural functions, and these must be consistent with our fundamental assumption: that rational individuals act to maximise certain target variables chosen by themselves, subject to constraints imposed by scarcity. ('Rationality' in this case means little more

than transitivity of the preference set.) Samuelson's thesis became *The Foundations of Economic Analysis* (1947), which also included a brief treatment of the new 'macroeconomics' of Keynes, and a formal development of the macrodynamic 'period analysis' of the Stockholm School.

But despite his seemingly radical novelty, Samuelson—like Marshall and Adam Smith before him—was deeply conscious of continuity with the political-economy/economics enterprise, and of his own work as summing up and building upon the achievements of his predecessors. In *Foundations* he cited or referenced the work of nearly forty of his more famous forerunners over the previous two centuries, ranging from Barone, Bastiat, Bentham, Böhm-Bawerk, Bortkiewicz . . . to Adam Smith, Thünen, Veblen, Viner, Walras, Wicksell, and Allyn Young; and including such relatively unexpected authors as Engels, Paley, and Sidgwick. And he was later to say that "within every classical economist there is to be discerned a modern economist trying to be born" (1978, 598).

Economics has not stood still in the seventy-two years since *Foundations*. Its method has been enriched by game theory, linear and dynamic programming, input-output analysis, dynamic optimisation, public choice theory, rational expectations, and information theory. Its scientific pretensions have been maintained by ever more sophisticated econometric methods for testing refutable hypotheses, also by experimental economics and behavioural economics. And its scope has been enlarged by economics of sport, of education, of religion, of the family, of education, and of many more, including even the economics of sin (Cameron 2002). But its 'shape' is still recognisably Samuelsonian: the mathematical formulation and econometric testing of meaningful theorems, formulated on the assumptions of methodological individualism: self-interest and rationality.

Economics is indeed 'sterile' (cf. 2): as a laboratory is and must be sterile. It is not intended to forecast the 2008 crisis or anything else. Its predictions are always subject to *ceteris paribus*. Like all science, it is, in Karl Popper's words, tentative, provisional, fallible and corrigible.

CONCLUSION

What's the bottom line? Verburg was betrayed by his own misleading title, for which his publishers and their editors must take some of the blame. There is a lot about 'greed' and 'self-interest' in this publication, much of it of interest to intellectual historians. But very little of it has any bearing

on ‘the shaping of *economics*’ as that term has been understood for more than a century.

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A. M. C. Waterman is a Fellow of St John's College Winnipeg and Professor of Economics at the University of Manitoba. Since 1980 his research has addressed the relation between economic theory and Christian theology, in particular its intellectual history. His *Revolution, Economics and Religion* (Cambridge, 1991) won the Forkosch Prize for Intellectual History in 1992. In 2007 he was made Distinguished Fellow of the History of Economics Society and in 2014 an Honorary Member of the European Society for the History of Economic Thought.

Contact e-mail: <Anthony.Waterman@umanitoba.ca>

Website: <amcwaterman.com>

Review of Thomas Mulligan's *Justice and the Meritocratic State*. New York, NY: Routledge, 2018, 225 pp.

ANDREA KLONCHINSKI
Kiel University (CAU)

INTRODUCTION

Suppose you apply for a job, are invited for an interview, but eventually another person gets the job. Since this person is less qualified for the position than you are, you feel wronged. After all, you, the most *meritorious* applicant, would have *deserved* the job! Is this reaction merely an expression of hurt feelings and expectations or does it point to an injustice? Does the most meritorious person have a moral claim to be hired so that the employer violates a duty by not hiring her or him? Thomas Mulligan thinks so. According to him, justice requires that “we treat people for who they are and what they have done” (8) so that everyone gets what he or she deserves. The proper economic system for reaching this goal is a meritocracy, which rests on the central pillars of equality of opportunity, meritocratic hiring, and income responsiveness to merit (89). The argument for meritocracy as a requirement of justice is developed in three parts in *Justice and the Meritocratic State*. In the first part (1–62), Mulligan meticulously reveals his meta-theoretical assumptions; part two (63–182) presents his core argument for a meritocratic theory of economic justice; and part three (185–216) discusses meritocratic policy measures. In what follows, I summarize the basic thread of the argument and provide some critical comments afterwards.

SUMMARY OF THE ARGUMENT

Mulligan argues that desert claims come in the form “X deserves y on the basis of z”. That is, they comprise a desert subject (X), a desert object (y), and a desert basis (z) (65ff.). Crucially, the desert basis must be about the desert subject, which means that one cannot deserve anything on the basis of what somebody else has done, and Mulligan takes desert to be strictly backward-looking so that the desert basis must lie in the past (66). The two central desert objects in the economic realm are jobs and income. When it comes to the allocation of jobs, the most important desert basis

is merit, although it might happen in rare occasions that merit is overridden by other desert bases—for instance, when Adolf Hitler, the most meritorious applicant, is not hired as an art teacher due to the “negative desert basis (genocidal lunacy)” (68). In general, the ‘Meritocratic Hiring Principle’ holds: “when hiring, it is unjust to discriminate against an applicant on grounds irrelevant from the point-of-view of merit” (101). This raises the question as to how ‘merit’ is to be defined in the first place. Mulligan argues that there is no single answer to this question because merit is a contextual concept, but that “once a context is fixed, it is usually plain what constitutes merit” (102). As a heuristic to define merit in particular cases, he proposes the following: “In a given hiring context, no applicant should be judged on the basis of a characteristic *C* if it is the case that a reasonable person, familiar with the hiring context regards *C* as irrelevant from the point-of-view of merit. Put differently, hiring committees should only appeal to characteristics which *all* reasonable authorities believe are relevant from the point-of-view of merit” (102).

Note that in line with his retrospective concept of desert, Mulligan’s justification for meritocratic hiring is strictly backward-looking: the most meritorious person deserves to be hired for reasons of justice, not because of expected efficiency gains or other positive consequences (96, 104). It may even be the case that the most meritorious candidate will not perform excellently in the respective position (69). This conception deviates significantly from others proposed in the literature (see, for example, Daniels 1978; Cavanagh 2002, 43; Segall 2012, 32; Moles 2018, 123). For Mulligan, efficiency and need are not relevant to the demands of justice but enter the scene only when the broader moral question of what should be done is tackled (21–23). That means that option *A* may be just, but all things considered, *B* should be done.

Despite the backward-looking justification, meritocracy’s positive consequences are pointed out frequently throughout the book. Not only does meritocracy enhance economic efficiency (88–91, 121, 158ff.) as a “happy side-effect” (104), it also leads to “achievements of objectively high value”, which makes it a perfectionist theory, albeit one that “remains *agnostic* about what is good and instead establishes a framework under which the good—*no matter what it be*—can best be pursued” (37). Yet, if neither expected performance, nor efficiency or the enhancement of objective value justify merit-based hiring, what does? Mulligan discusses several reasons (98–101), but it seems that for him, the fundamental normative reason for hiring based on merit consists in the value of an

autonomous and responsible control over one's life (100, 107ff., 148). Only in a meritocracy, where discrimination on the basis of race or gender is absent (28), can people prepare responsibly for certain jobs by developing the relevant merits (154) and thus have the ability to take their life plans into their own hands (108). If, by contrast, a person is not judged on his merits, he "has lost control over the development of his life and, indeed, his identity" (101). These quotes illustrate why Mulligan calls individual responsibility the "ethos" of meritocracy (6).

When it comes to the distribution of income, this backward-looking justification might suggest making effort the basis of desert. Yet Mulligan argues that although deserved income closely tracks effort, it is also important that effort creates something of economic value, that is, of value for others (128). In addition, this contribution must be meritorious, as is illustrated by the following example. If CEO *A* were "a brilliant businesswoman and a tireless worker" but failed for reasons unforeseeable to her, whereas *B* thrived despite her being "stupid, a menace to her employees", *A* would deserve a higher income (130). This is because "A has all the laudable character traits—and the possession and application of those traits is the essence of desert" (130). Hence, for the purpose of income distribution, the proper desert basis is one's "meritorious contributions to the economy" (130), which amounts to "the additional output" the person provides, that is, her marginal value product (131). Meritocracy may also provide for a social safety-net, but only for the deserving, not the undeserving poor (155–58).

Crucially, meritocracy can only be considered fair against the background of *fair* equality of opportunity for income, since otherwise personal desert would be undermined (72). Mulligan thus envisages a society in which everyone can *become* meritorious in the first place (71–73). This requires substantial policy measures, such as the restriction of the family's autonomy and heavy investment in early education (77–82, 203ff.), the taxation of undeserved economic rents (187–190), and the implementation of a robust inheritance tax (192–197). Note at this point that Mulligan rejects the influential Rawlsian idea that, ultimately, nothing is truly deserved (165–182). Our genetic endowments and certain basic non-genetic traits are essential properties defining us as individuals and hence not properly described as a mere matter of luck (170ff.).

Incorporating the ideal of equality of opportunity on the one hand and the ethos of individual choice and responsibility on the other, Mulli-

gan claims that meritocracy incorporates the best aspects of both egalitarianism and libertarianism and presents a viable alternative to these accounts (4). This alternative is not only theoretically interesting, but, according to Mulligan, it also has the potential of fixing the “broken, hyper-partisan politics” of the United States (3). After all, the notion that everyone can make it, regardless of race or gender, as long as he is willing to work hard for it, is the very core of the American Dream (12ff.) and according to empirical studies, the notion of desert plays a pivotal role in how people think about justice (43–55). In this respect, meritocracy seems utterly feasible and although the proposed policy measures may not yield political support in the short run, it is well possible that they do so in the long run. Mulligan’s claims as to the status of his account are not unambiguous, though, since he claims to be developing a feasible theory (33, 176), but then again calls his account “an unabashedly utopian vision” (28) and situates it in the realm of ideal theory (33).

CRITICAL ASSESSMENT

Justice and the Meritocratic State tackles a timely issue and incorporates widely shared intuitions about just distributions of economic goods. Mulligan enriches the contemporary literature on desert and argues against the claim that, in the end, nothing is truly deserved. A great strength of the book is the fact that Mulligan bites the bullet when it comes to policies necessary to implement fair equality of opportunity. That being said, I regard the argument for merit-based hiring and remuneration as ultimately unconvincing. Even if we grant that the most meritorious person has a moral claim to be hired, the concept of ‘merit’ is vague so that in actual hiring processes, the question of who the most meritorious candidate is cannot be answered objectively. But even if we could do so, it remains unclear where the moral claim of the most meritorious candidate comes from, especially as this claim disregards the reasonable interests of the employer. Beyond that, the policies necessary for implementing a level of fair equality of opportunity sufficient to legitimize hiring, remuneration, and even the provision of a social safety-net on desert and merit are substantial and I wonder whether they are actually desirable.

I. Merit

As said above, Mulligan assumes that “once a context is fixed, it is usually plain what constitutes merit” (102). Yet, this is not the case, as for in-

stance Deborah Hellman (2008, 97–101) has pointed out. The proper definition of merit hinges on the conception of the position at stake, which can be highly controversial. What, for instance, are the necessary qualifications of a doctor (Hellman 2008, 98ff.)? Medical knowledge, technical skills, and a certain intelligence may be quite uncontroversial, but what about empathy, modesty, and compassion? What about fitting into the team? And how ought these different dimensions to be weighed? In the examples given, Mulligan endorses a narrow conception of the positions and qualifications in question. A third baseman, for instance, must have quick reflexes, a powerful arm, and hitting ability (102). But what if a baseball player were popular in part for his looks and this popularity drove the ticket sales up (Hellman 2008, 97ff.)? Is it entirely implausible to describe the job of a professional baseball player as “being able to hit, run, and field well” (Hellman 2008, 98) plus ‘being able to entertain the fans’? As Hellman maintains, there is no reason to restrict the concept of merit in this way, and it is very unlikely that the authorities envisioned by Mulligan will reach a consensus on the issues.

We get a hint at the reason why Mulligan clings to a very narrow concept of merit—the common sense conception of merit, to use Hellman’s terms—in his discussion of a modified version of Nozick’s Wilt Chamberlain example (147ff.). Suppose the fans lose interest in Wilt and get fond of the quirky waterboy Bonzo and his funny behavior at the sideline instead. The management decides to replace Wilt by Bonzo, offering Wilt the poorly paid position of the waterboy. Mulligan considers this decision grossly unfair:

Wilt decided to take advantage of his natural talents and devote himself, through years of hard work, to excellence in basketball. His plan-of-life centered on this devotion, and he had a reasonable expectation that it would not be frustrated by the whims of the basketball-watching public. But now Wilt, who has done nothing wrong and everything right, finds his professional and financial futures frustrated. (148)

But what if Wilt loses his job because people just stop finding basketball interesting and become fans of hockey, instead? Not being a ‘whim’, does this change in demand patterns present an injustice as well? Mulligan argues that there is a “common sense distinction” between subjugating one’s life-plans to reasonable preferences expressed on the market on the one hand, and depraved “tastes” of others on the other (148). But where is the normative difference and who decides what depraved tastes are?

Here, the perfectionist dimension of meritocracy seems to lurk in the background, but I cannot see how it is supposed to guarantee that the preferences expressed on the market are ‘reasonable’. In addition, the fact that Wilt had “reasonable expectation[s]” that his effort would not be for nothing cannot ground any entitlement to a certain position or income on his part (148). For one thing, this would only be the case once a meritocracy is in place; for another, here an argument as to why merit should be the basis on which these expectations are formed is required (Segall 2012, 33).

The quoted passage again appeals to the pivotal role of individual responsibility and the possibility of taking one’s life in one’s own hands within meritocracy. Mulligan is convinced that “setting differences in opportunity aside—the single biggest determinant of success across contexts is brute hard work” (139). This is only partly true at most. For one thing, as argued in the previous paragraph, whether ‘hard work’ ever pays depends in large part on the preferences of others which are not foreseeable in the long run. Whether one’s skills are valued by society depends in part on their scarcity which is outside one’s control as well (Hellman 2008, 109). Perhaps most importantly, although the most successful people will almost certainly have worked hard, given the fierce competition in most areas, they would not have become the most successful people without luck (Frank 2016). This means that there are probably a lot of very talented and hardworking people out there who have formed legitimate expectations and have done nothing wrong but were not hired for one of the scarce positions they strived for—academia is a case in point. Highlighting the role of luck takes the edge off Mulligan’s narrative of hard work, responsibility, and control. Merit may be a necessary condition for being hired and earning an appropriate income, but it is certainly not a sufficient condition. In addition, acknowledging the central role of good and bad luck in one’s life leads both to more humility as to one’s own achievements and to more empathy with those who are less successful, as empirical studies confirm (Frank 2016, 93–103; and the references in Mark 2019).

II. Equality of Opportunity

Mulligan claims that once fair equality of opportunity is established and formal equality prevails against this background, “then everyone gets her economic deserts” (72). Under the reign of merit, “racism, sexism, and other biases” will vanish (28), and it is the government’s task to guarantee

“that citizens are not discriminated against on the grounds irrelevant from the point of view of merit” (74, see also 102). Yet, I doubt that equality of opportunity will eradicate unjust inequalities to the extent necessary for getting meritocracy off the ground. Even such revolutionary-sounding examples such as universal health care, investment in early education, and a substantial inheritance tax will leave a lot of background inequalities in place. For instance, as long as the institution of the family as such is not challenged, there will remain differences as to whether children are raised by caring and loving parents and even if substantive redistribution took place, there would remain differences regarding social and cultural capital (McNamee 2018, 69–88). When it comes to racism and sexism, Mulligan seems to underestimate how pervasively these systems of oppression are embedded in and are at the same time reinforced by culture. As Anderson (2010) argues, implicit, sometimes even benign, cognitive biases—such as ingroup favoritism or shared reality bias—in combination with geographical segregation lead to the emergence and consolidation of unjust group inequalities. Although the policy measures proposed by Mulligan would probably ameliorate the situation, the stigmatization and discrimination against racialized groups would arguably require more encompassing measures.

In fact, it is not even clear whether a focus on merit necessarily leads to just hiring practices. For one thing, what is “irrelevant from the point of view of merit” (74, 101ff.) again depends on the specific definition of merit and the respective position (Halldenius 2018). Sex, for instance, may be a legitimate qualification for a position in some cases but an illegitimate one in others. To take an example from Halldenius (2018, 110), imagine that a shelter for battered women were searching for a therapist. Would it be unjust if they wanted to hire only women? Issues such as this are discussed in the literature under the heading of “reaction qualifications”, a topic Mulligan only deals with at the margins (114ff.), but which is far more complex than he presents it and, I think, crucial to his argument (see Mason 2017; Goff 2018, 307). Neglecting the employer’s reasonable interests in certain reaction qualifications of the applicants, the meritocratic hiring principle is very lopsided.

Beside the problem of reaction qualifications, equality of opportunity plus merit-based hiring can lead to injustices for other reasons as well. As Schouten (2018, 188) points out, inequalities in labor market outcomes “are in large part explained by women’s continued responsibility for the great bulk of the caregiving and domestic labor necessary to sustain the

home and family”. Women are thus less likely to accumulate as much ‘human capital’ as men (Hellman 2008, 110ff.). Ameliorating this inequality would require policy interventions in the socialization process during which gender specific preferences, ambitions, and behaviors are conveyed.¹

Mulligan might respond that a system of fair equality of opportunity would eradicate all the mentioned biases and inequalities, but my point is to stress that these measures would have to be quite radical and would limit personal liberties substantially, and I wonder whether this is an attractive ideal to strive for. Mulligan recognizes that no implemented system of fair equality of opportunity will ever be perfect (180) and I am not saying that we should not strive for equality of opportunity. My point is that since we are far away from such a situation, an economic system which attributes all of the responsibility for an individual’s economic fate to the individual, distributes economic goods strictly based on merit and restricts the social safety net to the deserving poor cannot be justified. In this respect, Mulligan’s meritocracy is indeed unabashedly utopian.

At this point a pragmatic argument may be allowed. Given that we are far from a system of equality of opportunity, I wonder whether making merit the center of a theory of distributive justice is a prudent choice. To summarize some empirical findings from Mark (2019), believing that one deserves one’s social position and wealth on the basis of merit “makes people more selfish, less self-critical and even more prone to acting in discriminatory ways” (Mark 2019; see also McNamee 2018, 132; Frank 2016, xiv, 90). Thus, psychologically, a belief in merit may undermine the willingness to establish conditions of equality of opportunity in the first place. The cultivation of humility, gratefulness, and empathy with those who have not been so lucky as oneself may be a better way to enhance justice.

To conclude, I really enjoyed reading the book and engaging with its arguments since it raises a lot of interesting issues. But I regard the central concepts of merit and equality of opportunity as well as the normative argument for merit-based hiring and income as underdeveloped. Also, the issue of how we get from our non-ideal situation to a meritocracy as envisaged by Mulligan, deserves further attention. All in all, I

¹ Referring to two recent empirical studies, Mulligan ventures the claim that “clearly”, in academia, “bias against women has been eliminated” (215n3). In the light of a legion of studies suggesting otherwise (see Valian 2005 and, regarding philosophy, Leuschner 2019, and the references therein), this is a very optimistic verdict, to say the least.

wholeheartedly recommend the book to anyone interested in economic justice!

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Andrea Klonschinski is a postdoctoral researcher at the Department of Philosophy at Kiel University. Her research focuses especially on the concept of utility in economics, on the ethics of discrimination, and on women in philosophy. She is the author of the book *The Economics of Resource Allocation in Health Care: Cost-Utility, Social Value, and Fairness* (Routledge, 2016).

Contact e-mail: <klonschinski@philsem.uni-kiel.de>

Review of Elizabeth Anderson’s *Private Government: How Employers Rule Our Lives (and Why We Don’t Talk about It)*. Princeton, NJ: Princeton University Press, 2017, 224 pp.

SAVRIËL DILLINGH

Erasmus Medical Center Rotterdam

If there are some academics who maintain that philosophers should stay out of politics altogether, Elizabeth Anderson certainly is not one of them. In *Private Government*, she does not mince words, emphatically calling for a workers’ bill of rights and renewed legislative interest in labor unions. To North American sensibilities, this is tantamount to calling for revolution. However, Anderson argues, the situation calls for nothing less as:

Most workplace governments in the United States are dictatorships, in which bosses govern in ways that are largely unaccountable to those who are governed. They don’t merely govern workers; they *dominate* them. This is what I call *private government*. (xxii)

Backing up this rather bold statement are various dreadful illustrations of abuse of authority. Anderson invokes poultry workers being forced to soil themselves “while their supervisors mock them” (xix), invasive body searches without probable cause, and tyrannical political shepherding both in and out of the work environment. If nothing else, *Private Government* knows how to tug at the heartstrings; but its emotionally engaging style does not overshadow its argumentative rigor. Ultimately, Anderson offers an insightful account of the philosophical blind spots surrounding corporate authority and governance, how we should approach those blind spots, as well as how they came to be. The book’s activist tone is no doubt due to *Private Government* being a published edition of Anderson’s Tanner Lectures on Human Values, delivered at Princeton in 2014. In this volume, those lectures (chapters 1 and 2) are sandwiched between an introduction by political theorist Stephen Macedo, and four original essays by commentators (chapters 3, 4, 5 and 6), which are then followed by Anderson’s reactions (chapter 7). That being said, *Private Government* remains rooted in the material from Anderson’s Princeton lectures.

Chapter 1—the first of Anderson’s Tanner Lectures—entitled “When the Market Was ‘Left’”, advances a novel historical analysis of the free market. On her account, the market’s founding fathers—figures such as Adam Smith and John Locke—were proto-egalitarians of sorts. Far from the arbiter of growth and efficiency it is now, the market was seen primarily as a tool of liberation, a rebellion against “pervasive hierarchies of domination and subordination” (8) brought about by religious doctrine and patriarchy. Movements driving this idea—for example, the Levelers, the Chartists—sought to remove feudal monopolies and constraints on market exchange not in the name of efficiency, but equality. Interpreting Smith as the primogenial advocate of economic efficiency and a pre-industrial growth guru, says Anderson, is based on a critical misreading. Indeed, Smith claimed that commerce would create a populace of independent, self-employed tradesmen and merchants, operating in perfectly competitive markets, but this was in order to achieve “a truly free society of equals” (23). Although efficiency and growth undoubtedly played leading roles in *The Wealth of Nations*, Smith’s aspirations were markedly egalitarian.

Thomas Paine, to this day a symbol of the right-libertarian, should be viewed in a similar light, Anderson argues. Granted, Paine strongly opposed almost any state intrusion, spoke of personal and fiscal responsibility, and touted the benefits of the free market. Yet to radical workers he was a superstar. How is this possible? According to Anderson, on the eve of the Industrial Revolution, Paine was not speaking to a burgeoning industrial proletariat, but to self-employed entrepreneurs—owner and worker in one. His project, then, was to liberate ordinary working people. And, indeed, “when the bulk of the population is self-employed, pleading for relief from state meddling is quite a different proposition than it would be today” (27).

Unfortunately, Smith and Paine both grossly underestimated economies of scale. The Industrial Revolution perverted the market’s emancipatory ideal, realizing it only at the cost of darkly sprawling factories, abhorrent labor conditions, and astronomical inequality. In effect, market society produced the opposite of its promoters’ egalitarian intent. It granted the owning class—now disjoined from the working class—the power previously wielded by feudal lords. However, Anderson claims, contemporary market defenders continue to champion pre-industrial arguments. These arguments, well-intentioned as they may be, simply no longer apply; the Industrial Revolution made short work of the context in

which they did. Instead, they led to the rise of a different kind of serfdom, i.e. corporate serfdom. Consequently, modern-day right-libertarians remain fixated on state power alone, whilst being completely blind to corporate power—a type of “political hemiagnosia” (58).

Chapter 2—the second of Anderson’s Tanner Lectures—elaborates on the sweeping effects of this mistake in reasoning. Most importantly, she states:

we don’t have good ways to talk about the way bosses rule workers’ lives. Instead, we talk as if workers *aren’t* ruled by their bosses. We are told that unregulated markets make us free, and that the only threat to our liberties is the state. We are told that in the market, all transactions are voluntary. We are told that, since workers freely enter and exit the labor contract, they are perfectly free under it: bosses have no more authority over workers than customers have over their grocer. (xx)

Thus, the operative side-effect of the Industrial Revolution seems to be that we still think of workers as self-employed entrepreneurs—all of us tradesmen, merchants, and artisans. History simply has not yet given us the language with which we can speak of corporate authority. As an antidote, Anderson posits analyzing the firm as a type of *private* government (as opposed to *public* government). Of course, since employer authority is largely arbitrary and unaccountable, more often than not private governments are authoritarian. The book colorfully refers to them as “communist dictatorships in our midst” (37).

Not even Coase’s theory of the firm can justify the sheer extent of the power wielded by employers, according to Anderson. Surely, it tells the story of how the somewhat hierarchical firm came to exist—to combat uneconomical transaction costs associated with contracting, bargaining and information gathering—but it does not, for instance, justify how many employers exercise authority over their employees after their shift has already ended. Nor does it explain an employee being fired over a Twitter post. Of course, authoritarian governments rarely offer exit opportunities like firms do, but according to Anderson, this “is like saying that Mussolini was not a dictator, because Italians could emigrate” (55). American at-will workers may be fired for no reason whatsoever, but they may also *quit* whenever they like. Some right-libertarian writers have construed this as a commensurate type of authority. In leaving, an employee is *sort of* firing their employer (and hiring another one if they want to meet rent that month). Even if that were true, says Anderson, there is no

way for them to fire their boss and force her to find new employees. At the end of the day, a worker has much more to lose by quitting (or firing her boss, if you will) than an employer has to lose by firing a worker. Finally, Anderson calls for the acknowledgement of the reality of private governments and offers several starting venues for research into solutions, including the aforementioned bill of workers' rights and new forms of labor unions.

The chapters immediately following are devoted to four essays responding to Anderson's work. Historian Ann Hughes, in "Learning from the Levellers?", posits that Anderson's understandably incomplete account of the Leveller movement may yield some slightly different theoretical results if certain historical omissions are restored. Hughes sets out to inject nuance into several aspects of Anderson's first lecture. Firstly, she characterizes the realities of early modern society and economics; subsequently, she characterizes the form of the early modern market; and finally, she characterizes the status of women in the Leveller movement. Although this nuance makes for a thorough and interesting read, ultimately it does not make a significant contribution to *Private Government's* central thesis. Following, David Bromwich's essay, "Market Rationalization", fares somewhat better. The literary theorist deftly shows how Anderson's reading of Smith and Paine is perhaps overly selective. Moreover, he decries that *Private Government* largely omits relevant questions of power and exploitation. Yet, Bromwich fails to adequately develop these interesting observations and so finally settles on the level of merely interesting (though it is at times meandering). Next, political philosopher Niko Kolodny questions if *Private Government* plays a little too fast and loose with the concept of 'government'. In his essay, "Help Wanted: Subordinates", Kolodny argues that Anderson's analogy is more than a little strained (and rightly so). Yet, his analysis seems largely to have missed that Anderson's intent is not to formulate a philosophically consistent theory of employer authority, but to offer a simple lens—a language—with which we could identify the problem in the first place. This brings us to the final essay. One would hope economist and staunch libertarian Tyler Cowen's rebuttal, "Work Isn't So Bad after All", would set off the fireworks. But alas, Cowen meekly (yet accurately) asks us to consider employer abuses in the light of the gains incurred by workers in Anderson's private governments. He claims that these abuses, in the face of much evidence I might add, are few and far between, and that corporate

authority's benefits therefore far outweigh its costs. Whether this calculus checks out remains to be seen, but Cowen is not wrong to ask Anderson to engage with contemporary market justifications—those to do with efficient allocation of resources—even if we were to grant that the market's origins had a more egalitarian slant. True to form, and much less self-deprecating than I would have liked, Cowen ultimately blames most employer abuses (those caused by worker dependence, at least) on bad government policy.

Anderson's responses are friendly enough. She rarely concedes a point, however, and one may pick up on a sliver of exasperation some pages in. Anderson continuously hammers home her point, repeatedly restates her project, and then finally restates it some more. One can hardly blame her; her critics barely engage with *Private Government's* (somewhat blunt) argument at all, choosing instead to take small (though accurate) and inconsequential potshots at the book. In doing so, they seem to unrelentingly misinterpret its core thesis. Whether that is because they do not really understand Anderson's project, or because they do not want to, remains unclear. It does, however, cause the commentary chapters to fall entirely flat. Their inclusion adds little: some interesting footnotes, perhaps, but no real depth or argumentative engagement.

It seems clear to me that this is a problem to do with *Private Government's* target audience. Anderson claims her readers will most likely be “tenured or tenure-track professors” (62), but she has written a book for organizers, activists, and work-floor revolutionaries. To subject *Private Government* to rigorous academic scrutiny is, in that sense, to miss the point. True, there are some academic high notes. Most notable is Anderson's extraordinary historical analysis that offers the reader a convincing genealogy of right-libertarian argumentation. Commentator Hughes quickly points out that even this genealogy is not historically thorough. But it nonetheless skillfully shows why, philosophically, too many staunch market defenders seem to confuse freedom with servitude.

Ultimately, though, Anderson is unable to escape the paradigms history has created for us. *Private Government* succeeds marvelously in bringing to light a problem that is invisible to many but will fail to convince those who are not already convinced. Critically, Anderson overstates the similarity between state and firm, and she is not the only political philosopher to do so. In fact, this phenomenon has been extensively written on, most notably by Joseph Heath, Jeffrey Moriarty, and Wayne

Norman. They argue that “[a] variety of writers reject these [types of] arguments because of what they see as morally relevant differences between states and firms. The most commonly cited difference is voluntariness: both the decision to join and to leave is more voluntary for the firm than for the state” (Heath, Moriarty, and Norman 2010, 437). Of course, because *Private Government* is primarily in the business of firing opening salvos, it does not engage with these differences in any academically meaningful sense.

Accordingly, Anderson neglects to investigate the justifications that are already implicit in market institutions. And, as Tyler Cowen identifies, these are exactly the justifications her political opponents are concerned with. In her defense, opting not to hold this debate on her opponents’ turf allows her to persuade those readers who have not (yet) picked a side to think methodically about freedom and authority within the firm. But this strategy comes at the expense of theoretical rigor. Opening salvos are rarely nuanced, however (I join Anderson here in pretending there has not already been many a philosophical opening salvo aimed at authority in the firm). In sum, *Private Government* most certainly does not miss its mark.

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Savriël Dillingh teaches medical ethics at the Erasmus Medical Center in Rotterdam and consults for the World Wide Fund for Nature (WWF). He is interested in the ways in which political philosophy and business ethics overlap—specifically in the convergence of cooperative forms of business, decentralized economies and left-libertarianism.

Contact e-mail: <s.dillingh@erasmusmc.nl>

Review of Robert Sugden’s *The Community of Advantage: A Behavioural Economist’s Defence of the Market*. Oxford: Oxford University Press, 2019, 352 pp.

THOMAS NYS

University of Amsterdam

Robert Sugden’s latest book provides exactly what it says on the cover: a behavioral economist’s defense of the market, conceived—in the words of John Stuart Mill—as a ‘community of advantage’. Such a defense is intriguing because we are familiar with the insights from cognitive psychology that seek to invalidate the assumptions of ‘(neo)classical’ welfare economics (7). These neoclassical models’ simplified assumptions about people’s preferences do not match the empirical evidence (as preferences are not stable, context-independent, consistent, and integrated). Whereas some behavioral economists have taken this as a reason to be normatively *less* enthusiastic about the market, Sugden believes that—if we indeed take people as they are, and not as stylized, ideal-type decision makers specified by some model—the market is what best serves their interests.

More precisely, Sugden’s defense of the market is based on a *contractarian* model and the book is therefore meant to *persuade* us, the potential contractees, that the market serves our interests. This, in and of itself, is already significant. Sugden, for example, does not argue for a specific conception of wellbeing (welfare), or some other value or good that he wants to defend (and that the market would, or would not, promote). He believes that this should be determined by the people involved. Hence the book is not written from the perspective of some benevolent *social planner* (the ‘benevolent autocrat’) who seeks to implement her ideas about human welfare or value. Instead, a defense of the market on contractarian grounds should be based on the voluntary agreement of all contractees, and Sugden sees himself as the *mediator* of this process (31–33), showing us the deal, explaining the contract, and how we could all benefit from it (83).

It should come as no surprise then that what Sugden is arguing against is the type of ‘libertarian paternalism’, as envisioned and popularized by Cass Sunstein and Richard Thaler in their book *Nudge* (2008).

They are indeed the main and recurring villains in Sugden's story (especially in the first five chapters) because paternalism, no matter how seemingly soft or benign, has no place in his contractarianism. *Nudge* starts with the insight that we are Humans and not Econs. We have limited information, limited cognitive abilities, and limited willpower and, as a result, we often fail to do what we have most reason to do. We fall victim to all kinds of biases that keep us from reaching our goals "as judged by ourselves" (55). Therefore, these processes and mechanisms interfere with genuine preference satisfaction. According to Sugden, however, this assumes an "inner rational agent" (chapter 4) that is somehow hindered by a vulnerable psychological shell (65). What authors such as Sunstein and Thaler try to do, he says, is further the interests of the people as they "would have revealed if not subject to reasoning imperfections" (61). This is a sneaky way of re-introducing the perfect rational decision-maker of the neo-classical model into present-day behavioral economics (66). These authors can retain preference satisfaction as a normative criterion, if only these preferences are adequately *purified* in order to reveal the 'real' goals of the subject 'as judged by themselves'. But, according to Sugden, there is no way of identifying these assumedly pure and context-independent preferences, and therefore no way of setting up the nudge to serve those interests.

Sugden's argument is ingenious. Suppose there is a person called "Joe" who is sensitive to the lay-out of a cafeteria: having a choice between cake and fruit he chooses whatever is on display at the front of the counter. Now imagine a re-engineered version of Joe, who is called "SuperReasoner" (72), who is in every respect the same as Joe, with the caveat that he has "no limitations of information, attention, cognitive abilities, or self-control" (72). His choice, according to Sunstein and Thaler, would reveal the purified preference needed to justify the (direction of) the nudge. But Joe, in choosing either fruit or cake (depending on the choice architecture), does not make any reasoning mistake either way. When cake is at the front, Joe just feels like having cake. When fruit comes first, he feels like having fruit. SuperReasoner, although not prone to any human cognitive or informational mistakes, would make the same decision (74).

What Sugden tries to do, I believe, is force a dilemma on Sunstein and Thaler. Decisions or choices are not (at least not always, or not completely) determined by all the factors in which SuperReasoner is supposed to excel (the purifying properties in terms of information,

cognitive abilities, et cetera). A person's decision is always relative to the person making the decision, that is, 'who' she is apart from the propositional content about the choice itself. So either we should admit that SuperReasoner would make the same choice as Joe would make in the cafeteria, or we admit that the ascription of latent preferences to Joe (e.g. healthy fruit over unhealthy cake) must betray the subjective element of libertarian paternalism (specified in the as-judged-by-themselves clause). Here, at least, one cannot have one's cake and eat it too . . .

Personally, I am not convinced that Sugden's argument is successful—SuperReasoner making the same choice(s) as Joe should perhaps be reason to acknowledge that he may be nudged in *either* direction, as both are compatible with his reasons. But it is very powerful in laying bare the underlying structure of argumentation in both nudge enthusiasts and their opponents. Both seem to assume some form of pristine autonomy or agency that is untainted by all the psychological flaws that we know of, and that they somehow seek to recover.

So, Sugden does not want preferences to be laundered or purified for the purposes of some paternalist program and in order to make that fully clear he chooses 'opportunity', rather than preference satisfaction, as his basic notion (chapter 5). On the one hand, preference satisfaction fits the neutral non-paternalist bill of Sugden's defense quite nicely (arguing against philosophers like Pettit who believe that preference does not necessarily track value; plainly put: we might get what we want, but not what we need); but, on the other hand, when we acknowledge that our preferences are liable to *change*, then having more opportunities is surely better than having less (97).

In chapter 6, Sugden develops a formal proof that the market—by the mechanism of the Invisible Hand—is what best promotes each individual's opportunity set. So, the market is conducive to the good that he deems essential, namely: "each consumer is able to get whatever he wants and is able to pay for, when he wants it and is willing to pay for it" (137). Traders and consumers will seek out opportunities for mutual benefit. Importantly, however, Sugden does not believe that economies in the real-world should be unregulated (chapter 7). We should avoid monopolies, and correct externalities, and we should prevent prices from being obfuscated, making it difficult or impossible for consumers to know the actual cost of some commodity or to compare prices between suppliers. But Sugden also anticipates some important objections

to his opportunity-through-the-market approach. First, there is the contention that we might have good reason to restrict options in order to avoid “choice overload” (143). Sugden is unimpressed by the available evidence for this phenomenon, and even when it seems that people do prefer to limit their options (for example, fine dining in a restaurant with a very small number of dishes), such limitation is only valued as a choice among many, many others. Secondly, he is equally unimpressed by the phenomenon of self-constraint: people’s interest in limiting the options of their ‘future’ selves (for example, smokers throwing away their packs of cigarettes). Indeed, we could easily imagine some Joe (the real Joe, not some assumed inner rational agent) who wants his future self to be nudged toward the healthy fruit instead of the cake. But, if Joe still takes the cake, then who is to say that he makes a mistake (81–82)? Shouldn’t we rather say that he has changed his mind (or, at least, *allow* for the possibility that he can change his mind)?

In chapter 8, Sugden compares his theory with some prominent rival models of fair distribution. He discusses Ronald Dworkin’s famous hypothetical scenario of the clam shell auction under the assumption of a fair baseline (equality of resources), and the possibility of transforming brute bad luck into option luck by the use of an insurance market. Sugden sees this as a central line of argumentation in the models of justice by John Rawls, John Roemer, and Michael Sandel: that a just society should mirror a fair handicap race; and that reward should be granted on the basis of what is earned (effort, for example), yet ‘equalized’ in terms of what is not earned (talent, for example). According to Sugden, the all-knowing foresight that is necessary to drive such a model is implausible if not impossible (cf. Hayek’s attack on the planned economy, 180). With economic transaction inevitably comes the risk of brute bad luck, and, in light of such realism, the best we can do is to rely on a real market (not some hypothetical starting position). Real-world markets yield opportunities for people to take out partial insurance against various risks or to opt for a system of taxation that, under the uncertainty that befalls us all, would be mutually beneficial for all (203).

Chapters 9 and 10 discuss the empirical evidence for various altruistic or pro-social attitudes that seem to challenge the self-interested agent assumed by neoclassical economic models. If this image is correct, then marketization could be said to erode such intrinsic or virtuous mo-

tivation (211). In the oft-discussed Trust Game,¹ for example, we see a type of reciprocity that is hard to square with the assumption of human beings as rational gain-seekers. However, such reciprocity, Sugden suggests, is not some response to human kindness (person *A* giving person *B* money, to which *B* is responding by returning some money to *A*), but should rather be understood as a *joint* action. The players in the game understand that they are both involved “in a mutually beneficial cooperative scheme” (230). This is also crucial in chapter 10, when Sugden discusses “cooperative intentions” (232). People can reason as a team and assess the consequences for them as team members *together*, engaged in cooperative action. That way, we can understand that people in a Trust Game are not altruists, giving out of the sheer goodness of their selfless hearts, but neither are they myopically self-interested maximizers. These players, according to Sugden, take a different perspective. They are engaged in a social practice that, knowing what they can expect from each other, is to their *mutual advantage*. It is on this ground, and with this whole model in place, that Sugden wants to persuade us, as potential contractees, to become members of a community of advantage (chapter 11).

This book, the author reminds us, has been long in the making. It draws from many papers and projects that were published and developed within a span of almost twenty years. The result is a work that is both fundamental and wide-ranging. It starts from one underlying, basic idea (the contractarian core) which it then further develops and refines by confronting various alternatives and objections. Along the way, it touches upon some of the hardest problems and themes in economics, (philosophical) psychology, and ethics. Robert Sugden proves to be an excellent guide, bringing clarity and depth to discussions which often lack either of these qualities (or both). This is not to say, however, that his insights will remain undisputed. Given the amount of ground that he seeks to cover, I think that he could be stopped or at least slowed down by some pertinent criticisms at different points. And perhaps some other worries, *not* discussed in the book, will have to be taken up as well.

¹ In a Trust Game, Player *A* has some good—let’s say money—and, in a first move, chooses to hold on to that sum, or to send it to Player *B*. If she chooses to hold, the game ends (no gains for both players). If she chooses to send, then this amount will be multiplied by a factor of five. Then Player *B* has two options: keep or return. If she keeps the money, then *A* loses her investment, and *B* reaps the rewards (that is, five times the amount of money that was sent). If *B* chooses to return, then *A* gets her investment back, and both *A* and *B* split the remaining four units equally (214–215).

(What's the role of *politics* in this? Is this *all* there is to economics?) But there is no doubt that this is essential reading for those even remotely interested in behavioral economics, and for all interested in the question of how we should live together.

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Thomas Nys is assistant professor in philosophy at the University of Amsterdam. He recently published on the ethics of nudging (together with Bart Engelen, in *Political Studies* (2017) and in *Review of Philosophy and Psychology* (2019)), and is co-editor (with Stephen de Wijze) of *The Routledge Handbook of the Philosophy of Evil* (Routledge, 2019).
Contact e-mail: <T.R.V.Nys@uva.nl>

**Review of Vernon L. Smith and Bart J. Wilson's
*Humanomics: Moral Sentiments and the Wealth of
Nations for the Twenty-First Century*. Cambridge:
Cambridge University Press, 2019, 215 pp.**

BLAŽ REMIC

Erasmus University Rotterdam

I. INTRODUCTION

Models based on social preferences have become a standard tool for explaining the experimental findings from behavioral economics. All do not agree, however. In their book *Humanomics: Moral Sentiments and the Wealth of Nations for the Twenty-First Century*, Vernon Smith and Bart Wilson (henceforth S&W) challenge explanations based on social preferences—together with the standard assumptions of the utility maximization ('MaxU') paradigm in general—and propose their own account based on the insights from Adam Smith's *The Theory of Moral Sentiments*. As they argue in the preface to the book, key questions about human sociality and economic behavior, such as "Why does the payoff to the other person appear in one's own utility function? How did it get there?", but also "Why, when you go to the clothing store or the supermarket or Amazon, do you show so little regard for helping them by buying the highest marked-up items?" (xiv), remain unanswered in the standard social preferences account based on MaxU. S&W are highly critical of the economics profession, whose main modelling tradition they proclaim to be inadequate for understanding the world, stating that "we economists have lost sight of an elementary understanding of the social and economic range of human action. We have lost sight of the fellow feeling by which human beings gravitate toward one another, and we have lost sight of the sentiments that excite human beings to act and by which human beings judge their own and one another's conduct" (xvi). They offer *humanomics* as a way to bring this human dimension back in sight by building on Adam Smith's model of human behavior, which is based on attitudes (sentiments) that people form through both thinking *and* feeling, their ability to sympathize ('fellow-feel') and thus read one another's attitudes and

AUTHOR'S NOTE: This review has benefitted from the valuable suggestions by the editors of this journal, as well as discussions at the conference celebrating the work of Deirdre McCloskey in Freiburg, and the Econ & Culture seminar at ESHCC. Any remaining errors are the author's responsibility.

intentions, as well as Smith's observation that people have a natural propensity to truck, barter and exchange.

The word humanomics has earlier been proposed by Deirdre McCloskey, who has been actively using and promoting it in her published work for the last decade (for example, McCloskey 2010, 2015). Her emphasis, in line with her larger project on the rhetoric of economics, is on the study of language and meaning, and how the human dimension enters economics through speech and persuasion in economic practices. S&W's call for humanomics is based on a different rationale. They define humanomics as "the study of the very *human* problem of simultaneously living in [...] two worlds, the personal social and the impersonal economic" (2; emphasis in the original). The problem, thus, is how to understand the modern world of the extended order of markets without losing sight of the human-to-human relationships and social interactions that comprise the everyday business of life and that enable such order to emerge from the bottom up. This might be brushed away as yet another call for 'realistic' assumptions, or even as an unnecessary move given the highly institutionalized practice of anonymous economic exchange; but, S&W's project in *Humanomics* is motivated by a very specific rationale, which takes an altogether different approach toward the study of economic life. This rationale is captured well in the following passage:

To contend with the capriciousness of the human primate, rules of conduct arose in the small band or tribe, by the experience and tradition, to regularize and order human interaction. In the face of an unknowable future, we rely on rules of conduct to guide us as the momentaneous present is revealed. Human beings do not simply express behavior; i.e., act under specific conditions like amoral molecules in a flask. Rather, we conduct ourselves accordingly in relation to the circumstances in which we suddenly find ourselves. If by creating laboratory experiments our goal is to understand human conduct against this hurly-burly background of human action, then including that which is essentially human - the stories we tell ourselves to make meaning of our experience - is as much a part of economics as the science of pecuniary interests that currently pervades the discipline. (195-196)

The remainder of this essay will proceed as follows. In Section 2, I will address the central methodological claim of the book, which is that economic experiments should put the perspective of the actors in focus. After that I will elaborate and reflect upon the various conceptual contributions that bring to the fore the importance of context, intentions, and

meanings in the social world. Section 4 will address the political economy implications of S&W's argument, followed by a concluding section that reflects on the state of humanomics as a constructive research program in economics.

II. THE PERSPECTIVE OF THE ACTOR VS. THE PERSPECTIVE OF THE SCIENTIST

One of the main contributions of the book is to show how the [Adam] Smithian framework enables us to understand the actor's perspective regarding the problem he or she is trying to solve, the importance of which Vernon Smith has been stressing for some time now. He argues that if experimental results happen to contradict some rationality postulate, we should—rather than simply proclaim actors to be irrational—first re-examine our hypotheses about reasonable human behavior and how to experimentally study it (for example, Smith 2007, 40). This is in stark contrast to the dominant experimental practice in behavioral economics in which the perspective of participants is commonly treated as a source of bias with regard to the observer's 'objective' understanding of the experiment. Be it some benchmark of rational behavior, or a motivational postulate such as fairness or some other social preference, it is the observing scientist's perspective that carries exclusive privilege and explanatory weight.

To drive this point home, *Humanomics* presents a critique of behavioral economics by probing its reliance on explanations based on the concept of social preferences. The book develops the point that social preferences-based explanations, in their attempt to save the MaxU paradigm by evoking an expanded utility function (which involves utility from an individual's own payoff as well as from the payoffs to others), fails to provide "a clue as to the [utility function's] roots in human social development" (164). Rather, social preferences are simply *post hoc* rationalizations of "the diversity expressed in human action across its many forms" (46). As such, S&W argue, models of social preferences are unscientific and deeply unsatisfactory for understanding social life: they are not derived from the social meaning of actions as perceived by the actor but from whatever the observing scientist considers to be the correct explanation in the first place.

S&W demonstrate this by substituting enviousness for fairness in the well-known analysis of inequality aversion by Fehr and Schmidt (1999). They point out that the choice by Fehr and Schmidt to use 'fairness' as an

explanatory variable in their model is simply a reflection of their own common-sense notion of this value, and thus, to a large extent, arbitrary. They could use enviousness as an explanatory variable just as well, without having to change the model at all. But this raises a question: By potentially approaching these two fundamentally different sentiments as simply different expressions of the same mechanism, how exactly does the model extend our understanding of human behavior? While both can indeed be operationalized in abstract terms as disutility from unequal outcomes, S&W stress that the difference in meaning matters: “progressive income taxes are a matter of enviousness” sounds just wrong (55).

S&W argue against simply importing concepts from outside economic theory only to then subject them to the analysis based on MaxU (subject to constraints). In their view, it is important to consider how the game looks from the perspective of the players: How do they read the choices that present themselves as the game unfolds, and evaluate the effects that actions and responses will have on both players? In order to provide tools for understanding behavior in economic experiments, S&W derive from the work of Adam Smith a set of axioms—“elementary self-evident commonly experienced truths” (69)—and motivational principles about human conduct. Importantly, what they call “stoic self-love” and express technically as “Axiom 0: Human beings are non-satiated” (69) replaces the assumption of common knowledge of mutual rationality from game theory. *Axiom 0* is basically an assumption of self-interest (but not only narrow selfishness) combined with the notion that people naturally want more of a good thing and less of a bad thing. In traditional approaches to game theory, the assumption of the common knowledge of rationality enables players to enter each other’s minds and thus to reliably predict each other’s possible actions or responses. Similarly, S&W argue that “without the common knowledge that all are self-interested, Smith’s actors would not know, given the particular circumstances and opportunities to act, whether and to whom the specific outcome of an action is beneficial or hurtful relative to an action, or actions, that could have been taken” (69). Therefore, players knowing this about each other enables them to evaluate actions as either praiseworthy and deserving reward, or blameworthy and deserving punishments, which in turn will guide their decisions at each node of the game.

But game theory also retains an assumption of the common knowledge of the structure of the game: players (and the experimenter) need to be sure that everyone is playing the same game, and understands

the actions, outcomes and payoffs in the same way. S&W, however, problematize this assumption for its failure to account for the different shades of conduct that cannot be captured by the standard parameters, and that play a central role in how the game will actually unfold. By bringing in the ability of the players to sense each other's intentions through fellow-feeling, S&W extend the notion of the common knowledge of the structure, so to speak. Common knowledge is also a kind of moral knowledge, which permits the evaluation of actions in light of the social situation. The situation corresponds to "how the people get to the point of making the decisions" (63), and thus, moral knowledge is not (and cannot be) pre-given: it emerges out of direct human interaction in a given context. The mere knowledge of the structure of the game and its payoffs does not tell the whole story, since the actors' experiences while the game is unfolding—based on the evaluation of the actions and outcomes in accordance with moral sentiments—will have a direct effect on the decisions they make. The results of the basic trust game, for example, initially came as a surprise to economic theorists because they failed to take into account this bidirectional relationship between action and outcomes. Standard interpretations based on the assumption that the players are self-interested and rational would predict that either (i) the first mover sends nothing (because they are minimizing the risk) and so the game ends, or that (ii) the first mover gambles in hope to gain more, but the second mover then sends nothing in return and thus breaks down the cooperation by pocketing all the gains. S&W argue that the initial trust games results, as well as all the subsequent work, would have been anticipated had the system of moral sentiments been part of the tradition in economics back then, because it would have enabled the theorists to see that the standard interpretation of the game is simply not sufficient to predict human social behavior. S&W's model suggests that player's decisions will always depend on the evaluation of the impartial spectator about the propriety of the available actions, which will be formed in light of the other player's intentions. The ability of the players to access and properly evaluate each other's intention through mutual fellow-feeling thus plays a central role.

This also means that often their choice will lead to a suboptimal outcome, which represents a challenge for the observing scientist. S&W argue that the analytical apparatus they present in the book enables better understanding because it "*involve[s] the choice of dominated actions*" (158; emphasis added). In certain contexts, it will be entirely reasonable (and

indeed rational) for actors to do something that game theory would see as suboptimal (such as additionally sweetening the reward on pages 157–159), because they rely on rules that have emerged from real-world social interactions guided by the moral sentiments, instead of on some abstract criteria for rational choice. This may, however, mean that the options provided by the experiment can be seen as inadequate in light of this ‘baggage’ the actors bring into the experiment from the real world. For S&W, the failure to account for such possible attitudes represents a major shortcoming of the standard isolated experiments based on some benchmark notion of rationality or social preference thought up by the experimenter. As we saw above, the structure of the decision situation alone is an inadequate account of the game that the actors are actually playing and the rules they would evoke in responding to the actions of others. Their perspective matters. And this perspective—how the actors understand and assess their actions and the actions of others—is available, so argue S&W, to the scientist through Adam Smith’s framework of moral sentiments.

In chapter 6, they switch gears from understanding to prediction and develop a set of propositions for predicting players’ actions in a changing context. This is arguably the boldest contribution of the book, since it distills a large variety of context-specific actions into basically four propositions based on either rewarding beneficence or punishing injustice. This helps to flesh out their argument, since it enables them later on in the book to come up with new experimental designs (or, more accurately, novel upgrades that make up for the shortcomings of existing designs) that could not be thought up within the traditional approach. Yet, it is hard not to be left with a feeling that their proposal—where the characterizations of actions, intentions, and expectations are reduced to categories of either ‘good’ (deserving a reward) or ‘bad’ (deserving a punishment)—could be subjected to the same set of criticisms that they raise against the experimental literature. After all, by relying exclusively on the dichotomy of ‘good’ and ‘bad’ in deriving these propositions, S&W are vulnerable to similar accusations of grossly oversimplifying the richness of the human moral experience and reducing it to some arbitrary notion of value.

III. CONTEXT AS THE CREATOR OF MEANINGFULNESS

For S&W, MaxU is an inadequate framework because it fails to answer the ‘why’ questions of human behavior by assuming the subject is maximizing *something*, without fully explaining why that something should be worthy of maximizing in the first place. Instead, they propose to study *conduct based on context-dependent rules* as an alternative.

The starting Smithian point of their approach for understanding interactive experiments is a strong distinction between behavior and conduct, where we can understand the focus on the study of behavior as a shortcut for tracking observable outcomes, while the focus on conduct shifts attention to the rules guiding human action. Modern behavioral approaches based on MaxU tend to get themselves into a trap: if everything is simply behavior in the abstract sense, and if everything can be approached by essentially the same calculus, this leads to an absurd notion of rationality, one which can be equally applied to the behavior of rats, leaves, and other non-human entities. But, as S&W point out, conduct is a distinctly human characteristic, enabled by the “triad of [...] three (universal human) mental predicates” of “feeling, thinking, and knowing” (32). And, as we saw in the previous section, rather than assigning to the conduct some overarching explanatory concept, the observing scientist makes it intelligible by relying on a set of principles that S&W derive from *The Theory of Moral Sentiments*.

However, as S&W recognize, the hidden forces of these principles are not deterministic and thus do not entail inevitable effects on behavior, despite their seeming epistemic benefits when applied to the study of the existing rules that actors employ in their conduct. S&W argue that the origin of these rules cannot be traced back to either human traits developed strictly by natural selection, or to people’s conscious efforts to design them. Instead, they argue that rules that govern the social order emerge from the experience of human social interaction that is based on two basic desires: to be praised and praiseworthy, and to avoid blame and blameworthiness. This position enables them to retain the notion of human nature and its foundational role in the evolution of human interaction, while at the same time rejecting the naturalistic causal account of its role in human conduct. The rules that govern the natural physical order are different from the rules that emerge in socioeconomic life. Sentiments do not govern the social order; they only govern the experience of interaction, which then leads to the emergence of rules that hold the or-

der together. In other words, it is not that evolution favors particular feelings as opposed to others; the evolutionary mechanism is applied to the rules that emerge when people experience *all* those feelings in social interaction—certain rules will be more salient and functionally efficient because they will lead to more stable social relationships in a particular context.¹ S&W thus develop an account of the cultural evolution of rules.

This account, presented in chapter 7, will doubtless raise some eyebrows among the readers versed in the tradition of the Scottish Enlightenment and its more modern incarnations. While S&W do briefly reference David Hume, Adam Ferguson, and Friedrich Hayek, they indicate that everything can be traced back directly to Adam Smith. While this makes for a concise argument in the context of this book—whose subtitle, after all, seeks to unite ‘moral sentiments’ and ‘wealth of nations’—it is not as satisfying from the point of view of the history of ideas. Furthermore, it is especially confusing given that Vernon Smith has made similar points earlier by relying on Hayek, rather than Adam Smith (for example, Smith 2007).

In addition to their position on behavior not being determined by ‘natural’ causes, they point out that “Smith’s model does not make specific predictions, but rather predictions conditional upon how the participants read the circumstances of each game and Smith’s model guides us in how to read those circumstances” (111). The role of context is crucial here, since “individual actions are signals of rule-governed relational conduct, where context matters because it gives meaning to outcomes” (159). In other words, actions are signals in need of interpretation within the given context. We can add two caveats, however. First, by now, very few economists would argue that context does not matter. On the contrary, that different institutional settings will, through their incentive structures, affect observed behavioral outcomes differently is pretty much an uncontested view. Much of the modern behavioral literature is about framing effects and choice architecture. Second, reading actions as signals is not as straightforward a process as S&W make it appear. Despite the importance of rules for the central thesis of the book, S&W nevertheless do not fully develop an account of how humans apply these rules when they make decisions. This is all the more apparent because they don’t go be-

¹ We have to read this in line with Vernon Smith’s earlier notion of *ecological rationality* as “an ecological system, designed by no one mind, that emerges out of cultural and biological evolutionary processes—home-grown principles of action, norms, traditions, and ‘morality’” (Smith 2007, 36).

yond the simple propositions where actions and intentions appear as either good or bad. When rules are firmly established this is perhaps not very problematic; but S&W also seek to account for the emergence of new rules and the evolution of existing ones. Certainly, the picture is more complex when individuals are learning or conveying new signals and when new rules emerge. As Lavoie has argued, more than simple “road signs”, signals (such as prices or offers) in such instances become “difficult texts” (2015, 59) in need of interpretation. In an open-ended world, signals are rarely simple road signs; it is indeed much more likely that they resemble difficult texts.

This distinction seems a useful addition to what S&W try to convey with their project. While it can be argued that traditional approaches to game theory treat game structures and payoffs as simple and unambiguous road signs for players, S&W emphasize the mutual interpretation of actions by the actors. They argue that participants in experiments are guided by a set of rules of conduct and that they judge each other’s actions based on what rules the other seems to be evoking. The same action can thus result in different responses since different meanings may get attached to it. Specifically, since context is defined as “the set of all action alternatives including outcomes” (144), which, in experiments, is comprised of the possible alternatives at each node of the game, it thus matters what alternatives the players are presented with, because “adding or subtracting nodes changes the meaning people read into actions” (62). This, however, raises a question about how useful experiments are for our understanding of the real world. Since the worlds of experiments are small and closed, and the real world is an open system where ultimately every action is possible and every action can be contested, is experimental evidence not exclusively evidence on how people behave in such closed and determined worlds?

S&W seem to be aware of this problem and their answer provides us with perhaps the most crucial insight into the nature of their project. As they explain, experiments are “two-person small-world personal exchange cultures in which people apply the rules *they follow in life* to this unfamiliar context” (144; emphasis added). This characterization is in stark contrast to the standard view of experiments, where great care is taken to eliminate the influence of any rules that people follow in other contexts, in order for the experiment to produce behavior within the carefully specified set of constraints. For example, trust games generally employ a matrix of possible outcomes as the common knowledge that the players

share, and which exclusively guides their actions—a feature considered a virtue of isolated experiments. However, as we noted earlier, rather than behavior, S&W are interested in rule-based conduct. In other words, what they study when performing experiments is not simply people’s behavior in order to make inferences about their behavior in similar situations; instead, S&W claim that behavior is secondary, because what they are really interested in are the various rules that exist in the real world. The fact that people bring their baggage into the lab thus becomes a feature and not a bug. S&W indeed want and need them to use that baggage, which becomes the real focus of their study.

But how can the experimenter balance the need for control with the fact that people will inevitably bring in their baggage to the lab? To address this problem, S&W, in chapter 12, present their methodological innovation: the narrativized game. Since narratives are closely linked to the issue of context, we can observe the same two-fold significance for economics as in the case of varying payoff structures. On the one side there is the view that narratives frame decisions and the narrative is seen as a particular biased interpretation of the underlying problem. The analysis focuses on the suggestive component of a particular narrative, and the result of such analysis is that it isolates the effect the narrative has on the outcomes in question (for example, Shiller 2019).

The second view on narratives, and the one that S&W employ, is that narratives provide the context in which the decision becomes meaningful. It is not that some separately existing abstract decision structure gets framed in a particular way when embedded in a narrative; it is that such a decision, construed in abstract terms, is meaningless in the first place and thus cannot be held as a benchmark for any evaluation of the framing effects. S&W believe that it is an illusion to think that an abstract game structure is invariant, and that framing is a deviation from that pure meaning of the situation. They give two reasons for this: (i) people bring their frames to the lab, so they will inevitably narrativize the structure of the experiment in their own terms; and (ii) the abstract structure is a particular frame in itself. Therefore, narrativized experiments are intentionally designed to put the subjects, by embedding them in a narrative, in a specific situation that will call for particular rules-based conduct, which, in turn, becomes intelligible for the observer by relying on the principles derived from Smith. However, the narrative experiment they use as an example in chapter 12 (the only one performed) seems limiting in the richness of its moral implications, and it is thus not entirely clear how the

narrative that they use changes the meaning of the situation and thus differentiates itself from a mere frame. While the whole concept of narrative experiments seems a promising methodological approach for humanomics, it is more a promise than a reality.

IV. AGAINST PATERNALISM: THE ROLE OF AUTONOMY AND SELF-COMMAND

When talking about behavioral economics it is hard to ignore the topic of behavioral interventions and the underlying issue of autonomy. While *Humanomics* does not deal directly with the topic of paternalism, S&W nevertheless present the Smithian project as explicitly classical liberal in nature: “We need all the trappings of Smith’s conception of the classical liberal order, an immense playing field with clear foul boundaries within which people are empowered by the freedom to discover” (206). This perspective can be understood as S&W’s alternative to the interventionist nature of libertarian paternalism, with its focus on nudging people into better decisions rather than leaving them to the potential dangers that personal liberty may bring along. S&W’s position is that interactions that take place when people are left to choose and discover freely will result in the emergence of rules that will reflect peoples’ moral sentiments rather than some external benchmarks of rationality. These rules will in turn provide stability and order within social interactions that will transcend the impulsive and irrational aspects of human nature which, when left unchecked, may result in bringing out the worse in people and thus break down the system of social cooperation.

However, if it is rules—and not ‘gut-feelings’—that guide human conduct in social interactions, this raises a question of how these rules are learned in the first place. S&W draw on the Smithian notion of *maturation* to argue that the micro-foundations of our morality, and rationality, are to be found in the process of socialization in the family and small groups (74). Maturation is a result of repeated interactions, learning, and adaptation to what others do. This is a process that requires individuals to make mistakes, and most of all, to make their own choices so that they can learn.² However, maturation that is so closely linked to socialization also

² Following Adam Smith, S&W define freedom negatively: “People have wide liberty to take any action that is not unjust. Imagine society as a large playing field within which people are free to pursue their own aspirations, careers, and business plans as they

raises the issue of personal freedom: How is one free when subject to continuous processes of moderation guided by what others approve or disapprove? It seems that we very much learn to be free; but the question, then, is what type of freedom do we learn? The position that S&W build upon is based on the notion of self-command in being able to follow the judgments of the impartial spectator. This is what we learn in “the great school of self-command”, which is “the mechanism whereby we learn ‘to go along with’ our friends and neighbors” (170).

For S&W, classical liberalism is an open playing field within the boundaries of foul play. But, as we saw above, what is considered foul is largely determined by what others accept and permit based on their own sentiments. Justice is defined negatively, as the absence of injustice, where injustice is a direct outcome of the impropriety of action, which stirs up resentment. For the rest, individuals are voluntarily interacting with other individuals and in the process discovering how they feel about others’ actions, which leads to the emergence of rules. This means, however, that the issues of power and force are somewhat neglected. In chapter 9, S&W rightly point out that the standard experimental set-up actually involves reluctant players: in the trust game, for example, first movers are forced to make a decision about something that (at best) benefits them far less than the second movers. Nevertheless, S&W seem to assume that such forced participation cannot happen in the liberal order, where “people are free to move anywhere, in any direction, try any new actions, so long as they avoid foul boundaries of play” (201). Indeed, voluntary participation has important consequences because it presupposes that people accept the rules of the game, yet it is not obvious that such conditions are standard in the real world of human social interaction where exit is not simply a matter of walking away from the experiment. In many choice situations, exit itself might be very costly or near impossible.

As an example, let’s consider one of S&W’s newly developed experimental designs. As already pointed out, the basic structure of a trust game suggests that first movers are actually put in a position where, by choosing to cooperate, they either lose out (that is, get less than by not cooperating at all) or benefit substantially less than the second movers (because the gains from trade are very skewed); all this despite the fact

choose but governed always by rules that prohibit and recompense foul play. Any outcome of action – mediocrity, success, failure, riches, admiration – is acceptable so long as no fouls are committed. The individual is free to excel, as in a race, but not to cheat or lie or jostle others in the race” (14).

that they, as first movers, are by definition the enabling factor for cooperation and any gains from trade that might happen in the first place. In the newly developed Punish Injustice Game, S&W introduce an option for participants to punish defecting behavior by second movers after cooperation has been offered to them. For S&W, the striking result is that a relatively low number of people choose the option to punish. The result is fascinating, since the options are (\$4, \$4) for punishment and (\$6, \$42) for cooperation, which means that people choose cooperation even when it costs them relatively little to punish the others' unjust actions. S&W interpret this by evoking the notion of the fair and impartial spectator: punishment is too disproportional and thus not appropriate. However, this explanation leaves out the possibility that first movers, at that point in the game, just want to save as much as they can from what little they have left, and thus do not make a judgment based on the appropriateness of the punishment but are simply forced to accept the least bad outcome. While S&W's interpretation appears to imply that there is not much bad blood between the parties, it is easy to imagine that under the alternative interpretation the resentment may nevertheless be strongly felt despite the offer of cooperation, because the actions of the second mover will leave the first one feeling powerless and undignified.

Alternatively, we can imagine that first movers in the trust game fail to offer cooperation for reasons of jealousy (since they know that the gains from trade will be in any case much bigger for the second mover despite the fact that these gains are made possible by the first movers' own decision to cooperate) or complacency (first movers are just fine with the initial money they have received and have no desire to engage in trade). If this failure to offer cooperation were to happen repeatedly, it is conceivable that the second movers would start punishing it, when given the option—either to punish the first movers for their jealousy, or to 'wake them up' from their complacency. In any case, it is not that obvious that the second mover's not choosing to punish the failure to cooperate can simply be explained as an act of beneficence, "a virtue that experience has deeply instilled in us" (198). At least, these considerations would call for humanomics to incorporate and rely on more detailed ethnographic and sociological work, besides the simplified moral philosophy scheme based on Adam Smith that S&W now rely on. Such work is readily available in the recent economic sociology literature (see Dekker, Remic, and Dalla Chiesa forthcoming for a literature review on the questions of context

and meaning), and the failure to connect to it is one of the major shortcomings of the account of humanomics put forward in this book.

Political economy implications represent an important part of S&W's project in *Humanomics*. Yet, this aspect of the book seems the most dogmatic and least backed by solid and broad social science insights. What becomes clear, however, is that S&W's motivation for humanomics as a research program is largely about establishing an alternative to the (by now) mainstream behavioral economics. As such, it suffers from the shortcoming of trying to differentiate itself in all possible areas where behavioral economics has left its mark, and policy interventions in this regard arguably represent one of the crown jewels of behavioral economics. While S&W's more hands-off approach is a legitimate and possibly attractive alternative, it is not the most persuasive part of the book.

IV. WHAT WAY FORWARD FOR HUMANOMICS?

The idea that economics should pay more attention to human beings is of course not new and has been, through the years, put forward in a variety of ways. Looking from such a broad perspective, we can differentiate between at least three different approaches to humanomics. The first one incorporates the shortcomings of human nature and rationality, and can be illustrated by an image that Benabou and Tirole (2003) put forward: "We introduce three '*grains of sand*' (or *humanity*) into the well-oiled mechanics of the ultra-rational economic agent: *imperfect* self-knowledge, *imperfect* willpower, and *imperfect* recall" (137; emphases added). This is also the approach of mainstream behavioral economics. Thaler and Sunstein (2008), for example, distinguish between Econs and Humans. Another approach to humanomics is about the impact of economic activity on the social fabric, (psychological) well-being, and the inner moral core of human beings who participate in it (for example, Nelson 2006; Bowles 2016). While in the first case humanity entails imperfection, in the second it suggests a virtuous, but somewhat fragile, character of the human nature facing potentially corrupting effects of market institutions.³

³ Another version of this second approach can be found in Lutz and Lux who define *humanistic economics* as a "scientific framework for the theoretical understanding, as well as design of appropriate institutional arrangements pertaining to, the process of production, distribution, and consumption that will enable optimal satisfaction of the hierarchy of human needs" (1979, 23). Here, human well-being is defined in explicitly objective and naturalistic—almost biological—terms. Economic phenomena are treated as intermediate products impacting this well-being, and economics is a tool to achieve it (see also Komlos 2019).

S&W belong to a third stream, as does Deirdre McCloskey. Here, humanness is not about bounds on rationality or some inner trait, but about living and interacting with others in the social world. It is a version of humanomics that puts emphasis on the different worlds that people inhabit, each with its own distinct logic that gives meaning to the actions within it. Such a conception of humanomics as a research program opens up many opportunities for further development and for fruitful exchange with neighboring disciplines, especially psychology and sociology.

Psychology has now become a natural ally for economists who seek to develop a richer account of human nature. However, as I have argued elsewhere (Dekker and Remic 2019), the idea that there is but one combination of psychology and economics is false, since there exists a plurality of approaches in psychology as well, each of them lending itself differently to combinations with the variety of approaches in economics. S&W's project would arguably benefit from incorporating insights from psychological approaches that emphasize the distributed and situated nature of cognition. In these approaches the borders between the individual mind and the world of social institutions are blurrier; this fosters deeper insights into the entangled interplay between rules and cognition.

But the exclusive focus on the Smithian framework hides an omission that is perhaps the hardest to understand: the complete neglect of recent and complementary developments in sociology. This is perhaps that more surprising given that both Vernon Smith and Bart Wilson could hardly be accused of having narrow interests, and their work draws on, and is inspired by, a wide variety of developments in the social as well as the natural sciences. Indeed, Smith has on occasion made an important point out of it by stating that "I importune students to read narrowly within economics, but widely in science" (Smith 2007, 40n12). Following this advice, scholars of the humanomics research programme could benefit from engaging with the literature on economic sociology. For example, S&W build on a broader notion of commerce, what they refer to as "'commerce' all the way up, from neighbourly social exchange to the extended order of impersonal markets" (15). This view of commerce is close to how certain strands of recent economic sociology conceptualize it.⁴ In that sociological perspective, the exchange is not merely about stuff for money, or stuff

⁴ For example, Zelizer employs the meaning of commerce "in an old sense of the word, where commerce meant conversation, interchange, intercourse, and mutual shaping [and ranges] from the most intimate to quite impersonal social transactions" (2011, 315).

for stuff. The exchange process is a social process, an ongoing relationship that is also continuously affecting and changing the parties involved in the exchange and thus resisting explanations in narrow structural terms. Humanomics can especially benefit from the vast empirical work conducted in this literature.

Does the book succeed? It does, by pointing us in the right direction. But it is not—and probably S&W would agree that it *should not be*—a definitive statement on humanomics. As I see it, *Humanomics* is not a programmatic statement, but an invitation to do economics differently. This position, however, carries with it a danger that there will be as many types of humanomics as there are scholarly attempts to develop them. This book presents a compelling case of what the theoretical core of humanomics could look like, and an ambitious invitation for scholars to rally around this core and further develop the approach by building on the rich tradition of social and economic theory of the past to answer twenty-first century problems.

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Blaž Remic is a doctoral candidate at the Erasmus School of History, Culture and Communication. His research interests are to be found at the intersection between economics, psychology, and sociology. Currently, his research focuses on the concept of intrinsic motivation in economics. Contact e-mail: <remic@eshcc.eur.nl>