

THE END OF VALUE-FREE ECONOMICS

Edited by
Hilary Putnam and Vivian Walsh

ROUTLEDGE **IN** ADVANCES IN ECONOMIC METHODOLOGY

The End of Economics



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and Vivian Walsh**

With comments by
Harvey Gram,
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The authors lovingly dedicate this volume to Vivian Walsh's daughter Winifred Houldin; to his grandsons, Wiley and Warner Houldin; and to Hilary Putnam's children, Erika Chin, Samuel Putnam, Joshua Putnam, and Maxima Putnam; and to his grandchildren, Lauren Chin, Eva and Mara Putnam Steinitz; and Tani Elliott.

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1 Introduction

Hilary Putnam and Vivian Walsh

Few philosophical movements can have had anything like as great an influence on the mainstream economics profession as that of logical positivism from the 1930s until quite recently. It lasted long after the decline and fall of positivism among professional philosophers. Part of this longevity was probably due – ironically – to the fact that *most* mainstream economists never really mastered the logical and philosophical foundations of logical positivism,¹ as these were developed in the evolving works of the great positivist (aka ‘logical empiricist’) philosophers, such as Rudolph Carnap and Hans Reichenbach. Primarily, the economists seized onto one vital idea (as it seemed to them) and ran with it. Thus, they never experienced the long retreat of the great positivists, and never understood the significance of the bitter defeats that were suffered on that path. One of us (Hilary Putnam), on the other hand, having been a graduate student of Reichenbach’s, and having come to know both Reichenbach and Carnap well, saw exactly what had to be given up. The other (Vivian Walsh), who was a junior member of Lord Robbins’s department at the London School of Economics (and also of Sir Karl Popper’s department of Logic and Scientific Method) from 1951 to 1955, saw something of the manner in which elements of a watered-down positivism were spreading among mainstream economics. Robbins’s graduate and faculty seminar, in those days, was a stopping-off place for leading American economists passing through London – a notable example being Will Baumol, who later became a friend of both authors. In those days, Walsh was also attending Sir Alfred Ayer’s seminar at University College, and they became friends – although Walsh never became a logical positivist.

The idea which the economists had taken away from their brief encounter with positivism was, of course, the claim that a science answered questions about what *is*, but was utterly silent as to what *ought* to be. This position, they gathered, was a fundamental result of logical positivism – and positivism was then the new and widely accepted philosophy of science. The influence of logical positivism on economics is usually attributed to Lord Robbins and his young ‘Turks’ at the London School of Economics. Based both on Robbins’s written work, and on some years of frequent conversations with him, however, Walsh doubts that Robbins ever had more than a nodding acquaintance with logical positivism (see Walsh, 1996: 35, 179–183). Some of the young Turks in his department are a

different matter, and those in Sir Karl Popper's department (of Logic and Scientific Method, as it was then called) would have read Freddy Ayer's (1952) book.

Robbins did, however, hold the view that interpersonal comparisons of welfare were value judgments. And value judgments were dismissed as meaningless by the logical positivists, so Robbins was objecting to interpersonal comparisons on grounds which the logical positivist young Turks would accept.

In a final, definitive statement of his position, Robbins chose to rest the exclusion of values from science on a much older tradition, that of David Hume (Robbins, 1971: 148). This enabled him, as it had Hume, to retain a role for values in *personal* life. Shorn of any scientific support, value judgments could express, and advocate, one's moral *sentiments*. So Robbins could insist that, although values had no place in science, 'this did not mean that economists should not have ideas of their own about ethics and policy' (Robbins, 1971: 148). Alas, Hume's gentleman's agreement that people brought up in the governing classes would share the same moral sentiments depended on eighteenth-century social relations and upon eighteenth-century metaphysics! Putnam, who also likes Hume, tries to put these ideas to rest (Putnam, 2002: 14–21).

In the Great Depression, the dogma of a fact/value dichotomy allowed economists who accepted it to wash their hands of any responsibility for the suffering of the poor and destitute. Robbins, however, was not one of these economists, sheltering from the storm under the massive wings of science. He was held back from this by his (Hume-endorsed) *personal* moral sentiments, and he stuck to his guns as he had done when he was a young British subaltern in the Royal Artillery near Armentières. His stance in the Depression, however, began with a serious mistake: publishing a work which *opposed* the Keynesian policies vital to recovery. But he quickly saw this mistake: 'I shall always regard this aspect of my dispute with Keynes as the greatest mistake of my professional career' (Robbins, 1971: 1954). He concludes: 'But it will always be a matter of deep regret to me that . . . I should have so opposed policies which *might have mitigated the economic distress* of those days' (Robbins, 1971: 155, emphasis added). Hume would have felt sympathy for his moral sentiments!

There were, of course, a few economists who never accepted the *logical positivist* ban on the making of interpersonal comparisons of welfare. At the London School of Economics, for example, were notably Lord Dalton and Sir Alan Peacock.

But neoclassical economists as a whole now had a doctrine which, having offered protection in the Depression, would also provide those who sought its aid a similar protection throughout the dangerous days of the Cold War. One of the present authors (Walsh) was once asked by a famous American economist: 'Do you know why we decided to refer to "social science" as "behavioral science"? It was to prevent backwoods congressmen from getting the idea that we were socialists!'

Thus the end of the Cold War offered an opportunity to neoclassical economists to explore the ethical implications of their policies. This did not depend on the fall of logical positivism among philosophers. The great battles which brought

positivism down were fought on the terrain of exact science and there was no reason to expect economists to be keeping informed of these matters (philosophers who knew and philosophized about physics and mathematics, such as Quine and Putnam, played a leading part in those battles).

Instead, economists simply began to investigate the effects of changes in a broad spectrum of economic circumstances upon well-being, and to announce explicitly that they were introducing values into the assumptions of their models. Despite superficial appearances, however, this development by no means entailed that all logical positivist residues had been flushed out of neoclassical economic modelling. What had happened was that these economists had achieved a genuine ethical enrichment of *welfare* economics, which was now allowed to make inter-personal comparisons, not only of well-being but also of rights and capabilities. In the course of this, however, welfare economics had become a sort of 'red light district', to which mainstream economists could go in order to do things which were not allowed in pure 'predictive', 'analytical' or 'scientific' economics. The fundamental positivist notion which had survived in economics, that *sciences* were value-free was, if anything, *strengthened* by the setting up of a demimonde in which, by contrast, these naughty values were allowed.

This was possible because mainstream economists had not undertaken a systematic investigation of the logical nature of scientific claims in general, and specifically in economics. But, for at least two reasons, it would arguably have been unreasonable to expect such an investigation from the mainstream economics profession. For one thing, it would need to be led by a philosopher of science who had first-hand knowledge of how and why positivism had failed in the area where its great battles were fought – namely, in mathematics and physical science. And then it could hardly be expected that foundations, and other sources of funding for mainstream economics, would see such an essentially philosophical research project as constituting a high priority for financial support. So it should occasion no surprise that when such a project *did* begin, it began outside of mainstream economic theory. Even then, it required some unlikely events that in a work of fiction would be criticized as implausible!

It began when one of the present authors, a philosopher who had been involved in the battles which led to the fall of positivism, and had continued to contribute to the philosophy of mathematics and physical science – but with a growing interest in moral philosophy – was drawn to examine the specific situation in economics. In a book devoted to just these issues, Hilary Putnam explicitly sets out how he came to be so involved. He cites (Putnam, 2002: 30) a paper by Walsh which re-examines the original philosophical issues over which positivism fell, but which was written for a specifically economist readership (Walsh, 1987). The economists had sent up a signal, and Putnam was going to respond. He did so first in Putnam (1990: 163–165), then further aroused by Walsh (1996 and 2000: 5–25), he dedicated his book (Putnam, 2002) to this project. The aim of that book was, in Putnam's words, 'to present a philosophy of language very different from the logical positivist one that made [Sen's] enterprise seem so impossible' (2002: viii). He makes it clear that 'Walsh powerfully encouraged me in this' (ibid.).

Sen was quick to respond. Walsh had published 'Sen after Putnam' (2003: 315–394), to which Martha Nussbaum (2003) and Harvey Gram (2003) had responded, and Sen wrote that 'I regard myself as particularly fortunate that Vivian Walsh has given such careful and penetrating attention to my work in his new paper (Walsh, 2003) adding greatly to my personal debt to him, which is already large, because of his earlier critiques (Walsh, 1996, 2000), which had made me rethink and reassess my views' (Sen, 2005: 109). He added that 'I should also take this opportunity to record my enormous debt to Hilary Putnam' (2005: 109–110).

By 2007, Putnam and Walsh had published their first joint paper (Putnam and Walsh, 2007), and Sir Partha Dasgupta was the first to respond (Dasgupta, 2007: 365–372). Increasingly, the joint work of Putnam and Walsh is entering the on-going debate among economists who belong to the mainstream, but have an interest in values. Confusions still arise, however, because some of these writers still cling to the belief in a *separate* welfare economics distinct from purely 'predictive' or 'analytic' theory. Dasgupta, despite some splendid work (which belongs in the second wave of the classical revival), is a case in point of this.

These matters are further explored in Putnam and Walsh (2009) and in the final chapter of this book.

Note

- 1 There has always been a morally and philosophically serious minority among mainstream economists, examples being: K. Arrow, J. Coles, R. Frank, P. Hammond, I. M. D. Little, P. Samuelson and J. Stiglitz. Also, as the authors have stressed before, the *second* wave of the classical revival has returned to Smith's involvement with moral philosophy. Some examples are: P. Dasgupta, J. Eatwell, H. Gram, E. G. Nell, L. L. Pasinetti, B. Schefold, A. K. Sen and G. Steedman.

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2 Smith after Sen*

Vivian Walsh

Introduction

The support that believers in, and advocates of, self-interested behaviour have sought in Adam Smith is, in fact, hard to find on a wider and less biased reading of Smith. The professor of moral philosophy and the pioneer economist did not, in fact, lead a life of spectacular schizophrenia. Indeed, it is precisely the narrowing of the broad Smithian view of human beings, in modern economics, that can be seen as one of the major deficiencies of contemporary economic theory. This impoverishment is closely related to the distancing of economics from ethics.

Amartya Sen (1987a, p. 28)

These classical authors were deeply concerned with the recognition that we have reasons to value many things other than income and wealth, which relate to the real opportunities to lead the kind of life we would value living. In the writings of Smith, Mill, and other classical political economists, there is much interest in the foundational importance of our ability to do the things we value, so that they saw the freedom to lead valuable lives as intrinsically important—not merely instrumentally so.

Drèze and Sen (1995, pp. 9–10)

I shall argue that the revival of classical economic theory in the twentieth century has successfully completed a first phase, in which the work of Ricardo was its main point of reference, and that it has, for some time now, been entering a second phase, in which the work of Adam Smith is gaining prominence. I shall then argue that a number of the works of Amartya Sen illuminate and develop certain of the ideas of Adam Smith. Sen's contribution to the development of Smithian ideas is, on this view, wholly to do with the second stage of the classical revival.

As I have noted elsewhere, 'David Ricardo never lost sight of the core of Smith's analytic contribution and its deepest moral implications . . . But Ricardo was not a trained moral philosopher, as Smith had been (and as Marx was to be). So Ricardo . . . confined his attention "to those passages in the writings of Adam

Smith from which he sees reason to differ" (Ricardo, *Works*, I, p. 6)' (Walsh, 1998a, p. 189). This had the (probably unintended) effect of concentrating 'a spotlight upon certain issues in the analytical core of Smith's economics, leaving a great part of his work in darkness' (Walsh, 1998a, p. 190).

This habit of concentration on a few key issues of classical theory was destined to reappear in those theorists who initiated the revival of classical theory around the beginning of the twentieth century, and their main preoccupation was naturally with Ricardo. (Although Rory O'Donnell has argued that a satisfactory account 'of the relation of Smith's work to the surplus theory of value and distribution was presented by Dmitriev as early as 1898' (O'Donnell, 1990, p. 222)). As the revival of classical theory gathered momentum, this Ricardian minimalism was a notable characteristic of Piero Sraffa (1960) as well as of John von Neumann and in some respects of Wassily Leontief (on their models, see Kurz and Salvadori, 1995). This is not intended as criticism: as I have remarked elsewhere, '[i]n fact such a minimalism reflected the most critical need for the successful revival of classical theory: the most precise possible mathematical development of the structure of the theory' (Walsh, 1998c, p. 4).

The reappraisal of Adam Smith, of course, is not the only context in which a second phase in the classical revival can be detected. But it can be argued that it is the case which highlights much of what is important *about* this newer phase. This is because Smith embedded a remarkable understanding of the core concepts of a classical theory of the reproduction of surplus, in the setting of a richly descriptive political economy whose implications for moral philosophy he understood and explored. The Smith texts as a whole offer a rich tapestry, interweaving threads of classical analysis, moral philosophy, jurisprudence, and history. It is when we are ready (as I believe we now are) to re-embed the bare bones of a present-day version of Smith's classical reproduction structure in a present-day version of its proper social and philosophical setting, that a number of concepts developed by Amartya Sen become both relevant and important.

Black with fact, white with convention, and red with values

A notable advantage with which Amartya Sen approached Adam Smith was virtual lifelong rejection of the neoclassical dogma of the sharp fact/value distinction and of the 'meaninglessness' of value claims: 'The peculiarly narrow view of "meaning" championed by logical positivists—enough to cause disorder in philosophy itself—caused total chaos in welfare economics when it was supplemented by some additional home-grown confusions liberally supplied by economists themselves' (Sen, 1987a, p. 31, cf. Walsh, 1987, pp. 861–869).

It should be noted that by the 1960s Sen had presented a sophisticated defense of his claim that reasoned arguments (for instance in economics) could contain an ethical component (Sen, 1967, pp. 46–62). He developed a complex taxonomy of different classes of the uses of ethical words in ordinary language, analyzing their respective openness to rational argument. He specifically used this to demolish Lord Robbins' well-known opposing position (Robbins, 1932, p. 132). It goes

without saying that few indeed of the economists of the time could have followed Sen's early philosophical papers. I began publishing on philosophical topics in the mid-1950s (for references, see Walsh, 1996), but, alas, I did not come upon Sen's work until many years later. I have discussed the significance for economics of the collapse of the logical positivist/logical empiricist fact–value dichotomy on several occasions (Walsh, 1987, 1996, 1998a, 1998b, 1998c) and so will pass lightly over this here. What needs more detailed attention is that the character of the debate on facts and values has changed, and how this affects Sen's views concerning Smith.

In a volume edited by Martha Nussbaum and Amartya Sen (1993), Hilary Putnam has re-examined the issue of a fact–value dichotomy. Having quoted a passage from my (1987) argument against the old logical positivist fact–value dichotomy, he adds that 'as Walsh goes on to explain, by the end of the fifties "most of the theses necessary for this remarkable claim" [Walsh, 1987, p. 862] had been abandoned. The positivist theory of "cognitive significance" had fallen. The absolute analytic–synthetic distinction was seen to fail as an account of how scientific theories are actually put together . . . Quine [1963] summed up its demise, writing, "the lore of our fathers is black with fact and white with convention, but there are no *completely* white threads and no quite black ones". Explaining the impact of all this, Walsh writes: "[. . .] To borrow and adapt Quine's vivid image, if a theory may be black with fact and white with convention, it might well (as far as logical empiricism could tell) be red with values.'" (Putnam, 1993, pp. 143–144, emphasis in original).

Turning to recent developments, Putnam adds: 'The collapse of the grounds on which the dichotomy was defended during the period Walsh is describing has not, however, led to a demise of the dichotomy, even among professional philosophers. What it has led to is a change in the nature of the *arguments* offered for the dichotomy. Today it is defended more and more on metaphysical grounds. At the same time, even the defenders of the dichotomy concede that the old arguments for the dichotomy were bad arguments' (Putnam, 1993, p. 144, emphasis in original).

Sen's arguments against the fact–value dichotomy in neoclassical economic theory thus still stand, since the neoclassical position was based on versions of the old logical positivist/logical empiricist position. His support for 'a broad Smithian view' (Sen, 1987, p. 28) is, however, now in need of defense on a *different* flank. Before sketching such a defense, it is worth noting that those who have most wanted a purely positive economics are unlikely to be comfortable with the new 'support' for their position. This is for two reasons, which will be explained in what follows. First, the new 'dichotomy' does not in fact give one a *clear-cut* division in the way the old logical positivist argument appeared to do. Secondly, the new 'dichotomy' is only available if one adopts an *explicitly* metaphysical argument—something that was anathema to those who wanted a pure, 'value-free', 'scientific' economics.

As for the clear-cut division: the old hard insistence that ethical sentences were 'non-cognitive', i.e. that they were neither true nor false, is not maintained today.

‘Today, philosophers like Williams [1985] do not deny that ethical sentences can be true or false; what they deny is that they can be true or false *non-perspectively*. Thus, the position has been (appropriately) renamed . . . Relativism’ (Putnam, 1993, p. 145, emphasis in original).

There are a number of reasons why the claim of non-cognitivism ‘has given way to relativism’ (Putnam, 1993, p. 145). But Putnam singles out a reason that will be deeply disturbing to economists who want something to take the place of the old dichotomy. This reason is ‘an increased appreciation of what might be called the *entanglement* of fact and value’ (Putnam, 1993, p. 145, emphasis in original). I had something of the sort in mind when I dropped some red threads into Quine’s already entangled black threads of fact and white threads of (logical) convention.

Putnam notes the late Iris Murdoch’s (1971) idea ‘that languages have two very different sorts of ethical concepts: abstract ethical concepts . . . such as “good”, and “right”, and more descriptive, less abstract concepts’ (Murdoch, 1971). It has been argued that there is no way of saying what the descriptive component of the meaning of a word like ‘cruel’ or ‘inconsiderate’ is without using a word of the same kind. What is more, as Putnam points out, ‘Murdoch emphasized that when we are actually confronted with situations requiring ethical evaluation . . . the sorts of descriptions that we need—descriptions of the motives and character of human beings, above all—are descriptions in the language of a “sensitive novelist”, not in scientific or bureaucratic jargon’ (Putnam, 1993, pp. 145–146). This is strikingly close to Sen’s concept of descriptive richness (see Sen, 1992, p. 118, note 4, referring to Dobb, 1937).

It is time to ask just what sort of dichotomy the new dichotomists *do* offer. It does not involve the old claim that ethical statements cannot be ‘true’. For a person like Williams, ‘Peter is cruel’ can be true ‘in the very same sense in which “snow is white” is true, while still being an ethical utterance’ (Putnam, 1993, p. 147). The point, rather, is that for these philosophers *factual* statements in a natural language like ‘snow is white’, or ‘grass is green’, are not themselves treated as possessing the highest kind of ‘truth’. According to Williams, Putnam argues, ‘[i]f I say that grass is green, for example, I certainly speak the truth; but I do not speak what he calls the *absolute* truth. I do not describe the world as it is “anyway”, independently of any and every “perspective”. The concept “green” (and possibly the concept “grass” as well) are not concepts that finished science would use to describe the properties that things have apart from any “local perspective”’ (Putnam, 1993, p. 147).

So, according to the new dichotomists we are to wait around for finished science to tell us (presumably in a constructed language which it endorses) what things are absolutely true. Putnam does not mince words: ‘This dichotomy between what the world is like independent of any local perspective and what is projected by us seems to me to be utterly indefensible’ (Putnam, 1993, p. 148). He offers a brief and telling statement of his argument against such ‘metaphysical realism’, which interested readers should sample for themselves. It has been developed in a number of volumes, of which the most available for non-philosopher readers is, I believe, Putnam (1987).