December, 2010

Economists as Worldly Philosophers

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In his influential 1953 book *The Worldly Philosophers: The Lives, Times And Ideas Of The Great Economic Thinkers,* Robert Heilbroner gave an inspirational account of what economists do, an account that was assigned as supplemental reading to countless beginning economics students over decades. Heilbroner wrote that he chose the term "worldly philosophers" because of the breadth and moral depth of economists' inquiry. The appellation stuck, and for many years it was common to refer to economists as worldly philosophers. The inspiration of that book has contributed to the desire for many to go on to become economists, and to productive lives as researchers.

But, while the volume of research turned out by economists is most impressive, there are questions whether "worldly" and "philosophical" are represented as much as they should be in economic research. Has economics as a profession substantially lost sight of the idealism that existed in earlier decades? Has the strong impulse to pursue narrow specialization in order to propel research to the frontier led to some loss of moral perspective?

The financial crisis that started in 2007 and that continues today is widely taken in the popular press as evidence of a lapse, moral or otherwise, in the wisdom and judgment of the economics profession. Why was it that the profession as a whole failed to anticipate and raise any warning about the biggest financial crisis in the better part of a century? Countless critics

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from outside the profession think the models that economists relied upon were too rarified or specialized to allow most economists to see the big picture and to sound the alarm about problems that were developing.

At this juncture, we believe it is important to consider trends in economics over the years, and to think about factors influencing research agendas. We will start with consideration of the work of two of Heilbronner's "worldly philosophers." Overall, the men who were featured in this book and who were influential in the early development of the profession - including Adam Smith, Karl Marx, Henry George, John Maynard Keynes, Thomas Malthus, Alfred Marshall, and John Stuart Mill - were concerned with the broader intellectual current of their day, and were involved in important public policy issues with relevance to bettering the lives of citizens. They conceived of their discipline more broadly, and more in terms of moral imperatives, than most economists seem to do today.

I. Examples

Adam Smith was a professor, not of economics but of moral philosophy.[2] His *The Theory of Moral Sentiments*, first published in 1759, was a mixture of philosophy, psychology, and economics. It puzzled over the guiding force behind economic activity: are people inherently selfish, or do they have a concern for others? In assessing human morality, Smith found his way to psychology, and an effort to describe accurately human drives. This book was the foundation that enabled him ultimately to write his *Wealth of Nations* in 1776, the book that laid the foundation for modern economics.

[2] For many years economics was taught as part of the moral sciences tripos at Cambridge University (Masudul Alam Choudhury (1994); professors of political economy or economics did not appear until the nineteenth century.

John Maynard Keynes wrote a philosophical work *A Treatise on Probability* (1921) on the deep foundations of probability theory. He doubted that we should even be thinking in terms of probabilities: “Some statistical frequencies are, with narrower or wider limits, stable. But stable frequencies are not very common, and cannot be assumed lightly.”[3] This led him to think of probabilities as degrees of belief, and hence psychological phenomena, to reject much probabilistic economic modeling, and to formulate a concept of animal spirits as a force in the economy. Thus his philosophy of probability, and his rejection of mechanical manipulation of probabilistic models, were central to *The General Theory of Employment Interest and Money* (1936).[4]

Keynes was explicit in describing economics as a moral science (Jan Peil and Irene Van Staveren, 2009). Keynes’ interest in moral issues led to his influential book *The Economic Consequences of the Peace,* written at the end of World War I about the Versailles peace conference. He expressed concerns about the heavy reparation payments from the Germans imposed by the Versailles treaty, and interspersed purely economic analysis with ideas of the psychological impact of the reparations, the popular sense of their justice, as well as of the moral character of the people negotiating the treaty. Keynes’ analysis anticipated the economic, social, and political events that lead to the tragedy of World War II. This work, one of the most significant successes in the history of forecasting by an economist, showed an extremely broad, inductive, mode of inquiry.

It would appear that that same kind of inquiry was often behind the warnings of those of us who, before 2007, warned of the recent financial crisis. Sensing an imminent crisis once again involved thinking about the unreliability of our probability models, and instead of human

[3] Keynes (1921) p. 336.
[4] See Thomas Cate and L. E. Johnson, 1998.

psychology and of the course of historical events and institutional changes that weren't captured in modern econometric models.

Narrow specialization has its distinct advantages, of course: it facilitates rapid scientific progress, at least along directions that have been shown by earlier visionaries who did not specialize so narrowly. But a spirit of specialization in the profession has potential disadvantages as well. If specialization is too extreme, it has a tendency to lead to carrying original ideas too far, beyond their useful purpose. Specialization coupled with strong competitive pressures within academia leads to a situation in which academics often feel that they just do not have time to ponder broad issues and learn even basic simple facts outside their specialty. Their general knowledge may be embarrassingly limited, and so they may retreat into their own specialty and produce research which contributes in small ways to the development of the field, but fails to pay attention to the larger picture.

II. A Long-Term Trend Towards Increasing Scientific Rigor and Specialization

Modern social sciences departments began to proliferate in the late 19th century. The *Baltimore Sun* commented on this development for economics in 1892:

> "Political economy has come to mean a group of sciences. Formerly it was supposed that any person of ordinary intelligence could teach political economy. . . Now it requires a combination of specialists to present the results of the most recent researches in every department of economics."[5]

Already at this time there was a tension in the economics profession between those who saw social and ethical issues that defied formal analysis and those who emphasized pure economic theory. In 1889, Edwin R. A. Seligman, then an adjunct professor of political economy at Columbia University, commented on the tension between the "old school" that used a "historical

[5] "Political Economy," *The Sun* (Baltimore) Feb 20, 1892, p. 3.

and comparative method," and the "new school" that stressed an "a priori natural-law method" and "abstract reasoning".[6]

Seligman suggested that adherents of the "new school" tended to be younger, and that it was the older economists who were more philosophically inclined. Interestingly, this observation might be made by some about economists today. Perhaps there is indeed something about insights gained with aging, insights which transcend the era in which one lives.

The long trend toward a greater sense of scientific discipline did not always result in narrow specialization. By 1916, one observer, Harvard philosopher Ralph Barton Perry, remarked at how a broader vision of human nature had been creeping into economics:

> "Economic theory has steadily grown more psychological. . . . There has been a steadily growing tendency, in theory at least, to go behind the existing forms and instruments of the economic process, to the human motives which underlie and animate the process."[7]

Indeed, the emphasis of modern economics on representing human economic behavior in terms of maximization of utility functions in the face of constraints was a triumph for a broader more humanistic view of economic processes, in that it saw people and their motives as the core of economic theory, and led to the development of welfare economics, which gave a better moral connection to economic analysis.

But, in the view of critics, the technical specialization of fields in economics became more prominent in the late twentieth century, when such innovations as rational expectations theory and the efficient markets hypothesis seemed to be carried to excess by their enthusiasts.

Even the inventor, in 1961, of the concept of rational expectations, John F. Muth, had concerns in subsequent decades about the narrowness of trends related to his concept. In a 1984 letter addressed to Michael C. Lovell, Professor of Economics at Wesleyan, Muth asserted that

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[6] *Loc. Cit.*
[7] Perry, 1916 p. 447.

> "It is a little surprising that serious alternatives to rational expectations have never really been proposed. My original paper was largely a reaction against very naïve expectations hypotheses juxtaposed with highly rational decisionmaking behavior and seems to have been rather widely misinterpreted.
>
> Two directions seem to be worth exploring: (1) explaining why "smoothing" rules work and their limitations and (2) incorporating well-known cognitive biases in an expectations theory (Kahneman & Tversky). It is really incredible that too little has been done along these lines."[8]

Robert Heilbroner, writing in the seventh and last edition of *The Worldly Philosophers*, published in 1999, included a final chapter titled "The End of the Worldly Philosophy?" Heilbroner expressed concern about an increasing focus on economics being a "science," comparable to physics or biology, which seeks to discover laws governing economic events. However, Heilbroner cited Alfred Marshall's warning that "economics cannot be compared with the exact physical sciences, for it deals with the ever-changing and subtle forces of human nature."[9] In addition, Heilbroner noted that economics cannot be a pure science because the social life of humans is inherently political.

III. Economics as a Moral Science

In recent years, the first use of the term "economics as a moral science" appears to date from Kenneth Boulding's American Economic Association presidential address in 1968. In Boulding's view, sciences are usually not viewed as influenced by moral considerations, since they are aimed simply at discovering knowledge about the world. However, Boulding argues that sciences inherently depend upon a common acceptance of value systems, and hence have an inherent ethical component. In making this argument, Boulding asserted:

[8] Letter dated October 2, 1984, courtesy of Michael C. Lovell.

[9] Heilbroner (1999) p. 317.

> We cannot escape the proposition that as science moves from pure knowledge toward control, that is, toward creating what it knows, what it creates becomes a problem of ethical choice, and will depend upon the common values of the societies in which the scientific subculture is embedded, as well as of the scientific subculture. Under these circumstances science cannot proceed at all without at least an implicit ethic, that is, a subculture with appropriate common values.[10]

Boulding singled out in his 1968 address a direction that often carries economists too far: the fascination that economists have with the Pareto improvement as a framework for policy analysis. It seems self-evident to many economists that economic science should adopt the Pareto criterion as a research discipline: We should pursue the development of policies that make every single person better off, and cast aside any policy as unworthy of our consideration if it makes anyone worse off. But, Boulding argued, the underlying assumption that motivates Pareto theorizing, that people care only about themselves and that there is neither malevolence or benevolence anywhere in the system, is demonstrably false. "Anything less descriptive of the human condition could hardly be imagined"[11] Boulding asserted.

Here, Boulding is asserting that one must understand "the human condition" in order to pursue economics as a moral science. In his view, this requires economists to have some knowledge about history and the broader social sciences, in addition to developing mathematical and technical skills. If we are not going to rely exclusively on a narrowly defined Pareto criterion, we need to have some sense of the interconnectedness of people, and of their emotional reactions and motivations.

IV. Promoting Economics as a Moral Science

After the apparent failure of economists to see the possibility of our recent financial crisis, there are emerging signs of greater interest in a balance between specialization and

[10] Boulding (1969) p. 3.
[11] Boulding, p. 4.

knowledge of findings in other fields, including history, psychology, and sociology. What can the profession do to encourage its members to continue this trend? Are there supports or incentives that could encourage young economists to have greater investment in reclaiming the title of worldly philosophers?

Those who are in the position to influence the direction of economic research, including those who evaluate research proposals, engage in the hiring and promotion of researchers, or who manage scholarly journals, are in a key position to encourage broader perspectives which bring together various approaches to allow a more sophisticated assessment of economic problems.

An example of what can be done has been the creation in 1987 of the *Journal of Economic Perspectives*. In the first issue the inaugural editors, Joseph Stiglitz, Carl Shapiro, and Timothy Taylor, lamented that "specialists talk most easily to other specialists," and asserted that economists needed a new journal to "serve as a scholarly economics journal for the general audience of economists." They wrote: "The title of the new journal was chosen to reflect two central aspects of its mission: to provide a range of perspectives on economics and to show how an economic perspective can help in understanding society and some of its problems."[12]

Articles in that journal did not predict the world financial crisis that began in 2007, but the journal did publish a number of articles that were relevant just before the crisis. The spring 2005 issue included an article by W. Scott Frame and Lawrence J. White that worried about systemic issues posed by Fannie Mae and Freddie Mac, though it did not suggest imminent failure. The Fall 2005 issue featured a symposium "Cognition, Brain Science and Economics" that included a paper, by Ernst Fehr and Jean-Robert Tyran, which presented a cognitive theory of speculative bubbles based on experimental economics, though it did not discuss the current

[12] "Forward," *Journal of Economic Perspectives*, p. 3-5, P. 3.

situation. The same issue had an article by Charles Himmelberg, Christopher Mayer and Todd Sinai about the alleged speculative bubble in the housing market, though it reached a weak conclusion that "it is impossible to state definitively whether a housing bubble exists."[13] The winter 2005 issue included a symposium on sociology and economics that set the stage for a discussion of the sociology of the current speculative situation in the markets, though it did not actually do this.

These scholars clearly saw elements of the crisis but did not put all the elements together to alert the reader that a crisis was imminent. Did these authors really not anticipate the crisis at all, or did their view of themselves as just specialized model builders make them hesitant to use their own best judgment to challenge the prevailing viewpoint that our financial system was solid? Clearly, not all of the problems of specialization were solved by the founding of this journal.

But the kind of effort exemplified by the *Journal of Economic Perspectives* to encourage professional economists to synthesize from a wide variety of research directions and to form judgments about the pressing issues of the day is the right direction to go. We simply must implement more changes, such as other interdisciplinary forums, and improved design of incentives for researchers, both in their training and in their subsequent careers. The real imperative for researchers is that efforts need to be redoubled to encourage cross-fertilization and broad-spectrum thinking, driven by the broad moral purpose of improving human welfare.[14]

[13] Himmelberg et al. p. 89.
[14] We would like to thank Marie-Laure Djelic for helpful discussions

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