

# ORIGINS OF POLITICAL ECONOMY

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*Abstract: Our modern observation-based approaches to the study of the human condition were shaped by the Scottish Enlightenment. Political Economy emerged as a discipline of its own in the nineteenth century, then fragmented further around the dawn of the twentieth century. Today, we see Political Economy's pieces being reassembled and reunited with their philosophical roots. This issue pauses to reflect on the history of this new but also old field of study.*

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## I. ORIGIN OR ORIGINS?

There is a consensus among the contributors to this volume that it would be fruitless to try to date political economy's origin to some singular event. We see no scholarly Big Bang that explains political economy's emergence as a framework for studying the human condition—if for no other reason than that history's most seminal events always have histories of their own.

Histories are stories. Telling a story involves choosing what to emphasize, and where to start. This volume's authors were aware of choices they could have made differently. Part of what made it joyful to assemble this issue was the authors' mutual appreciation for the contrasting yet compatible ways in which their choices illuminate our history.

## II. WHAT IS SCIENCE?

Christopher J. Berry asks whether economic questions are scientific questions. He notes that determining how to conceive of science was a long process. People knew that Newton was a scientist, and wanted to do what Newton was doing. But exactly what that meant was not clear. During the sixteenth and seventeenth centuries, political economists defined their subject matter in stages as they identified regularities and worked toward understanding economies as lawlike systems. What Hume called “coffee house physics” was undisciplined speculation that did not aspire to be testable. To be sure, David Hume's own powers of observation, formidable though they were, were not on a par with controlled experiments. Still, at a minimum, Hume aimed to be grounded in observation rather than in deduction from indubitable axioms.

Smith and Hume aspired to be observers of the human condition. Hume sought to apply the experimental method of reasoning to moral subjects.

To some extent, both intended their claims to be falsifiable. They held that moral theory need not be a realm of untestable and therefore unresolvable rivalries among intuitions—deeply felt, yet, for all that, merely felt.

Hume explained that correlation is not causation, but in some respects we missed his point. The target of Hume's withering skepticism was not causation so much as proof itself, at least as philosophers had come to interpret proof. Hume was observing that we do not learn about our world by proving. The way learning actually works is that, from infancy onward, we touch a glowing hot plate once, and learn fast. We leap from correlation to causation. We leap from *is* to *ought*. Experienced correlation entails nothing about *cause*. Neither does it entail anything about *ought*. Yet, the leap is no mistake. On the contrary, it is the paradigm of how we learn: that is, from experience.

This is not to say we are wired to be scientists. What would Hume have thought about the ubiquity of confirmation bias? What would he have said about the fact that our profession expects us to argue for our conclusions, not against? In any case, Hume did have some sense of what transcending confirmation bias would be like. It would involve aspiring to have a worldview that could stand or fall on the basis of testable hypotheses. It would not be skepticism, exactly. It would be more a matter of being aware that, for example, it is scientific to identify correlations. It is likewise scientific to leap to conclusions about causation, so long as we remain sensitive to the fact that we are leaping, and sensitive to ways of testing such leaps, and so long as we let experience leave us open to opportunities for better understanding.

A moral science would identify what leads us to jump to conclusions about ought. It would study when the jumps that get us to ought are not mistaken despite being deductively unsound. It would involve being aware of a fundamentally obvious truth: we can always respond to empirical claims by saying, "Not necessarily" while trying to be aware of when this response is relevant and insightful. Formulating a counterexample takes cleverness. Distilling a genuine insight from a counterexample takes something more. It takes experience and wisdom.

This is not to say that political economy and moral science are an antidote to ideology, but Hume's articulation of the idea of a moral science was an aspiration, at least. He was telling us what an antidote would be like. That is, the aspiration to be scientific, to formulate hypotheses in such a way as to make them testable, and to stand accountable to the best available evidence, is an aspiration to create something beyond a tribal ideology.

### III. SELF-INTEREST AS OBSERVABLE

As Richard Boyd sees it, to understand science is to understand the essential simplicity and consequently the inevitable limitations of scientific models. Reconsidering the rational choice model in light of recent developments in behavioral economics, Boyd sees a richness in the accounts of

rationality offered by political economy's pioneering works. Models of how objects behave on frictionless planes are not everything, but they are not meant to be. The *homo economicus* model likewise isn't everything; neither is it meant to be. It illuminates an aspect of human psychology, but prominent Enlightenment thinkers and the contributors to this volume agree with Boyd that it is unscientific to be committed to interpreting any and all observations of human behavior as *necessarily* self-interested. The point is, in some contexts, a premise of concrete self-interest is a good predictor of behavior. Within those parameters, when self-interest's predictions fail, as they sometimes will if we take self-interest seriously, the model has its real value. That's when the model is telling us that we have something to learn.<sup>1</sup>

Boyd contends that "influential narratives about the development of the social sciences have mistakenly and anachronistically attributed the 'rational actor' model to pioneering figures such as Francis Bacon, Thomas Hobbes, and Adam Smith." Boyd goes on to observe that Bacon, Hobbes, and others "were well aware of the systematic irrationality of human conduct." Bacon, for his part, described confirmation bias in terms that seem sophisticated even by today's standards. Hobbes also posited cognitive biases, although the story of Hobbes that we tell today focuses more on humanity's motivational structure. In truth, Hobbes posited twin fundamental motives. The first was a strikingly narrow egoism revolving around self-preservation. But that narrowest of egoisms was actually the upside rather than the downside of our motivational and cognitive structure, and it was our potential salvation. To Hobbes, it was the *other* side of human motivation that is the nightmare from which we need saving—namely, our vanity.

Hobbes served as Bacon's secretary, and he was well aware that Bacon had a theory about the dimensions of ambition. The widest ambition is the kind that works on behalf of humanity. This is the kind that drives us to invent the sciences. Crucially, humanitarian ambition leads scientists to treat disagreement as a source of information. Alternative interpretations of data, none of them *necessarily* correct, are not threats. They are opportunities for new insight.

Both Michael B. Gill and Natalie Gold are interested in intrinsic versus extrinsic motives and trace the origins of this less tractable but more realistic view, currently in vogue, back to the beginnings of the Scottish Enlightenment. Shaftesbury's realistic psychology, as distilled by Gill, attacked

<sup>1</sup> For example, does anyone vote? The fact that people do vote, to an extent hard to explain in terms of the homo economicus model, is interesting. See Jason Brennan, *Against Democracy* (Princeton, NJ: Princeton University Press, 2016). Further, I thank Carmen Pavel for observing (in conversation) that on theories like that of Anthony Downs, it is rational to be an ignorant voter when being informed is costly, and when compensating benefits are not there. Political entrepreneurs make matters simpler by packaging party ideologies. Why would voters buy those manifestly low-quality information packages? Because voters have no reason to want high quality information anyway. They just want something easy that makes them feel good about having voted.

Hobbes (whose egoism Shaftesbury deemed poisonous) by offering an observation-based alternative model of moral psychology. As survival machines go, Shaftesbury thought, isolated humans are feeble. Our super-power consists in our ability as social animals to cooperate—to be useful to each other—and before that, in our ability as political animals to negotiate the terms of engagement. That is, the challenge of our particular social nature is that we are not only social but also political animals. That is to say, before there is exchange, there is barter. Our kind of social animal has to negotiate. We start by talking through what we have to offer each other. In the process, we arrive at mutual expectations that make us more predictable and consequently more useful to each other. To Smith, this is more or less self-interested, as Gold notes, yet the self-interest at work in Smith is, strikingly, the interest of an essentially pro-social political animal.

To take the opening lines of Chapter 2 of Adam Smith's *Wealth of Nations* at face value, what drives us to the marketplace is not a drive to maximize profit per se. The actual observed drive is more tellingly interpreted as a drive to truck, barter, and exchange. The latter motivation is not the same as maximizing profit. Neither is it the same as self-interest. Nor, by the same token, does our sociality *correct* a more fundamental self-interest. Instead, our drive to truck and barter is our primal essence as social animals.

Why then do we address ourselves to the self-love of the baker or butcher? The answer, to interpret Smith's words as provocatively as possible, is that making deals is what makes life worth living. Knowing we have earned our partner's esteem is what it is like for self-conscious social animals like us to pass self-inspection. We want to make deals for our own good, to be sure, but to be clear, "our own good" means our own good as social beings for whom relationships are life and death. To Smith, our twin aim revolves around esteem. We grow up aiming to be loved; *adulthood* is the threshold that we cross when our drive to be loved matures into the fully adult aim of being lovely.

The question of what we can *get* is one question. What we forget in weak moments is that as adults, we care more about what we can *be*. At the end of our story, we want to have been the hero, not the villain. But choosing to be the hero is an ongoing process, and a never-final achievement. We are the endogenous products of the decisions we make. What Shaun P. Hargreaves Heap calls the "providential account" treats our self-interest as static, because static models of us are simple enough to be fruitful in generating theorems.

As Alfred Marshall took political economy in a neoclassical direction, the mathematical power of the marginalist revolution elevated the homo economicus model. The attraction of the latter lay not in accuracy so much as tractability. In this respect, Hargreaves Heap observes, Smith was not part of the neoclassical tradition of economics that he inspired. On the older, and now re-emerging model of economic agency, a central fact about social beings is this: pro-social attitudes don't *correct* self-interest; they *define* it.

For example, what brought our authors to this issue was an interest in exchanging ideas, and in that way to make a place for themselves as lovely contributors to a lovely community. They did not show up aiming to *win*. They did not show up aiming to make money. Their intent, rather, was to make an estimable contribution. Their ambition is not the parochial variety that Bacon warned against; neither is it what Smith saw as the curse of the poor man's son.

Hargreaves Heap sees economics and philosophy returning to the study of endogenous preferences. We are coming to focus, as we once did, on preferences as outcomes of a process. Preferences are evolving consequences of our choices, to some extent, not merely exogenously set drivers of our choices. Leonidas Montes likewise interprets Adam Smith as conceiving of humanly rational agents as operating with a psychology that is anything but exogenously fixed.

Smith as much as anyone understood humanly rational agents to be outcomes, not only makers, of their choices. Self-command, Montes notes, emerges as a fascinating challenge, in part because to command oneself is to command an evolving, moving target—a self that grows into its choices for better or worse.

#### IV. IS POLITICAL ECONOMY A MORAL SCIENCE?

James A. Harris notes the extent to which envy rather than self-interest powers commerce, and notes Smith's regret over how commercial society twists the priorities of the poor man's son. In the twentieth century, Albert Hirschman would see commercial society as civilizing—as softening vain-glory's violent edges. Be that as it may, Smith's worry has a real basis as a matter of observation. Harris sees Smith “neither as a kind of extreme Lockean who paved the way for free market fundamentalism, nor as a proto-Rawlsian anticipator of the welfare state.” For example, Harris observes that, as Smith himself puts it, “Civil government, so far as it is instituted for the security of property, is, in reality, instituted for the defense of the rich against the poor, or of those who have some property against those who have none at all.”<sup>2</sup> The thought is meant not as condemnation but as simple fact: when a civil government secures property, it is among other things protecting “haves” from “have-nots.”

Could protecting the rich from the poor be good, even imaginably? It depends. Suppose, for example, that we model the rich and poor as rigid classes. We might do that for the sake of making our model tractable, but if reality were as static as the model, then protecting the rich from the poor would be indefensible from any contemporary perspective. Yet, part of the

<sup>2</sup> Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, ed. R. H. Campbell and A. S. Skinner (New York: Oxford University Press, 1976 [1776]), 715 (V.i.b. at paragraph 12).

Enlightenment aspiration was to improve upon models that simplify by treating variables as fixed. Simplifications become egregiously misleading when we reify them, as if the postulate of rigid class structure were an observation of reality rather than a deliberate simplification.

So, for example, imagine observing that in the developed world, classes are not rigid, and that our best predictor of poverty is age. Imagine an economy where youth robustly correlates to being in the bottom quintile for wealth and income, while being middle-aged robustly correlates to being in the third quintile and above for wealth and income. That is, imagine a society of significant vertical mobility. If skilled forty-year-olds on average own multiples of what inexperienced twenty-year-olds own, that suggests a hypothesis that Smith might have been eager to test: namely, when we check migration patterns, we find that poor twenty-year-olds and rich forty-year-olds both want to live in societies where secure titles to earned income will enable their children to anticipate that the poverty they experience in their twenties will be a phase rather than a life sentence.<sup>3</sup>

## V. WHAT WORKS, OR WHAT TO DO?

Philosophy took a final step away from political economy in Henry Sidgwick's time. To judge from observed correlation, the aftermath of Sidgwick isolating distinct methods of ethics was that ethical theories such as utilitarianism (along with intuitionist alternatives to utilitarianism) came to be understood as methods of deciding what to do. As a result, Enlightenment consequentialism's question of what works was lost—relegated to economics and other social sciences. Utilitarian philosophers were left to study decision procedures. The twentieth-century utilitarians who followed Sidgwick largely worked on what to do, or even more narrowly, on what to do *next*. (A focus on maximizing action makes it hard to appreciate the difference between a local and a global optimum. Advice that is obvious to a global maximizer seems paradoxical to a local optimizer, namely, "If you want to serve the common good, forget about maximizing utility. Just make yourself useful. Focus on being trustworthy.")

In any case, by the end of the nineteenth century, whether caused by Sidgwick's *Methods of Ethics*, by Alfred Marshall's marginalist revolution, or by something else, professional philosophy was parting ways with the idea of moral science as a study of hypotheses subject to testing and disconfirmation. Hypotheses about the impact of tariffs, once a central question for a moral philosopher such as Adam Smith, became unrecognizable as philosophy. Philosophers were no longer equipped or inclined to study what makes some incentive structures more apt for reconciling self-interested

<sup>3</sup> Smith was pessimistic about the marketplace ever being a level playing field because he saw no solution to the tendency of capitalism decaying into crony capitalism. To put it mildly, he did not see this as any reason to put more power in the hands of men of system.

behavior with the common good. Utilitarianism had been transformed into a study of what to do *if your aim is to maximize utility*. Homo economicus was no longer what utilitarianism studied. It had been siloed as the “method” of egoism. Consequentialist philosophy no longer could be a study of conditions that lead agents with hopes and dreams of their own to act in mutually advantageous ways. What had been a key question of moral science came to seem like a confused mushing together of two separable methods of ethics: egoism and utilitarianism.

## VI. IS POLITICAL ECONOMY AN IDEOLOGY?

Maria Pia Paganelli distinguishes between a concern for unequal outcomes and unequal treatment, foreshadowing a contemporary debate between distributive and relational egalitarians. Smith could be indifferent to inequality *along some dimensions* precisely because if we care about *misery*, we pay attention to dimensions of inequality observable in stagnant economies where abject poverty is common. We distinguish these dimensions from the dimensions of inequality characteristically found in rapidly growing economies where every class is making rapid progress over generations by metrics of life quality that real people care about most. What matters on the ground is which societies are doing the most to extend life expectancy. What matters is which societies are the ones where poor people want to raise their children. Smith saw something natural about inequality along some dimensions, yet he saw nothing natural about the rigid, grinding mistreatment characteristic of feudalism.

Moreover, Smith was enough of a cynic to infer from observation that abuses of political power in the commercial realm—establishing monopoly licenses, tariffs, subsidies, restricting the free movement of labor—would always be touted as being in the interest of workers. In fact, however, it seemed obvious to Smith that those illiberal restrictions of free movement, free trade, and free thought would always be in the interest of monarchs and their cronies, and would lead monarchs and cronies to collude to stabilize feudal privilege. The problem is a feudal truncating of the ceiling of human potential. That is what undermines ordinary people, not inequality per se.

James R. Otteson finds early roots of liberalism and of political economy in the Levellers of the mid-seventeenth century. To be sure, the origins of liberalism and the origins of political economy are separate things. Roger Williams’s intransigent defense of freedom of religion makes him an underestimated giant in the history of liberalism, but for all that Roger Williams’s story is not a story of political economy. It remained for John Locke a generation later to play a celebrated role in both histories. To rather less fanfare, the political economy and the liberalism of the Levellers was as sophisticated as it was heroic.

In retrospect, why did the political economy that emerged in the Scottish Enlightenment seem to go hand in hand with the emergence of liberalism?

Political economy today, if it is associated with any ideology, is more often represented as a darling of conservatives. Perhaps the latter association is simply lazy. Or, more interestingly, perhaps the terms no longer mean what they once did. Indeed, today's spectrum of liberalism versus conservatism is anachronistic as applied to thinkers before the 1800s. Many passages in a thinker such as Burke reveal him to be as much liberal as conservative, at a time when liberalism and conservatism were two sides of an emerging modern response to Hobbesian fear of populism. It was at once both liberal and conservative to fear the kind of tyranny that might fill the vacuum when mobs rise up to wipe out hereditary class structure. People who can be panicked into thinking, "We need to do something! Anything would be better than this!" are the stuff of nightmares for conservatives and liberals alike.

Margaret Schabas sees in David Hume a proto-Weberian appreciation of the explanatory power of the Protestant Reformation (likewise a movement with more than one origin). She knits together a Humean story, manifest even in Hume's *Natural History of Religion*, about the emerging post-feudal commercial age as a triumph of secular liberalism. Like Weber, Hume connected commercial success to the virtues of frugality, prudence, and industriousness, and saw the Reformation as a moral foundation of capitalism. Schabas illuminates more generally Hume's fascination with religion as an engine of, but also an obstacle to, economic development.

## VII. THE PRICE MECHANISM

Schabas's treatment of Hume on the monetization of everyday life complements Timothy M. Costelloe's. Costelloe finds in Hume a key insight that money is real, not imaginary, but it is real precisely because people imagine it to be real. Whether the accounts are marked by precious metal or bitcoins matters little. What matters is that traders accept money as payment for services rendered, and they present it as payment for services received because they imagine money to be a store of value and a medium of exchange. It is indeed both of those things, to the extent that people can count on each other imagining it to be so.

Finally, in what might be regarded as the original work of political economy (or *almost* political economy), Plato touted the Guardian class as the class best equipped to make rational decisions about exchange rates and other key economic variables. We take Plato at face value, interpreting him as offering a hymn to the administrative state rather than offering a satirical warning against the hubris that underlies overregulation. Much of what Plato has Socrates saying to Glaucon and Adeimantus could have come out of the pages of Adam Smith—until Plato explains how a society establishes exchange rates. In that decisive moment, but for a failure of Humean imagination (to channel Costelloe), Plato might have invented political economy. If only he had understood that what regulates exchange rates is not



regulators so much as supply and demand, that is, the price mechanism. Plato proposed that commerce had to be regulated by central planners because he saw no alternative. Smith's insight into the role of the price mechanism is what took Smith beyond Plato and made Smith one of political economy's inventors. Loren Lomasky makes the complementary point that if Plato stressed anything about the Guardian class, surely it was that a healthy polis would insulate Guardians from the corrupting distractions of day to day micromanagement of worldly affairs.

Social and political animals respond to each other. They invest in figuring out what to expect from each other. They must do this, for their lives and everything they care about depends on knowing what to expect. But knowing the terms of engagement becomes easier if we see that prevailing rates of exchange reflect ongoing changes in relative scarcity. We may imagine this should have been obvious to Plato. Yet, in fact, humanity would wait another two millennia for Smith to identify the price mechanism as the continuously adjusting regulator that naturally inclines self-interested agents to conserve scarce resources and to be of service to others.<sup>4</sup>

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<sup>4</sup> I thank Carmen Pavel and Bas van der Vossen for their help with this essay and for their wise counsel more generally. Thanks also to Axel Kaiser for teaching me about the eighteenth-century roots of liberal political economy in Chile. Needless to say, if what I say here is contentious, these good people are not accountable for it.