

Hirshleifer on Smith

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In this note I would like to draw attention to, and make some comments on, material appearing in Chapter 1 "The Nature and Scope of Economics" of Hirshleifer's *Price Theory and Applications* (New Jersey: Prentice-Hall, 1988 4th ed.). In its theoretical exposition of microeconomics this is a fine text. However, Hirshleifer's claims as to the philosophical underpinnings of microeconomics made in this chapter are ill conceived, as are those of many microeconomic texts of recent times. In addition I have made some comments on the influence of Positivism on economic methodology. I hope that the following may stimulate some discussion.

Hirshleifer contends that:

- (1) Through positive economics we can answer the question "What is reality like?" (p.12).

This to me is an extraordinary claim. It implies that reality can be explained by analogy, e.g. reality is like eating an ice-cream upside down in a rainstorm. Philosophers and physicists eat your hearts out.

- (2) In economics we have a great unifying law that stands honourably alongside Newton's Laws of Gravitation and Darwin's Theory of Natural Selection (p.14).

To my knowledge one of the grand prizes in physics is waiting for the discoverer(s) of the grand unification factor, i.e. a theory that would unify the strong, weak and electromagnetic interactions. The physicists tell us that only four basic forces are known in nature. Recent work has suggested that there may be evidence of a fifth force. Some physicists have suggested that if this be so there must be a sixth. Could the unifying factor be the 'invisible hand'?

This great unifying law Hirshleifer claims: is one of the 'important intellectual achievements of humanity'; was 'discovered' by Adam Smith; and is known to 'sophisticated individuals' as 'untrammelled selfishness does not lead to mutual harm or even to total chaos.' The unsophisticated mind boggles. Imagine Rome's greater splendour had this great Law been known over 2,000 years ago.

I do not remember Adam Smith taking such an extreme position. I think he rather said something like the following (apologies for the simplification, the conditional form is mine):

If nature made man for society, and made him moral in sentiment (benevolent, sympathetic, prudent, frugal, industrious and concerned about the esteem of his fellows) and gave him a little for himself (self interest), and, if the process of wealth generation is concerned with capital, division of labour and the growth of the market, then, given the resource base, wealth would be maximized for any given proportion of productive labour under a system of economic freedom. Under such a system, and given Smith's nature of man,

the interests of each would be spontaneously identified with the interests of all. Corporation could prove troublesome, and Smith suggested that it should not be encouraged.

Let's not lose sight of the role played by Adam Smith's Jiminy Cricket¹ (the impartial spectator) in tempering individual self interest. It is only the pursuit of the self interest of the individual of Smith's *Moral Sentiments* that could lead to an end that was not intended, ie the promotion of the interests of all.

A common theme in Anglo-Saxon empiricists' philosophy is that of individuals creating society via some sort of social contract. Their philosophical stance was one that gave primacy to the individual and objective things over society and culture. However, there is clearly a social *a priori* in the *Moral Sentiments* that distinguishes Smith's philosophy from that of his empiricist predecessors (Hobbes and Locke) and his great contemporary David Hume. As Selby-Bigge (*British Moralists*, 1897) clearly points out:

The idea of an individual conscience as only emerging from the social conscience, the idea of society as a whole from which the individual disentangles himself and in which he can find himself ... is a central idea of Adam Smith's system.

Many modern free market economists have chosen to ignore this element in Smith's philosophy and have concentrated on naked self interest as the factor unifying the *Moral Sentiments* and the *Wealth of Nations*. As a result they have been able to embrace Smith as their ideological soulmate, and as the originator of 'greed' economics. To me such a stance is intellectually disturbing.

It is clear that positivists are now dominating the economics profession particularly in academic institutions. Their ideology is generally hidden and therefore could be seen as sinister. This has enabled them to create the illusion that their values are universal and beyond challenge. This is a classic case of what Roland Barthes calls "mystification", that is, the endowing of historical and cultural phenomena with all the appearance of natural ones. They are thus able to maintain that any assertion about what ought to be done that contradicts their laissez-faire position would, if implemented, be to the detriment of each and all. To suggest that the 'invisible hand' is the great unifying factor has no more standing than voodoo. If we make Machiavellian assumptions about the nature of man (untrammelled selfishness and worse) society could well tear itself to pieces under a system of economic freedom, even in the short run.

Hirshleifer's explicit claims are untenable. What is implicit is intellectually and socially dangerous. The text is sprinkled with ideological assertions of this kind. We should not be in the business of the ideological indoctrination of students. I have no objection to any form of economic theory, whether empiricist or speculative. Rather, I have admiration for economic theory of both types. However, I do find it not only difficult but unrewarding to pursue a course that clinically claims the separation of knowledge and values. As yet I know of no economic model, especially those that purport to say something about the 'real' world, that have achieved this separation, notwithstanding the assertions of their proponents.

The economics profession is becoming cloistered. Courses in methodology are generally given by economists, and the texts or selection of articles in this area are either written or put together by economists. The other scientific disciplines only

impinge marginally on our activities. We go to great lengths to fit economics into the frameworks proposed by writers on the nature of science such as Lakatos and Kuhn. Their attempts to fit the natural sciences, particularly physics, into their explanatory framework have not been overly successful. Most physicists know this as a matter of course. Economists' attempt to align their theoretical structures with examples from physics are generally forced. One example suffices here: Friedman's favourable comparison of the neoclassical profit maximizing conditions with Galileo's law of falling bodies.

If we continue in this vein we risk losing the respect of the wider scientific community. Speculative abstractions or ideologically driven assertions dressed up as 'natural law' do not merit respect. It seems essential to achieve balance with some philosophical input; at the very least something about the history, nature and philosophy of science should be imparted to our students. I lean towards these courses for our students being presented by Departments of History and Philosophy of Science in conjunction with Departments of Economics.

* Jack Brown died on Monday 30 July, 1990. Jack had retired the previous year after long service at the University of N.S.W, first in the Department of General Studies and then in the Department of Economics. He will be fondly remembered by colleagues and students, particularly for his keen interest in the philosophy of science, the history and nature of economic analysis, and Rugby Football.

Note

- 1 When you get in trouble, and you don't know right from wrong, Give a little whistle, Give a little whistle, Not just a little squeak, Pucker up and blow, And if your whistle's weak Yell, Jiminy Cricket. Take the straight and narrow path, And if you start to slide, Give a little whistle, Give a little whistle, And always let your conscience be your guide. (from Walt Disney's *Pinocchio*)