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THE ROMANTIC ECONOMIST

Since economies are dynamic processes driven by creativity, social norms and emotions, as well as rational calculation, why do economists largely study them through the prism of static equilibrium models and narrow rationalistic assumptions? Economic activity is as much a function of imagination and social sentiments as of the rational optimisation of given preferences and goods. Richard Bronk argues that economists can best model and explain these creative and social aspects of markets by using new structuring assumptions and metaphors derived from the poetry and philosophy of the Romantics. By bridging the divide between literature and science, and between Romanticism and narrow forms of rationalism, economists can access grounding assumptions, models and research methods suitable for comprehending the creativity and social dimensions of economic activity. This is a guide to how economists and other social scientists can broaden their analytical repertoire to encompass the vital role of sentiments, language and imagination.

Educated at Merton College, Oxford, Richard Bronk gained a first class degree in Classics and Philosophy. He spent the first seventeen years of his career working in the City of London, where he acquired a wide expertise in international economics, business and politics. His first book, *Progress and the Invisible Hand* (1998) was well received critically, and anticipated millennial angst about the increasingly strained relationship between economic growth and progress in welfare. Having returned to academic life in 2000, Bronk is now a writer and part-time academic.

RICHARD BRONK is currently a Visiting Fellow in the European Institute at the London School of Economics and Political Science.

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Imagination in Economics

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London School of Economics and Political Science

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In memory of my father
John Ramsey Bronk (1929–2007)

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The histories and political economy of the present and preceding century partake in the general contagion of its mechanic philosophy, and are the product of an unenlivened generalizing understanding.

Samuel Taylor Coleridge, The Statesman's Manual (1816)

In weakness we create distinctions, then
Believe that all our puny boundaries are things
Which we perceive and not which we have made.

William Wordsworth, Fragment (c. 1799)

Strange as it may seem, if we read History with any degree of thoughtfulness, we shall find, that the checks and balances of Profit and Loss have never been the grand agents with men; that they have never been roused into deep, thorough, all-pervading efforts by any computable prospect of Profit and Loss, for any visible, finite object; but always for some invisible and infinite one.

Thomas Carlyle, *Signs of the Times* (1829)

Valuation is expectation and expectation is imagination.

George Shackle, *Epistemics and Economics* (1972)

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Preface

Our understanding of the world is structured and limited by the language and metaphors we use. Each individual's vision is partly socially constructed by shared frameworks of interpretation; but it is also the product of particular life-experiences and an imaginative capacity to invent new perspectives.

The Romantic Economist is inevitably shaped by my background, which has given me a somewhat unusual combination of perspectives on the great discipline of economics. For much of the last eight years, I have been privileged to work at the London School of Economics and Political Science, teaching postgraduate courses in applied and theoretical political economy – the sister discipline of economics. My own university training was, however, in philosophy and classical literature. Despite or because of that, I spent the first seventeen years of my career in international finance – as a pension fund manager and subsequently an adviser at two investment banks and the Bank of England on European Monetary Union and supply-side reform in Europe. While in the City of London, I was lucky enough to have access to many of the best and brightest in the economics profession. I also gained an insight into what motivates entrepreneurs and structures the behaviour of operators in financial markets. At the same time, I retained a strong interest in philosophy and literature, and became especially fascinated by the Romantic thinkers and poets who wrote around two centuries ago. This fascination resulted largely from a growing conviction that the Romantic outlook is very relevant to economics and markets.

The longer I worked in the financial and business world, the more intrigued I became by the intermittent power of economics to explain and predict, and also by the frequent mismatch between the way economists model economies and the way markets actually work in practice. Why do economists rely on relatively static equilibrium models to make predictions, when markets and economies are so clearly dynamic and characterised by massive uncertainty, relentless innovation and perpetual novelty? And why do economists make the assumption that economic agents are motivated

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only to maximise (within given constraints) the satisfaction of their preferences and optimise their trading possibilities on the basis of rational expectations? For the most part, the entrepreneurs and investors I met seemed to know so little about the future to which their preferences and expectations related that they had no real way of optimising anything but their own salaries. It increasingly struck me that successful investors are not merely rational calculating machines; they must also have a good intuitive grasp of emerging patterns. Likewise, successful entrepreneurs require more than careful rational analysis of the markets they are in; they need, above all, to have fertile imaginations in the constant quest to create new goods, new techniques and new strategies for dealing with new eventualities. They also need plenty of self-belief, a determination to win and even a dose of arrogance. No wonder the best sometimes resemble Byron's heroes – self-creative, assertive and proud – rather than the anaemic 'economic man' found in textbooks.

My experience as a European investment manager also taught me two other lessons that economics sometimes seemed at a loss to explain. The first was that national institutions and history matter to economic performance, and that there is no such thing as a universal template for competitiveness or economic growth. For example, the most successful countries are often the ones whose firms best exploit their own particular institutional and cultural advantages, whatever they happen to be. Secondly, I learned that, in the non-academic world of business and policy-making, it is seen as self-evident that values and goals other than efficiency sometimes provide an important motivation for economic actors. Moral sentiments like loyalty and trust, the goal of excellence for its own sake, and dreams bordering on delusional obsessions, all play their part. It was in trying to understand such factors that I found a rich source of insights in the criticisms of rationalist disciplines (such as economics) made by Romantic philosophers and writers – insights that I suspected were either unknown to most economists or ignored by them. What, I began to wonder, would be the impact of applying these Romantic insights to the contemporary practice of economics?

On returning to academia, my respect for the academic discipline of economics increased. I quickly learned that at the cutting edge of the discipline there is already a lot of exciting work being done to incorporate more psychological realism into economic models, and to examine the role of national institutions and norms in explaining behaviour. There is also more focus than in old economics textbooks on the role of creativity and innovation in driving economic growth, and much more attention paid to the problem of uncertainty about the future. Despite this, I remained convinced that certain important adjustments, particularly at the edge of

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the discipline, to the research practices and assumptions used by most economists could make an enormous difference to their success in helping us explain the real world and make practical decisions. In particular, I felt that clearer boundaries of applicability should be established for both standard equilibrium-based models and the narrow definitions of economic rationality on which they depend. It was from this conviction that my ideas for *The Romantic Economist* germinated.

Throughout the book I develop what I see as the most crucial implications of Romantic thought for economics. The first is that successful explanations of the behaviour of economic agents often need to take as much account of the roles played by imagination and sentiment as of those played by deductive reasoning and optimisation calculations. The second is that we should acknowledge how far utilitarian philosophy and mechanical metaphors from physics structure and bias the way economists currently see the world. My central thesis is that economists can gain new insights and develop more successful models by borrowing alternative metaphors and assumptions from the philosophy and literature of Romanticism. The success or otherwise of this project should be of more than esoteric interest. How economists see and analyse the world matters to us all, since it increasingly helps to structure government policy and the behaviour of firms and consumers. Incorporating lessons from Romanticism therefore has potentially wide implications for the nature of the society we live in, as well as for the discipline of economics.

It is my hope that, by providing a novel history of ideas and philosophical framework, *The Romantic Economist* generates a narrative that makes sense of many of the more exciting but disparate developments in modern economics. I do not claim any great originality for my discussion of the 'two cultures' divide, nor for the synoptic history of economics and Romantic thought, in the book's early chapters; rather my aim there is to introduce this history of ideas to those unfamiliar with some or all of it. My focus in later chapters, though, is a more original one: to make instrumental use of this history of ideas to suggest a new set of grounding assumptions and models that might be helpful to economists. My aim is to offer a road map for how practitioners – whether in academia or applied business and policy analysis – could in future combine more systematically the strengths of standard economics with lessons from Romanticism. Such a synthesis has, I believe, never been more necessary than today. For creativity, imagination and the organic interdependence of people – all emphasised by Romantics – have become as central to our future prosperity and happiness as the rational optimisation of trading possibilities and efficiency highlighted by standard

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economic theory. If economics is truly to show us the path towards the wealth of nations and the poverty of none, we require new and more imaginative ways of analysing our socio-economic predicament.

In writing this book, I have had several audiences in mind: first, academic economists and other social scientists who are interested in placing contemporary methodological debates in their history of ideas context, and are receptive to unorthodox pointers for developing new research techniques and models that answer valid parts of the Romantic critique of rationalism. The second targeted audience is university students, who I hope will find accessible the modular style of the book, with each chapter written as a stand-alone argument and introduction to an area of thought. Thirdly, I aim to interest business and professional users of economics who want to understand the root causes of lacunae in the armoury of standard economics (particularly when dealing with uncertainty, incommensurable values and innovation). Finally, I believe there is a much wider audience possessing some academic background in either literature or economics, who may be interested in what the history of ideas can tell us about the necessary role of imagination, creativity and perspective in economics. With this broader audience in mind, I have tried to use a minimum of jargon and no mathematics, and assume little prior academic knowledge.

The opening chapter of *The Romantic Economist* takes some of its inspiration from William Wordsworth's *Preface* to the *Lyrical Ballads*, often seen as a manifesto of the Romantic Movement, and introduces the main arguments. The rest of the book falls naturally into two parts. Part I is called 'The Prelude' (as a tribute to Wordsworth's great poem explaining his intellectual development), and explains how the Romantic Economist relates to the history of ideas. Chapters 2 and 3 place standard economics and the most important critiques of it in the context of the 'two cultures' schism that opened up between rationalism and Romanticism in the nineteenth century; and they discuss previous attempts by economists and others to reach across this great cultural divide. Chapter 4 outlines some of the main lessons from Romanticism that I believe are relevant to economics.

Part II of the book then uses these lessons to develop key aspects of a more Romantic approach to economics, and suggests how they might be put into practice. This part is called 'Fragments of unity' to reflect the impossibility of finding any one holistic explanatory system or set of synthetic models that can encompass all the crucial facets of economic behaviour and all the perspectives relevant to studying them, including those missing from standard economics. For while we should always try to

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provide a more unified and organic picture of human nature and social reality, we have also to acknowledge that only fragmentary insight is ultimately possible. Indeed, it is, I believe, the false hope of finding a single unified theory capable of explaining everything in our social and economic predicament that has kept economists so loyal to the rational actor and equilibrium models of standard economics. If only one theoretical framework is allowed, then these models may represent as good a pretender to universal explanatory power as any other. But if economics is to reach its true potential, it needs always to keep in mind that radically different models and perspectives may be required for studying different kinds of question and problem.

Some commentators will argue that my proposed new vision for the discipline of economics is really an advertisement for political economy rather than economics – for a broader, more interdisciplinary approach to studying economic behaviour and creativity embedded in their social and political context. To some extent, this is true. My focus on economics itself, though, is justified by the huge pretensions of many economists to explain ever more in the fields of markets, politics, social interaction and technological innovation. It is also worth remembering that economics grew out of the wider discipline of 'political economy' as practised by Adam Smith, Robert Malthus and John Stuart Mill. Smith is often co-opted by economists as one of their own; but he knew, as modern economists have generally forgotten, that imagination plays a role in science, and sentiment drives economic behaviour.

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The book is dedicated to my father, Ramsey, who sadly died just as I completed the text. As a scientist in a very different field, he always stressed the importance of maintaining an overview of the intellectual context and practical implications of research. I hope that *The Romantic Economist* is worthy of his memory. In any case, I will forever remember his wisdom and his kindness.

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