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Knowledge and Freedom in Economic Theory: Part II*

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5. Positive Economics and Normative Economics
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5. Positive Economics and Normative Economics

Evaluation is the very stuff of economic thinking, yet, paradoxically, the espousal of positivism has led economists to be coy, reticent and self-contradictory when discussing questions of value.

On the one hand, economists the world over are constantly being called upon to (and are being paid to) evaluate whether or not a dam or a highway should be built, a budget balanced, a tax or a tariff levied or lifted; whether or not the argument of a colleague or a critic or a candidate or a student or a Government is good, correct, valid, substantiated, compelling, sound, cogent.

On the other hand, positivism requires obedience to the norm that there can be no norms, to the "ought" that the economist qua economist must not be concerned with "oughts", to the faith that all discussions of value are, ultimately, valueless. The positivist economist commits his cardinal sin, forsakes his aseptic scientific credentials, and enters the muddy waters of the pamphleteer and rabble-rouser, the moment he affirms (or denies) something to be good or something to be right. A single "ought" and the entire edifice of his argument — reasonable as it may have been — collapses like a house of cards by his own avowed principles. For, by Hume's Law, the presence of one "ought" signals the presence of another, and another, and another.... until: de principiis non est disputandum: all rational argumentation must cease, leaving a naked value judgement for all to see.

And so, the dilemma of the positivist is this: either ostentatiously declare that you speak as a scientific expert, that you have set aside every

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personal value (so what you recommend may or may not be what you approve of), that you provide only the pure nectar of your science, that the choice between decisions is left to your political clients (whether politburo or cabinet or committee), that you are, therefore, not accountable in any way for what is done; or renounce all pretensions to expertise, self-consciously assert your right qua citizen to speak your mind on what seems to you good or right, then try to coax, cajole, bribe or persuade your fellow citizens to share your personal value-judgements, which, however, are admittedly no better or worse than anyone else's.

There is no half-way house for the positivist. So long as he concerns himself with only logic and fact, he thinks himself a scientist and an expert. The moment he advises, advocates, approves or affirms something ought or ought not to be done, he thinks he leaves the company of experts and re-enters the ranks of mere laymen. He may not approve something to be good or the right thing to do because he believes such-and-such to be true. His evaluations may not, ultimately, rest on mere logic and fact, for he is committed to the view that "ought" cannot follow from mere "is", that every norm entails a prior norm until one must reach a set of private moral primes or absolutes which are no longer open to rational argument.

Fortunately, this is a slight parody and the real situation is more reassuring. This is because the practice of avowedly positivist economists is much better than their theory and, indeed, accords with the description I gave of rational argument in Part I. Far from it being the case that "ought" cannot be derived from "is", the "normative" from the "positive",

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this is a feat being constantly accomplished by economists, whether positivist or not. Indeed, only the most dull and unscholarly positivist would actually do what his theory permits him to, namely, declare his belief that something should be done or something is good, and then foreclose all argument saying: "I like it, and that's that". Instead, the best and most distinguished positivist economists abandon their own theory and happily derive "ought" from "is" in practice.

For instance, Robbins wrote recently:

"Whether for ideological reasons - or in my judgement false conceptions of economic efficiency - existing states and their subsidiaries intrude on all sorts of functions where their performance is not only inferior to that of the decentralised activities of individuals or groups of individuals but also definitely discourages or inhibits such activities."²³

Transparently, Robbins is disapproving of the so-called Welfare State and approving of the so-called Minimal State, yet equally transparently, he has given reasons for his evaluation (the ^{allegedly} superior efficiency of decentralised activities, etc.) and, moreover, he is prepared to grant his opponents have reasons too, albeit mistaken ones ("false conceptions of economic efficiency"). No subjective free-for-all over value-judgements here: there are reasons on one side and reasons on the other: let the best reasons win.

Similarly, Milton Friedman recommends, advocates, approves, advises the Federal Reserve ought to have a k% money-supply growth rule because, he believes, it is the case that, e.g., money is neutral, the quantity-equation is descriptively accurate, erratic changes in money-supply are inflationary, etc.²⁴

I confidently expect the same holds true for every reputable economist who has ever made a recommendation as to what ought or ought not to be

done by a Government or a committee or a colleague or a student. Evaluations are grounded on reasons, and an evaluation is good or bad, cogent or tattered, judicious or whimsical, as the reasons which support it are right or wrong, sound or poor, correct or mistaken. If you criticise my evaluation, you are pari passu criticising my reasons. If your evaluation as to what should be done is better or worse than mine, it is because the reasons you have for affirming what you do are better or worse than those I have for affirming what I do. Change the factual ingredients as to what is believed to be the case, and you will change the evaluation as to what is good or what ought to be done. } ?

Here then is the secret of the relation between "is" and "ought", positive economics and normative economics, that is unlocked for us by Bambrough's philosophy, which I endorsed in Part I. Under different positive or factual grounds, there will be different normative or evaluative recommendations. There can be a right answer to every question without it having to be that what is right in one case is right in every case.

It is important and apposite that a frequently made error be dispelled here. That is to confuse the need for the objectivity of enquiry (that it is logically possible for us to know what is right or good or true certainly and impartially) with a demand for absolutism (that absolute, unquestionable, universal laws, rules or principles are required to tell us what is right or good or true in any particular case). A corresponding confusion is to equate the notion of subjectivity (that there cannot be common knowledge but only personal opinion) with that of relativity (that cases differ, and so what may be right or good or true in one case may not be so in another).

These are errors made by both the sceptic and the dogmatist. The positivist's dilemma arises because he believes he must choose between them, yet he finds them equally compelling.

"Both the sceptic and his dogmatist opponent assume that the absoluteness of logical space is necessary for the objectivity of enquiry; that in seeking knowledge and understanding we orient ourselves, if at all, by fixed landmarks whose own positions neither can be nor need to be the subject of investigation. Sceptics become sceptical because they recognise that what they believe to be necessary is nevertheless not possible. Dogmatists become dogmatic because they rebel against the paradoxes of scepticism but still agree with the sceptics on what is necessary for the validity of our knowledge. One party denies the possibility of knowledge because it sees that logical space is relative and the other denies that logical space is relative because it sees that knowledge is possible." 25

The sceptic says: Look, everything is, in principle, open to question and rational argument; therefore, it must be that we cannot know anything certainly. The dogmatist says: Look, we can and do know some things certainly; therefore, it must be that we cannot question everything; there must be some things which are not open to question or rational argument. The positivist at one and the same time shares the sceptic's scepticism about moral knowledge and the dogmatist's dogmatism about the existence of fundamental, unquestionable moral primes and principles. Bambrough says to the sceptic and the dogmatist: Look, we can and do know some things certainly and everything is, in principle, open to question and rational argument. And he says to the positivist: Look, there exists moral knowledge but there are no unquestionable moral primes or principles. To which I add to the positivist economist: Look, normative recommendations require positive grounds; there are no unquestionable normative recommendations because there are no unquestionable positive grounds.

Consequences follow from this for an analysis of every debate, dispute or division in economics: between Price-Theorist and Macroeconometrician, Keynesian and Quantity-Theorist, Marxist and Bourgeoise, Collectivist and Libertarian, Neo-Classical and Neo-Ricardian, Utilitarian and Rights' Theorist. For, whenever you and I disagree it must be the case either that we are giving different answers to the same question or that we are each giving an answer to a different question (that is, talking at cross-purposes), which means we are giving different answers to the question as to what the question we are disagreeing over happens to be:

"...(1) you and I cannot be known to be in conflict unless it is possible to identify a proposition that I assert with a proposition that you deny; (2) no such proposition can be identified unless there is some expression that you and I use in the same way; (3) if we use an expression in the same way then we regard the same steps as relevant to determining the truth or falsehood of what is expressed by it; for a disagreement about what is relevant is or involves a disagreement about what the dispute is that we are engaged in, and when such a case of cross-purposes is resolved it resolves itself either into agreement or into a disagreement to which all these conditions again apply."²⁶

Whenever two economists come to give different answers to the same normative question (and who are not, therefore, talking at cross-purposes), what Bambrough and I would predict is that they shall be found to be giving different answers to some or other positive question at the same time. When we disagree on answers to questions like "Should the dam be built?", "Should there be a Balanced Budget Amendment?", "Should the Deficit be smaller?" or "Should the money-supply be expanded?", we shall also be found to disagree on, for instance, whether the expected benefits

of the dam exceed its expected costs, whether a Balanced-Budget Amendment would discipline the legislature or merely hobble it in the face of changing circumstances, whether a deficit or an expanding money-supply must necessarily be inflationary. You may think I am ill-informed, stupid, emotional, self-interested, "ideologically-motivated", impatient etc., and I might think the same of you, and none or one or both of us may be right to think so, and these may be facts explaining the history of our dispute, but the correct answer to the question to which we are now giving different answers is independent of all these.

The objectivity of enquiry in economics is independent of the history of economic controversy. The fact there may be at any moment widespread agreements or widespread disagreements on particular propositions in economics does not affect the truth or falsity of the propositions, or the validity or invalidity of the arguments needed to support them, just as whether or not the speed of light is constant or genocide is an evil does not depend on how many 'ayes' and 'nays' can be counted on either side.

6. Rational Action

Not only does this relation between the positive and normative, description and evaluation, fact and value, understanding and action, hold for arguments between economists but it does so even more obviously for the very subject of our study: the ubiquitous "rational agent", who is described as someone constantly reasoning and arguing with himself, deciding what is good, what is better, what is worse, what is dear, what is cheap, what is lucrative, what is safe, what is risky.

"Rationality" in economic theory — according to one exemplary theorist, Frank Hahn — requires of an agent merely "correct calculations and an orderly personality".²⁷ By the latter is meant merely that the agent ranks completely, reflexively and transitively the alternatives he believes himself to be facing; by the former is meant merely that the choice made is of the highest ranked alternative given constraints of feasibility. Plainly, in such a model of man, "ought" follows from "is", or action and conduct follow from observation and thought. If this is believed to be the set of alternatives and this the set of constraints, and if this is the ranking, then this is the optimal action: that which the agent ought to do, which it is rational and right for him to do and irrational and wrong for him not to do. Change the factual circumstances of the individual case, and the right or optimal action changes with it. This is not saying there is no such thing as right action but that what is right or optimal in one case may not be so in another.

The rational agent may actually end up doing the wrong thing; either because he has miscalculated (Hahn is simply wrong to equate correct calculations and not just calculations with rationality, else anyone who has ever miscalculated would ~~absurdly~~ be branded irrational); or because he mistakenly believes something to be in fact the case when it is not (a refugee tribesman I once encountered let cholera take its course on his daughter rather than take her to nearby medical aid because he thought, mistakenly, the treatment would convert her to Christianity). The mistakes of rational agents are ones of reasoning or evidence, and, as such, they are not incorrigible mistakes. Rational men can and often do acknowledge their errors (if only to themselves) and learn from them. When a man corrects his conduct — corrects his

belief as to what he ought to do — it is because he will have corrected his belief as to what is the case.

Obviously, in real life, men are sometimes capricious, whimsical, fanciful, mercurial, lustful, gluttonous, greedy, myopic, ill-mannered, ill-tempered, foolhardy, foolish, thoughtless, envious, licentious, malicious, profligate, miserly, etc., etc. There is both a merit and a potential error in the economist ignoring this rich diversity in the kinds of human action and restricting the scope of his study to the reasonable and rational.

The merit is that although rational actions do not exhaust the kinds of human action there are, they nevertheless ^{may} ~~probably do~~ exhaust the kinds of action that are open to easy, common observation and study. It is greatly more difficult to understand why a man does what he does when he is behaving capriciously, whimsically, gluttonously, maliciously, etc., than when he is acting rationally. The reasons which may explain why a man is an alcoholic or a lecher are complex, psychological ones, perhaps unknown even to himself, whereas the reasons he buys the car or the house or the investment he does, given the alternatives and constraints he faces, are much easier to see and more amenable to common understanding. This is not to say the passions are outside the scope of economic theory, for, as I have argued elsewhere, the senses and the passions are in fact intimately exercised in the enjoyment and consumption of goods and leisure, and we may benefit much by abandoning the palid ciphers the mathematical economists insist in their theories represent flesh-and-blood human beings.²⁸ It is only to say, plitudinously, that the ends of a rational agent, including the end of consumption, are ones open to rational argument and understanding both on the part of the agent himself and on the part of someone observing him.

The potential error in the economist's use of rationality is simply one of ambiguity and equivocation: using the same words, "rational action", to describe a variety of quite different things: e.g., behaviour which may be capricious, thoughtless, whimsical, gluttonous, etc. If literally every act is by definition a rational act, there logically can be no way to distinguish what is a rational act from what is not, and the use of "rational" is logically left without any force whatsoever.

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7. Objectivity and Individual Freedom

From an examination of individual rationality, we may now move on to one of individual freedom.

The grounds on which individual freedom or despotism may be defended or attacked must be the common grounds of reason. If you praise freedom and condemn despotism then you must have reasons for your evaluation, which may be compared, contrasted and evaluated against the reasons of someone who condemned freedom and praised despotism. For, the logic of argument demands that at most one of you can be right. If freedom is good and despotism bad it is because the reasons in support of freedom are better than those in support of despotism. If the political and economic institutions of the United States ^{or Switzerland} are to be judged better (or worse) than those of the U.S.S.R. or China, then it is because the reasons in support of American ^{Swiss} institutions are better (or worse) than those in support of Soviet or Chinese ones. The evaluation of human institutions, like other evaluations, ought to be grounded on common reasoning and evidence.

Now, I can think of cases and circumstances where the exercise of individual freedom is positively and objectively worse than ^{at} compulsory

in consequence

obedience to the orders of another. Think of a rowing-boat pulling in unison: every oarsman knows that if he chose to exercise his natural (biological) freedom to break time, he would 'catch a crab', with disastrous consequences for himself and boat alike. Think of a football team (especially in American football); or a platoon of soldiers; or a tribe of huntsmen. A clear, common goal unites every member of the group to one another: to win the match, defeat the enemy or kill the animal. The free departure of any individual member, through bravado or cowardice or selfishness, may jeopardise or ruin the prospects of everyone. The morality of no army in history has let the individual soldier fight or run as he chooses. The ideals of Kant or Jefferson or J. S. Mill or Hayek may, rationally, be found quite incomprehensible, perhaps pernicious, and certainly irrelevant by the Bushmen of the Kalahari or the Gonds of Madhya Pradesh or the tribal people of the Amazon — not because either the philosophers or the tribesmen are foolish or dogmatic, but because the circumstances envisaged by the one are not the circumstances experienced by the other. There can be a right answer to every question without it being that what is right in one circumstance is right in every other. Even desertion may not be objectively wrong if not to desert would be to perpetrate what is objectively worse (such as mass murder). As Bambrough remarks: "Circumstances objectively alter cases".²⁹

Indeed, to understand why the exercise of individual freedom may not be sensible or valuable in some circumstances is also to understand why it is sensible and valuable in other circumstances. The converse of the condition which makes despotism superior in a small society like a tribe or a platoon or a football-team or a rowing-boat makes freedom the superior

alternative in a large, civil society. Where there is a unique, common goal in one, there is a multiplicity of goals in the other. Life in any large human ^{community} society is ^{in fact} characterised by a mutual ignorance about one another's alternatives, ends, means and constraints, and a private knowledge of one's own alternatives, ends, means and constraints. The dispersion of the power to act should match the dispersion of the ability to act, which in turn matches the dispersion of knowledge as to what can be and should be done. A particular knowledge of circumstances is required in order to act rightly or optimally in a particular case, and if such particular knowledge happens to be infinitesimally dispersed — as it is among citizens in any large society — then the ability to act rightly or optimally is also dispersed infinitesimally, and so, the power to act should also be left dispersed infinitesimally among citizens.

Perhaps the first to recognise this dependence of rational action on a knowledge of particular circumstances was Aristotle:

"...any account of conduct must be stated in outline and not in precise detail, just as we said at the beginning that accounts are to be required only in such a form as befits their subject matter. Now questions of conduct and expedience have as little fixity about them as questions of what is healthful; and if this is true of the general rule, it is still more true that its application to particular problems admits of no precision. For they do not fall under any art or professional tradition, but agents are compelled at every step to think out for themselves what the circumstances demand, just as happens in medicine and navigation..."³⁰

He also hinted obliquely at the normative conclusion which followed from this positive premise:

"What we deliberate about is practical measures that lie in our power...Not even all human objects are objects of deliberation; thus no Spartan deliberates about the best form of constitution for the Scythians; each of the

various groups of human beings deliberates about the practical measures that lie in its own power...Since, therefore, an object of choice is something within our power at which we aim after deliberation, choice will be a deliberate appetite of things that lie in our power..."³¹

But perhaps the first full endorsement of the value of individual freedom which followed from the fact that knowledge of particulars is infinitesimally dispersed, came from Adam Smith:

"What is the species of domestic industry which his capital can employ, and of which the produce is likely to be greatest value, every individual, it is evident, can, in his local situation, judge much better than any statesman or lawgiver can do for him. The statesman, who should attempt to direct private people in what manner they ought to employ their capitals, would not only load himself with a most unnecessary attention, but assume an authority which could safely be trusted, not only to no single person, but to no council or senate whatever, and which would be nowhere so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it."³²

A correct answer exists to every question; in Smith's case, the question is who best will know where an individual's resources will earn their highest reward. The expert answer is merely the correct answer; in Smith's case, it is the individual himself who is the expert, because evidently it is he in his local situation, and not any statesman or lawgiver, who is most likely to be the one with the correct answer.

In modern times, we owe the largest debt for having preserved this basic lesson to Friedrich Hayek — who has always kept at the foreground of his thinking, "the indisputable intellectual fact which nobody can hope to alter", namely,

"...the constitutional limitation of man's knowledge and interests, the fact that he cannot know more than a tiny part of the whole of society and that therefore all that can enter into his motives are the immediate effects which his actions will have in the sphere he knows..."³³

He wrote of the availability to the individual agent of "a special knowledge of circumstances of the fleeting moment not known to others", and of "the knowledge of particular circumstances of time and place", with respect to which

"...practically every individual has some advantage over all others because he possesses unique information of which beneficial use might be made, but of which use can be made only if the decisions depending on it are left to him or are made with his active co-operation..."³⁴

Here then is a positive, objective reason why individual freedom may be valued and despotism condemned in a large society: because it is a fact that expertise is infinitesimally dispersed in it. Whereas the moral subjectivist or the positivist economist who defends freedom does so merely by asserting it as a personal value-judgement, which one may or may not be persuaded, coaxed, cajoled or bribed to share with him, the objectivist argument of Smith and Hayek which I am endorsing here requires one either to acknowledge freedom is valuable by acknowledging the reason which supports it, or to argue why freedom is not valuable by adducing logic and evidence against the reason given in support of it. In the subjectivist account, the price paid for an assertion in favour of freedom is a denial of the existence of knowledge and expertise, and an indulgence in scepticism and dogmatism alternately. In the objectivist account, knowledge exists, and expertise exists, and it is precisely the fact these are infinitesimally dispersed among men in civil society that makes individual freedom the good that it is.

In the next and final section, we shall see that it has been the subjectivist account which has ~~ruled the roost in~~ economics for several years now.

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(expertise divided)

8. Mistakes of Social-Choice Theory, Etc.

That particular knowledge of time and place is what right or optimal action depends upon, is something which not only makes for an objective defence of individual freedom but also goes a long way toward explaining the economist's observation of the pursuit of "self-interest". The lesson from Aristotle and Smith and Hayek is that the individual possesses a knowledge of particulars not available to others. How he acts on the basis of this knowledge is itself a particular, not conforming to any general rule, theory or formula. But the constraint of limited knowledge upon our ability to act makes it most likely that we accomplish best what is contiguous or proximate to us, while as our knowledge of particulars dims and fades about matters peripheral or remote from us, so our competence and expertise in action diminishes too.

We find in some of David Hume's remarks this being put to work to explain the nature of self-interest and duty:

"What strikes (men) with a strong and lively idea commonly prevails above what lies in a more obscure light; and it must be a great superiority of value, that is able to compensate this advantage. Now as every thing, that is contiguous to us, either in space or time, strikes upon us with such an idea, it has a proportional effect on the will and the passions, and commonly operates with more force than any object, that lies in a more distant and obscure light. Tho' we may be fully convinced, that the latter object excels the former, we are not able to regulate our actions by this judgement; but yield to the sollicitations of our passions, which always plead in favour of whatever is near and contiguous." 35

Then again;

"A man naturally loves his children better than his nephews, his nephews better than his cousins, his cousins better than strangers, where everything else is equal. Hence arise our common measures of duty, in preferring one to the other. Our sense of duty always follows the common and natural course of our passions..." 36

Hume's analogy between space and time is very helpful here. If someone says I am being "self-interested" because I love my wife and children more than I do acquaintances or strangers, when it is merely a physiological fact that my knowledge of particulars about my family is and is always going to be vastly superior to my knowledge of the particulars of acquaintances or strangers which makes me do as I do, then it is like saying I am "self-interested" when I divide all my wealth between my current expenditures and my planned expenditure next year, without keeping anything for ten years hence, because my knowledge of the present and my expectations of the immediate future are sharper and more refined than my expectations of the distant future. Just as we discount the distant future with respect to the immediate future, and the immediate future with respect to the present, because we are less certain in our understanding of one than we are of the other, so we discount our competence more when the matter on which we are to act concerns a stranger than when it concerns a friend or relative, more when it concerns a friend or relative than when it concerns ourselves.

The utility of such a view is that it shows how a variety of rational actions may be accounted for without resorting to any dogmatic formula like "All men are selfish" or "All men are benevolent", and avoiding at the same time logical errors like "Benevolence is merely one manifestation of selfishness". Every attempt to cramp all human actions under one rigid chosen formula, without regard to the infinite diversity in the particular circumstances faced by the individual, can be refuted by pointing to singular counterexamples. That every agent is constrained by a knowledge of particulars is independent of whether a particular action of his is best described

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as "selfish" or "benevolent" or "mean" or "loving" or "compassionate", etc.³⁷ The natural objects of our passions and sense of duty are those who are physically ^{intentionally} close to us. In the usual course of events, those who are related to us by blood or marriage are also closest to us, and so they and not others are the natural objects of our passions and sense of duty.

The economist's observation of the pursuit of self-interest is then an observation (a) of the unique availability of particular knowledge to the individual; (b) of the division of ability and expertise among individuals matching the division of particular knowledge; (c) of the natural objects of an individual's passions and sense of duty being those related to him by blood or marriage; (d) of, therefore, the individual usually being most inclined to and most competent at protecting his own interests and the interests of those near and dear to him, and being neither inclined to nor competent at doing the same for others. D. H. Robertson had remarked that love is a scarce resource; by the same token hate and envy are rare too.³⁸ For, it is logically necessary to know or know of someone before one can either love or hate or envy him. When such knowledge of particulars is scarce, there cannot be men who love or hate or envy or "have preferences" about literally everyone else at the same time.

If it is correct to place as the cornerstone of the study of human actions and society, this fact to which Aristotle and Hume and Smith and Hayek have all pointed, then the constructions and speculations of a modern economist who failed to acknowledge it would be akin to those of a modern astronomer who did not know the speed of light is

constant, or a modern chemist who did not know the atomic weight of carbon is 12, or a modern doctor who did not know red blood corpuscles are the carriers of oxygen.

Many economic models do acknowledge this. For example, in the Arrow-Debreu model, an "economy" is ^{said to be} completely defined by its "parameters" — namely, the "consumption-sets", "preference-maps", "resource-endowments" and "shareholdings" of individual households, and the "production-technologies" of individual firms. When such a definition is made, it is being assumed correctly that a knowledge of these parameters is private to the individual agent, and, accordingly, the assumption has been named one of "informational privacy". In recent years, the possibilities of exchange or "the transactions technology" open to an agent, as well as his expectations or beliefs about the terms of trade, have been added to the list of privately known data.³⁹ Also, after Professor Radner's work on uncertainty, theoretical economists are obliged to acknowledge that ^{obviously} any single agent may not be presumed to know of all the countless goods and skills there are, but only of an infinitesimally small number of these. Radner called the particular partition of goods and skills known by the individual agent his "information-structure", so all of the agent's other parameters are defined only within this infinitesimally small subspace, which will differ from agent to agent.⁴⁰

These are welcome developments to have occurred, bringing the models of the mathematical economists inches closer to being descriptions of how things are in the external world. But while the price-theorists have thus directly or indirectly acknowledged this Aristotelian and

Smithian cornerstone, which Hayek has done so much to preserve in the last fifty years, they have not (as they need not have) drawn any normative conclusions from it about better and worse human institutions. It is the political economists (welfare economists, social-choice theorists, public-finance economists) who may have come to appropriate normative conclusions based on this positive ground, but who have, in general, not done so precisely because they have ignored the positive ground.

A major exception is James Buchanan, who has always kept at the foreground of his thinking facts about the nature and pursuit of private interest, and who has reasoned from this the value of common rules, a general obedience to which by free individual agents will lead, he argues, to their self-interested activities being put to the most beneficial uses. In a "pre-constitutional state", the rules must be unanimously endorsed (figuratively speaking), in the sense that they must be thought unbiased by individual citizens, just as the rules of a game ^{could - have to be} ~~must be~~ unanimously agreed to as being unbiased by the players of the game. Buchanan is, and would like to be, preserving the Smithian argument of the public value of an orderly pursuit of privately known interests. When there are unsatisfactory or disorderly outcomes, look to the rules, Buchanan argues, not for individual villians. We cannot alter the fact men act upon private incentives; all we may alter are the rules within which those incentives will be pursued.⁴¹

But Buchanan has been an exception. The great majority of modern political economists have seemed captivated instead by the logical theorems of Kenneth Arrow and Amartya Sen — the significance of which have been

widely misconstrued.⁴² In the light of the arguments in the two parts of this essay, I can now show shortly where the mistakes have been made.

(i) The formal validity of neither Arrow's theorem nor Sen's theorem is at issue. As valid logical theorems, they are a priori true.

(ii) That a theorem is a priori true says nothing whatsoever about what is in fact the case. Merely as a valid theorem, neither Arrow's nor Sen's possesses a status better or worse than any other in formal logic. eg.
a+b = b+a

(iii) Until an ostensibly factual premise is made, no ostensibly factual conclusion can be derived and no logical theorem can assist in making an ostensible description of what is the case.

(iv) An ostensibly factual premise made by Arrow, in which he is followed by Sen, is that the "objects of choice" by an individual agent are "social states", defined as follows:

"The most precise definition of a social state would be a complete description of the amount of each type of commodity in the hands of each individual, the amount of labour to be supplied by each individual, the amount of each productive resource invested in each type of productive activity, and the amounts of various types of collective activity, such as municipal services, diplomacy and its continuation by other means, and the erection of statues to famous men. It is assumed that each individual in the community has a definite ordering of all conceivable social states in terms of their desirability to him. It is not assumed that an individual's attitude toward different social states is determined exclusively by the commodity bundles which accrue to his lot under each. It is simply assumed that the individual orders all social states by whatever standards he deems relevant."⁴³

(v) What is ostensibly a factual premise may or may not be a fact. For Arrow and Sen to say that individuals in a small society, such as a tribe or a platoon or a committee, have a uniform knowledge of alternatives may or may not be true, but for them to say the same holds for individual citizens in a large society is factually false: life in any

large civil society is as a matter of fact characterised by a mutual ignorance of one another's means, ends, alternatives and constraints.

As an eminent contributor to price-theory himself, Arrow almost certainly would affirm this: indeed, his presidential address to the American Economic Association in 1973 was titled "Limited Knowledge and Economic Analysis"!

(vi) The picture of the democratic process Arrow and Sen have in mind is one in which individual citizens personally rank the "social states" defined above in any manner whatsoever that they choose;

"The individual plays a central role in social choice as the judge of alternative social actions according to his own standards. We presume that each individual has some way of ranking social action according to his preference for their consequences. These preferences constitute his value system. They are assumed to reflect already in full measure altruistic, egoistic motivations, as the case may be..."⁴⁴

It is logically necessary for an individual to have a knowledge of the existence of two alternatives, or at least for him to have the ability to distinguish between two alternatives, before he can rank them as better or worse. If Arrow and Sen's claim that everyone possesses a knowledge of every "social state" is factually false in a large society, then so is their picture of the democratic process: the individual citizen cannot have a ranking of "social states" if he cannot distinguish one such state from another.

Besides, a picture in which the citizen can have any ranking of alternatives whatsoever that he chooses, fails to distinguish choices that are merely capricious from ones that are the outcomes of reasoning, and so sees both the rantings of a street-mob and the calm deliberations of, say, Periclean Athens, as being quite equally democratic. As I have argued elsewhere, there is much more to both the description and the significance of democracy than the social-choice theorists would lead us to believe.⁴⁵

it is not enough to say he is indifferent that would imply he knows alternatives

(vii) Sen believes the essence of liberalism is captured by a definition of the following kind:

"For every person, there exists at least one pair of alternative social states (x, y), such that if the person prefers x to y, then x is better than y."

He believes this to be what liberals mean when they say they value a "protected sphere" for every person in which his individual freedom may be exercised, and he specifically cites Hayek as one such liberal.⁴⁶

But by depending on Arrow's definition of a "social state", Sen defeats his purpose of describing the liberal notion. There are two objections to be made, one due to Buchanan, and the other made first, so far as I know, by myself. An example can show the force of both objections, and let us use one of Sen's own.

Let there be four mutually exclusive and exhaustive "social states":

<u>Social State</u>	<u>A's Walls</u>	<u>S's Walls</u>
p	Blue	Pink
q	Pink	Pink
r	Blue	Blue
s	Pink	Blue

According to Sen's definition, A and S should each be "decisive" over a pair of social states. Any of the following pairs is possible: (p, q), (p, r), (p, s), (q, r), (q, s), (r, s). But suppose A chooses to be "decisive" over (p, q); immediately, the Blue option has been ruled out for S. Or, suppose S chooses to be "decisive" over (p, r): immediately, the Pink option has been ruled out for A. Allowing the liberal criterion according to Sen to work for any one individual pari passu fixes the world, and reduces the options, for every other individual. This is Buchanan's objection.⁴⁷

My own objection causes at least as much havoc. What Sen would like to have said is that the liberal wants A to be decisive over the colour of his own walls and S over his own walls. But by Sen's definition, we cannot know which "social states" are or should be in whose "protected sphere". If A chose to be decisive over "social states" (q, s) or (p, r), or if S chose to be decisive over (p, q) or (r, s), Sen would be forced to admit their decisions as ones in their respective "protected spheres" — when plainly they are contrary to the liberal view, and ones which may be labelled ^{instead} "Nosey-Parker" or "Big Brother" decisions. In other words, there is a further question being begged by Sen here, which is whether or not it is a liberal tenet that the individual may choose which pair of "social-states", among every conceivable pair of "social states", he wants to be decisive over. I have reported that classical liberals, like Smith or Hayek, take as a fact that the individual knows the circumstances of his "local situation" and is ignorant of most of what lies outside it, and it is because of this that they value the individual's exercise of expertise and consider it to constitute his "protected sphere". Sen has ignored both the fact, and the fact the liberals do not ignore it, and so he has ignored the reason why liberals may approve what they do. Consequently, he allows for manifestly anti-liberal Nosey-Parker or Big Brother views, to be attributed, absurdly, to men of demonstrably liberal views, like Smith or Hayek.⁴⁸

(viii) There is a deeper epistemological misunderstanding at work here, which is exemplified by the moral position on liberalism that Arrow comes to hold:

"The only rational defense of what may be termed a liberal position, or more precisely a principle of limited social preference, is that it is itself a value judgement. In other words, an individual may have as part of his value structure precisely that he does not think it proper to influence consequences outside a limited realm. This is a perfectly coherent position but I find it difficult to insist that this judgement is of such overriding importance that it outweighs all other considerations. Personally, my values are such that I am willing to go very far indeed in the direction of respect for the means by which others choose to derive their satisfaction."⁴⁹ (my italics)

I.e., there can be no rational ground, ultimately, for believing freedom to be any better or worse than despotism; rational argumentation on what is good or right must cease in the end: de principiis non est disputandum; in some dark, unspecified way, argument in morals must be so fundamentally different from that in science that common reasoning is ultimately impotent in one when it is never so in the other; "Nothing is good or bad but thinking makes it so." And so on. Sen's definition of the liberal view, as well as his reticence over the scope of reason in ethics which I remarked upon in Part I, suggest that he shares Arrow's epistemology. Robbins, Friedman and Samuelson join them, on the basis of their statements I quoted in Part I. They would all find philosophical support from R. M. Hare, and if pressed, they would all produce Hume's Law ostensibly as the final trump-card: "oughts" can follow only from the "oughts", ^{Hume} ergo the "oughts" approved of by liberals are ultimately choices for the heart alone and not the head. In his recent book, Robert Sugden exemplifies the view very well:

"Another liberal tenet is the pluralism of values. The idea here is that values are chosen by free and rational individuals; in the realm of values there is no absolute truth to be discovered (Notice that in this sense Hume's Law reflects a liberal view of the universe)".⁵⁰ (second italics added)

Buchan
too

In short, it is firmly believed by these economists and probably many others that a belief in Hume's Law is both necessary for one to approve liberal values, and sufficient as a justification of liberal values. Even Hayek seems, paradoxically, to have been an adherent of Hume's Law at one point.⁵¹

But, sadly, it has all been a sheer muddle. Whether it is correct or mistaken, Hume's Law is an epistemological thesis: it has nothing whatsoever to say on the ~~substantive~~ merits or demerits of any ^{substantive} moral thesis (like liberalism) or, for that matter, of any scientific thesis. This is clear merely from the fact that in any sense that subjectivist liberals may find support in it, so may subjectivist socialists, fascists, creationists, nazis, marxists, maoists, inquisitionists, et al. equally find support in it. An epistemological thesis like Hume's, or Bambrough's which is opposed to it, will tell you of the character of knowledge and rational argument, but it logically cannot tell you anything at all of the answers to substantive questions in morals or science. The epistemological debate is one between Hume's scepticism and subjectivity on the one hand, and the commonsense objectivity of Bambrough and Wisdom on the other. That debate has to do with the relation of universal to particular, with whether deductive reasoning must exhaust the kinds of reasoning there can be, and so on — all questions in pure philosophy or theory of knowledge, which are quite independent of substantive moral debates, say between liberals and socialists, or substantive scientific debates, say between biologists and creationists.⁵² Hume's Law is neither necessary for one to approve of liberal (or any other) values, nor is it sufficient to justify liberal (or any other) values. Herein is the root of the error shared by so very many distinguished economists in the last half-century, which has often made them so reticent

on questions of value as not to be able to tell good from bad or right from wrong.

(ix) In particular, Arrow is led further to say that every possible action of every individual is a possible subject of the deliberation of any other individual whatsoever:

"The fundamental fact which causes the need for discussing public values at all is that all significant actions involve joint participation of many individuals. Even the apparently simplest act of individual decision involves the participation of the whole society. It is important to note that this observation tells us all non-trivial actions are essentially the property of society as a whole, not of individuals...we must in a general theory take as our unit a social action, that is, an action involving a large proportion or the entire domain of society. At the most basic axiomatic level, individual actions play little role. The need for a system of public values then becomes evident; actions being collective or impersonal in nature, so must the choice between them. A public or social value system is essentially a logical necessity."⁵³ (my italics)

Arrow does not tell us which "trivial" actions the individual may call his very own and are not "the property of society as a whole"; nor does he tell us whether what is and what is not "trivial" may vary with circumstances, so, for instance, is my scratching my stomach or belching loudly "trivial" when I am comfortably at home but "non-trivial" when I am a soldier on parade? Anyway, having thus strangely defined action, Arrow asks us to believe that the individual agent (if it is still correct to call such a person an "agent" who is also an "individual") comes to possess the kind of omniscience about "social states" to which I have referred as well as "preferences" over them; and, of course, in such an odd construction, the only way you can get it to come out that the individual acts as an individual in at least some matters is by saying it is a value judgement - when all along it has been a fact as plain as a pikestaff! The circle is complete; the

positivist economist who has sworn his allegiance to logic and fact, and guarantees the aseptic and wertfrei character of his science, ends by ignoring the fact of the existence of limited knowledge, and instead admits liberty is merely a personal "value-judgement" of his, which others may accept or reject as they please, but which he may not require them to recognise under pain of self-contradiction.

(x) There is a last remark to be made here about an ambiguity in the context of Sen's theorem over the Pareto-criterion. If by "the Pareto-criterion" we should mean

"Social state x is better than social state y if everyone weakly prefers x to y"

then, plainly, we must first have supposed everyone has the same knowledge of the set of "social states": the same "information-structure" about social-states, to use Radner's term.⁵⁴ If, on the other hand, Sen and Roy

in full waking volition trade 10 oranges for 15 apples between them, — and no one else knows of the existence of the trade, ^{and therefore cannot} then plainly there ^{be concerned with the} ^{way or} ^{another}

is a good sense in which it can be said Sen and Roy are each better off by the transaction while no one else is affected favourably or adversely.

In other words, there is a "Pareto-improvement" via free trade — of which liberals approve so much. The consequences of applying Radner's theory of differential information-structures to the Pareto-criterion in particular, and welfare-economics in general, have not been studied so far as I know; this is an avenue in which many social-choice theorists might put their considerable mathematical talents to good use.

³⁶ibid., p. 483-484.

³⁷For an account of description, see Bambrough, op. cit., pp. 51-66.

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⁴³Arrow, Social Choice, op. cit., p. 17.

⁴⁴Arrow, "Values and Collective Decision Making," op. cit., p. 16.

⁴⁵S. Roy, On Liberty and Economic Growth: preface to a philosophy for India, Cambridge University Ph. D., February 1982, Chapter III.

Notes and References

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²⁵R. Bambrough, Moral Scepticism and Moral Knowledge (London: RKP) 1979, p. 143.

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³⁵David Hume, A Treatise on Human Nature, 2nd ed., ed. L.A. Selby-Bigge and P.H. Niddich (Oxford: Clarendon) 1978, pp. 534-535.

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⁴⁹Arrow, "Values and Collective Decision Making", op. cit., pp. 117-118.

⁵⁰Robert Sugden, The Political Economy of Public Choice (Oxford:
Martin Robertson) 1981, p. 10.

⁵¹F. A. Hayek, New Studies (RKP 1978), p. 297.

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