

HIC SUNT LEONES

The “missing link” of interpersonal relationships in the traditions of economics

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Abstract

The specific aim of this chapter is to explain which role the interpersonal dimension has played in the different moments and traditions of the history of economics, and to try to explain the methodological choices performed by some of the leading economists with respect to the issue at hand. The first section contains a brief account of the main characteristics of classical economists' way of conceiving interpersonal dimensions, seen through Adam Smith and Antonio Genovesi. In section 2 Malthus intellectual story helps us to understand the reasons that brought, in the period of consolidation of the science of economics, the economists to “sacrifice” interpersonal relations. With section 3, 4 and 5 we enter into the analysis of the neoclassical revolution and its definitive abandonment of the issue of interpersonal relations as part of economic analysis. To Pareto and Wicksteed has been devoted a particular attention given their role in this methodological turn. Finally, section 6 tells a possible different story of interpersonal relationship in economics, that of Marshall, who, more than anyone else among the founders of contemporary economics, has taken seriously the role of interpersonal dimension within economic science. His epistemology and methodology would have driven the economic analysis of sociality toward a different path with respect to that of Pareto and the mainstream. This is a section of the “ifs” and “buts”, that, however, can offer hints for the present debate.

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It there a place where relation is not merely exchange? (Massimo Cacciari)

Introduction

“Political Economy does not treat of the whole of man’s nature as modified by the social state, nor of the whole conduct of man in society. It is concerned with him solely as a being who desires to possess wealth, and who is capable of judging that end. ... It makes entire abstraction of every other human passion or motive” (Mill 1897 [1836], pp. 132-133).

The present book argues that “relational goods” are actually part of that wealth that has fascinated so much Mill, and that still occupies most of economists’ efforts. In other words, following the taxonomy proposed in the Introduction of this book, interpersonal relationships, outside and inside economic field, influence both economic performances, personal well-being and “public happiness”.

In this line, the specific aim of this chapter is to explain which role the analysis of interpersonal relationships has played in the different moments and traditions of the history of economics, and to try to understand the reasons of the methodological choices performed by some of the leading economists with respect to the issue at hand.

I claim that economists, at least the greatest, have recognised that interpersonal relations and sociality are important elements of economic life; some has even recognised that friendship or good conversations are important dimensions of the *general* well being, but, neither the more enthusiast, have thought of making interpersonal relations as a direct object of economic theory, on the basis of the consideration that these aspects had no great relevance for economics, were not “wealth”. Some inserted interpersonal relations into their analyses (i.e. in the formations of wants), but no one thought that interpersonal relationships could have an economic value in itself, as shoes, bread, machines or education have. So they left, implicitly or explicitly, the task of dealing with them to other disciplines (sociology, psychology, anthropology ...), and concentrated their analyses on “material goods” (wealth or *economic* welfare) they would, *indirectly*, contribute to the well-being or happiness. This conviction was very clear in Marshall, but it underlined also the works of leading classical economists such as Smith, Mill, Malthus or Menger. This paper tries to underline the “methodological trick” behind this assumption.

Marshall has been the leading economist who most has pushed forward the analysis of interpersonal relations within economics, but not enough for preventing his tiny construction from collapsing in front of Pareto's "new" economic science. And contemporary economic theory, *au fond*, with respect to the role assigned to interpersonal relationships, is still on the way paved by Pareto (and Wicksteed).

The first section contains a brief account of the main characteristics of classical economists' way of conceiving interpersonal dimensions, seen through Adam Smith and Antonio Genovesi. In section 2 Malthus intellectual story reveals the reasons that brought, in the period of consolidation of the science of economics, the economists to "sacrifice" interpersonal relations. Section 3, 4 and 5 enter into the analysis of the neoclassical revolution and its definitive abandonment of the issue of interpersonal relations as part of economic analysis. To Pareto and Wicksteed has been devoted a particular attention given their role in this methodological turn.

Finally, section 6 tells a possible different story of interpersonal relationship in economics, that of Marshall, who, more than anyone else among the founders of contemporary economics, has taken seriously the role of interpersonal dimension within economic science. His epistemology and methodology would have driven the economic analysis of sociality toward a different path with respect to that of Pareto and the mainstream. This is a section of the "ifs" and "buts", that, however, can offer hints for the present debate.

1. Classical Political Economy and interpersonal relations

It is famous Marx's thesis, first written in his *Grundrisse*, that "individuals producing in society is, of course, the point of departure. The individual and isolated hunter and fisherman, with whom Smith and Ricardo begin, belongs among the unimaginative conceits of the eighteenth-century Robinsonades" (1994 [1857-8], p. 119). And in his *Capital* he restated that "Robinson Crusoe's experiences are a favourite theme with political economists" (Marx, 1906 [1867], p. 47), pointing out the use of Robinson Crusoe's metaphor already by classical economists, in particular by Ricardo's *Principles* – when he uses the example of the hunter who, in a primitive society, exchanges goods with the fisherman on the basis of the contained labour (Ricardo 1881 [1817], pp. 16-17). Marx saw in these Robinsonades an "anticipation of 'civil society', in preparation since the sixteenth century In this society of free competition, the individual appears detached from the natural bonds etc. which in earlier historical periods make him the accessory of a definite and

limited human conglomerate. ... Not as a historical result but as history's point of departure" (Ib. pp. 119-120).

In acknowledging Marx's acute criticism towards classical economists, we must, however, recognise that the meaning of the recourse to the "rude and primitive stage" by Ricardo, or Smith, is substantially different from the use of the metaphor of Robinson Crusoe that began to appear among economist' works in the prelude of the marginalist revolution, that is the 50's of XIX century. In fact in Ricardo's or Smith's primitive economy the agents are more than one, and they exchange each other: the Robinsonian monad was not there, but communities of hunters and fishers. In fact, between Smith and the middle of the 1800's English economists, did not emphasise the psychology of action of the *individual agent*, but rather the relationship among social groups or classes: in other words, their approach was holistic - enough to remember Ricardo, or Marx.

Marx, however, although choosing the wrong target, in 1867 saw something that was really going on in the forthcoming marginalism, as we'll have the chance to see later on in the paper.

Nevertheless, as we'll see in the next section, classical political economy performed in Ricardo's era something that had had a great importance in shaping the epistemology of economics with respect of the issue of interpersonal relations.

The founders of classical political economy (Scottish or Italian) have to be seen in continuation with the tradition of *civic humanism*.¹ Their reflection on economic agency considered the individual as a social entity, and the acknowledgement of the existence of the *ego* and of his/her rights and freedom was not seen in opposition to the existence, rights and value of the others, of the community.

Take the examples of the leaders of two important schools of classical political economy: Smith and Genovesi. The Neapolitan Antonio Genovesi (1713-1769) accepted the idea that three quarter of human actions depend on sympathy. From that logically comes his criticism towards Mandeville's and Hobbes' egoistic conceptions of man, that we find in the whole Genovesi' work.² The most basic element of his vision of person is *sociality* - the desire for relationships with our fellows. Sociality is "an indelible feature of our nature", common to all social animals. We are "created in such a way as to be touched necessarily, by a musical sympathy, by pleasure and internal satisfaction, as soon as we meet another man"; no human being, not even the most cruel

¹ With the expression "civic humanism" (Baron 1955, 1988, Pocock 1975) is referred to that period of Italian history, Florentine especially, characterised by a revaluation of civic life. The medieval thought, cantered on the vertical (religious) dimension, had not considered sociality as a key element of its world vision. So, with humanism the need for a revaluation of the civic dimension, only announced by the Middle Age, exploded, also thanks to the great political, economic and philosophical changes that begun in the late XII century with the birth of civic civilisation (*civiltà cittadina*) in the North Italian *Comuni*.

² As known, sympathy is not altruism (that is, concern for the well-being of others); it is a matter of *relations* between people.

and hardened, can enjoy pleasures in which no one else participates (1973 [1766], Book I, Chapter 1, §XVII, p. 42). Thus, to Genovesi's theory it is essential that social relations are not just means by which, or constraints within which, we satisfy individual self-interest. In his work there is a strong sense that interpersonal relationships are valuable in their own right. For Genovesi, it seems, the chief advantage of society is not to be found in its production of material goods, but in the enjoyment of social relationships, the basic ingredient of public happiness: "every man acts looking for his happiness; otherwise he would be less man. . . . The more one acts for interest, the more, if he is not mad, he must be virtuous. It is an universal law that it is impossible to make our happiness without making others' happiness" (1963, p. 449).

The contemporary historiography agrees in reading also Adam Smith in continuation with the tradition of *civic humanism*.³ His *Theory of Moral Sentiments* is fraught with a relational approach to the human person, seen as constitutionally in relationship with others (Smith 1984 [1759], p. 9; pp. 113-114). A person is fortunate if she receives consideration and unfortunate if indifferent to others (Smith 1984 [1759], pp. 89-91). The entire relationship between others and us is mediated by how we *look*: how we are seen, considered, admired, imitated. Even riches and power, to Smith, are only the means for attracting the other's attention, for being "recognised".⁴

Although in Smith there is not a sharp philosophy of happiness (as in Genovesi), from his relational anthropology comes the idea that "nothing pleases us more than to observe in other men a fellow-feeling with all the emotions of our own breast; nor are we ever so much shocked as by the appearance of the contrary" (Ib., p. 13). Fellow-feeling, an extraordinary anthropological intuition, can also be defined as "mutual sympathy" or "correspondence of sentiments" (Ib., p. 14), and for Smith it is the main source of human happiness.⁵ Furthermore, wealth can be transformed into happiness or well-being not automatically but only under given conditions (mainly "propriety"), that allow wealth to become happiness, both individual and social (Ib., pp. 212 ss.). It is the classical Aristotelian idea of happiness (*eudamonia*) that lied behind Smith's vision of interpersonal relations and economy: wealth is just a means for being happy, which is the final end of life (Ib., pp. 166; 181).⁶

³ Cf. Winch 1978, Gualerni 2002, and, in particular, Hont and Ignatief 1983.

⁴ Also the role of *emulation*, both in the *Theory* and in the *Wealth*, shows an idea of *social self* underlying Smithian self-interest: the reach of wealth, of success is always a means for achieving social approbation and recognition: see Guidi (1999).

⁵ Smith (Ib., pp. 219-224) gives a great importance to friendship as source of happiness.

⁶ Also Smith's definition of wealth leaves perfectly room to interpersonal relationships as a form of wealth: "Every man is rich or poor according to the degree in which he can afford to enjoy the necessaries, conveniences, and amusements of human life" (1904 [1776], I, p. 32). In the expression "amusements" one can see all kinds of social activities. In this direction goes what Smith says few lines later: "Wealth, as Mr. Hobbes says, is power" (Ib., p. 33). In fact Hobbes in his *Leviathan* (I, x) says that riches is power "because it procureth friends".

When few years later he wrote the *Wealth of the Nations*, the title itself defined the object of the new born political economy: it deals with wealth not with happiness, even if in Smith's choice of the word "wealth" instead than "riches" one can rightly see the idea that wealth (weal, well-being) is more and different than to possess riches.

Given the very rich anthropology and theory of human agency present in the *Theory*, Smith's political economy (and the whole classical paradigm) could have become something completely different: instead of being defined as the science of wealth, political economy could have been defined as the study of how and under which conditions riches could be transformed into happiness, via the mechanism of fellow-feeling. Instead, only in the very recent days we are acknowledging new attention, by economists, for that lost path of research⁷.

2. Political Economy in Ricardo's era: the sacrifice of relational goods

The first great economist who had the awareness of the existence of a complex "technology of happiness" is Malthus. His personal intellectual evolution – the passage from the *Essay on Population* (1798) to the *Principles of Political Economy* (1821) – is an icon of the approach to the interpersonal dimension followed by political economy.

In his *Essay* published in 1798 he wrote:

The professed object of Dr. Adam Smith's inquiry is the nature and causes of the wealth of nations. There is another inquiry, however, perhaps still more interesting, which he occasionally mixes with it, I mean an inquiry into the causes which affect the *happiness* of nations I am sufficiently aware of the near connection of these two subjects, and that the causes which tend to increase the wealth of a state tend also, generally speaking, to increase the *happiness* But perhaps Dr Adam Smith has considered these two inquiries as still more nearly connected than they really are (Malthus 1798 [1966], pp. 303-304).

From this sentence we have the main elements for understanding the key points of Malthus' idea of happiness, and his evaluation of Smith's stand. Malthus too distinguishes the two categories (to him happiness is not wealth), and, generally speaking, he agrees that more wealth equals more happiness. According to Malthus, however, Smith was not enough aware that the relation between these two concepts is complex and worthwhile of being investigated in its own.

⁷ All the present book, and Robert Sugden's paper in particular, would signal this new attention.

In particular, Malthus belongs to those economists (such as Sismondi, Genovesi and many XIX century Italians) who thought that the “happiness of the nations” is “another inquiry, however, perhaps still more interesting” than that on wealth – as the modern theorists of happiness also think.

Malthus’ longing to studying directly happiness as the object of political economy, however, lasted very little. Once become “economist”, two decades later he wrote his *Principles of Political Economy*, and there were no more references to happiness: the object of his enquires became *wealth*, like Smith and the classical mainstream tradition of economics. In particular, although he was fully aware that political economy, in focusing on material and quantitative aspects of human interactions, was losing important elements of “wealth”, pitilessly he left outside all interpersonal dimensions of wealth:

A man of fortune has the means of ... collecting at his table persons from whom he is likely to hear the most agreeable and instructive conversation ... It would not be denied, that these are some of the modes of employing wealth, which are always, and most justly, considered as much superior in respectability, to the purchase of fine clothes, spending on furniture, or costly jewels. It is equally certain that the power of wealth to purchase these sources of intellectual gratification forms almost natural encouragement to the acquisition of it, and may therefore, with perfect propriety, be said to be indirectly productive of it. But it is a wide step in advance of these concessions, at once to place in the category of wealth, leisure, agreeable conversation ... The fact really is, that if we once desert matter in definition of wealth, there is no subsequent line of demarcation which has any tolerable degree of distinctness, or can be maintained with any tolerable consistency, till we have included such a mass of immaterial objects as utterly to confuse the meaning of the term, and render it impossible to speak with any approach towards precision, either of the wealth of different individuals, or different nations (1986 [1820], pp. 31-32).

Here the main reason which brought post-Smithian economists to avoid dealing with interpersonal qualitative aspects of economic transactions is clearly stated. Malthus, maybe more than Smith,⁸ was convinced non only that “enjoying conversations” with friends is an important, and “superior” form of using wealth, but even that “leisure and agreeable conversations” can rightly be considered as components of the wealth of a person. These components, however, he considered to be too ill defined for being included within the economic domain that instead needs data and objective measurement. Something had to be sacrificed to the altar of the new science of objective and scientific measurements, and one of main victims was the interpersonal components of wealth. A science seeking to encompass the first “scientific” reflections on economic relations chose to

⁸ See infra footnote 6.

concentrate its analyses upon objective elements such as labour value, redistribution of income, production, or, as Neoclassical economists said, on the “supply side” of the economy. As a consequence, such a political economy did not find room for interpersonal relations seen as source of well being, as a component of that “wealth” of the nations to which they devoted their intellectual efforts.⁹

3. One hundred years of solitude: Pareto’s revolution in choice theory

3.1. The “naked fact” of choice

In the process of expunging interpersonal dimension from economics, a pivotal role has been played by Pareto, who is the key-figure for comprehending the reason of the absence of interpersonal dimension in XX century economic theory.

Vilfredo Pareto is the economist that, from the methodological point of view, most has determined the contemporary rational choice theory and microeconomics. His re-foundation of demand theory was a real revolution in economics, surely with respect to Marshall. Hicks, Allen, Samuelson, all these fathers of modern microeconomics can be seen as direct and aware followers of Pareto.

Between the end of 1899 and early 1900, Pareto pursued two fundamental and distinct objectives, to be considered his main legacy to contemporary economic science: (a) ordinalism, or the replacement of a cardinal by an ordinal utility function; (b) the interpretation of ophelimity as an index of preferences, or the emancipation of his theory of choice and equilibrium from hedonism. In the turning point of 1899 Pareto built up his economic theory on “the naked fact of choice”, without having to resort to important measuring and not even to the existence of utility (Pareto 1984, pp. 290-291).

So he thought he had finally ended the era of metaphysics in economics. Together with hedonism and metaphysics, also the analysis of *wants* (by him called “*tastes*” and considered given)¹⁰ was expelled from economics.

The distinction between utility (a concept similar to usefulness or happiness) and ophelimity (defined in the *Cours* as “the relation of convenience, which satisfies a need or a desire,

⁹ We must also add that Ricardo and his colleagues don’t theorise the *homo agens* for the obvious reason that *homo faber* was enough to them. It is the industrial revolution that “imposes” the canon of *homo faber* (and *agere* [to act] is different from *facere* [to make something]). In fact pre-industrial revolution economists had in mind the artisan who *acts* and not the worker of a manufacturing firm who *makes*. I owe this note to Stefano Zamagni.

¹⁰ Several times Pareto stated that the tastes, given in economics but studied by sociology, are the *link* between these two disciplines.

legitimate or not” (§ 7)), performed already in the *Cours d'économie politique* (1896-97), was the first tool he used for bypassing the issue of the interpersonal dimension within economics: ophelimity, in fact, is defined by him “a kind of subjective utility” (§ 16), specifying that this “characteristic of ophelimity as being subjective is fundamental. This must be kept in mind in everything that follows” (§ 9). Therefore, economics becomes “the science of ophelimity” (§ 16), on absolutely *subjective* bases (§ 30). Pareto’s mature economic theory (that of the *Manual*) is in fact completely defined at the level of individual (it deals only with the sensations inside a single person); all relationships, all the “others”, are anonymous, present in the demand curves; but the real individual, and therefore every real social interaction, can “disappear” – a similar conclusion (although starting from a partially different epistemology) was that of Wicksteed’s “non-tuism”.

Pareto in fact specified that *pure* economics deals with the “choices that the individual makes considering solely the things that he prefers”, omitting, or better yet, turning over to sociology, actions “that the individual makes considering the effects that these choices will have on other individuals” (Pareto, 1900a, p. 223). Later, in his *Manual of Political Economy* published in 1906, he was even clearer that the object of economics is “to compare the sensations of a man in different situations, and to determine which of these he would choose” (1971 [1906], ch. 3, § 11).

At the same time, Pareto – like Edgeworth or Marshall – had no problem in dealing with altruism: his theory remains perfectly individualistic also by inserting altruism into the analysis:

[S]ince it is customary to assume that man will be guided in his choice exclusively by consideration of his own advantage, of his self-interest, we say that this class is made up of theories of egotism. But it could be made up of theories of *altruism* (if the meaning of that term could be defined rigorously), or, in general, of theories which rest on any rule which man follows in comparing his sensations. It is not an essential characteristic of this class of theories that a man choosing between two sensations choose the most agreeable; he could choose a different one, following a rule which could be fixed arbitrarily. (Ib.)

Such a methodology leaves no room for relationships among men but instrumental ones: economics becomes the science of the single individual, without identity and personality. The impersonality of Pareto’s theory reaches the point of saying: “The individual can disappear, provided he leaves us this photograph of his tastes” (Ch. 3, § 57). Economics fully becomes the science of relations between “things”: “Science proceeds by replacing the relationships between human concepts (which relationships are the first to occur to us) by relationships between things ... Such a path is also the only one that can lead to the truth in political economy” (Pareto, 1900b, p. 162). A thesis not far from what Marx thought, who in *The Capital* (borrowing by the XVIII

century Neapolitan economist Ferdinando Galiani (*Della Moneta*)), says that wealth “is a relationship between persons expressed as a relation between things” (1867 [1906], p. 45, footnote 1). Marx, however, claimed for retrieving those hidden human relations, and defined political economy as the science of the study the social relations behind things. Pareto went to the opposite direction, seeing in that substitution (persons with things) a progress in the economic science.

The agent economics deals with is completely impersonal, without a face, *a machine that maximises a function under constraints*. Because of this, he asserts that his approach to choice can also be applied to animals, just as long as their behaviour is uniform (cf. Pareto 1900a).

3.2. A “material point” methodology

In order to fully understand Pareto’s revolution in economics in all its implications with respect to human interactions, we must look at his methodology.

First of all, Pareto brought to the extreme consequences the neoclassical dream of building a science on the paradigm of Newtonian physics. This has been the chief objective of Pareto.

As a consequence, the economic agent is conceived as a ‘material point’. It is hard to imagine a material point enjoy conversations, develop friendships or be altruistic. A material point can only be understood through the law of minimum means aiming for the maximum result under constraints. Furthermore, a material point cannot have motivations for actions (let alone *intrinsic* ones), as it can only be passively driven by forces (in economics, the force of self-interest).

Secondly, according to Pareto a real action presents two components:

- a) the *logical* component, based on a *pure instrumental* reasoning, where the means are adequate to the end, subjectively and objectively;
- b) the *non-logical* one, where *non-logical* does not mean *illogical* or irrational but just based on a different type of logic, as Pareto many times has specified.¹¹

Economics deals with the logical part, and its work is simple. Sociology deals with the rest, and its work is very difficult. Only within his methodology is it possible to fully comprehend Pareto’s analysis of human interaction.

In line with Mill,¹² the foundation of his methodology is the method of *analysis and synthesis*: to decompose the complex action into its parts (logical and non-logical), investigate each

¹¹ The best and more complete definition of Pareto’s theory of logical and non logical actions can be found in Pareto (1916), §§ 150-152.

¹² On the strict similarity between Pareto and Mill in the use of the method of analysis and synthesis see Bruni (2002).

separately, and attempt a synthesis - for Pareto synthesis means “sociological synthesis”.¹³ In fact, the analysis of other kinds of social interactions, based on a non-instrumental rationality, is present in his Sociology. For example the “residues of the fourth class” (Residues in relation with sociality: Pareto 1916, §§ 113-1206), are entirely dedicated to “the want for sociality”.

In establishing the boundaries between the economic and the social spheres of human action, Pareto used the *logic* of action as criterion. Pareto has always asserted that the definition of this boundary is *arbitrary*, a consequence of his “methodological monism”, that is the thesis that there is no distinction of method between natural and human sciences. “The concrete phenomenon is essentially a unitary one” he writes to the philosopher Benedetto Croce, who criticised Pareto in the name of an ontology of human action that does not allow to decide arbitrarily how to separate the economic action from the non economic one. For Pareto, instead, “Labouring under subjective difficulties, we divide it into more or less *arbitrary* parts” (Pareto 1900b, p. 148, my italic). Thus, he *arbitrarily* decided that the personalised component of human interactions was a forgettable aspect in economic actions, and took it out.

3.3. Pareto betrayed

Pareto has determined the methodological foundations of modern rational choice. His results were re-proposed and publicised in 1934 by John Hicks and R.G.D. Allen, the protagonists of the *final* 'ordinalist revolution' which replaced traditional utilitarianism with the modern consumer theory. From the late thirties onwards Paul Samuelson in a series of works took the ordinalist revolution to the extreme with his 'revealed preferences' approach. The mathematical economists of the fifties finished the job.

However, here I would like to emphasise just one point: that there is a radical difference between Pareto's theory of action and those of Hicks and contemporary microeconomics, a difference that is very much related to contemporary analysis of personal interactions.¹⁴

In a 1934 paper with Roy Allen, Hicks, under the influence of the neo-positivistic philosophy, wrote that “the methodological implications of [the new] conception of utility [...] are far-reaching indeed. By transforming the subjective theory of value into a *general logic of choice*, they extend its applicability over wide fields of human conduct (Hicks e Allen 1934, p. 45, my italic).

¹³ The method of analysis and synthesis is exposed in many Pareto's works. In the first chapter of his *Manual of Political Economy*: “abstraction is, for all the sciences, the preliminary and indispensable requirement for all research. (...) When we return to the concrete from the abstract, the parts which had been separated in order to study them better must be united again” (Pareto 1971 [1906], I, §§ 20; 26).

The same concept is restated in *Value and Capital*:

that there are a great many such extensions appears at once when we consider how wide is the variety of human choices which can be fitted into the framework of the Paretian scale of preference (Hicks 1939, p. 24).¹⁵

Pareto had a completely different idea of action. He realised that economic laws explained a small part of human behaviour. The kinds of logic behind economic and non-economic actions are substantially different. To utilise the theory of choice presupposes in Pareto's approach that agents are performing logical actions. This is very clear in all his scientific work ("What everybody surely knows, *since here we are dealing with logical action*, is that ..." (Pareto 1898, p. 128, my italic)).

In fact the theory of choice was introduced by Pareto in 1900, *after having developed his theory of logical and non-logical actions*. His theory of economic action before 1900 was still based on *pleasure*, and full of *relational* elements.¹⁶

In the *Manuel*, Pareto clearly specifies that his whole economic theory is valid for "many logical, repeated actions which men perform to procure the things which satisfy their tastes" (1971 [1906], III, § 1). Therefore, it is not strange that we don't find indifference curves in his Sociology.

Pareto consecrated the second part of his life to the dream of writing a "synthetic economics", a treatise of economics able to explain the complexity of economic behaviour. He never completed such a book, and Hicks and the others economists took up *Pareto's theory of choice separating it from his theory of action*; they extended a theory of choice, created to explain the small and 'simple' world of logical actions, to actions that are substantially different. And the Rational Choice Theory of the XX century has precisely gone in this direction.¹⁷

¹⁴ For a broader analysis of the continuity or discontinuity between Pareto and the microeconomics of the thirties see Bruni and Guala (2001).

¹⁵ It is a methodological attitude very close to that of Wicksteed. In fact, in reviewing Pareto's *Manual* (1906), Wicksteed criticised the book for having restricted the domain of economics, which, for Pareto, makes up "a very small part of the actual phenomena of the business" (Wicksteed 1933 [1906], p. 817). But above all, according to Wicksteed, Pareto does not realise that his "curves of indifference" can cover a much greater area of human behaviour.

¹⁶ See, for instance, the second volume of his *Cours d'économie politique* (Pareto 1896-7), or the analysis of social imitation and emulation in Pareto (1897) [1980], pp. 46 ss.

¹⁷ The economic approach to human behaviour by Becker and his school analyses all kinds of decisions by using the methodology of *rational choice* – maximising objective functions under constraint (Becker 1996). This approach is based on the methodological assumption of the possibility and goodness of analysing human behaviour by *extending the field of action of economic theorising*. Not only has current economic science not followed Pareto in the direction indicated by his *synthetic* economics, but it has solved the problem of the complexity of action by making the field of application of economics coincide with that of intentional choice in all fields: 'contemporary economics provides models not just for the prices of the rights for off-shore oil drilling, where the market meets very nice conditions, but also for the effects of liberal abortion policies on teenage pregnancies, for whom we marry and when we divorce and for the rationale of political lobbies' (Cartwright 1999, p. 1). Indeed, rational choice theory uses its tools even to explain social phenomena where different kinds of reasoning are at work; as a consequence economic rationality is increasingly enlarging its domain of application even covering every human action that deals with *intentional* choices: exactly the

4. Wicksteed's non-tuism

4.1. An escape from egoism (and interpersonal relations)

With Wicksteed's *Commonsense of Political Economy* the process, initiated by Pareto, of eliminating the analysis of interpersonal relationships from economics was pushed ahead.

Although starting from a different philosophical background (the Austrian tradition was very influent in his thought), Wicksteed reached conclusions about how to deal with interpersonal dimension in economics similar to Pareto's.

First of all, Pareto's influence in Wicksteed's mature economics has to be acknowledged.¹⁸ He reviewed Pareto's *Manuale* in the "Economic Journal", he was really impressed by the book: "it is a work which is likely to modify and stimulate economic thought to an extent quite disproportionate to the numbers of its readers. It will probably be understood by few, but every one who understands it will be influenced by it". Given the technical difficulties of the book, he "looks forward to a long period of continued and intensified study, and probably to the exposition and comments of other students, before attempting to estimate its full significance" (p. 815). He did had this lucky period: four years of study for writing his *Common Sense of Political Economy*, a work that 'bears witness everywhere to the extent to which Wicksteed himself had been affected' by Pareto's *Manuale* (Robbins 1933, p. xviii).

In fact if we compare the theory of the *Common Sense* with the theory of his older *Alphabet of Political Economy* "superficially, the two theories are the same ... But a closer inspection will reveal important points of difference" (p. xviii): differences in which it is too easy to single out Pareto's influence:

- a) The *Alphabet* starts from the marginal utility; the *Common Sense* starts with the 'relative scale of preferences';
- b) In the *Alphabet*, utility is considered as something objective and measurable; in the *Common Sense* the idea of measurability gives place to the idea of 'order of preferences'.

More in general, "there is no feature of the presentation which does not bear evidence of reformulation and improvement. In all this, the influence of Pareto is very strongly discernible" (Robbins 1933, p. xix).

opposite of what Pareto considered to be the task of economics.

¹⁸ In other works (see Bruni 2002, ch. 5) I have emphasised also the differences between the two authors. Cf., infra, footnote n. 15.

The *Commonsense of Political Economy* (1933 [1910]) is the most complete exposition of his thought. Wicksteed immediately asserts in the *Introduction* that the vast shift impressed by neoclassical economists on economic science is the consequence of having based economics on the “psychology of choice between alternatives” (Wicksteed 1933[1910], p. 2). It follows “that the general principles which regulate our conduct in business are identical with those that regulate our deliberations, our selection between alternatives, and our decisions, in all other branches of life” (*ivi*, p. 3). Then, economics has nothing to say about wants and motives.

The *Commonsense* contains a methodology already present in Gossen (1981 [1854], p. 54): Wicksteed starts his analysis from the behaviour of the isolated individual, Robinson Crusoe alone. Later (in ch. IV) he introduces Friday: “Hitherto our examination of the administration of resources has been conducted purely from the personal or individual point of view... We must now turn, making the momentous transition from personal to communal economics” (Wicksteed 1933[1910], p. 127).

The most interesting part of the story can be found in chap. V, entitled *Business and the economic nexus*: here, with the intent of definitively freeing economic science from egoism and hedonistic philosophy, he takes away *personalised* human interactions from economic science, coherently with what he had said in the *Introduction*, where, after having actually defined economics as the science of instrumental relations, he wrote: “the things and doings with which economic investigation is concerned will therefore be found to include ... the things a man can give to or for another independently of any personal and individualised sympathy with him or with his motives or reasons” (*Ib.*, pp. 4-5). The theoretical tool used was *non-tuism*.

4.2. Economic relations as a game of chess

Wicksteed defines the «economic motive» as one of the worst confusions that prevented science from evolving (*Ib.*, p. 163). The reason for this danger is that many economists limited their studies in economics to actions characterised by one particular motive, “the desire to possess wealth” (*Id.*) This methodological approach does not work for Wicksteed, since it excludes altruism from the economic field, and this would be a very serious limitation. Economics seen as the science of human action inserts altruism within the economists’ city walls: “We are only concerned with the ‘what’ and the ‘how’, and not at all with the ‘why’” (*Ib.*, p. 165).

Wicksteed begins by examining the theme of “communal economics”, where he introduces the concept of *non-tuism*. The economic relation is a positive-sum game: *alter* co-operates with *ego* because the relation is advantageous to both (*Ib.*, p. 166). All positive sum types of relations, where the others’ interests are seconded as an indirect way of reaching one’s own “may be fitly called

‘economic’” (*Ib.*). Then, having defined relations and economic conditions (*Ib.*, pp. 168-9), Wicksteed emphasises that the methodological pillars on which his economics is built are substantially different from those present “in the current treatment of Political Economy” (*Ib.*, p. 169).

The first column is “that the economic relation is entered into at the prompting of the whole range of human purposes and impulses, and rests in a no exclusive or specific way on an egoistic or self-regarding basis” (*Ib.*, p. 169). Then, he goes back to the housewife he had already introduced in the first pages (p. 20), emphasising that she cannot use a different *set* of motives, a different rationality, when she is at home and when she goes to the market. Just as Saint Paul could not be inspired at first by altruistic motives when at Aquila and Priscilla’s home, and then by egoism when he made tents, “the economic relation, then, or business nexus, is necessary alike for carrying on the life of the peasant and the prince, of the saint and the sinner” (*Ib.*, p. 171).

Saint Paul probably did not think about his interests but about those who would use his work. However, he – according to Wicksteed – cannot have *all the others* in mind (for remaining within the economic domain) but only those “at large”, that is anonymous and faceless humans: “In his attitude towards himself and ‘others’ at large, a man may be either selfish or unselfish without affecting the economic nature of any given relation, such as that of Paul to his customers” (*Ib.*, pp. 173-174).

But the most interesting passage is the following: “As soon as he is moved by a direct and disinterested desire to further the purposes or consult the interests of those particular “others” for whom he is working at the moment... *the transaction on his side ceases to be purely economic*” (*Ib.*, my italic).

For Wicksteed, economics deals with every particular action, it is compatible with every motive, it has no trouble in inserting altruism into the analysis: there is only one case that it cannot tolerate, when the other becomes a “you” (the Latin “tu”), *when he takes on the face of the person one is dealing with*: the butcher, the baker, or the candlestick-maker.¹⁹ This is where his famous neologism comes from:

It would be just as true, and just as false, to say that the business motive ignores egoistic as to say that it ignores altruistic impulses. The specific characteristic of an economic relation is not its “egoism” but its “non-tuism” (*Ib.*, p. 180).²⁰

¹⁹ Wicksteed specifies (*Ib.*, p. 175) that in effective attitudes one can often find even *tuistic* attitudes in the market, but these are interferences from extra-economic other spheres.

²⁰ But, Wicksteed says, *non-tuism* can be seen as a new form of the old *egoism* of economists. This would be true if the “tu” that the *economic man* is faced with was the only “tu” in his life; but this isn’t true, since Robinson doesn’t only have Friday to deal with, but all the other people, towards whom he can be, if he so wishes, an altruist.

Economic relations are like a game: “It would be absurd to call a man selfish for protecting his king in a game of chess... If you want to know whether he is selfish or unselfish you must consider the whole organisation of his life” (*Ib.*, p. 181). He repeats this idea in even clearer terms: “Once more, then, if *ego* and *tu* are engaged in any transaction, whether egoism or altruism furnishes my inspiring motive, or whether my thoughts at the moment *are wholly impersonal*, the economic nature of the action on my side remains undisturbed. *It is only when tuism to some degree actuates my conduct that it ceases to be wholly economic. It is idle, therefore, to consider “egoism” as a characteristic mark of the economic life*” (*Ib.*, my italic).

The last two phrases summarise Wicksteed’s methodological project. To save economics from the criticism of being a science founded on egoism, where there is no place for altruism, the price paid was leaving *personalised face to face* economic relations outside.²¹

4.3. Breaking away from non-instrumental rationality in economics

In Wicksteed’s account the only kind of interactions allowed within economics definitively became the *instrumental* one, where there is no place for intrinsic motivations or expressive elements.²²

The non-tuism methodology is necessarily linked to an instrumental idea of rationality: if the agent in economics is depicted as acting instrumentally, i.e. without assigning value to the intrinsic characteristics of behaviour and of its motivation, interpersonal interactions matter only to the extent that they are functional, or instrumental, to his individual goals.

This is very clear in Wicksteed’s essay on “The Scope and Method of Political Economy”, published in “The Economic Journal”. There he wrote:

[I]f a peasant adorns his ox-yoke with carving because he likes doing it and likes it when done, or if he carves a stool for his friend because he loves him and likes doing it for him and believes he will like it when done, the action is not economic; but if he gets a reputation for carving and other peasants want his work, he may become a professional carver and may carve a yoke or a stool because other people want them and he finds that supplying their wants is the easiest way for him to get food and clothes and leisure for his own art, and all things else that he desires. His artistic work now puts him into an economic relation with his fellows; but this example serves to remind

²¹ In Robbins’ work we cannot find the discussions on non-tuism; however we find them implicitly in his imprint and in his definition of rationality (Robbins 1932, p. xxii, note 2), where, for his calculating economic man, there is no room for sympathy in his choices.

us that there may be an indefinite area of coincidence between the economic and non-economic aspects of a man's occupations and relations. That man is happy indeed who finds that in *expressing* some part of his nature he is providing for all his natural wants; or that in rendering services to friends in which he delights he is putting himself in command of all the services he himself needs for the accomplishment of his own purposes. (Wicksteed 1914, p. 773, my italic).

The most influential place where this methodology crystallised is the treatise by L. Robbins in 1932, *The Nature and Significance of Economic Science* (1932), which – together with the Pareto-Hicks-Samuelson tradition – has most influenced the epistemology of microeconomics in XX century.

In the prologue to his *Essay*, Robbins explicitly recognises his indebtedness to the Austrians, Von Mises in particular, and to Wicksteed.

Economics became a matter of choices between scarce resources destined to alternative uses (Robbins 1932, p. 16): it is an entirely individualistic and instrumental operation; therefore it is not by chance that Robbins goes back to the Robinson Crusoe metaphor, and, like in Wicksteed, but *without Friday*. The example of Robinson Crusoe's economy is adopted to demonstrate how even an isolated man has an economic problem (*Ib.*, p. 10). Thus, according to Robbins, starting from the isolated agent makes it possible to find the nature of the economic problem, since Crusoe too “has to choose. He has to economise ... This example is typical of the whole field of Economic Studies” (*Ib.*, p. 12).

Wicksteed's influence in Robbins' design is decisive, as himself recognises (Robbins, 1932, ix; 1933, xxii, footnote 2). Robbins considers the chapter “Business and economic nexus” (that of non-tuism) the most important and original part of the *Commonsense*. Certainly, it is the part which influenced his method – and contemporary neoclassical economics – the most.

Instrumental rationality and non-tuism are therefore two sides of the same coin. In fact, within the framework of instrumental rationality, *ego* establishes a relationship with *alter* only *when* and *if* he/she needs him/her, and the counterpart is only seen as a means in order to achieve some goal which is *external* to the relationship.

Non-tuism, not egoism, is the assumption still present in the current way of doing economics, in particular in dealing with market interactions. The diffusion of Game Theory from the second half of XX century onward, and the extension of its logic to a larger set of interaction (with respect to the sole market ones), has overcome the necessity of assuming non-tuism.²³ In fact

²² On the role of intrinsic motivations in influencing economic rationality see Frey (1997); and on “expressive” or non-instrumental rationality see Hargreaves-Heap (1989).

²³ Martin Hollis points out that the main methodological assumption in contemporary Game Theory is “philosophical egoism”, the very *condition sine qua non*. In explaining the reasons of the dilemma of the “centipede game” (seen as an

today economists have never had much difficulty with altruism, but they find expressive and relational motives very hard to understand – and repeatedly try to reduce them to forms of altruism.²⁴

5. Another possible story: Marshall's *impure* economics

5.1. Sociality *within* economics: the social analysis of wants

The role of interpersonal relationships in economics would have been very different if Marshall's epistemology, instead of that of Pareto, would have become mainstream in the XX century. This section of the paper is an analysis of Marshall's approach to the theme, and its (partially unexpressed) potentialities.

Marshall's economics is, in fact, the place where the awareness of the interpersonal relations reached its maximum among XIX century leading economists. It is known that Marshall gave room for in "altruism" in his economics, denying that the individualistic self-interest is an essential requisite of economic science. He wanted to study the "man in flesh and blood", and therefore any human motive can have, theoretically, space within economics ((Marshall, 1946 [1890], p. 27 ss.).

icon of the various dilemma of *Game Theory*), he defined philosophical egoism as it follows: "Provided that the adjusted pay-offs are as stated, it makes no difference whether Adam and Eve are selfish sods or ardent altruists. The sorry outcome depends solely on assuming that Adam is directly moved only by that Adam wants overall, and Eve directly moved only by what Eve wants overall" (Hollis 1998, p. 17). Therefore, I wouldn't agree with K. Binmore who claims that "like arithmetic, game theory is not a manifesto for hedonism or egoism or any other *ism*" (Binmore 1994, p. 103), because game theory needs philosophical *egoism*. We must add that in some very recent games we find attempts of inserting non-instrumental elements within rationality: are the cases, among others, of the games with "sympathy" (Sally 2001), "fairness" (Rabin 1993), "emotions" (O'Neil 2000), "fellow-feelings" (Sugden 2002).

²⁴ With the advent of Game Theory someone saw on it a return of the theme of interpersonal relationship *within* economics. Von Neumann and Morgenstern, in the Introduction to *Game Theory and Economic Behaviour*, commenting the so-called *Robinson Crusoe economics*, wrote: "The chief objection against using this very simplified model of an isolated individual for the theory of a social exchange economy is that it does not represent an individual exposed to the manifold social influences. Hence, it is said to analyse an individual who might behave quite differently if his choice were made in a social world where he would be exposed to factors of imitation, advertising, custom and so on" (1964 [1944], p. 10). A methodological statement, this, that seems to go exactly in the direction of inserting interpersonal relationship within economic analysis, adding "alive" variables to "dead" variables. An impression, this, reinforced by what follows in the argumentation. In explaining the difference between Crusoe's perspective and theirs, the text in fact continues: "Crusoe is given a number of data which are "dead"; they are the unalterable physical background of the situation. ... Not a single datum with which he has to deal reflects another person's will or intention" (Ib., p. 12). Unfortunately, the conclusion of the discourse is a disillusion: "the study of the Crusoe economy and the use of the methods applicable to it, is of much more limited value to economic theory than has been assumed hereto fore even by the most radical critics. The grounds for this limitation *lie not in the field of those social relationships which we have mentioned before* – although we do not question their significance – but rather they arise from the conceptual differences between the original (Crusoe's) maximum problem and the more complex problem" (Ib., my italics). Then, it is just a question of complexity in calculating the maximum: but also with Game Theory it is still a problem of maximisation of individual utility function, with some additional variables (the "alive" ones) and technicalities. In fact, if we analyse the use of Game Theory in economics we soon realise that in his epistemology there is no much place for interpersonal interactions but instrumental; the "other" is not a "tu" with whom to have a personal relation, but a complex constraint in the individual operation of maximisation: "Game theory provides an elegant, universal logic of practical reason, offering much to anyone whose notion of rationality is instrumental and whose view of social world is individualistic" (Hollis and Sugden 1993, p. 32).

The only limitation of economic domain is for Marshall the possibility of monetary measurement: therefore, economic goods are those that “can be measurable by a money price” (Ib., p. 33).²⁵ It is a methodological operation very close to that performed by Malthus in shaping the boundaries of economic *wealth*.

The “right of citizenship” for altruism is not, however, an element of originality and rupture of his theory with respect to the economists who preceded him. The first name that comes into mind is Edgeworth, who allowed altruism to be present within the core of pure economics.²⁶ Although Edgeworth preferred to speak of “sympathy” or “utilitarianism”, and although he considered actions actuated or influenced by sympathy not perfectly economic (it is known his definition: “the first principle of Economics is that every agent is actuated only by self-interest” (1967 [1881], p. 16)), he recognised that sympathetic or altruistic actions can perfectly be the object of economics (Ib., p. 53).²⁷ More in general, however, although self-interest as dominant motive in economic matters was considered by Classical and Neoclassical economists (from Mill to Jevons to Pareto) as one of the most basis and universal economic laws, this was more a common sense thesis than an essential exigency of the theory. Even in Smith’s *Wealth* – as Fontaine (1997) claims – can be found room for sympathy within standard market transactions.²⁸ So, the elimination of such hypothesis did not affect the hard core of classical theoretical system – in fact, both Edgeworth and Marshall felt their theories in full continuity with classical economists.

A step forward with respect to Classics Marshall did in his analysis of wants.

Many of leading neoclassical economists of the first generation (Menger (1871, ch. I, § 1)²⁹, Jevons (1879, ch. III), Pantaleoni (1889, ch. III), and mainly Marshall), in underlying the subjective and psychological elements of economic life, in focusing on *people* rather than *things*, they brought back to the attention of economists the theme of *wants*, which at that time was resting, forgotten, in the works of some thinkers of the classical tradition (from Scholastic philosophers to Genovesi). For these economists too, the psychology of wants was an essential part of economics. In this way wants became the bridge between the interpersonal dimension and economic analysis. Menger

²⁵ The same thesis is present in Pigou (1920, ch. 1). For Marshall and his school the domain of economics is determined by the *strength* of man’s motives - “not the motives themselves” – strength that “can be approximately measured by the sum of money” (Marshall 1946 [1890], p. 15).

²⁶ Another economist to recall is Pantaleoni (1889).

²⁷ Cf. Collard (1978).

²⁸ Fontaine’s and Nieli’s interpretations recur both to the Humean theory of “spheres of intimacy”, also present in Smith. The key test for supporting their thesis is the following: “the necessity or conveniency of mutual accommodation, very frequently produces a friendship non unlike that which takes place among those who are born to live in the same family. Colleagues in office, partners in trade, call one another brothers; and frequently feel towards one another as if they really were so. ... Even the trifling circumstance of living in the same neighbourhood, has some effect of the same kind. We respect the face of a man whom we see every day, provided he has never offended us. Neighbours can be very convenient, and they can be very troublesome, to one another” (Smith 1984 [1759], pp. 223-4).

²⁹ In the last footnote to § 1 Menger distinguishes between *egoistic* and *altruistic* wants.

based all his subjective theory of value on wants: the first line of his *Principles* says “the starting point of every economic inquiry are human wants”. In this sense I agree with Schumpeter (1997 [1952], p. 83) when he says that “Menger belongs to those who have demolished the existing structure of a science and put it on entirely new foundations” – at least with respect to Anglo-Saxon political economy.

If economists deal with wants they must shift their attention from the isolated individual agent (Robinson Crusoe-like) to the agent immersed in a social environment, as most of our wants are generated by interactions with others. The social nature of most of the wants was very clear among German and Austrian economists, from Von Thünen to Menger. Lujo Brentano, one of the leaders of the young German Historical School, a cultural movement that was very much concerned for the social dimensions of political economy, was very explicit in emphasising the social nature of many feeling of pleasures and pains: “Soul sensations are much more powerful than the sensations of bodily pleasure and pain. Especially our relations with other men: friendship and aversion, love and hate, esteem and scorn bear continuously pleasure and pain and become ... a stimulus of economic activity, not less efficacious than bodily wants” (Brentano 1908, § 25). Therefore, “if want is a sensation, no want is just a bodily fact” (Jannaccone 1959, p. 135), and interpersonal elements play a non negligible role.

The will “to know which sentiments of soul, which faculties of mind ... push man to deliberately modify the forms of the world in which he lives” (Pantaleoni 1925, I, p. 11), was the ordinary subject in the first marginalist synthesis. The early neoclassical economists hoped to develop an analysis of demand which would explain human wants. A common concern among first-generation of neoclassical economists was to explain how wants are formed and vary, calling for psychological explanations. Contemporary economics, apart from very few exceptions (such as Stigler and Becker 1976), takes wants as *given*: the already thin bridge between interpersonal dimension and economics, collapsed!

Marshall knew very well what was going on in Austria and Germany, in particular the great emphasis that those economists put on wants and on their social formation. In fact, in Marshall’s *Principles* the analysis of the formation of wants had a great importance, given the centrality of *demand* and *consumption* in his system. If the economist must study the demand of economic goods, to Marshall was consequential that economics is highly concerned with the formation and variation of wants. Marshall’s theory of wants is centred on the thesis that economic activity is social, and therefore the creation and variation of wants are interpersonal matters. “Desire for distinction”, “emulation”, “desire for excellence” (Marshall, 1946 [1890], ch. II, §§ 1-4) were

considered by Marshall as the most powerful explanations of wants and demand; at the same time, he considered part of the task of economics *just* an “elementary analysis” of the theory of consumption, and “thought it may have its beginning within the proper domain of economics, it cannot find its conclusions there, but must extend far beyond” (Ib, pp. 90-91). In fact in a footnote (p. 91) he adds that though a deep theory of wants “is a task not without interest”, and most of Continental economist did that (French, Italian and mainly Austrian: he refers explicitly to Menger) nevertheless “the rigid boundary which English writers have ascribed to their science has excluded such discussions”. In Marshall, therefore, although he felt an attraction toward an economics based on a theory of wants, the desire of continuity with the English tradition was stronger.

5.2. Are interpersonal relationships wealth?

The last step in the analysis of the relation between Marshall’s theory of wants and his account for interpersonal dimension is to understand why Marshall (and Menger) were sure that interpersonal relationships are not “goods” in the economic analysis.

Menger is very explicit in his *Manual*: despite his vision of “goods” as all the things capable of satisfying humans wants (1871, § 1), he denied that “happiness, well-being, love, friendship” were “goods”, but only “free manifestations of personality” (Ib., footnote 1). The explanation of such a methodological choice is related to the “materiality” of goods: to him goods are “things”, commodities (Ib.).

The same conclusion, although starting from a different epistemology and methodology, was reached by Marshall. In the *Principles* he wrote: "The affection of friends, for instance, is an important element of wellbeing, but it is not reckoned as wealth, except by a poetic licence." (1946 [1890], p. 54). And further on, defining individual wealth, he says: “it excludes his personal friendships, in so far as they have no direct business value” (Ib., p. 57).

The explanation of this choice lies in Marshall theory of human agency, that is in continuity with the classical philosophical tradition. Few pages ago we met Malthus’s position on happiness: he sharply saw the distinction between happiness and wealth, but in his economic analyses he choose to deal with wealth and, *only indirectly*, with happiness. This approach of the founder of Cambridge’s tradition was continued by Marshall and his school (Pigou in particular). Marshall in opening his *Principles* wrote the following:

Political economy or economics is a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of wellbeing. Thus it is on the one side a

study of wealth; and on the other, and more important side, a part of the study of man (Marshall 1946 [1890], p. 1).

In this Marshall was really a “neo” classical, being his approach fully in continuity with Smith and even more with Malthus, his predecessor in Cambridge’s chair. Given his moral approach to economics, partially inherited from Ruskin and Carlyle,³⁰ and his concern for poverty, he was very aware of the complexity of the relation happiness/wealth.

From that sentence, not by chance placed at the beginning of his *Principles*, we get the basic elements of Marshall’s vision of economic agency:

- a) Economics does not deal *directly* with “well being” (that to Marshall is a substitute for happiness) but with the “material requisites” of it. We don’t find anymore the word “happiness” (which in England was linked to the utilitarian and hedonistic philosophy, from which Marshall wanted to take distance); there is however the expression “well being” (not completely new among economists at his time), later translated by his follower Pigou into “welfare”, the key-category of his *Economics of Welfare* (1912).
- b) The “material requisites” of well being is “wealth”, in line with the English classical tradition.

In the “Introduction” to the *Principles* we find also the theoretical key for understanding Marshall’s idea of the relationship between happiness and wealth, and his theory of interpersonal relations:

It is true that in religion, in the family affections and in friendship, even the poor may find scope for many of those faculties which are the source of the highest happiness. But the conditions which surround extreme poverty, especially in densely crowded places, tend to deaden the higher faculties. Those who have been called the Residuum of our large towns have little opportunity for friendship; they know nothing of the decencies and the quiet, and very little even of the unity of family life; and religion often fails to reach them (1890, p. 2).

Happiness (to Marshall) depends largely on extra-economic factors that are not wealth in the usual economic sense, that do not pass through the market, such as religion, and, mainly, genuine interpersonal relationships, such as family affections and friendship. We still find in Marshall the Aristotelian idea that happiness does not coincide with wealth, and also that happiness has a social nature. Nevertheless, poverty, even if in itself does not necessarily mean unhappiness, determines

³⁰ See Henderson 2000.

those objective conditions that render very difficult, even not impossible, to develop the dimensions of life and the interpersonal relationships on which happiness actually depends. Therefore, to Marshall economists' role in society is very important. Studying the means of increasing wealth or reducing poverty, far of not being in contrast with the general well-being or happiness,³¹ is a means for increasing directly the standard of life by also fostering the interpersonal dimensions of life.³²

In this methodological choice there was, however, a gap: the analysis of the transformation of goods into well-being (happiness), subjectively and collectively. In fact, as the contemporary economy and economics show, economic goods not always and anyway become welfare or well-being.

In his *Principles*, however, there is also an intuition of this possible inverse (and perverse) tendency – that, instead, was completely absent both in Pareto and Wicksteed. It is his theory of the “Standard of life”, the last chapter of his *Principles*.

First of all Marshall in that last chapter, in a full Aristotelian (and Senian) flavour, states that “the true key-note of economic progress is the development of new activities rather than new wants” (1946 [1890], p. 688), specifying that the question that “is of special urgency in our generation” is “the connection between changes in the manner of living and the rate of earning” (Ib.). For analysing this urgent question he distinguishes between two concepts: “The standard of life” and “the standard of comfort”, where the “standard of life is here taken to mean the standard of activity adjusted to wants” (Ib.), and “the standard of comfort [is] a term that may suggest a mere increase of artificial wants, among which perhaps the grosser wants may predominate” (Ib, p. 690). Then he repeats his thesis that “[i]t is true that every broad improvement in the standard of comfort is likely to bring with it a better manner of living, and to open the way to new and higher activities; while people who have hitherto had neither the necessities nor the decencies of life, can hardly fail to get some increase in vitality and energy from an increase of comfort, however gross and material the view which they may take of it. This rise in the standard of comfort will probably involve some rise in the standard of life” (Ib.). But this is not always the case: the rest of the chapter, in fact, in an analysis – applied to the labour market and the “burning question of the limitation of the hours of labour” (Edgeworth 1970 [1891], III, p. 14) and to the related issues of minimum wage and redistribution of income – of the cases when rises on standard of comfort bring to a fall of the standard of life. A first application of this analysis is Marshall's recommendation for a general

³¹ If one knows Sen's theory of the “the standard of living” (1987) will find a strong assonance between the two “Cambridge”'s economists. Marshall's line of thought was followed by his heir in Cambridge A. Cecil Pigou, who moved the fulcrum of the issue at hand toward the other magic word in economics: *welfare*. In his *Economics of Welfare* (1920, p. 16), he states that he deals only with the economic aspects of total welfare (that he calls “economic welfare”), that part of total welfare that “can be expressed, directly or indirectly, by a money measure”.

reduction of the hours of labour, that is likely to cause a little net material loss and much moral good; a case where a reduction of income can lead to more standard of life (happiness). At the end of the chapter is explained way: “Even if we took account only of the injury done to the young by living in a home in which the father and the mother lead joyless lives, it would be in the interest of society to afford some relief to them also. Able workers and good citizen are not likely to come from homes, from which the mother is absent during a great part of the day; nor from homes to which the father seldom return till the his children are asleep: and therefore society as a whole has a direct interest in the curtailment of extravagantly long hours of duty away from home” (Marshall 1946 [1890], p. 721).³³

6. Conclusions: **looking into the black-box?**

Marshall’s epistemology was potentially open to making space for the analyses of interpersonal dimensions *within* economics; the mainstream, however, has followed a completely different path, that of Pareto (and of Wicksteed).

It is not enough, however, to report the success of Pareto’s theory of action and epistemology. It is necessary to ask *why*. In conclusion I would point out just two possible explanations.

The first is obvious: the cultural atmosphere of the 30’s, when modern microeconomics came to life, so much influenced by neo-positivism and behaviourism, paved the way to Pareto’s anti-metaphysical and mathematic economics, and disregarded Marshall’s a bit old-fashioned ill-defined social considerations.

Secondly, Marshall had his own responsibility. Of his sophisticated and anthropologically rich theory of sociality, and of his awareness of the complexity in transforming goods into well-being, only a very small slice affected the analytical part of his economics. The Marshallian cross, consumer rent, demand curve, representative firm, reservation price, i.e. his main legacy in XX century economics, reports no stamp of that complexity and awareness. Marshall the economist did not maintain the promises of Marshall the social scientist. His anchorage to the “monetary measurement” has surely been a methodological obstacle that has also affected his followers, among those Pigou’s theory of Welfare that has not gone much further in this respect (the important

³² In this direction goes the fact that Marshall was the first to use, in English language, the word “good” for “commodity” in his *Principles* (following the German writers).

³³ Pareto was aware of the difference between his and Marshall’s methodology of action. In a letter dated January 1912 he wrote: “I am further away from Marshall than from many other economists who do not use mathematics”, since ‘economics is but a part of the social sciences’ (Pareto 1975, p. 757). Another letter written later reiterates the same concept: ‘To completely separate economics from sociology. This is the characteristic I wished to give in the *Manuale*.

category of “externality” was confined only to the “monetary” one, without entering into the “relational” or social externalities).³⁴

Along the mainstream tradition, economics, in particular neoclassical and post-Paretian economics, has become the science of the study of instrumental interactions among individuals, under the assumption that it would be (theoretically) possible to isolate the economic moment, based on individualism, anonymity and instrumental rationality, from the wider social fact of the economic life, where all recognise that the interpersonal dimension plays a central role.

In this choice – that *per se* is legitimate – there was an important *missing link*: to analyse how and if economic goods will become happiness, well-being (without adjective). In fact what we see today in the debate on economics and happiness is that the effort for augmenting material goods has systematic negative effects on the other components of wealth, in particular interpersonal relationships, and more income can lead – as the growing literature on the paradox of happiness shows (see Easterlin 2002) – to less well-being. We have seen that political economy has paid too little attention to the “technology of happiness”, i.e. the transformation of wealth into well-being.

This paper would have shown that this “transformation problem”, how and if the maximised wealth or income will be transformed into well-being or happiness, remains still unknown. In this “black box” that connects economic goods to well-being lies also the disregarded theme of interpersonal relationships in economics.

Amartya Sen most has done in pointing out that the key variable to look at is not income or goods *per se*, but actually they are important as long as they become capabilities, functioning. But, notwithstanding Sen’s important contribute, the box is still black with respect to the role of interpersonal relationships in the transformation problem.

Maybe the time is coming for starting to open the whole box and look into it.

In Marshall, the practical and especially the ethical considerations are very strong, making it difficult to make a distinction between economics and sociology’ (Ib., p. 759).

³⁴ We must, however, acknowledge that a lateral stream of Marshallian economics has, instead, embodied some of his social exigencies, that is his theory of the “industrial district” (Marshall 1927 [1919]), based on concepts such as cooperation, trust and social culture: see Becattini et al (1990), Raffaelli (1996).

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