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# Scarce Means, Competing Ends: Lord Robbins and the Foundations of Contextual Economics

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## Abstract

This paper analyses the role of Lord Robbins' definition of economics (RDE) emphasizing scarcity and choice, as well as its usefulness for clarifying the foundations of contextual economics. The reasons for RDE's appeal and some strategic benefits of its flexibility / openness are discussed, along with a brief analysis of some of the criticism which has been raised with respect to the methodological and epistemological background, notably the status of empirics, of introspective knowledge, of motifs and of value judgments. RDE is found to impose restrictions regarding contextual interdependences related to endogeneities of contract enforcement, of preferences, and of technologies. Following David Hume, scarcity moreover will be considered as a contingent contextual condition of the environment rather than an aprioristic starting point of economic analysis.

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## 1. The Common Sense of Economics?

In his essay on *The Nature and Significance of Economic Science*, Lord Robbins (1932) famously claimed that economics is "the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses." The Robbins definition of economics (RDE, for short) highlights the importance of *choice* for economics, notably choice involving trade-offs and opportunity costs. But it does more than this. What it does is an intricate part of progress in 20th century economics – and it teaches us something about contextual economics. Or so I will argue in this paper.

The definition of economics for which Robbins coined the most succinct formula did not come out of the blue. It aptly addressed certain challenges and needs of the discipline in its development, notably in the second and third quarter of the 20th century. In the present paper I am going to argue that RDE may,

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moreover, be highly useful for making more specific the case for modern contextual economics. This presupposes some understanding of the just mentioned historical role of RDE and is related to contingent circumstances of the evolution of economics in the 1920s and 1930s, including wide-ranging criticism of "neoclassical" research programs and the then prevailing inter-paradigmatic competition. (Considering Wesley Mitchell's role in the National Bureau of Economic Research at that time, American institutionalism appeared to be a serious competitor in the development of economics as a modern science, while the relation between Keynesian macroeconomics and "orthodox" economics was subject to discussion.)

The analysis of RDE can be decomposed in two parts: (i) the methodological and epistemological positions as argued in Robbins (1932 and 1935), and (ii) the scarcity / choice focus of RDE, which is now often considered the common sense core of economics. Of course, not only (i), but also the scarcity focus itself was the target of critique, which claimed that it does not capture what economists (should) do in a comprehensive and descriptively accurate way. For the purposes of the present article, the latter kind of criticism (a wave of it came in the 1930s as a reaction to Robbins' 1932 essay; see Backhouse and Medema 2009) is for the most part less interesting. In contrast, critical analysis of the underlying tenets is useful for understanding the focus and the biases of the discipline, and for making a case for contextual economics.

The Robbins definition of economics is not only congruent with, but indeed was useful for dominant research programs from the 1950s onward. Their progress reflects the built-in flexibility and *open-endedness* of RDE. RDE's "open-endedness" is the explicit target of a critique by James Buchanan (1979, 20), and it is indirectly criticized by those who complain about the "imperialism of economics." Nonetheless, RDE was conducive to meaningful ways of widening the horizon and taking into account substantial variations of context. In contrast, contextual interdependences that can hardly be accommodated under RDE include endogeneity of preferences, of technologies, and of the *enforcement conditions* of exchange. Last but not least, scarcity itself is considered as a contingent contextual condition of the environment triggering certain types of interdependences, rather than an aprioristic starting point of economic analysis. In that sense, discussing the limits and problems of RDE is a starting point for specifying arguments for modern contextual economics.

In the following second section, I will quickly go through some of the criticism which has been raised with regard to the methodological and epistemological positions in its background (notably implications regarding the status of empirics and normative issues) as put forward in Robbins (1932 and 1935). Some of this criticism is related in specific ways to RDE's drawbacks regarding various levels of contextual dimensions of economic analysis, which is discussed in section 4. In order to put the arguments of section 4 into perspective, section 3 will deal with the sometimes paradoxical ways in which RDE pro-



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vided guidance for economists. Section 5 concludes by pointing to some implications for contextual and empirical economics.

## 2. Robbins' Methodological Principles and Their Critique

In a certain sense, Robbins' scarcity definition of economics comes close to squaring the circle: within one sentence, it integrates experience of everyday life and a particular methodological outlook on economics as a science. More specifically:

(A) RDE invokes the economic way of thinking as an intuitively obvious aspect of everyday life, epitomized by the common experience of scarce means and competing ends.

(B) It is linked to a particular type of problem and particular method in a transparent way: the allocation problem and constrained optimization.

Despite this splendid combination, the Robbins definition of economics has a paradoxical history and a contested status. When it was published in the 1930s, it was confronted with quite a number of articulate objections by economists (see Backhouse and Medema 2009), who mostly argued that other definitions of the subject (such as the traditional one focusing on wealth) better capture what economists (should) do. While in the 1930s it was in fact far from universally endorsed, Robbins (1935) emphatically denied any claims of originality for RDE, stressing instead that the RDE-formula is only expressing views which are common among economists. Robbins (1979, 997) considers the status of RDE as an expression of economic common sense and the concomitant lack of originality as sufficiently important to be reiterated almost half a century later: "… the idea that it only emerges in my youthful writing is erroneous." In the meantime, RDE indeed had become widely endorsed among a quite diverse (but not all-encompassing) range of economists, in particular from the 1950s and 1960s onward. Occasionally, some tenets and background arguments put forward by Robbins (1932 and 1935) were and are criticized by economists. Apart from James Buchanan, Richard Lipsey (a participant of the Robbins seminar at the LSE in the 1950s and author of an influential textbook) deserves to be mentioned. Lipsey pointed to implications regarding the unsatisfactory status of empirics (see Lipsey 2009 for a summary of those arguments). Methodological and epistemological criticism further took issue with RDE-related tenets, notably its degree of apriorism, the status of deduction and the degree of abstraction from exchange and economic institutions.

The tenets and arguments supporting RDE can be summarized in four points, which to some extent are related to each other. Originally put forward in *Nature and Significance*, Robbins later also pursued some of them (such as the rejec-



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tion of interpersonal utility comparisons) in writings not directly associated with RDE.

(1) *No interpersonal utility comparisons.* Modern economics does not rely on the hedonist psychology inherited from the utilitarian tradition (an important influence up to Pigou). "Choice" is invoked in the general and parsimonious form of stable *ordinal preferences* without interpersonal comparisons. As stressed by Robbins (1932, 91–2 and 1979, 998), rational action means consistent choice in the sense that "if one prefers A to B and B to C, then it is consistent to prefer A to C."

(2) *Rational choice and purposive action.* Rational choice is conceived of as *volitional* and *purposive* action. If choices can be considered as rational, *purposive judgments* of individuals, the scientific economist may put forward claims about the social desirability of allocations entirely based on those choices/judgements (see Lerner 1972, 258), without introducing normative judgements drawn from somewhere else. This has implications for the status of Pareto efficiency and consistency (see below).

(3) *Introspective knowledge about agents.* The foundations above do not rely on empirical psychology and moreover are *incongruent* with a behaviourist stimulus-response model.[1] Economics need not and must not rely on controlled experiments or empirical psychology to establish the basic aspects of human action. Unlike the natural sciences, it is in the position of using inner experience as a source of knowledge. Economics may be conceived as a deductive science based on intuitively obvious/plausible assumptions or axioms.

(4) *Economizing on means, while taking ends as given.* Considerations about ends are under no circumstances part of economics. The economist qua economist is not concerned with ethical judgements, valuation principles or motives; economic analysis is absolutely neutral with regard to ends (strong neutrality).

Here is a sketch of some of the problems associated with these tenets:

(1) *No interpersonal comparisons:* Robbins' rejection of hedonist psychology is in line with the ordinalist turn promoted by Pareto, Hicks and Samuelson. Moreover, it is congruent with Mises' arguments denying any role for psychology in economics. But authors such as John Harsanyi (1955) and Marc Fleurbaey and Peter Hammond (2004) explore the scientific status of interpersonal comparability beyond hedonism. Amartya Sen (1993) argues

[1] As Wade Hands (2009, 158) aptly observes, Robbins substituted the word *incentives* for the word *stimuli* (which had been used in the first edition and may sound exceedingly behaviourist) in the second edition when discussing the assumption of ordering some aspects of different choice sets (such as a wage offered for a certain activity) in terms of their intensity.



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that the parsimonious foundation of choice theory built on consistency of choice (beyond substantive valuation principles or psychological assumptions) is to a certain extent spurious. Invoking consistency implicitly must refer to some contextually appropriate *external reference of choice* (i.e., to some values, motives, objectives, or substantive principles) in order to meaningfully discuss the consistency requirements on which (for instance) a conception like revealed preference is based. More specifically, Sen (1993, 498–9) argues the assimilation of choices and evaluative *statements* (X is better than Y) is problematic. While a set of *statements* may be internally inconsistent, diagnoses of *choice*-inconsistency presuppose some external reference as to what the individual might want to do (e.g., maximizing some objective function). Depending on the problem under consideration, it moreover does not make sense to rule out some specific "external reference" of choice *a priori*. In certain problems of Social Choice, ruling out any external reference including interpersonal comparability *a priori* may be problematic. Notice that Sen's line of argument is consistent with Wieser's (1927) rejection of some *specific psychological paradigm* as a basis for economic conceptions of human action: Sen's external reference argument does not rely on some *specific* psychology.

(2) *Rational choice:* One cannot take for granted that consistency axioms capture instrumental rationality in an entirely unproblematic way, let alone the more demanding claims that they are the unique expression of purposive action. There are at least two strands of research undermining the status of choice-related consistency as an intuitively obvious expression of purposive action. (i) Empirical/experimental work shows that intuitively appealing consistency axioms are often violated (generating paradoxes such as the Allais-Paradox): choice may be *context-dependent* in various ways, not least in contexts where risk and uncertainty play a role. (ii) Theoretical work sheds light on tensions between consistency axioms and other intuitively appealing axioms or concerns which should not *a priori* be categorized as "irrational," such as individual rights (or "regret," as suggested by Robert Sugden 1985).

In a broader historical perspective, the kind of parsimony imposed by (1) and (2) has developed into an anachronistic straightjacket for research strategies as well as regarding the task of providing an individualist framework for social choices. One may admit that the anti-psychological tendency of Robbins' arguments perhaps had an advantageous evolutionary function in the history of economic analysis in imposing parsimony, when the possible gains of parsimonious neoclassical modelling still were largely unexploited and a focus on the perfection of pertinent tools made sense. But things may be different with the more recent achievements of modern behavioural economics in combination with methods of game theory developed in the meantime.



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(3) *Introspective Knowledge:* Thanks not least to personal contact and exchange, Robbins was conversant with discussions within the Austrian School of the 1930s. While Robbins (1935) seemingly took some pains to steer clear of views controversial within the Austrian School between Mises (who staunchly advocated apriorism) and Machlup and Haberler (who were sceptical; see Howson 2009), *some* degree of apriorism seems to be connoted by the way he deals with intuitively obvious assumptions, the status of generalizations and introspective knowledge. According to Robbins, "the effort of economists over the last hundred and fifty years have resulted in the establishment of a body of generalizations whose substantial accuracy and importance are open to question only by the ignorant and the perverse" (1935, 1). And he goes on to declare that our "belief in these propositions is as complete as belief based on any number of controlled experiments" (75). Unsurprisingly, there has been some debate regarding the problems connoted by the degree of apriorism implied by Robbins' position regarding introspective knowledge available to the economist and intuitively obvious assumptions. Apart from the abstract epistemological critique of introspection as a source of knowledge, above arguments related to (1) and (2) may nourish scepticism with regard to the specific intuitions which are supposed to permit insights into the basic principles of rational choice. In any event, empirical methods and empirical work *beyond* introspective knowledge are clearly an essential part of modern economics. Samuelson (1964, 736), who is perhaps the most prominent example of how RDE was used in a flexible manner (a matter to which I shall return) mildly criticized Robbins' claims for "deductive theory" as "exaggerated."[2] In the introductory chapter of his textbook, Samuelson (1976) moreover provides some foundational observations which can be understood as a warning against naïve empiricism as well as against apriorism. Economists openly critical towards the aprioristic tendencies surrounding RDE include Richard Lipsey (2009), who argues that the emphasis on concepts intuitively obvious from everyday experience is incompatible with the scientific character of economics, as it downgrades empirics to a mere illustration instead of using it for *testing* theoretical propositions or the predictive power of theory-based models. According to Lipsey, downgrading empirics has further undesirable aspects, such as the reluctance to collect detailed evidence regarding historical context and the properties of

[2] Declaring himself "a convinced Popperian," Robbins (1979, 999) seems to moderate apriorism. (Whether he altogether drops it is a different question.) In any event, he is somehow modifying his stance regarding the status of empirics in relation to theory. Moreover, he clarifies the status of rationality as captured by consistency axioms: while it may be useful to conceptualize human agency in that way for certain modelling purposes (he mentions Walrasian general equilibrium models), the scope of economics in dealing with situations of scarcity is not constrained by rational choice.



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technologies; according to Robbins, economists are "not interested in technology as such" (1935, 33). Socio-economic change is ruled out as a proper subject of investigation, as the empirical specificities of historical contexts are considered as lying outside economic analysis.

(4) *Not about ends:* I present the critique in two parts. In the first part, I take issue with the claim that economists are on the safe side when ignoring context-specific ends and values because the allocation problem is always the same. The second part deals with the question whether scientific statements of economists are, or ought to be, value-free. (i) While it is easy to demonstrate that economizing on means plays a role under different value systems, and while it may be highly illuminating to show that opportunity costs matter in contexts where they so far have been disregarded, it is by no means clear that the working of incentives and enforcement of rules is *completely* independent of what people see as their ends, i.e. accepted values and internalized norms. Rather, those norms and values may be framing and conditioning transactions, inducing incentive-enhancing preferences and thereby modifying transaction-mediated economizing. Norm-governed behaviour may be "crowded out" or "crowded-in" by formal economic mechanisms (see Bowles 1998 and 2004; Sandel 2013). Moreover, consider an example provided by Robbins (1935, 25), by which he wishes to illustrate the claim that the core properties of allocation problems are not changed by changes in norms / values: a society of Sybarites has an allocation problem isomorphic to the allocation problem of a society of ascetics – what differs are only relative prices. Now it is true that allocation problems occur not only in societies of insatiable consumers, but also in societies of ascetic people. Yet the extent to which and the way in which it is illuminating to model the pursuit of ascetic values as if it were demand for consumer goods is not obvious. Allocation problems and economizing *may* sometimes play a straightforward role for understanding practices, mechanisms, institutions and outcome patterns in a market society where almost everything is for sale, but perhaps must be complemented by careful contextual considerations if we wish to understand an ascetic society with a very limited scope of markets.

(ii) Mongin (2006) argues that the *strong neutrality* view as put forward by Robbins and many other economists (claiming that economists must strictly avoid value-laden judgements) is hard to defend. Pareto efficiency has a normative dimension, as non-consequentialist aspects of social states are not considered. Moreover, strong neutrality may degenerate into spurious neutrality; assumptions regarding unchangeable or quasi-natural aspects of the status quo are not easily laundered in a way such that normative implications are unambiguously eliminated. Strong neutrality is to be distinguished from three further theses pertinent to the issue: the "strong non-neutrality" thesis (often endorsed by heterodox economists) claims



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that facts and values are intertwined in too complex a manner as to allow for a separation (see Myrdal 1958). The *weak neutrality* thesis is rather common among mainstream economists from Bergson and Samuelson onward. It claims that economists must sometimes deal with value judgements, but these cases "are few in number, easy to discover, and logically as well as practically separable from other judgements economists make" (Mongin 2006, 259). In contrast, the "weak non-neutrality thesis" rejects all those qualifications, but keeps a place for a class of statements for which neutrality is an appropriate regulative idea. While weak neutrality is congruent with an outlook shaped by the Two Theorems of Welfare Economics and hence with a modified version of RDE, it may be argued that "weak non-neutrality" reflects the moves which modern contextual economics is apt to make, as it is concerned with interdependences occasioned by various forms of context-dependent preferences and evaluative practices making it obvious that the above qualifications (few in number, easy to spot, readily separable) do not apply. The literature on "choice architectures" provides illustrations of the intricate issues pertinent to value neutrality which are implied by such context-dependencies.

The criticism summarized here points to some systematic tensions in the theoretical architecture supporting Robbins' argument. Nonetheless, RDE functioned as a demarcating and unifying mission statement in the post-WWII development of scientific economic analysis in a broadly neoclassical tradition (see Backhouse and Medema 2009). Ironically, some objectionable aspects of those tenets were particularly important for its role within a broadly neoclassical tradition. This will be discussed in more detail in section 3.

At a superficial level, one could explain the ambivalent stance towards RDE (most economists endorse it as common sense; scholars approaching it from a more foundational perspective are critical) as follows: the targets of criticism are the specific epistemological and methodological underpinnings offered in Robbins' work (1932 and 1935). In contrast, economists do not care about those underpinnings and endorse without much concern the commonsensical or even commonplace: the core RDE-formula, which was and still is considered suitable for textbook introductions. While this interpretation is plausible at a certain level, it fails to take into account the (perhaps not so straightforward) ways in which the seemingly unproblematic focus on scarcity and choice is related to some of those more contested underpinnings.

## 3. RDE and Contextual Variation in Economics

Unlike earlier definitions of economics (notably those related to the condition of wealth creation), RDE is a tightly knit analytical definition. But at the same time RDE proved elastic and open in some sense. This reflects its quite diverse



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specific roots. In the 1930s, Robbins had direct exchange with Ludwig Mises, Friedrich Hayek, Fritz Machlup and Gottfried Haberler (see Howson 2009). He was conversant with the writings of less well-known Austrians such as Felix Kaufmann, Hans Mayer and Richard Strigl, who are referred to in *Nature and Significance*. Robbins (1932, ix) emphasises his "special indebtedness" to Mises and Wicksteed. While Wicksteed (1910) was the most important direct influence as far as the core of RDE is concerned, Walrasian and Austrian influences seem to have worked in a complex way, partly mediated by Wicksteed. This applies to Friedrich Wieser's combination of Austrian subjectivism with Walrasian general equilibrium interdependences, including Wieser's emphases on *opportunity costs* and the *allocation problem* as a problem which may be specified for different contexts beyond competitive markets.[3] Either directly or indirectly, Walras, Wieser, Wicksteed and Mises seem to be the main influences.[4]

RDE stresses the economizing aspect of human action, while neither imposing restrictions regarding the mechanisms mediating economizing nor the relevant entities or contexts of "economic problems," provided that they can be considered as *contexts of economizing.* I will now go through the four supporting pillars of RDE introduced in the previous section. As shown before, each of those pillars may be found problematic in some sense. But despite and partly because of those problematic aspects, RDE had a role to play. In a more general perspective, this is related to two factors:

(i) RDE was useful, given the specific historical situation of the academic discipline of economics in the second and third quarter of the 20th century.

(ii) Unless it is combined with Mises-type apriorism, RDE is characterized by specific built-in flexibility/openness.

(1) *No interpersonal comparisons*: Breaking with the utilitarian tradition and Pigovian welfare economics provides the basis for the distinction between

[3] Wieser emphasises allocation (including in particular the general, abstract character of the allocation problem and pertinent marginal conditions) from early on; indeed he made them explicit in his untranslated habilitation thesis (Wieser 1884), stressing that under a fictitious socialist commonwealth or the public sector under capitalism suitable efficiency conditions are relevant in a quite analogous way. The following passage from *Social Economics* highlights his view of the role of scarcity/rival consumption: "Consumption becomes an economic act when it is accompanied and controlled by a consideration of the available means. To consume means to partake of. Where goods are free, one may partake of them without restraint. There is no need of economizing. But where they are available in limited amounts and the maximum total satisfaction is to be derived from their use, one is held by economic foresight to the rule of sparing enjoyment, to the curtailment of those present pleasures which desire would lead one to seek" (Wieser 1927, 45).

[4] Witztum (2009) stresses Wieser as the most important *Austrian* influence on Robbins (an issue which should be studied in greater depth), along with the non-Austrian influences by Walras and Wicksteed.



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efficiency and distributive justice. As Lerner (1972, 258) aptly remarked, the economist will "arrange for everybody to have what he prefers," provided that this does not imply an extra sacrifice for someone else. While efficiency thus goes along with neutrality regarding ends, justice implies contested value-judgements. This distinction may be the starting point of two different strands of reasoning: first, it may be considered as a starting point for arguments according to which there is no *scientific* basis in favour of distributive policies, whereas the costs of redistribution in terms of efficiency losses are open to scientific demonstration. But as Buchanan (1979, 23) observed, Robbins' move away from an uncritical adoption of a utilitarian framework also opened up a second perspective (which is not endorsed by him): scholars such as Samuelson, Bergson and Arrow who came up with various conceptions of social welfare functions. The latter not only provided a framework for analysing the logic of collective choice in societies with pluralistic individual values, but also a starting point for the development of subtler views regarding value-neutrality (see Mongin 2006).

(2) *Rational Choice:* Rational choice as volitional and purposive action on the basis of stable preferences is an indispensable ingredient of neoclassical economics, insofar as the concept of Pareto efficiency (which seems indispensable when talking about the economic problem as an allocation problem) hinges on those premises referring to rational agency.

(3) *Introspective knowledge:* Economics *could* have been freed from the vestigial traces of utilitarianism/psychological hedonism without appealing to introspective knowledge, by invoking some more up-to-date scientific behavioural psychology of choice. But this would have implied costs: (i) Economics would stand and fall with the scientific credibility of that particular psychological paradigm, as Robbins, Wieser and others argued. (ii) The categorical rejection of interpersonal comparisons might become obsolete, as empirical psychologists may develop some observational methods endowing such comparisons with scientific credibility. As Wade Hands (2009) observes, introspection-based critique of utilitarian hedonism is a plausible basis for denying the possibility of interpersonal utility comparisons. (You have first-person knowledge of your own purposes and preferences, but you cannot look into someone else's mind.) In contrast, empirical observation along behaviourist lines yields no reason why my preferences should differ from others' preferences regarding observability. Moreover, only introspection may grasp the *volitional* character of choice. Behaviourism could dismiss purposiveness or volition as metaphysical nonsense. (iii) Even worse, in absence of introspective insights into the *volitional* character of choice, eventually combined with empirical-psychological findings compromising the status of consistency and context-independency of choice, economics would forego its credentials for neutral policy advice arranging "for everybody to have what he prefers" ( Lerner 1972). The idea that a coordinated



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market outcome (or an efficient equilibrium) may be seen as an expression of collective rationality hinges on the introspective insight in choice as something beyond a mere behavioural phenomenon. Unless individual choice is perceived as *volitional* and *consistently purposive*, the Pareto efficient Walrasian market equilibrium (or the outcome of interdependent individual strategies efficiently coordinated in some other process) cannot be interpreted as a manifestation of collective rationality. In that sense, at a certain level introspection and perhaps some degree of apriorism was (and in a sense is) of strategic importance for mainstream economics. The theoretical status of efficiency still may connote some traces of apriorism and introspection. While experiments or empirical psychology may (and did) shed doubt on some of the invoked intuitions of human action (e.g. the stability of preferences), eliminating inner experience regarding volitional and purposive choice as a legitimate source of knowledge is not without problems.

(4) *Economics is not about ends:* As Mongin (2006) argues, the strong neutrality claim is problematic. Nevertheless, regarding neutrality in a somewhat broader understanding (which includes weak neutrality), Robbins' position resonates well with subsequent mainstream positions: different currents of neoclassical economics tend to be associated with either strong or weak neutrality (in Mongin's terminology). The typical problem settings as well as the models of that kind of economics were congruent with some version of the neutrality thesis. The theoretical architecture of those models is displaying few components which make the drawbacks of neutrality easily visible. For instance, the way in which welfare economics deals with the separation of issues of allocation and distribution (efficiency and justice) prepares the stage for weak neutrality. Over and above all, value neutrality was not just cheap talk. The aforementioned problems notwithstanding, RDE offered a suitable platform for what was not a homogeneous school, but a dynamic discipline characterized by a diversity of research strategies *and* political values. In the formative period of the modern mainstream in the 1940s and 1950s, versions of the scarcity / choice definition of economics were explicitly endorsed by a range of economists with extraordinarily diverse politico-economic beliefs, including Oskar Lange (an advocate of a planned socialist economy), Gerhard Tintner (a member of the Cowles Commission and liberal reformist), and Paul Samuelson, along with more or less radical anti-interventionist theorists, with Murray Rothbard at the extreme end of a diverse range (see Backhouse and Medema 2009, 214).

A final remark is in order. The arguments presented above mostly referred to historically contingent aspects in the development of the discipline. As time passed, economists abandoned the elements which seemed redundant or anachronistic, given the ways in which the discipline had evolved. Part of this comes to the fore when we discuss various levels of context in the next sections. The fact that RDE is open to contextual variation gives RDE an advan-



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tage over definitions appealing to markets or exchange as the subject of economics (catallactic)[5] or to the conditions of wealth creation. Other modifications (pertaining to the methodological and epistemological level) come in the form of softening earlier positions along the lines of Robbins (1979). In the spirit of Samuelson's neoclassical synthesis, it may be conceded that the RDE formula does not adequately cover issues of macroeconomic stability, growth and distribution, and addresses this by a more encompassing and longer formula without losing the main thrust. The core of RDE seems to survive that.

## 4. Varieties of Context: Flexibility and its Limits

In the remainder of the paper, I am primarily interested in the limits implied by RDE: why do research strategies based on RDE tend to neglect *certain kinds* of context? In which respect does this involve problems? While RDE offers a considerable degree of flexibility and openness with regard to a certain range of contextual aspects, it maintains a certain degree of apriorism even in its enlightened version, implying inimical tendencies towards research strategies considering those types of context.

RDE is found flexible in that *contractual contexts* come in as a quasi-natural complement, and it also may be adapted to *non-market institutional contexts*. James Buchanan criticizes RDE because of its open-endedness regarding "the entity for whom the defined economic problem exists" (1979, 21). "Paying heed to Robbins," Buchanan complains, economists now may consider the economic problem for the state or some community, introducing some social welfare function. This may lead to a technocratic approach to economics entailing problems which are rightly stressed by Buchanan. While Buchanan thinks that dealing with the drawback of that approach must start by taking issue with the open-endedness of RDE, the arguments developed below rather suggest the opposite: the degree of contextual variability acknowledged by RDE is remarkable, but it needs to be widened. Consequently, Robbins' open-endedness need not be abandoned in order to criticize openness for technocratic approaches. Instead, complex contextual interdependences shed doubt on the latter.

### Contextual Variability à la Robbins

For Robbins (1935), it is clear that Robinson Crusoe's allocation problem only provides a didactic starting point. Robbins stresses the suitability of study-

[5] Buchanan (1979, 27) defends a catallactic view. But to which extent it makes sense to model a governance mechanism or a political institution as if it were exchange should be viewed as an open question. For instance, firms may be considered as webs of contracts, but one cannot take it for granted that this is always the best theory of the firm.



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ing Crusoe's choice problems as a model for more far-reaching issues. In his view, *exchange* economies have a somehow privileged – but by no means exclusive – place in a scarcity-centered view of human action. He moreover mentions some of the other contexts in which scarcity-centered reasoning may be applied,[6] in a way reminiscent of Friedrich von Wieser's (1884 and 1927) emphasis of the socialist economy or the public sector economy under capitalism as possible fields of applying the marginal principle. While this kind of contextual variability is already visible in Robbins' classic writings from the 1930s, Robbins reinforces what was said in this earlier work by stressing that: "as regards the accusation of narrowness, I suspect this rests on misapprehension due perhaps to undue preoccupation with the theory of exchange. In fact, explanation of the influence of scarcity extends far beyond the immediate incidence of catallactics: it covers questions of incentive, institutions, and indeed much of the legal framework of society, not to mention matters of indiscriminate, as well as of discriminate, benefit" (1979, 997).

Contextual aspects of this kind also come to the fore in versions of RDE advanced by economists such as Samuelson, who states that "economics is the study of how people and society end up *choosing*, with or without the use of money, to employ *scarce* productive resources that could have alternative uses, to produce various commodities and distribute them for consumption, now or in the future, among various persons and groups in the society. It analyses the costs and benefits of improving patterns of resource allocation" (1976, 3; italics in original). As stressed in Samuelson's version, societies are confronted with problems of distribution between different groups and individuals, along with those of allocation.[7] Issues with a normative perspective (like "improve-

[6] Robbins explains the relation between the general focus on economizing behaviour and the context of an exchange economy as follows: "But it is one thing to contend that economic analysis has *most interest and utility* in an exchange economy. It is another to contend that its subject matter is limited to such phenomena. The unjustifiability of this latter contention may be shown conclusively by two considerations. In the first place, it is clear that behaviour outside the exchange economy is conditioned by the same limitation of means in relation to ends as behaviour within the economy, and is capable of being subsumed under the same fundamental categories. The generalisations of the Theory of Value are as applicable to the behaviour of isolated man or the executive authority of a communist society, as to the behaviour of man in an exchange economy – even if they are not so illuminating in such contexts. The exchange relationship is a *technical* incident, a technical incident indeed which gives rise to nearly all the interesting complications, but still, for all that, subsidiary to the main fact of scarcity. In the second place, it is clear that the phenomena of the exchange economy itself can only be explained by *going behind* such relationships and invoking the operation of those laws of choice which are best seen when contemplating the behaviour of the isolated individual" (1932, 19; italics in orginal).

[7] For a brief discussion of various versions of the scarcity-oriented definitions of economics, see for example (Mukherjee 2002, 11–20), who mentions Tibor Scitovsky and Knut Wicksell. Wicksell (who was conversant with the writings of Emil Sax and Fried-



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ment") are explicitly mentioned. Production and consumption are introduced as two conceptually different things. Intertemporal aspects and the eventual use of money as a medium exchange are also explicitly mentioned as yielding elementary contextual modification of the complex allocation problem circumscribed as: "What? How? For Whom?" (Samuelson 1976, 18).

Samuelson points to certain issues which modify the nature of "the economic problem," widen its scope and support the weak (rather than strong) neutrality of economic analysis. Interestingly, money is the only social *institution* explicit in Samuelson's account. Beyond money, a broad range of institutional phenomena including the firm, the law, politics, and the constitution can be included. As Oliver Williamson (2000) explicitly suggests in his review article on "The New Institutional Economics: Taking Stock and Looking Ahead," the background problems of those institutional phenomena may be accounted for in the terminology of *economizing* (that is, in terms of scarcity-choice reasoning): while continuously occurring market transactions are referred to as "third-order economizing," governance structures including firms are responsible for "second-order economizing," and basic public / legal institutions are said to be engaged in *getting right* the formal rules of the game, having thus the function of "first-order economizing" (see Williamson 2000, 597; for a depiction see the following pages). Whereas adjustments according to marginal conditions in markets according to "third-order economizing" are put into effect continuously, adjustments at the other levels take more time and supposedly occur in a *discontinuous* fashion. Higher levels impose constraints for the lower levels (solid arrows). According to Williamson, the opposite direction (dashed arrows) symbolizes "feedback." From the point of view of the overall system, the most important kind of feedback can be interpreted like this: suppose that (due to some environmental change triggering "new" hitherto unmediated interdependences) current third-order economizing leads to a maladjusted pattern of transactions (resulting in excessive environmental pollution, or failure to fully exploit the potential of a new technology). This indicates that there are unsolved governance problems and / or that constitutional change is required to adjust the rules set at level two. The problems / inefficiencies occasioned by third-level individual optimization (becoming visible as frictions, inefficiencies or increasing transaction costs) can be thought of as setting the agenda for the higher levels.

This institution-centred view naturally invites an extension, which (as level one) is called "embedment" by Williamson. Embedment is a natural extension because rules and norms of level-two-institutions typically need to be enforced, and thinking about enforcement mechanisms it appears obvious that apart from

rich Wieser) already provided a definition oriented towards the allocation of scarce resources as a *societal* problem of avoiding waste in the context of the provision of private and public goods. In keeping with Wieser, Wicksell also emphasises the separability of allocation and distribution.



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formal sanctions a broad range of different informal "enforcement" mechanisms may operate, which may be based on internalized or culturally accepted norms etc. In the text (but not in the diagram), Williamson (2000, 600) moreover invokes a still higher level (level zero), which he calls "mechanisms of the mind." This is highly plausible, as the perception of the underlying problems as well as the way in which informal as well as formal enforcement mechanisms operate may depend on the workings of those mechanisms of the mind (e.g. cognitive capacities, biases, mental models etc.).

In which sense, and to which extent can the architecture as sketched by Williamson (2000) be taken as evidence for the power and openness of RDE-inspired research programs? This depends on the extent to which one can make sense of the phenomena of the different levels in terms of theories which are operating along the lines sketched by Williamson, i.e.: (1) As indicated by Williamson's solid arrows, higher levels impose (ideally well-defined) constraints on lower levels, thus producing interaction structures where level-specific agents face optimisation problems with a unique efficient equilibrium solution ("getting it right"). (2) Private and semi-private governance schemes *and* public institutions are basically roundabout means of solving scarcity problems: "economizing" is the functional core of each of these levels. The rationale for the existence of those roundabout means of different levels is the existence of transaction costs. In a world *without* transaction costs, the whole multilevel scheme collapses: all interdependences are efficiently mediated by transaction at the level of third-order-economizing (a sort of Mega-Coase-Theorem). In a world *with* transaction costs, the multi-level-framework in effect translates the condition of scarcity into multiple layers of constraints which are the basis of economizing of the various levels – with the ultimate rationale of facilitating the transactions which are subject to third-order economizing. Transaction cost economics moreover expresses the idea that institutions, like goods, can be taken to be scarce. The efficient scheme in equilibrium involves all-things-considered optimisation – a cost-minimizing institutional structure of transaction-support including all levels.

In the sense of this theoretical structure, RDE can be taken as a useful basis for a demarcation line between the ahistorical logic of economizing on the one hand and historically specific aspects of the game of nature on the other – which provides a framework for market analysis, but also for the explanation of institutional patterns and structures.

All in all, the diagram sketched here no doubt has considerable merits. It provides an architecture locating a variety of productive research strategies. But it also may serve as an expository device for the more general problems addressed below. While the structure as sketched by Williamson (2000) suggests that whether some aspect should be treated as exogenous or endogenous is nothing but a strategic modelling choice depending on the problem at hand, it



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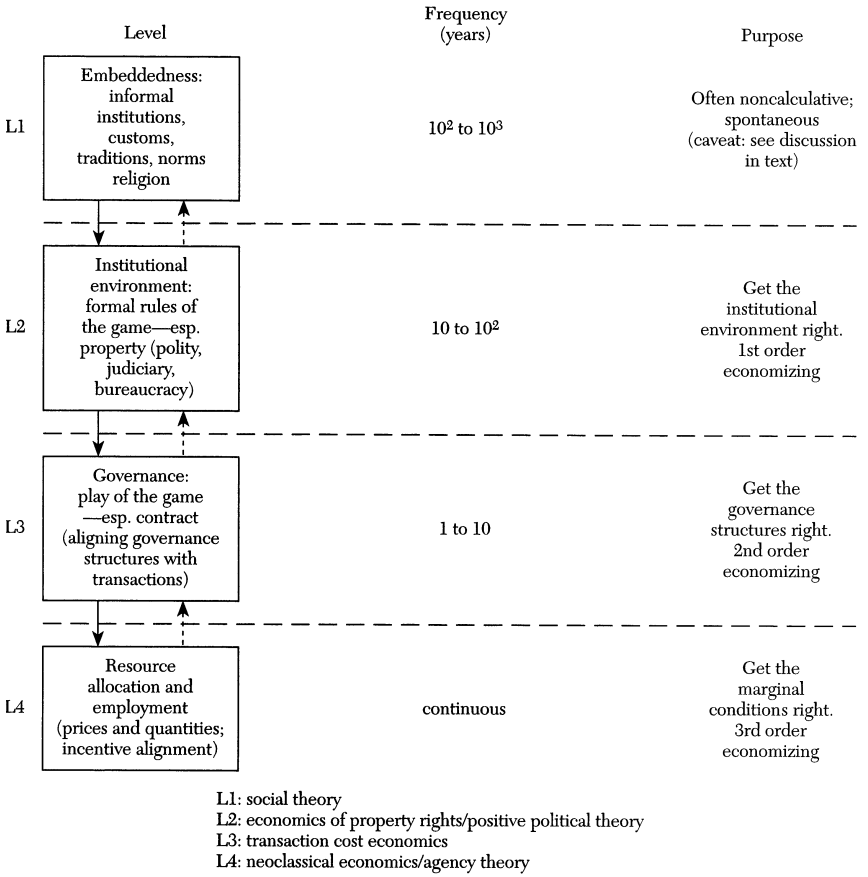


*Source*: Williamson 2000, 597.

Figure 1: Multi-Level Economising

implies certain limits. Problems related to these limits elucidate the reasons why it makes sense for contextual economics to move beyond RDE, even beyond RDE making full use of its flexibility and openness. This will imply the move towards contextual conditions directly interacting with exchange conditions: some forms of interdependences cannot be represented in the way described by Williamson (the higher levels imposing constraints on the levels immediately below). Moreover, it is an open question to which extent social phenomena related to the different levels can be understood as a social response to scarcity. Informal norms, forms of communication or mental models may have a function within the overall "economizing" arrangement as sketched before, but along with that they may also have other coordinative or distributive functions.



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**Contextual Variability Beyond Robbins**

Here is the problem summarized in a general way: interdependences may matter which cannot be understood as scarcity games. Some institutions, norms, mental models and other results of societal evolution of humans cannot be fully explained as responses to interdependences conditioned by scarcity. More specifically, let us consider the following: (i) prices matter beyond their role as mediating scarcity-induced interdependences. Their functions go beyond shaping the individual's budget constraint and being indicators of scarcity. (ii) "Ends" or "motives" cannot be taken to be given, but are changed by the mode and the outcome of economically relevant interactions. (iii) Scarcity is not the main background problem. That is, three kinds of cases are considered where context may matter in a way which is in tension with RDE. While the third one will be described using David Hume as a sage guide, the first two can be summarized employing a terminology suggested by Samuel Bowles (1998 and 2004): *endogenous preferences* and *endogenous contract enforcement* (more generally endogenous implementation). Both kinds of context are apt to undermine Robbins' scarcity-choice focus as well as the hierarchical diagram suggested by Williamson. The interdependences occurring across the different levels no longer operate as a hierarchy of constraints.

Endogenous preferences and endogenous enforcement are discussed by Bowles (1998 and 2004). So I will be brief here. *Endogenous enforcement* reflects strategic interdependences where the enforcement conditions ("transaction governance") depend on the *terms* of the transaction of level 4. Put another way: the enforcement problem is not solved once and for all by some legal system or governance mechanism which is taken as given by the transacting parties. Considering cases of endogenous enforcement, transactions are inherently contested: a "price" or "wage" is (or is not) determined in a way such that the problems implied by this contested situation are addressed. Take the *efficiency wage logic* as a simple example: efficiency wages cannot be fully understood if considered as prices mediating the use of scarce labour services in the usual way. In the logic of endogenous enforcement, the *distributive properties* of prices/wages play a major role: the contract rents which are included in the efficiency wage function as devices enhancing the efficiency of contracting, mitigating moral hazard and adverse selection problems.

*Endogenous preferences* refer to situations where choice behaviour is dependent on the context in ways which render obsolete the assumption of context-independent rationality as a parsimonious starting point. Endogenous choice behaviour may be related to limits of rationality, as different contextual conditions (including "choice architectures") interact in different ways with the cognitive capacities and behavioural biases of humans, a currently much-studied set of problems in behavioural economics. Moreover, goals, ends, needs and wants are themselves changing in the developmental process. They may be af-



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fected by market outcomes (think, for example, of consumption-related learning effects) and co-evolve with institutions.

The previous two dimensions of context refer to interdependences caused by the interplay of embedding norms, institutions, governance structures and terms of transactions across Williamson's levels. They refer to interdependences where the appealing model of given, competing ends and scarce means fail to capture the main feature of the phenomena under consideration. Frank Knight's objection that "economizing … does not include all human interests" (1933, 2) is thus found vindicated. Some mental models, norms, institutions and even prices/wages cannot be understood if considered solely as a (more or less expedient) response to economizing problems.

Over and above the tendency to neglect such endogeneities, there is a problem related to the empirical status of scarcity. As pointed out by Backhouse and Medema (2009), RDE's focus on scarcity and choice appeared somewhat odd when Robbins published *Nature and Significance* in the 1930s, given the then-prevailing *glut* of capital and labour: the major challenge was involuntary mass unemployment destabilizing political institutions. Post-war prosperity led to a different challenge for the scarcity perspective, the vision of an "affluent society" popularized by John Kenneth Galbraith. But there is an answer to such challenges. It may be pointed out that scarcity is a general equilibrium property: scarcity ceases to be a problem if and only if zero prices are obtained in equilibrium. In contrast, a glut of some goods or services in a depression does *not* imply that at zero prices demand would *not* exceed the supply. As Samuelson (1976) moreover points out, affluence may coincide with unsatisfactory provision for the less-favoured groups in society.

Along those lines, an amended RDE survives criticism related to the occurrence of gluts, crises or apparent affluence in market economics. But pertinent arguments suggest that RDE is closely intertwined with equilibrium reasoning[8]

[8] This comes to the fore in Wicksteed, who complements his definition of economics focusing on choice, trade-offs, opportunity costs and the idea of minimizing waste with the following passage, highlighting the essential role of market prices in that context: "When our conception of the nature of economic facts and relations has become clear, we shall see without difficulty that the market, in the widest sense of the term, is their field of action, and that market prices are their most characteristic expression and outcome. The individual, in administering his resources, regards market prices as phenomena which confront him independently of his own action, and which impose upon him the conditions under which he must make his selections between alternatives. But when he has arrived at a thorough comprehension of the principles of his own conduct, as he stands confronted by market prices, he will find that those market prices are themselves constituted by other people's acting precisely on the principles on which he acts; so that he is in fact himself, by his own action, contributing towards the formation of those very market prices which appear to be externally dictated to him. Because other people are doing exactly what he is doing a phenomenon arises, as the resultant of the sum of their individual actions, which presents itself to each one of them, severally, as an alien sys-



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and perhaps also with Pareto efficiency. For one may argue that only positive prices in a Pareto efficient equilibrium (not prices in a Pareto inefficient one, let alone some out-of-equilibrium market prices) should be taken as *true* indicators of scarcity and *true* opportunity costs.[9]

Taking into consideration what was argued above, this suggests implications for the degree of apriorism connoted by RDE: what seems to be the common sense starting point of economic theory turns out to be a theoretical fixed point which is not independent of equilibrium reasoning. Put another way: if we claim that looking at the world from the point of view of economics is looking at it through the lens of scarcity, we are not only committing ourselves to reasoning in terms of relative prices and opportunity costs, but also to equilibrium reasoning.

Hence the emphasis on scarcity itself may imply some degree of apriorism, even considering Samuelson's modified scarcity-definition of economics. But is that residual degree of apriorism really problematic for economic research strategies? Doesn't it merely reflect the fact that the "economic way of thinking" is reasoning in terms of trade-offs and prices? The tools of economic analysis have been developed to facilitate making progress in dealing with complex price-mediated interdependences – so what is wrong with that? In the following, I argue that the scarcity focus *may* be problematic. Here I refer to David Hume, whom Robbins (1979, 997) credits with "the first approach" to the conception of scarcity. Indeed, Hume (1777) deals at length with scarcity as a circumstantial condition for *justice as stability of possession* in the context of private property, contract, and market exchange. Hume's scarcity is characterized as an *intermediate degree* of availability of resources and goods at a social scale, which is aptly summarized by the term "moderate scarcity" by John Rawls (1971, 127), who refers to Hume's reasoning in an analogous fashion. The content and significance of moderate scarcity is brought to the fore by comparing it both with states of shortage as well as with situations where choices are not linked to positive opportunity costs, which may be due either to general abundance or else to more specific non-rivalries. Hume assumes that "moderate scarcity" *is* paradigmatically important and empirically relevant. But the other cases are excluded on *empirical*, not on *logical* grounds. Hume describes the alternative state of non-rival use and its implications (there are no choices implying trade-offs) as follows:

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tem imposed from without" (1910, I.14). For a discussion of RDE in its relation to Walrasian General Equilibrium, see also Witztum (2009).

9 Notice though that understanding social interdependences in contexts of Walrasian exchange economies is compatible with a reduced way of capturing individual choice behaviour: à la Robinson Crusoe, as it were. The individual is a price taker. Pertinent prices are equilibrium prices (there is no out-of-equilibrium trade) and thus summarize all the multifarious effects occasioned by the multifarious behaviours of other members of society in the same way as the conditions of nature and technology.



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> "Why give rise to property, where there cannot possibly be any injury? Why call this object mine, when upon the seizing of it by another, I need but stretch out my hand to possess myself to what is equally valuable? Justice, in that case, being totally useless, would be an idle ceremonial, and could never possibly have place in the catalogue of virtues. We see, even in the present necessitous condition of mankind, that, wherever any benefit is bestowed by nature in an unlimited abundance, we leave it always in common among the whole human race, and make no subdivisions of right and property. Water and air, though the most necessary of all objects, are not challenged as the property of individuals; nor can any man commit injustice by the most lavish use and enjoyment of these blessings. In fertile extensive countries, with few inhabitants, land is regarded on the same footing. And no topic is so much insisted on by those, who defend the liberty of the seas, as the unexhausted use of them in navigation. Were the advantages, procured by navigation, as inexhaustible, these reasoners had never had any adversaries to refute; nor had any claims ever been advanced of a separate, exclusive dominion over the ocean. It may happen, in some countries, at some periods, that there be established a property in water, none in land; if the latter be in greater abundance than can be used by the inhabitants, and the former be found, with difficulty, and in very small quantities" (1777, III.i.§§145–147).

Hume also describes the opposite case, where there are choices to be made, but those choices are "hard choices," not choices implying marginal tradeoffs; hence prices may not be really useful in reaching a satisfactory decision:

> "To make this truth more evident, let us reverse the foregoing suppositions; and carrying everything to the opposite extreme, consider what would be the effect of these new situations. Suppose a society to fall into such want of all common necessaries, that the utmost frugality and industry cannot preserve the greater number from perishing, and the whole from extreme misery; …?"

Hume discusses all that in the context of socially advantageous institutional foundations of markets: the institutions of private property, voluntary transactions, contract and notion of "justice" as "stability of possession." He mentions phenomena of shortage and abundance/non-rivalry as circumstances under which private property, voluntary exchange and prices will either make no sense or will cease to function in a reasonable way as expected under conditions of moderate scarcity.

Moderate scarcity can be regarded as a shorthand formula for the circumstantial conditions giving rise to the private-property market exchange game. When we are confronted with bottlenecks, shortages and related phenomena on the one hand, and non-rivalry, and non-appropriability on the other, we are confronted with different games, in which issues of coordination, equilibrium, (social) choice and power will pose different problems. That does not imply that we leave the sphere of economics and cannot use its tools any more, and it does not imply that the world of price systems must be left behind: for instance, thinking about Lindahl prices (and related implementation problems) in the context of the allocation of non-rival and non-excludable goods may be useful. The same applies to Martin Weitzman's reasoning in "Prices vs. Quantities."



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Weitzman (1974, 477) declares to be puzzled by the "average economist's" preference towards price mechanisms,[10] irrespective of circumstantial conditions which in some cases may render regulation of quantities more plausible. This preference is explainable by the guidance provided by RDE, which focuses our attention towards problems for which price mechanisms must appear as natural solutions.

Hume illustrates his account of shortage by examples: a besieged city and a group of shipwrecked people. Following Weitzman, production processes with strong complementarities and bottleneck problems or environmental problems with thresholds of vulnerability come to our mind. In such cases, price mechanisms are no longer natural, as Hume's as well as Weitzman's reasoning suggests. Weitzman's reasoning stresses the costly errors which may be implied under such circumstances in using the price system if a realistic degree of uncertainty is assumed. Complementary to that, Hume's examples suggest that a private-property market exchange game is implausible from the *distributive* point of view: the price mechanism lacks plausibility as a *distributive* mechanism.

The problems outlined here suggest that thinking through some implications of price-theoretical reasoning can serve as a starting point or a contrast foil in such cases. Translating the whole problem into a scarcity-theoretical framework requires great care, as a price-theoretical perspective may mislead us: we may easily overlook important aspects which play no role in the "standard case," but are essential for the problem at hand.

More generally, we need to be careful in terms of embedding the analysis in a framework appropriately capturing the relevant contextual factors, including ongoing interdependences between Williamson's (2000) various levels of analysis. "An economic transaction is a solved political problem …" Abba Lerner noted, continuing that "… economics has gained the title Queen of the Social Sciences by choosing solved political problems as its domain" (1972, 259). Using Lerner's definition, we may recapitulate the message of this section as follows: one can try to transform (theoretically and practically) the problems occurring in worlds *of* and *beyond* moderate scarcity into a price-mediated world of economic transaction. If problems *beyond* moderate scarcity are concerned, the likely "cost" of such a transformation (in terms of unduly neglected interdependences) tends to be much higher. More specifically: value laden, politically contested and conflictual issues are more probable to keep playing a

[10] "I think it is a fair generalization to say that the average economist in the Western marginalist tradition has at least a vague preference toward indirect control by prices, just as the typical non-economist leans toward the direct regulation of quantities. That a person not versed in economics should think primarily in terms of direct controls is probably due to the fact that he does not comprehend the full subtlety and strength of the invisible hand argument. The economist's attitude is somewhat more puzzling."



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role in circumstances beyond moderate scarcity. The theoretical and practical ways of *transforming* political problems into economic transactions are less appealing and more vulnerable: with endogenous enforcement, endogenous preferences, public goods, thresholds, bottlenecks and shortages, this transformation will be less stable, because three types of aspects remain salient: (i) issues of distribution, including conflict, (ii) reasoning about ends, and (iii) Weitzman-type errors. Pertinent problems will remain *political problems*, and hence cannot be satisfactorily treated as if they were problems of exchange under solved political problems.

Societal phenomena beyond scarcity include aspects of the non-physical and physical world made by human action with or without human design. Even though those non-scarcity phenomena are human-made, they become "objective" in a way which determines the kind of games that are played in society (which includes broader classes of games than the games conditioned by scarcity).

Sources of non-scarcity interdependences include endogeneity of technologies and the cumulative division of labour. In technological as well as in institutional development, properties such as network externalities, path dependencies, irreversibilities, and generalized increasing returns (see Bowles 2004, 12–13) are likely to play a role. Those phenomena are not easily accommodated within an RDE-inspired outlook, as they may be accompanied by multiple equilibria and infra-marginal choices. *Multiple equilibria* give rise to the idea that (at a basic level) institutions and norms can be understood as equilibrium selection devices, rather than as rules imposed in order to generate games with unique efficient equilibria at lower levels. *Infra-marginal choices* with regard to institutional arrangements (see Cheng and Yang 2004) highlight the discontinuities which may be specifically important at what Williamson calls level zero and level one. Likewise, Denzau and North's (1994) emphasis on "punctuated equilibria" in relation to mental models suggests that discontinuities may be an important feature.

To sum up: RDE's degree of apriorism and its implied problems become visible by taking situations *beyond* "moderate scarcity" into consideration. Using Lerner's terminology, RDE may unduly simplify the problems associated with the transformation of "political problems" into "economic transactions" in worlds where there are important interdependences not occasioned by (ideally price-mediated) scarcity. In terms of analysis, this of course is related to some degree of unavoidable messiness: the orderly world of pure economic transactions offering a sphere of analysis where neither issues of power and distribution nor issues of value judgements play a role becomes a fiction whose value not only must be carefully assessed, but which may be useless or even misleading with regard to certain problems. Contextual economics deals with such complex, messy situations.



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Fortunately tools and reasoning developed in the course of the evolution of economics in the 20th century, including in particular the development of a broad neoclassical tradition inspired by something like RDE, have provided tools and ways of reasoning that now put us in a much better position to deal with this messiness compared to the time of Gustav Schmoller and Thorstein Veblen. Methods of game theory (including evolutionary game theory and behavioural economics) are suitable for analysing all kinds of strategic interdependences, not only those occasioned by moderate scarcity. But while those tools have become widely accepted in the profession these days, more general implications of contextual variation are still not widely understood. Two cases in point are second-best theory and the status of normative issues. While Dani Rodrik (2002) has persuasively argued how useful second-best theory may be for the analysis of institutional change, reform, and transition, Richard Lipsey highlights the backgrounds of RDE-inspired thinking which are inimical to exploiting its full potential: "One of the reasons why many neoclassical economists hated second best theory [he inter alia reports a lunch conversation with his teacher Robbins[11] upon publication of the original second best article, R. S.] is because it showed that since a distortion-free economy is an impossibility, all policy advice has to take place in second best situations, where context specificity is all important" (2009, 202).[12]

Regarding the status of normative issues and value neutrality, Mongin (2006) persuasively argues that weak non-neutrality is superior from the point of view of economic philosophy (see also Zeidan and Resende 2009). In the present paper, I have pointed to some contexts which may pose specific challenges for the strong and weak neutrality claim, as they make it difficult to isolate economic analysis and economic reasoning from what Lerner calls "political problems." Lerner's statement quoted above on economics as the queen of social sciences (which of course is entirely in an RDE-inspired tradition) allows for a very simple exposition of the reasons why either strong or weak value neutrality are natural positions for mainstream economists to adopt: the value-ridden / conflict-ridden "political problems" antedating the pattern of economic transactions (the subject matter of economic enquiry) are either no theme for economists (strong neutrality), or if in rare cases they are, they can be neatly and easily separated (weak neutrality). They do not contaminate economic analysis.

Taking on board the full potential of second-best-reasoning in the context of multi-level institutional structures and of the philosophical critique of an exceedingly mechanistic approach to fact-value distinction are two examples for

11 "But my dear Dick, it is *so* nihilistic."

12 Kurz and Sturn (2013) argue that Smith's (1776 and 1790) economics as "science of the legislator" is much in the spirit of second-best theory, as it emphasises the drawbacks of a technocratic approach of imposing ideal solutions by "the man of system."



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changes in the theoretical outlook which are related to a critique of RDE: contextual economics adopts a perspective inspired by weak non-neutrality, as it focuses on situations where the normative dimension is part of the problem in a way such that (repeating Mongin's definition here) they are neither easy to spot, nor few in number, nor always (practically and/or logically) separable.

Contextual economics shows that the co-evolution of norms and institutional frameworks renders second-best all the more important, as there are some processes which are fast and others which are slow. Second-best adaption to some part of the framework which cannot be expected to change quickly and cannot be quickly changed by appropriate reforms may become essential (see Rodrik 2002). When seen together, these processes do not correspond to the temporal hierarchy à la Williamson (2000). For instance, the 20th century saw a relatively rapid change of cultural norms governing family life and women's labour market participation. The change was probably more rapid than one would expect according to Williamson's hierarchy. In part, it seems to have been influenced by technological change facilitating household work (i.e., influenced by some aspect of economic outcomes). Hence the working of complex interdependences may proceed in either way: cultural norms are relevant for economic outcomes (as they constrain or enlarge the scope of economic transactions, either directly or mediated by the institutions which they support). Economic outcomes may also directly influence norms – not only in the way sketched above of working themselves upwards (Williamson's dashed arrows) through the various levels. The interdependences in a multi-level diagram are more complex, and not all of them are ultimately conditioned by scarcity. They may have other functions in dealing with social dilemma or coordination problems as well.

## 5. Issues of Relevance: Climate Change and Transitions

As Samuelson put it, Robbins may have exaggerated the deductive character of economics. I have argued that Robbins and others may have exaggerated the status of scarcity in economics. When we try to view more and more phenomena through the lens of scarcity, it is more probable that we neglect important kinds of context. But to which extent are the above considerations relevant? It is still possible that for most typical economic problems relevant circumstances are well captured by moderate scarcity, while Hume's other two cases refer to occasional catastrophes or a counterfactual utopia of general abundance. But there are reasons to doubt such arguments. On the one hand, ecological and resource-related bottlenecks may become more important when different coping strategies regarding climate change are taken into consideration. On the other hand, information technologies increasingly create spheres (outside the classical public goods which are typically related to the public sector) where



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non-rival use and problematic appropriability conditions prevail.[13] Moreover, economists concerned with change and secular transition (such as Joseph Schumpeter 1912 and 1942) never were particularly enthusiastic about RDE, even though Schumpeter praised Walrasian theory as an indispensable prelude to the real issues: entrepreneurial change and the endogenous evolution of capitalism. In the context of change and transition (think of post-Soviet privatization), a broad range of contextual interdependences may be relevant, including interdependences between the level of price-mediated transactions, political and private governance and the informal environment (see Sturn 1993).

According to Buchanan (1979), Robbins' open-ended concept of economics paved the way for problematic technocratic approaches. In keeping with his scepticism towards technocracy, I offered a somewhat different remedy in this paper: dealing with *the complexity of contextual interdependences* is the key to making good use of Adam Smith's (1790, VI.ii.2) message regarding economics as a (non-technocratic) "science of the legislator." Contextual circumspection regarding the relevant historic settings (past or contemporary) is a necessary ingredient for that.

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[13] For a popular statement of such arguments and their implications, see Mason (2015).



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