CHAPTER 1

Preface to The Romantic Economist

1 THE ROMANTIC AND IMAGINATIVE ASPECTS OF ECONOMICS

Romanticism and economics may seem strange intellectual bedfellows. Romanticism is a loose collection of philosophical beliefs and artistic creeds which celebrate the role of imagination, creativity and emotion, while being generally sceptical of the ability of scientific reason to provide a coherent set of universally applicable answers to human problems. Economics is a self-styled 'social science', proud of its mathematical modelling and dedicated to the analysis and prediction of the market behaviour of rational agents seeking to optimise their wealth or utility. To many, Romanticism and economics seem to be quintessential polar opposites, perfect embodiments of C. P. Snow's 'two cultures', separated by a 'gulf of mutual incomprehension'.[1] On this view, the Romantic Economist is at best an oxymoron – an apparent contradiction in terms; at worst he or she must be suffering from intellectual schizophrenia.

By contrast, I outline in this book a new approach to economics in which the Romantic Economist plays an important role both within the economics profession and in the interpretation of economic analysis for policy-makers and entrepreneurs, by providing a vital third way between extreme forms of Romanticism and neoclassical economics. For, on reflection, it is surely odd that the Romantic emphasis on imagination, creative vision and sentiment should be seen as alien to the capitalist activity and market behaviour that economists seek to explain. It is likewise strange to view economists as simply generalising from the observed nature of economic behaviour when, in General Equilibrium Theory, for example, they have created a metaphorical system of great imaginative as well as mathematical power. It is my contention that imagination and reason often need to go hand in hand in both economic behaviour and the discipline of economics.

In the chapters that follow, I outline a number of Romantic attributes that are central to market behaviour and should therefore be of interest to economists. In particular, imagination and creativity are as necessary to economic actors as to artists. Economic actors do not simply rationally optimise their trading possibilities according to given preferences, given goods and given constraints. They continually create new goods, new options and new preferences; they imagine new goals and, in the vast space of possibilities opened up by the complexity of creative interaction over time, they must imagine new possible strategies and act on them. As George Shackle has argued, imagination is what agents must 'substitute for knowledge in that vital and limitless area where we are eternally denied it, "tomorrow"'.[2] In a world of perpetual novelty, creative choice and large degrees of freedom, economic expectations cannot be purely the product of reason; your decisions must also be based on how you imagine the future and how you will it to be.

In such a dynamic world, success depends on an intuitive grasp of emerging patterns, and on creative experiments in viewing problems according to different perspectives. It also depends on understanding that social interaction is often better modelled according to the organic and biological metaphors favoured by Romantics than the mechanical equilibrium metaphors used by neoclassical economists. For social and economic activity is characterised by a complex interdependence of agents, institutions and culture, in which integrated units (firms, markets, or societies) are more than the simple sum of their parts. Preferences, choices and even modes of vision and thought are interdependent and to some extent socially formed. Institutions and economic specialisations are mutually reinforcing. Moreover, many types of economic activity exhibit not diminishing returns and a tendency to equilibrium (as generally assumed in neoclassical economics) but increasing returns and an unpredictable and dynamic reaction to small changes in conditions. History matters.

Economists normally use the simplifying assumption that economic agents can make and reveal consistent preference rankings in all the areas of choice featured in markets. Implicitly, they often go further and assume that measures of economic growth, or cost-benefit analysis, can measure overall changes in welfare. But the Romantics remind us that we cannot easily reduce everything to a single scale of value; they baulk at measuring the environment, human suffering, freedom, love and art according to the calculus of money. They insist that there is no single right answer and no optimal trade-off to be made in the choices between such incommensurable values. If this is so, how much store can we set by exclusively monetary measures of welfare? And how much as economists should we see the consistency of preferences as the hallmark of rationality?

Economists also usually make the simplifying assumption that economic agents are predictable folk: they will always maximise their utility or self-interest within the constraints of given goods, income and information. But the Romantics remind us that motivation is much more complex: while we do sometimes rationally calculate how to maximise our self-interest, we are also driven by an array of sentiments as well as creative intuition. Moreover, in Romantic philosophy, even the basic utilitarian notion of pursuing our self-interest mutates into something more nebulous. For on the organic view of us as social beings, the concept of the self whose interests we care for may be extended to include our community; and, as William Hazlitt made clear, our interest in our own future involves not merely rational prediction but an imaginative anticipation of the future pleasure of our imaginatively projected future selves.[3] Consumers, we may note, constantly seek to reinvent their identities; they also project idealised visions onto holidays, or life with a new car, and come to identify themselves with a look or an image that is for sale. Nor are entrepreneurs guided only by rational expectations, probability analysis and a desire to maximise their own happiness: to be good at their job, they often must imaginatively empathise with the needs of their workforce and the longings of consumers; and they need constantly to create new markets, products and methods. At times, they may even strut the stage of commerce like Nietzsche's Superman – self-creative, assertive and exhibiting an unusually strong 'will to power'. Workers, too, are not just commodified units of production, their services traded in the marketplace; like their bosses, they typically seek self-esteem from their job, identify with colleagues and their firm and take a pride in their work. As John Ruskin noted after making similar observations about economic motivation: 'All which sounds very strange: the only real strangeness in the matter being, nevertheless, that it should so sound.'[4]

Economists, of course, recognise that much of this is true. The central question is whether or not these Romantic features of economic activity are just 'noise' around the edges of basically rational and predictable behaviour that is otherwise well catered for by neoclassical models. Standard economics assumes that economic agents are perfectly rational; that is the basis of its predictive equilibrium-based models. Modern versions generally allow for certain types of information problem and market failure, and recognise that institutions and even history play a role; but they still assume that these factors do not call into question the underlying model of agents as rational utility maximisers within these constraints. Now if, as I argue in this book, economic agents actually have no way of optimising their utility, at least in certain types of situation, and must instead imagine their futures, while being prey to sentiments, phobias, delusions and dreams, then these Romantic aspects of behaviour suggest a more systematic challenge to some of the standard assumptions made in economics.

The implication of these arguments is that we may have much to learn from Romanticism about the nature of economic behaviour. In many cases, economic activity is as much a function of creativity, imagination and sentiment as is the act of writing a poem or painting a picture. Furthermore, it is my contention that Romanticism can also teach us a lot about the nature of the discipline of economics itself, helping us elucidate some of the prerequisites of good economic analysis. For, in their work, economists are surprisingly dependent on imagination and creative ways of looking at the world. As Beatrice Webb – the famous pioneer of social sciences and joint founder of the London School of Economics and Political Science – stressed, sympathy and 'analytical imagination' play an important role in understanding the dynamics of human behaviour. F. R. Leavis ascribed to Webb the view that, for this reason, a literary training should be seen as a good qualification and resource for sociologists and other social scientists.[5] More centrally still for the argument here, Adam Smith was surely correct when he noted that all scientific systems are 'inventions of the imagination, to connect together the otherwise disjointed and discordant phenomena of nature'.[6] By contrast, modern economists are often bemused by such an apparently Romantic emphasis on the role of imagination in the conduct of their scientific profession.

In his iconoclastic book, *The Economics of the Imagination* (published in 1980), Kurt Heinzelman went much further than Webb and Smith. Arguing that the economist is 'a poet, a maker of fictions', he proceeded to study 'the poetics of economic discourse'. In particular, he noted that economics provides us with a 'resonant system of metaphor'.[7] D. N. McCloskey followed suit in an important book, *The Rhetoric of Economics*, saying that: 'Economists are poets/But don't know it.' Pointing out that economists generally fail to acknowledge the 'metaphorical saturation of economic theories', she added:

> To say that markets can be represented by supply and demand 'curves' is no less a metaphor than to say that the west wind is 'the breath of autumn's being'. A more obvious example is 'game theory', the very name being a metaphor.[8]

Aristotle argued that, while fine for poets and politicians, metaphor should be avoided by scientists and philosophers;[9] but in fact science is riddled, and necessarily riddled, with metaphors – economics being a prime example of this. Economic theories and models are never a direct encapsulation of some unbiased and unmediated vision and analysis; rather, they (and the hypotheses, metaphors and assumptions contained within them) behave like giant metaphors, actively structuring our vision and analysis. Furthermore, imaginatively changing the models or metaphors we use changes the way we structure our perception and thought – changes, in a very real sense, the way we see the world. For this reason, as McCloskey argues, we will do better economics if we understand fully the structuring role of the metaphors, models and assumptions used by economists. Most economic theory is currently constructed around the metaphor of mechanical equilibrium (borrowed from nineteenth-century physics) together with the assumption (borrowed from utilitarianism) that agents are self-interested maximisers; and the symbiosis between this metaphor and this assumption has profound effects on the way economists see and understand the factors they study.

The Post-Modernist thinker, Jacques Derrida, argued that philosophers usually try to ignore the textual and literary aspects of their trade,[10] and we might add that the same is true of economists. For this reason, there is merit in deconstructing economics to uncover the hidden influence of metaphor and of other essentially literary devices such as the use of allegory and the persuasive impact of the beauty and symmetry of its mathematical models. In this and other ways, Romantic and Post-Modernist philosophy's contribution to literary criticism is surprisingly relevant to understanding the nature of economics and other social sciences. Many of the issues are at least parallel. Does economics, like art, *imitate* actual or 'ideal' reality? Or does its choice of dominant metaphor, assumptions and perspective structure – and, in a sense, *create* – the picture it paints? And is economics, like art, to be judged for its own sake or for its relevance to a broader audience?[11]

Before more practical readers are tempted to close this book for good, it is important to underline why the project of the Romantic Economist matters to us all. The way that economists structure their vision and thought reads across to the policies they promote and therefore to the very economic behaviour they study. The dominant metaphors and philosophical assumptions of economics do more than structure the discipline, its texts and its vision; for these in turn influence policy and the self-conception of economic agents. As a result, the metaphors and assumptions used by economists may come to structure social reality itself. As John Stuart Mill wisely noted, 'speculative philosophy, which … appears a thing so remote from the business of life and the outward interests of men, is in reality the thing on earth which most influences them'.[12]

A similar belief that particular perspectives or 'discourses' structure both thought and practice led Post-Modernists like Foucault and Lyotard to be wary of 'totalising discourses', or 'grand narratives', and emphasise their relationship with ideology and power.[13] To enforce a dominant 'discourse' is to enforce a way of life as well as thought. The argument surrounding the 'Washington consensus' approach to economic reform in Eastern Europe in the period following 1989 should perhaps be seen in this light. The economist, Joseph Stiglitz, has argued that it is possible to trace the origins of the Washington consensus recommendations for extreme versions of 'shock therapy' throughout the region (including very rapid price deregulation and privatisation and large public spending cuts) to the simplified 'textbook models' with which many of the neoclassical economists and advisers concerned structured their view of the world. The poverty of these models ensured a failure to see how important to the success of reforms in these 'transition' countries were social norms and 'organisational capital', and the specific local institutions which support them.[14] Whether the dominant models or metaphors used in such economic discourse are adopted for ideological reasons or merely have ideological implications is, of course, a moot point.

Another more general example of a social science discourse having significant practical and ideological implications is Public Choice Theory. Public Choice Theory is a widespread application in the social sciences of Rational Choice Theory – a central part of the neoclassical economic paradigm. It starts with the utilitarian assumption that all individuals (even politicians and bureaucrats) are essentially self-interested utility maximisers. As a result the theory predicts that politicians and bureaucrats will further the public interest only if it is also in their individual interests to do so – because the voting public knows what they are up to, or other constraints apply. This theory has had huge success in explaining many examples of 'government failure' where public accountability or information is low. It is far from clear, however, that it provides a successful model for explaining or predicting the behaviour of most public officials most of the time. Perhaps more importantly still, the widespread acceptance by opinion formers of its cynical assumption (that those in government are not motivated by anything but their own interest) has helped corrode the social norm of 'public service' and consequently trust in government. The question of whether this model is full enough to give correct explanations in most situations is considered later in this book; and the answer matters not only to the predictive success of social scientists' models but also to public policy and ideology concerning the nature and role of government.

2 Romantic Economist: neither revolutionary nor mainstream

At first sight, it might seem self-evident that the project of injecting into economic discourse new grounding assumptions and metaphors derived from Romanticism represents a wholesale attack on current economic methodology. But this would be to misrepresent both the constructive intent of the Romantic Economist and the pluralism and sophistication of modern economics.

The Romantic Economist proposes a joint venture between standard economics (with its neoclassical model of rational behaviour) and more Romantic approaches that allow for the organic interdependence of agents and institutions, and an important role for imagination, creativity and sentiment in decision-making. With such a joint venture in mind, there is nothing to be gained from descending into another 'anti-economics' rant of the sort William Coleman deplores.[15] My intention is, therefore, that this book should, like the Romantic Economist it promotes, engage seriously and respectfully with the principles of standard economics, while suggesting some specific practical ways to improve the discipline. This can best be achieved precisely by not setting up an Aunt Sally in the form of a fundamentalist economics that is deaf to all Romantic concerns. As Coleman argues, constructive criticism of economics is not well served by misrepresenting economics as a monolithic and simplistic discipline that has never taken account of any criticisms directed at it. From its inception, there have in fact been huge debates within economics about the nature of the discipline. Indeed, it would be fair to say that if no great economist, past or present, has acknowledged or articulated a problem, this is likely to be important evidence that the problem does not really exist. Many of the best critiques of economics, as Partha Dasgupta has noted, come from thoughtful practitioners[16] – those who are aware of the intricacies of the latest techniques and the practical problems of framing research, but also alive to what are essentially Romantic concerns.

The argument in this book builds initially on criticism of standard neoclassical economics made by key historical figures within the discipline – including Mill, List, Schmoller, Marshall, Veblen, Keynes, Schumpeter and Hayek – as well as on Romantic critiques from beyond economics. Furthermore, *The Romantic Economist* stands firmly on the shoulders of recent figures in the discipline, in each area where a more Romantic approach to economics is outlined. For many of the most exciting developments in economics in recent years – a period Diane Coyle justifiably calls 'a new golden age' for the discipline[17] – have gone some way to operationalising what is implicitly a more Romantic approach to economics. So, for example, among the economists discussed in later chapters, Brian Arthur and the Complexity theorists develop what is essentially an organic model of economic interaction, while Douglass North's insights into the role of institutions in structuring beliefs and behaviour echo the views of many Romantic thinkers. The pioneering work of Peter Hall and David Soskice in establishing the new school of Varieties of Capitalism also takes seriously a number of quintessentially Romantic concerns, especially on the role of national difference. Likewise, the development by David Weimer and Aidan Vining of a multigoal approach to cost-benefit analysis is an example of how a Romantic emphasis on incommensurable values can be incorporated into disciplined policy analysis; while the work of James Buchanan and Viktor Vanberg, and of Endogenous Growth theorists, makes good progress in understanding and modelling the dynamic creativity of an economy. One of the most important recent attempts to improve the behavioural assumptions on which economic models depend is research by Daniel Kahneman and Amos Tversky into the different ways in which people frame the information and options at their disposal, and how this impacts on the decisions they make and the preferences they have; and this research also implicitly builds on Romantic concerns, this time about the creative role of perspective.

For all the virtues of these attempts to reform the discipline from within, there remain, I believe, two vital and original roles for *The Romantic Economist* and the new type of economist it champions. The first is to demonstrate that many of these existing critiques of standard economics can be better articulated and further illuminated by embedding them within the historical context of Romantic responses to Enlightenment rationalism. For this is the lost conceptual and metaphorical framework for many of the adjustments and caveats to economic theory already proposed by leading economists past and present. Only by understanding this framework can we fully appreciate the import and significance of much cutting-edge theory, and hope to solve the many riddles that remain. The second related and pragmatic purpose of *The Romantic Economist* is to promote experimentation with Romantic metaphors and assumptions, as alternatives to the mechanical metaphors and utilitarian assumptions that still for the most part structure and constrain economists' vision. Romantic philosophy and literature is probably the last place most social scientists would think of looking for new ideas and perspectives, or for help in understanding what links the seemingly disparate critiques they take seriously; but I will argue that it is, in fact, one of the most exciting potential sources of alternative grounding assumptions and metaphors available to economists. For example, it is there we can learn the central importance of imagination as well as rational calculation in the formation of an individual's expectations, strategies and options, and the resulting need for more profound changes to the microfoundations of some models than most economists currently envisage. In ways such as this, *The Romantic Economist* can provide suggestions for how experts in each field might, in due course, incorporate new assumptions into their existing analysis or develop new models that can provide complementary insights. In this sense, the book is envisaged as 'work in progress' – a source of partially elaborated new ideas for the hard-pressed practitioner who does not have the time to study cultural history, philosophy, or the economists of old, for herself.

The proposal that economists should consider building imagination into the foundations of their models alongside calculating reason, or use organic models that deny the possibility of optimisation or equilibrium, may lead some to reply that such recommendations ignore the boundary between economics and other disciplines. Joseph Schumpeter noted in his *History of Economic Analysis* that economics is an 'agglomeration of ill-coordinated and overlapping fields of research', its frontiers (like that of all sciences) 'incessantly shifting';[18] and there are some who argue that economics should be defined as the study (by whatever method) of a set of topics or problems relating to economic activity. In general, though, it has become fashionable of late to argue that what delimits economics is its reliance on a particular set of methods and assumptions – not least that you can explain outcomes in terms of individuals rationally optimising their utility within given constraints. Clearly, if economics is so defined, it can have no place for other (more psychologically plausible) assumptions and models that take account of the role of imagination and sentiment, even when studying those areas of the economy and markets where anecdotal evidence suggests they are highly relevant. If, as I will argue, these areas include all those where innovation and creativity are central, as well as some aspects of labour markets and of consumer behaviour, and many attributes of financial markets, then such a narrow methodological definition of the discipline may preclude economists from having the necessary tools at their disposal in some important areas of research. The more Romantic approach to economics advocated in this book requires acceptance of greater methodological pluralism in the study of economies and markets.

A similar debate is also relevant to the contentious question of how to define 'political economy' and its relationship to economics. Historically speaking, 'political economy' is the name given both to the genetic parent of modern economics and to its younger stepsister, Public Choice Theory. Economics emerged as a 'scientific' discipline out of 'political economy' towards the end of the nineteenth century, as it gradually abstracted from political concerns and adopted the metaphors and techniques of physics. But the 'political economy' of early figures like Adam Smith still represents a tradition alive today among those who define (as I do) 'political economy' as the intersection of political and economic substance and different relevant methodologies. By contrast, the standard current use of the term refers much more narrowly to Public Choice Theory and other pure applications of the neoclassical economic methodology (of rational choice) to political subjects.[19] This limited definition would again preclude the use of more Romantic assumptions and models.

There are two possible reactions to the many serious attempts within recent versions of standard economics and Public Choice Theory to model the role of institutions, the impact of innovation and the importance of increasing returns, information problems and other features of the organic interdependence of agents, all the while sticking religiously to rational choice microfoundations. We can be impressed at the ingenuity of the theory-saving adjustments made to take account of these challenges to old neoclassical theory – adjustments that appear to succeed in preserving the essential microfoundations of a predictive science. Alternatively, we can be reminded of Thomas Kuhn's famous example of such paradigm mending. He pointed out that, by the time Ptolemaic astronomy had finished (at the time of Copernicus) coping with all the exceptions to the predictions produced by its core model (of an earth-centred universe), it was a monstrous system 'of compounded circles', whose 'complexity was increasing far more rapidly than its accuracy'.[20] For Kuhn this was a tell-tale sign of paradigm 'crisis' and an impending 'paradigm shift' to a new mode of vision and analysis. In this book, I suggest that economics would, in relation to some issues, likewise be best served by giving up ever-more prodigious attempts at theory mending in the vain attempt to preserve the universal applicability of its central rational choice models. I also argue, however, that in the case of economics what is needed is not a complete paradigm revolution, but rather a recognition that no one paradigm (or set of structuring assumptions, models and metaphors) can ever explain everything important in the economic sphere. Instead, the choice of paradigm or theory should depend on the nature of the problem studied; and sometimes we need to use several paradigms side by side. There are many problems that standard rational choice and equilibrium models explain very well; but there are others far more cogently and simply explained by different more Romantic metaphors and models.