Report on Economizing on Justice

José Castro Caldas

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About ETHOS

ETHOS - Towards a European THeory Of juStice and fairness, is a European Commission Horizon 2020 research project that seeks to provide building blocks for the development of an empirically informed European theory of justice and fairness. The project seeks to do so by:

a) refining and deepening the knowledge on the European foundations of justice - both historically based and contemporary envisaged;
b) enhancing awareness of mechanisms that impede the realisation of justice ideals as they are lived in contemporary Europe;
c) advancing the understanding of the process of drawing and re-drawing of the boundaries of justice (fault lines); and
d) providing guidance to politicians, policy makers, advocacies and other stakeholders on how to design and implement policies to reserve inequalities and prevent injustice.

ETHOS does not merely understand justice as an abstract moral ideal, that is universal and worth striving for. Rather, it is understood as a re-enacted and re-constructed "lived" experience. The experience is embedded in firm legal, political, moral, social, economic and cultural institutions that are geared to giving members of society what is their due.

In the ETHOS project, justice is studied as an interdependent relationship between the ideal of justice, and its real manifestation – as set in the highly complex institutions of modern European societies. The relationship between the normative and practical, the formal and informal, is acknowledged and critically assessed through a multi-disciplinary approach.

To enhance the formulation of an empirically-based theory of justice and fairness, ETHOS will explore the normative (ideal) underpinnings of justice and its practical realisation in four heuristically defined domains of justice - social justice, economic justice, political justice, and civil and symbolic justice. These domains are revealed in several spheres:

a) philosophical and political tradition,
b) legal framework,
c) daily (bureaucratic) practice,
d) current public debates, and
e) the accounts of the vulnerable populations in six European countries (the Netherlands, the UK, Hungary, Austria, Portugal and Turkey).

The question of drawing boundaries and redrawing the fault-lines of justice permeates the entire investigation.

Alongside Utrecht University in the Netherlands who coordinate the project, five further research institutions cooperate. They are based in Austria (European Training and Research Centre for Human Rights and Democracy), Hungary (Central European University), Portugal (Centre for Social Studies), Turkey (Boğaziçi University), and the UK (University of Bristol). The research project lasts from January 2017 to December 2019

Executive Summary (max. 1 page)

The paper addresses the conceptualization and articulation of justice in dominant (neoclassical) economic theory, here denoted as economizing on justice. It traces the economizing on justice approach back to its origins and assesses it in light of challenges and criticism coming from other existing, but comparatively marginalized, traditions and authors within the discipline.

Three features of economics are singled out to characterize the way economics engages with justice, or rather, to portray the economizing on justice approach. The first *is the conception of motivation and action*, more specifically the presupposition of self-interest and actuation by incentives. The second is *the separation from ethics*, that is, the exclusion of valuations from 'economic science'. The third is its *indifference to distributive justice or aversion to distributive policies*.

Those features and the process of their development are analyzed in the first half of the paper. In the second half, criticism of the economizing on justice approach articulated by dissenting outstanding economists is presented.

The paper argues, firstly, that the economizing on justice approach has been having detrimental practical implications in respect to the realization of social justice, secondly, that the current attempts at reconciliation of economics with justice are limited the hegemony of neoclassical economics in the academia. Reconciling the study of the economy with justice may indeed require a revival of political economy based on presently marginalized traditions – historical, institutional, marxist and post-keynesian – allowing for a fruitful cross fertilization with other social sciences.

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Introduction

Sixty years ago D. H. Robertson (1956) posed the question – "What does the economist economize?" – and he replied – "it's love". Robertson was referring to "the economist" in his role of designer of institutions or adviser to public decision makers, and using the word 'love' in a loose sense, encompassing affections, public spirit, benevolence, and also justice concerns. His main point was that the economist ought to contribute to create institutional environments "where as small a burden as possible would be placed, for purposes of society's functioning, on this thing 'love'" (Hirschman, 1985: 16). More specifically, he ought to stick to the assumption that self-centered motives for action – self-interest or self-love – are the only relevant or operative ones, and that society can only be secured if founded on institutional arrangements that transform these egoistic drives into (possibly unintended) beneficial outcomes to society.

However, even before Robertson's time, the economizing on love approach by economists had extended beyond presuppositions in respect to human motivations for the purpose of institutional or public policy design, to shape economic analysis as a whole, and the very the conception of the nature of 'economic science'.

Initiated in the last decades of the 19th century under the influence of positivism, political economy underwent a process of transformation aimed at removing from the discipline premises which supposedly precluded it to fulfil the requirements of 'positive science'. According to the proponents of this transformation, known as marginalists or neoclassicists, the resulting 'economic science' should be called 'economics', as in fact came to happen, and be separated from moral philosophy and even political economy.

When referring to "the economist" Robertson had in mind precisely the type of economists educated in the major universities under the precepts of marginalism or neoclassicism – a type of economist and of economics that was, and still is, dominant. For this type of economist and of economics, economizing on love, or more precisely economizing on affections and ethical values, including justice – in respect to human motivations, to criteria of assessment of social states, and even for the demarcation of the scope of economics, or 'economic science' – is still, as in Robertson's time, a major precept.

Having as a concern the clarification of the dominant (neoclassical) articulation of justice in economics, here denoted as economizing on justice, this paper builds on previous research (Caldas et al., 2007; Caldas and Neves, 2012a; Caldas and Neves, 2012b) to trace the economizing on justice approach back to its origins and to assess it in light of challenges and criticism coming from other existing but comparatively marginalized traditions and authors within the discipline.

Three features of economics, as it still is presented to students in most universities all over the word, are crucial to characterize the way economics engages with justice, or rather, to portray the economizing on justice approach. The first *is the conception of motivation and action*, more specifically the presupposition of self-interest and actuation by incentives. The second is *the separation from ethics*, that is, the exclusion of valuations from the scope of 'economic science'. The third is its *indifference to distributive justice or aversion to distributive policies*.

These features of economics, some of them latent at the inception of political economy, developed mostly within the tradition initiated by the marginalists and pursued to the present day by neoclassical economists. Section two elaborates in each of those features and on the process of their development.

Those developments in marginalist and neoclassic economics have led to an articulation of economics with justice which, although hegemonic, never was unchallenged. Disapproval came first from socialist critics of classical political economy, namely Karl Marx, and from economists of the historical and institutionalist schools. Latter, however, further criticism was articulated by outstanding economists that, while not giving up on dialogue with neoclassicism, broke away with neoclassical economics, and contributed in different ways to overcome the economizing on justice approach. Section three returns to the above mentioned three features of the of the articulation of justice in economics, to elaborate on the contrarian views, not so much of Marxist, historical and institutional economist, which presently are simply ignored in most economics departments, but of those on the margins of 'mainstream' who are occasionally evoked in economics' classrooms, or even awarded with the Nobel prize. The concluding section sums up the discussion and addresses the practical implications of the economizing on justice approach and the limitations of attempts at reconciliation of economics with justice.

I. The development of the economizing on justice approach

1.1. Motivation and action

Homo economicus, as a designation for the archetypical economic agent with whom every student is made acquaintance in introductory economics courses, originated in the works of Wilfredo Pareto to denote a 'rational' and self-interested entity, an abstract molecule that responds only to economic incentives (McLure, 2002), and "knows neither benevolence nor malevolence, only indifference" (Daly and Cobb, 1994: 86). The engagement of such an agent with justice is purely instrumental. For him or her, justice matters only as long as it may help him pursue, or is not detrimental to, self-interest.

Homo economicus usually claims to be the modern offspring of a long lineage with roots in the works of the supposed founding father of economics Adam Smith, and to enjoy an undisputed theoretical status in the discipline. However, as becomes apparent from the reading of original texts in political economy and economics, starting in Adam Smith, the status of *homo economicus*, even within marginalist and neoclassical economics, has never been, either steady nor uncontroversial.

Placing the origins of *homo economicus* in Adam Smith is clearly a result of a misreading of Adam Smith main works, namely of *The Theory of Moral Sentiments* (hereafter TMS) and the *Wealth of Nations* (hereafter WN) (Caldas et al, 2007; Sen, 2009).[1]

In fact, in both of his major works Smith devoted a considerable effort to counter the arguments of those "who are found of deducing all our sentiments from certain refinements of self-love" (TMS, I.I.14) which is worth considering in the context of a reflection on the engagement, or rather disengagement, of economics with justice.

Sufficient to surprize any economics' student educated in the neoclassic tradition is the opening paragraph of TMS (I.I.1):

[1] The editions of Adam Smith's works used are Smith (1790[1759], 1904[1776]).

> How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it...

The principle in human nature alluded to by Smith in the above quotation is *sympathy*. Sympathy, for Smith, denotes the capacity for experiencing the sorrow, joy or resentment of others. In TMS, the mechanisms of sympathy are specified, and a theory of conscience is derived from them.

At the level of the individual, sympathy is described as a capacity which involves an imaginative projection of the self into the body of others, a "changing of places in fancy with the sufferer" (TMS, I.I.3). Sympathy is also a relational phenomenon. In sympathetic affection, at least two parties are involved: the actor and one spectator. Whatever the passion experienced by the actor, "an analogous emotion springs up ... in the breast of every attentive spectator" (TMS, I.I.4). The bonds of sympathy are reciprocal.

Furthermore, moral approval or disapproval of others depends on sympathy. If the passions of the actor are in concord with the sympathetic feelings of the spectator, the latter will approve them, but if a degree of dissonance arises, the spectator will tend to disapprove. Conscience, however, only emerges from the faculty of moral assessment once an additional capacity of individuals is considered – the capacity of unfolding the self into two selves: "as nature teaches the spectators to assume the circumstances of the [actor], so she teaches [... the actor ...] to assume those of the spectators" (TMS, I.I.37). From an external stance actors watch and judge themselves:

> we either approve or disapprove of our own conduct, according as we feel that, when we place ourselves in the situation of another man [the impartial spectator], ... we can or cannot entirely enter into and sympathize with the sentiments and motives which influenced it. (TMS, III.I.2)

Smith's human being is endowed naturally with multiple and contradictory propensities. Among them is the desire for approbation. But since that desire alone would not render him fit for society, nature has endowed him also "with a desire of being what ought to be approved of; or of being what he himself approves in other men" (TMS, III.I.14). He thus "naturally desires, not only to be loved, but to be lovely ... [; he] naturally dreads, not only to be hated, but to be hateful … [; he] desires, not only praise, but praiseworthiness ... [; he] dreads, not only blame, but blame-worthiness" (TMS, III.I.8). The agent is often split between the misapprehensions of self-love and virtue. If self-command is properly nurtured, the impartial spectator Smith believed – will on most occasions correct the natural misrepresentations of self-love. This accounts for conscience and for the consequent capacity of humans for virtuous behaviour.

For the Smith of the TMS the possibility of society relied entirely on virtue. Nothing in the WN contradicts this stance. In both works he rejected the notion that self-love can never be virtuous and thought instead that "regard to our own happiness and interest ... appear upon many occasions very laudable principles of action" (TMS, VII.II.87). He certainly upheld in WN that "[i]t is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest" (WN, I.2.2) and he wrote in TMS "[s]ociety may subsist among different men, as among different merchants, from a sense of its utility, without any mutual love or affection…" (TMS, II.II.16). However, importantly, he added that "[s]ociety may subsist, though not in the most comfortable state, without beneficence; but the prevalence of injustice must utterly destroy it." (TMS, II.II.17)

For Smith, both justice and beneficence were important virtues but while beneficence was "the ornament which embellishes, not the foundation which supports the building", justice was "the main pillar that upholds the whole [social] edifice" (TMS, II.II.18).

To what justice was Smith referring?

For Smith, while distributive justice was understood as beneficence and voluntary – "nature … exhorts mankind to acts of beneficence, [but] she has not thought it necessary to guard and enforce the practice of it by the terrors of merited punishment in case it should be neglected" (TMS, II.II.18) –, commutative justice (abstention to harm others) was compelling, depending for its enforcement not only on the magistrate but on the consciousness of ill-desert implanted in the human breast by Nature:

> In order to enforce the observation of justice, therefore, Nature has implanted in the human breast that consciousness of ill-desert, those terrors of merited punishment which attend upon its violation, as the great safe-guards of the association of mankind… (TMS, II.II.18)

Smith viewed justice (in the commutative sense) as a trump on self-love. This is what he meant in the passage of WN often quoted as evidence of his sole reliance on self-interest: "Every man, *as long as he does not violate the laws of justice*, is left perfectly free to pursue his own interest his own way…" (emphasis added, WN, IV.9.51).

In light of a thorough reading of TMS and the WN it becomes clear that in this famous passage he means not that political economy assumes self-interest *and* law abidance, resulting from the fear of the penalties imposed by the magistrate, doing away with all other motives, but self-interest *and* justice concerns, dictated not only by fear of external penalties, but also by the conscience of ill desert.

Justice, as an intrinsic motivational drive of human beings, is crucial in Smith. Once this is understood, Smith hardly can be taken as the origin *of homo economicus* or of the economizing on justice approach.

In spite of Smith's firm assertion of political economy as a branch of moral philosophy that acknowledged the plurality of human motivations, the relevance of morality in human behavior, and the legitimacy of an enquiry on values within the scope of the discipline, Smith's disciples initiated in the 19th century a dislocation of political economy away from its moral foundations which involved different several small steps towards the reduction of the reach both of the motivations considered and of the discipline itself.

Some of Stuart Mill's works illustrate well the dislocation of political economy away from moral philosophy. Mill (1836) argued that political economy should be viewed as a separate moral science (Hausman, 1992; Caldas et al, 2007) concerned with man "solely as a being who desires to possess wealth and who is capable of judging the comparative efficacy of means to obtain that end", thus making an "entire abstraction of every other human passion or motive" (Mill, 1836: 52).

He further upholds that this abstraction implied a delimitation of the field of relevance of the theory to "certain departments of human affairs, in which the acquisition of wealth is the main and acknowledged end" (Mill, 1836: 53–4) namely production, distribution and consumption.

Mill's stance did contribute to isolate specific acquisitive motivations as the relevant ones to economics and prepare the ground for a more dramatic shift in this direction initiated in the 1870s.

Driven by the belief that "[e]conomics, if it is to be a science at all, must be a mathematical science" (Jevons, 1965 [1871]: 3), and encouraged by Bentham's utilitarianism, political economy underwent, after Mill, a transformation known as the marginalist revolution that cleared the way for the economizing on justice approach.

A mathematical science would require quantities, and economics, William Jevons admitted, dealt with unobservable "feelings of the mind" not prone to direct measurement (Jevons, 1965 [1871]: 7). However, that difficulty was not undefeatable. Utility could not be observed and weighed, but the money price of the marginal unit consumed of a good provided an indirect measure of its utility.

But could the strength of all desires be measured by a money price? Like Mill, Jevons followed Bentham in that "pleasure and pain include all the forces which drive us to action" (Jevons, 1965 [1871]: 23). But, at the same time he believed that the feelings of the mind may be "incomparable in power and authority" (Jevons, 1965 [1871]: 26), meaning that a "higher motive" might overbalance "all considerations belonging even to the next lower range of feelings" (Jevons, 1965 [1871]: 25). Jevons was not very specific in respect to the distinction of 'higher' and 'lower' motives. It seems clear however that those 'higher' motives would be related to ethical obligations and justice concerns. Between the two levels of motives Jevons excluded trade-offs. Higher and lower motives were incommensurable. 'Higher' motives should simply trump 'lower' ones.

Since he wanted to avoid the complexities of a "higher calculus of moral right and wrong" (Jevons, 1965 [1871]: 27), he confined economics to the lower range of feelings. Economics was thus delimited by the inappropriateness of expressing in money form and commensurating feelings of diverse elevation. Utility would be maximized in the lower range as long as the higher calculus did not prohibit it. Economics should deal with this ethically restricted lower calculus, teaching how "to gain us the utmost good in matters of moral indifference" (Jevons, 1965 [1871]: 27).

Francis Edgeworth, a contemporary of Jevons, uncompromisingly affirmed that economics upheld as a first principle "that every agent is actuated only by self-interest" (Edgeworth, 1967 [1881]: 16). Ethics and economics were separate. There was an "Economic Calculus" which "investigates the equilibrium of a system of hedonic forces each tending to maximum individual utility" (Edgeworth, 1967: 15) and a higher calculus of right and wrong – the "Utilitarian Calculus". Economics dealt only with "the lower elements of human nature" (Edgeworth, 1967 [1881]: 53).

Building on Jevons' and Edgeworth's and other marginalist contributions, but sensitive to 'romantic' criticisms of economics influential in the nineteenth century (Hodgson, 2001), Alfred Marshall regretted attempts "to construct an abstract science with regard to the actions of an 'economic man', who is under no ethical influences" (Marshall, 1966 [1920]: v). Against Edgeworth's concept of economic man, he stated that: "everyone who is worth anything carries his higher nature with him into business; and, there as elsewhere, he is influenced by his personal affections, by his conceptions of duty and his reverence for high ideals" (Marshall, 1966 [1920]: 12).

Marshall thus advocated an economics that should deal not with an abstract man, but rather with

> a man of flesh and blood. [One] who is largely influenced by egoistic motives in his business life ... but who is also neither above vanity and recklessness, nor below delight in doing his work well for its own sake, or in sacrificing himself for the good of his family, his neighbours, or his country; a man who is not below the love of a virtuous life for its own sake. (Marshall, 1966 [1920]: 22)

Nevertheless, economics ought to study the "ordinary business of life" (Marshall, 1966: 12) where the most salient motives could be brought under the measuring rod of money, dealing primarily with

> desires, aspirations and other affections of human nature, the outward manifestations of which appear as incentives to action in such a form that the force or quantity of the incentives can be estimated and measured with some approach to accuracy; [namely] by the sum of money, which [a person] will just give up in order to secure a desired satisfaction; or again by the sum which is required to induce him to undergo a certain fatigue. (Marshall, 1966 [1920]: 12–13)

Marshall recognized the relevance of motivations other than self-interest, even in respect to economic action, but since there were serious "limitations of the measurement of motive by money" the scope of the discipline would have to remain restrained (Marshall, 1966: 15):

> [It] will however probably be always true that the greater part of those actions, which are due to a feeling of duty and love of one's neighbour, cannot be classed, reduced to law and measured; and it is for this reason, and not because they are not based on self-interest, that the machinery of economics cannot be brought to bear on them. (Marshall, 1966, p. 20)

A subsequent important step in the transformation of economics which led it beyond the territory of moral indifference of the English economists was performed by continental European marginalists of the Lausanne School, namely Léon Walras and Vilfedo Pareto (Caldas et al., 2007). In their works choice was deprived of any motivational content (Sugden, 2002) and the subjective theory of value became a logic of choice.

For Walras (1988 [1874]) utility was an attribute of things, the capacity that material or immaterial things have of satisfying wants of any kind, no matter what the moral judgment might be about the particular want or drive. Exchange in the marketplace was a natural fact as if commodities are exchanged with other commodities with no intervention of individual wills.

Pareto (1981 [1909]) believed that economic theory should be based solely on objective facts and that motivational elements would lead the analysis of choice into the domain of metaphysics. He excluded the possibility of measuring utility and advocated the replacement of the cardinal utility concept by an ordinal one according to which what mattered were not the mental states of satisfaction or dissatisfaction of individuals but their preference orderings. The values of individuals did not have to be interrogated, nor the value conflicts that they might experience.

With Hicks and Allen (1934) the axiomatic of Pareto's ordinal preferences was established. Such axiomatic intends to bypass the difficulty of trade-offs between incommensurable values involved in the mathematical maximization of utility that disturbed Jevons and other English marginalists. In (consistent) preference orderings commensurability was now implicit, hidden under the requirement of "comparability" of choice options, not exposed as in cardinal utility theory. What now mattered in choice, what defined it as rational, was consistency devoid of any value considerations.

Rational choice devoid of normative content pushed the domain of economics away from the ethical neutral territory of moral indifference where it was confined by the marginalists and allowed its expansion to unrestricted domains of action. Economics by the hand of the practitioners of this imperialistic stance was simply a 'science of choice', without any separate or delimited field of application.

Gary Becker's work in the University of Chicago Law School (see, among others, Becker, 1973; 1974; 1977) pioneered those incursions outside the territory of moral indifference. Becker's analysis on racial discrimination, crime, family organization, and drug addiction extended the maximization of utility to value dimensions or types of preferences previously excluded from economic analysis.

In Becker's view, violating the law, leaving your lover, or discriminating people on the basis of ethnic 'preferences' was no less a matter of balance of costs and benefits than composing a consumer basket. This perspective, which would have appeared abhorrent to 19th century marginalists (and still appears as such even to many neoclassic economists) was recently popularized by practitioners of *freaknomics* (Levitt and Dubner, 2005).

1.2 The separation from ethic*s:* economics as a value-free science

The delimitation of scope of economics, separated from other 'moral sciences', was initiated in political economy by Mill among others and pursued, as described above, by marginalists.

This delimitation involved for some the identification of different types of economics. Walras, spoke of 'pure', 'applied' and 'social' economics, with pure economics involving logic only, applied economics encompassing judgments of the relevance of the logic of pure economics in the real world, and social economics addressing social reform. Pareto distinguished 'pure economics' from 'applied economics' on the grounds of a difference between logical and non-logical action.

While several opinions coexisted on demarcation criteria within marginalism, an essay by Lionel Robbins *(1984 [1932])* was published in 1932, that would come to shape in a decisive way the understanding by economists of the nature and the value content of their discipline (Caldas and Neves, 2012a; 2012b). In this essay Robbins wanted to adapt economics so that it could survive the positivism demarcation criterion between science and non-science. He understood that Mill's definition of political economy – a science concerned with wealth acquisition – would be a discipline at the service of a specific value, whereas positivism required value-freedom.

Robbins was highly critical of the 'materialist definition of economics'. For him, a discipline concerned with wealth, or with the "study of the causes of material welfare" (Robbins, 1984 [1932]: 4), would be a servant of the normative presupposition that wealth, or welfare, is a goal worth pursuing among other goals, if not in precedence to them all. He also did not sympathize with the 'lower motive' – 'higher motive' distinction of the marginalists.

For Robbins, economics should be understood as a science studying the "relationship between ends and scarce means which have alternative uses" (1984 [1932]: 16) – a discipline that dealt with the means of action and the possibility of achieving ends defined elsewhere, not with the definition of ends itself. That discipline would be value-free and therefore scientific.

This did not mean that for Robbins values were irrelevant to economics. Values instead had a place in economics as long as they entered as data, not as judgments of value by the economist. Nor did it mean that reflection on ends was alien to the economist. It just signified that, science required that the definition of ends should pertain to a normative (non-scientific) branch of the discipline, called by Robbins 'political economy'.

Latter on Milton Friedman, in an equally influential essay, would insist on distinguishing among "a positive science ... a body of systematized knowledge concerning what is; a normative or regulative science ... a body of systematized knowledge discussing criteria of what ought to be ...; an art ... a system of rules for the attainment of a given end' (Friedman, 1953: 3).

Positive and normative economics, Friedman explained, are related, since the conclusions of positive economics are relevant to normative problems – knowing what can be done is relevant for establishing the goals worth pursuing. However, the reverse would not hold true: positive economics would be "independent of any particular ethical position or normative judgments" (Friedman, 1953: 4). Independence of ethical or normative judgments, and sole dependence on facts of experience, was the feature of economics that would grant it the status of an 'objective' science applying only to the positive branch of economics. Whereas in positive economics differences of opinion could be eliminated by 'progress' in research, disagreements in normative questions were "differences about which men can ultimately only fight" (Friedman 1953: 4).

1.3 Indifference to distributive justice or aversion to distributive policies social

One feature of economics as understood by the first marginalists, and of Bentham's utilitarianism, is that a similar model of rational choice applies both to individual and social choices. According to this model, rationality consists of maximizing utility in the light of the expected consequences of each choice alternative, and acting accordingly. Rational individuals maximize in the light of the expected consequences of each choice alternative for *him/herself*. 'Society', or rather individuals in the role of public decision-makers, maximize in the light of the consequences of alternative policies or projects for *all individuals* in society. Under the marginalist's delimitation of territory of economics, individual choice, namely Edgworth's '*Economic Calculus'*, was broadly conceived as morally neutral, and social choice - Edgworth's '*Utilitarian Calculus'* – as dependent on ethical judgements, namely conceptions of social justice.

Utilitarianism provided a criterion for social choice which, for a while, seemed to be indisputable for most marginalist – the maximization of the sum total utility in society. However, difficulties in respect to this criterion were soon to become apparent. The first was the impossibility of measuring utility. In fact, the inability to observe and measure utility precluded the possibility of adding or subtracting individual utilities and dis-utilities and comparing total net social utilities as a criterion for judging the comparative advantages of social states. The second was a moral one. Maximizing total utility in society presupposes that an increase in utility in individual A may compensate for a decrease in B's utility, even when B was worse off at the outset. At stake beyond that of interpersonal comparability of utilities debate lurked deeper concerns with the non-commensurability of individual utilities.

Pareto suggested an escape route out of the deadlock, the so-called Pareto improvement criterion: social state A should be taken as an improvement over social state B, if and only if all individuals in society preferred A to B (or were indifferent between A and B) and at least one individual strictly preferred A to B. A social state where no such improvement was possible was taken as *efficient* and *efficiency* taken as a desired property of social arrangements. No measurement of utility or interpersonal compassion is involved here, just stated preferences. However, the Pareto criteria of efficiency obviously equated to a unanimity rule, making transitions from B to A implausible in practice.

Latter on the Kaldor-Hicks 'compensation test' (Kaldor, 1939; Hicks, 1939) came to by-pass the difficulty created by the unanimity requirement. This test postulates that social state A is an improvement over B if those who gain with the transition from B to A could compensate those who would lose, and still be better off (even if the compensation were never made).

Pareto, and possibly Kaldor and Hicks, conceived of their efficiency and ‘compensation test’ as objective, value-free criteria. This is obviously not the case in respect to Pareto improvements and Kaldor-Hicks compensations. Pareto efficient transitions and the Kaldor-Hicks criteria (even if the compensation takes place) may lead to more unequal outcomes. Should efficiency prevail over equality?

The efficiency-equality debate would since then dominate the controversies within a new (normative) welfare branch of economics. Against marginalist initial concerns with social justice, a shift towards indifference in respect to justice in distribution, first, and a subsequent move to aversion can be observed in the evolution of neoclassical economics during the 20th century.

An instance of this swing is the popularization of the ‘trickle down hypothesis’, according to which regressive economic policies benefiting the rich would necessarily stimulate investment and benefit all (Stiglitz, 2016). Another instance is the trade-off equality (or equity) efficiency invariably present in all public economics handbooks.

The trade-off equality-efficiency was selectively extracted from a work by Arthur Okun (*2015 [1975]*) in which the author discussed redistribution both in “the domain of social and political rights in which society gives priority, at least in principle, to equality over economic efficiency” and in “the marketplace and other economic institutions, in which efficiency gets priority and a large degree of inequality is accepted” (Okun*, 2015 [1975]: 86).*

In his 1975 book Okun presented “the leaky-bucket experiment”, consisting of transferring through taxation income from the top 5% in the income distribution to the bottom 20%. This should in principle increase the income of those at the bottom. However, wrote Okun, “the program has an unresolved technological problem: the money must be carried from the rich to the poor in a leaky bucket”, as a consequence of which some “will simply disappear in transit, so the poor will not receive all the money that is taken from the rich” (Okun, 2015 [1975]: 86).

The real-life counterparts to the leak in the bucket would be administrative costs (the costs of collecting taxes), reduced work effort (rich individuals might take more leisure and do less work, and poor shirk on their work effort), distorted saving and investment behavior (disincentive to save), and changes in socioeconomics attitudes (adverse ethical judgement on economic success, detrimental effects on the work pride of recipients).

While Okun was dismissive of the actual relevance of those leaks, and nevertheless argued for some redistribution, the message that was selected from his leaky bucket experiment and transposed to textbooks was simply: equality (or equity) is costly; people and governments may nonetheless be ready to pay that cost, but that readiness is determined by political preferences, mere ideology, or even by a cynical concern over the ballots.

A more extreme, although influential, form of aversion to social justice can be found in the intersection of neoclassical and 'Austrian' economics were both Milton Friedman (1962) and Friedrich Hayek (e.g., 1982) coincided in considering social justice as antithetical with freedom with the last characterizing social justice a meaningless phrase.

II. Reconciling economics with justice

In spite of the hegemony of the neoclassical variety, economics contains even today dissenting views on methodology, theory and practice. The neoclassical adherence to a concept of rationality and action that economizes on affections, public spirit, benevolence, and justice, and its stance on value neutrality, and its aversion to justice, has never been immune to criticism coming from within the profession. In this section some of those criticisms are evoked.

2.1 Challenging *homo economicus*

As early as the end of the 19th century, Thorstein Veblen (1898, [2010]), the founder of institutional economics who first coined the term neoclassical economics, characterized (and criticized) the economic man then taking shape in economics as

> a lightning calculator of pleasures and pains, who oscillates like a homogeneous globule of desire of happiness under the impulse of stimuli that shift him about the area, but leave him intact. He has neither antecedent nor consequent. He is an isolated, definitive human datum, in stable equilibrium except for the buffets of the impinging forces that displace him in one direction or another. Self-imposed in elemental space, he spins symmetrically about his own spiritual axis until the parallelogram of forces bears down upon him, whereupon he follows the line of the resultant. When the force of the impact is spent, he comes to rest, a self-contained globule of desire as before.

Veblen's characterization, anticipates criticisms of *homo economicus* that have been recurrently advanced by many since its inception. Important recent critical approaches to the neoclassic conceptions of human motivation and action relevant for an appraisal of the economizing on justice approach include Amartia Sen's and Albert Hirshman's, along with more recent ones stemming from behavioral economics.

In *Rational Fools*, Sen (1977) directly addressed moral capabilities and their relevance in respect to action in economic contexts. To characterize those moral capabilities Sen mobilized the concepts of *sympathy* - "the case in which the concern for others directly affects one's welfare" (Sen, 1977: 326) - and *commitment* – the case "of a person choosing an act that he believes will yield lower level of personal welfare to him than an alternative that is also available to him" (Sen, 1977: 327) out on a sense of duty.

While admitting that sympathy and commitment might be of little relevance in respect to consumer choice, Sen identified economic contexts where those motives or moral capabilities are highly relevant, namely social dilemmatic situations involving the possibility of free-ridding, like public goods provision, team work and work motivation in general.

In the same paper Sen also advanced the idea of a multi-layered preference structure allowing for preferences on preference orderings which, unlike utility functions or simple preference orderings, might accommodate moral judgments.

In *Against Parsimony*, Hirshman (1985) adressed once again the postulate of self-interest of *homo economicus.* In this article Hirshman highlighted: (1) the ability of human beings "to step back from their 'revealed' wants, volitions, and preferences, to ask themselves whether they really want these wants and prefer these preferences" (Hirshman, 1985: 8), accounting for the possibility of preference change; (2) "the existence of wholly noninstrumental activities" undertaken independently of incentives; (3) the importance of the moral 'input' in society as a resource whose supply tends to increase and not decrease with use. He also argued, rejoining Sen, that the moral capabilities of human beings should not be abstracted away by economists since they are relevant to explain behavior in economics contexts.

More recently Bowles (2008) surveyed economic experiments that directly challenge Robertsons' above mentioned economizing on love postulate, providing evidence that "incentives that appeal to self-interest may fail when they undermine the moral values that lead people to act altruistically or in other public-spirited ways" (Bowles, 2008: 1605; see also the box below).

In an experiment involving subjects whose livelihoods depended on forest resources, subjects had to decide how much to withdraw from the common pool – 'the forest'. The decision was repeated in various rounds. In the experiment, as often occurs in the real world, the level of withdrawal that maximized the gains of the group was lower than the level that maximized the gain of each individual.

In a treatment in which individuals could not communicate with each other during the experiment, the average levels of withdrawal observed in the various rounds were midway between the maximizing level for the individual and the maximizing level for the group. In another treatment, communication was allowed (but there was no way to make binding promises). Average withdrawals declined and the benefits for the group and the average individual increased.

A third treatment precluded communication and introduced penalties for withdrawals above the group-optimum which reduced the individual advantage of over-exploitation of the common pool but did not eliminate it. The subjects responded in the initial rounds of the experiment by restricting their withdrawals to the group-optimum level, but after those initial rounds their behavior increasingly converged to individual-optimum level.

Bowles (2008: 1607) concludes: “The fine, although insufficient to enforce the social optimum, apparently all but extinguished the subjects’ ethical predispositions that in early rounds had induced them to withdraw much less…”.

In another experiment reported in Bowles (2008: 1607) subjects played the roles of employees and employers. Employees chose a level of effort that was costly to them and beneficial to the employer which determined the distribution of gains between both. Before the employee’s decisions on the level of effort, the employer could choose either to leave the decision on effort to the employee or to impose on him a lower bound on his ‘production’ that maximized the employers’ payoff.

The observed outcome was that employees chose a lower level of effort when employers imposed the lower bound. Moreover, in anticipation of the employees’ reaction, less than a third of employers actually imposed this bound.

According to Bowles four reasons account for the observed outcomes in this type of experiments: *framing*, *endogenous preferences*, *overdetermination*, and *the information content of incentives*.

Framing refers to how a decision situation is represented. The representation of the situation – market-like or government imposed *versus* community or collective action, for instance – may signal appropriate behavior, with market-like and government inducing self-interested responses, and community and collective action inducing other-regarding, or reciprocating behavior.

Endogenous preferences refer to changes in motivations induced by incentives. In some of the experiences reported by Bowles a similar behavior may be observed without and with incentives, but subjects who behaved in another-regarding mode (without incentive) and were later emerged in an incentive-based institutional setting, and apparently behaved in the same way, tended to shift to self-regarding behavior when the incentive was withdraw.

Over determination refers to situations where explicit incentives suppress individual sense of autonomy or the possibility to express moral dispositions. This might be the case with the employees of the experiment above described – agents willing to perform a substantial effort if the decision is left to their discretion may fail to do so if the effort is imposed on them.

Finally, the informational content of incentives refers to the fact that incentives reveal information about beliefs and interests of some parties in the transaction. Employers in the above described experiment imposing lower levels on effort are expressing distrust that may be taken as insulting by employees, and negatively reciprocated.

2.2 Challenging the positive-normative divide

Among other challenges to the positive-normative divide established among others by Robbins and Friedman, Gunnar Myrdal's and Amartia Sen's deserve a special mention.

Throughout his life Gunnar Myrdal was, although for different reasons, a discontent with the economic education he received in Sweden during the 1920s, and a critic of neoclassical economics (Caldas and Neves, 2012a; 2012b). Similarly to Robbins, he had no doubt that the "task of economic science is to observe and describe empirical social reality and to analyse and explain causal relations between economic facts", and that "preferences regarding states of society, actual or imagined – i.e. political opinion – fell outside the scope of economic science" (Myrdal, 1990 [1930]: 1). His quarrel with neoclassical economics was related with the smuggling of political ideology into practical prescriptions under the guise of theory (Myrdal (1990 [1930]).

Years later, however, under pragmatist and institutionalist influence, the mature Myrdal came to dismiss as 'naïve empiricism' the notion of a positive economic theory independent of valuations, rid of metaphysical elements and policy conclusions (Myrdal, 1969: 9) and believe instead that,

> [f]acts do not organize themselves into concepts and theories just by being looked at; indeed, except within the framework of concepts and theories, there are no scientific facts but only chaos. There is an inescapable a priori element in all scientific work. Questions must be asked before answers can be given. The questions are all expressions of our interest in the world; they are at bottom valuations. Valuations are thus necessarily involved already at the stage when we observe facts and carry on theoretical analysis and not only at the stage when we draw political inferences from facts and valuations. (Myrdal, 1969: 9)

In spite of the acknowledgement of the value-ladenness of facts and causal relations, the mature Myrdal was not giving up on the possibility of objectivity. Clear for Myrdal was that: (a) refining methods to deal with data was not enough – "the chaos of possible data for research does not organize itself into systematic knowledge by mere observation" (Myrdal, 1969: 51); (b) trying to refrain from political conclusions would be vain – "practical and political conclusions are almost always drawn nevertheless" (Myrdal, 1969: 52).

Objectivity depended instead on bringing the valuations out into the open:

> A 'disinterested' social science has never existed and, for logical reasons, can never exist ... The only way in which we can strive for 'objectivity' in theoretical analysis is to expose the valuation to full light, make them conscious, specific, and explicit, and permit them to determine the theoretical research ... The stated value

> premises, together with the data ... should then form the premises for all policy conclusions. (Myrdal, 1969: 55–56)

In the perspective of the mature Myrdal the indictment that could legitimately be made to neoclassic economics was not of being contaminated by valuations – valuations are unavoidable – and not of failing to get rid of those valuations – this, against the young Myrdal, would be impossible – but rather of concealing those valuations under the guise of theory.

In recognizing the inescapable normativity of economics and advocating the open statement of basic valuations, Myrdal did contribute to move economics closer to a reconciliation with justice. Nevertheless, Myrdal's contribution, as is apparent in his discussion of criteria of selection of value premises, remained limited by his preconceptions on the epistemic status of values.

Myrdal adopted as principles for the selection of value premises three criteria: *relevance*, *significance*, and *feasibility*. Relevant valuations were "the actual valuations of persons and groups in society", not the idiosyncratic valuations of the researcher. Significant valuations were those "held by substantial groups of people or by small groups with substantial power". Feasible valuations were those not "aiming for the impossible" (Myrdal, 1969: 65–6). Implied also was that valuations of a higher level, usually having "explicit expression by the State and by several formal institutions within the State" (Myrdal, 1969: 68), not the lower valuations that usually lead to bias, should be retained.

Myrdal was therefore taking on board valuations which would be 'objective' in the sense of being external to the observer or the analyst, and operative in determining behaviour in society. The obvious problem is that, led to select value premises that are significant in Myrdal's sense, the social theorist would be deprived of any critical leverage on valuations that are upheld by powerful groups or even the state, no matter how absurd or abhorrent they might be.

In fact, as a reader of pragmatist philosophy, Myrdal had stopped halfway. He (like Robbins) never overcame what Putnam (2002: 145) termed the last dogma of empiricism: the presupposition that "facts are objective and values are subjective and 'never the twain shall meet'".

Amartya Sen, who consistently devoted considerable effort to reconciling economics with ethics and justice (Sen, 1987; 2001; 2009) covered much more ground throughout his academic life in overcoming the fact/value dichotomy. This has encompassed, first and foremost, an important contribution to shed away the remnants of utilitarianism (welfarism) from economics involving both critique and the formulation of alternatives.

Sen's alternative – the capabilities approach – replaces utility, as a single value criteria of assessment of individual well-being, and the sum of individual utilities as criterion for ranking social states, by a multidimensional consideration of values, that brings to the fore *functionings* (states and activities constitutive of a person's being, such as being healthy, being safe, being happy, and enjoying self-respect) and *capabilities* (the alternative combinations of functionings which a person can achieve).

Characteristic of Sen's approach is his refusal to specify the relevant functionings and capabilities. This does not equate to a denial of the possibility of objectivity in a research on values. It simply corresponds to the acknowledgement of the need to take into account the context of use of capabilities, which can vary, and the requirement of public involvement in the valuational scrutiny that may provide a specification of core capabilities.

Sen's 2009 book that directly addresses justice invites the economist to go beyond claims that "justice is not a matter of reasoning at all" to engage in "reasoned diagnoses of injustice, and from there to the analysis of ways of advancing justice." (Sen, 2009: 4-5).

Requirements of objectivity in political and ethical beliefs in Sen's work are public scrutiny – "There is a clear connection between the objectivity of a judgement and its ability to withstand public scrutiny" (Sen, 2009: 394), – plurality of reasons – "Judgements about justice have to take on board the task of accommodating different kinds of reasons and evaluative concerns" (Sen, 2009: 394) – open impartiality (non-parochialism):

> If the discussion of the demands of justice is confined to a particular locality… there is a possible danger of ignoring or neglecting many challenging counter-arguments that might not have come up in local political debates… but which are eminently worth considering, in an impartial perspective. (Sen, 2009: 403)

Sen's expectation is not that the fulfilment of these requirements brings as a reward complete orderings of conceivable social states – "The identification of the transcendental requirements of a fully just society" (Sen, 2009: 401) –, but partial orderings allowing for comparative assessments.

Sen's message to his fellow economists is clear enough: the fact that "not all disputes [in respect to justice] can be resolved through critical scrutiny" is no valid argument to economize on justice "in those cases in which reasoned scrutiny yields conclusive judgement. We go as far as we reasonably can" (Sen, 2009: 401).

2.3 Challenging indifference to inequality

Contrasting with most of their contemporary heirs, marginalist economists had a clear concern with social justice. This as shown by Macciò (2016) was clearly the case with Cambridge economists like Marshal and Pigou. Marshall believed that inequality was a serious flaw of capitalism. Worried by the adverse effects of collectivism on incentives his emphasis was placed on equality of opportunities in education supported by public funding. Pigou believed, in contrast to advocates of the equality-efficiency trade-off, that inequalities besides being unjust were wasteful of welfare. As Marshall he supported the chivalry of the higher classes, that is philanthropy, but further than Marshall he also advocated for state intervention aimed at income redistribution.

A similar concern with social justice, as also shown by Macciò, can be found with other Cambridge economists associated with John Maynard Keynes in the Apostoles discussion society. Under the influence of Fabianism and Moore's moral philosophy those economists, including Keynes, while considering justice not an end in itself, but a means to the Good, believed that large inequalities should be addressed if necessary through state interference in the distribution of wealth and income. Keynes, in particular, while believing that economic inequality was important for the stimuli to enterprise it entailed, found no justification for large disparities as those existing in his time. He approved direct taxation and death duties (Macciò, 2016).

After Keynes, and decades of neglect in economics, concern with inequality has recently resurfaced. In a series of works published after his departure from the vice-presidency of the World Bank, in 2000, Joseph Stiglitz (2012; 2105) has been standing out as one of the vocal contributors to the ongoing shift of the mind-set of economists and policy makers on inequality. His basic point is that inequalities in the 21st century have reached the level in which the costs to consider are those of existing inequalities, not those of reducing them.

Stiglitz attributes the bulk of inequities presently experienced in developed capitalist societies, not to differences in the marginal productivity of individuals, as assumed in neoclassical economics, but to rent-seeking and exploitation. Rents, he explains (Stiglitz, 2016: 140) include, not only the returns to land but monopoly profits, and in general returns due to ownership claims. Rent-seeking means "getting an income not as reward for creating wealth but by grabbing a larger share of the wealth that would have been produced anyway" (Stiglitz, 2016: 141).

In Stiglitz' perspective inequalities driven by rent-seeking have a cost that economist have until recently failed to consider. First, inequalities may result not in more saving and investment, but rather in a saving glut. Contrary to the neoclassical belief, what drives investment and job creation is demand. If demand is depressed by the depressed wages correlated with increased income and savings at the top, those savings will be channeled not to investment, but rather to speculation in real estate and financial markets. Second, inequality of outcomes and opportunity depletes the potential of those at the bottom and hinders not only demand at the present, but growth in the future. Third, unequal societies are less likely to make public investments which enhance productivity (Stiglitz, 2016: 146).

Once acknowledged the costs of inequality there would be, in Stiglitz view, room for considering an array of measures aimed at reducing inequalities, including: “more investment in public goods; better corporate governance; anti-trust and anti-discrimination laws; a better regulated financial system; stronger worker’s rights; and more progressive tax and transfers policies” (Stiglitz, 2016: 149).

III. Concluding notes

The economizing on justice approach has considerably expanded since 1970s within economics and without - in the territory of other social sciences and of policy making. Economics' departments pluralistic in respect to theory and doctrine were purged of views dissenting from neoclassical economics, neoclassic influence in other social sciences, including law (e. g. law and economics) increased, and the economizing on justice sway in policy making was reinforced.

Under the cloth of objectivity and value-freedom the economizing on justice approach, which in fact is highly politicized and biased, strengthened its authority and command on policy- making at different scales from the International Monetary Fund, the World Bank, and the European Union institutions, to national governments, Central Banks and consultancy firms.

Under its influence commodification processes neglecting the ethical limitations of markets (Anderson, 1990) were enhanced. Labor relations were transformed to enact 'free' labor markets, public administration was transformed under New Public Management, corporate governance was renovated under pay-for-performance schemes, the provision of heath care, education and social protection was privatized in many countries, the financial markets were deregulated and made the sole source of financing for public sector deficits.

Those transformations were concomitant with a rise in wealth and income inequalities, and culminated in the Great Recession initiated in 2007. Paradoxically, after a period of perplexity and soul searching in which indictments of economics for being responsible for the crisis were loudly voiced in the public space, the crisis was addressed by governments with the intellectual tools provided by neoclassical economics which translated in deflationary fiscal and labor market policies counterbalanced by expansionary monetary policies, both converging in the production of further income and specially wealth inequalities.

Awareness of the consequences of the expansion of the economizing on justice approach, even before the Great Recession, has led some contemporary economists to criticize this approach and attempt a reconciliation of economics with justice.

Some of those attempts are very limited in reach and consequences. In most accounts justice matters because individuals, besides being motivated by self-interest, do have justice concerns which may nurture or hinder their disposition to work or engage in collective action. In this perspective, moral dispositions, or justice concerns are treated as resources which get depleted, not by being used, but by remaining idle (Hirschman, 1985: 17). Justice matters, uphold others, because inequality may impede economic growth. In those accounts justice is instrumental, a means to other ends.

Other attempts are more ambitious and far reaching – research in economics should be driven by openly stated values, and economics should engage in a research on values in equal standing with its research on facts and causal relations. From incursions into this research on values, justice tends to emerge, not as a mere 'preference', but as an ideal and a goal whose worth is backed by good reasons.

Arguably all attempts so far at reconciliation of economics with justice are incomplete. Within economic departments dominated by the economizing on justice approach the success of those attempts is improbable. A more positive prospect resides on the revival of an unashamedly normative, and yet no less scientific, political economy that by building on presently neglected past contributions of classical political economy, historicism, institutionalism, marxism and keynesianism may reinstate economics as a 'moral science' open to dialogue with philosophy, law, and other social sciences.

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