

ANNALS
of the
FONDAZIONE
LUIGI EINAUDI

AN INTERDISCIPLINARY JOURNAL OF ECONOMICS,
HISTORY AND POLITICAL SCIENCE

LII
1-2018



Leo S. Olschki Editore

ANNALS OF THE FONDAZIONE LUIGI EINAUDI

An Interdisciplinary Journal of Economics, History and Political Science

Annals of the Fondazione Luigi Einaudi is a new international series of *Annali della Fondazione Luigi Einaudi* founded in 1967. The *Annals* aim at facilitating communication and encouraging cross-fertilization of ideas among both established international scholars and younger scholars working in the field of history, economics and other social sciences, with a view to fostering interdisciplinarity.

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CONTENTS

SYMPOSIA: GLOBALIZATION AND GLOBAL HISTORY

EDITORS' PREFACE	Pag.	3
----------------------------	------	---

GLOBALIZATION IN HISTORICAL PERSPECTIVE. A LONG-TERM VIEW

GIUSEPPE BERTOLA, <i>Introduction</i>	»	???
KEVIN O'ROURKE, <i>Varieties of Backlash</i>	»	???
STEFANO FENOALTEA, <i>The Backlash to Globalization: Some Further Thoughts</i>	»	???
UGO PANIZZA, <i>The Real Effects of Financial Globalization: What Do the Data Say?</i>	»	???

GLOBAL HISTORY

FRANCESCO TUCCARI, <i>Foreword</i>	»	???
MARCO MERIGGI, <i>Global History. Structures, Strategies, Open Problems</i>	»	???
LAURA DI FIORE, <i>Geographies of Global History</i>	»	???
VITTORIO BEONIO BROCCIERI, <i>The Great Divergence vingt ans après: Toward a Medium-Term Synthesis?</i>	»	???
PATRIZIA DELPIANO, <i>Early Modern History in the Journal of Global History</i>	»	???
GIOVANNI GOZZINI, <i>Great Depression, 2008 Great Contraction, and World History</i>	»	???

FORUM: EUROPE IN HISTORICAL PERSPECTIVE

MASSIMO FIRPO, <i>Luther and Europe</i>	Pag.	???
JOSEPH STRAUS, <i>Legal Order in the Draft: Europe on the Eve of the 100th Anniversary of the Treaty of Versailles</i>	»	???

ARTICLES & COLLOQUIA:
ECONOMICS, MODELS AND VALUES

BRUNA INGRAO, <i>Models in Economics: Fables, Fictions and Stories</i>	»	???
--	---	-----

COLLOQUIUM:

LUIGI EINAUDI ON VALUE JUDGMENTS IN ECONOMIC SCIENCES

<i>Introductory Note</i>	»	???
PAOLO SILVESTRI, <i>Economics, Humanities and Values</i>	»	???
FRANCESCO FORTE, <i>Economics, Value Judgements and Interdiscipli- narity</i>	»	???
RICCARDO FAUCCI, <i>On Einaudi's 'Vision' of the Good Polity</i>	»	???
RAIMONDO CUBEDDU, <i>On the Moral Foundations of the Science of Good Government</i>	»	???
Appendix. LUIGI EINAUDI, <i>On Abstract and Historical Hypotheses and on Value Judgements in Economic Sciences. Conclusions</i>	»	???

DOCUMENTS AND RETROSPECTIVES

ON THE RELATIONSHIP BETWEEN IRVING FISHER AND LUIGI EINAUDI

FRANCESCO CASSATA, <i>Introductory Note</i>	»	???
Appendix. Letters between Irving Fisher and Luigi Einaudi between 1911 and 1946	»	???

BOOK REVIEWS

PEPPINO ORTOLEVA, Review of M. Ceretta and B. Curli (eds.), <i>Discourses and Counter-discourses on Europe. From the Enli- ghtenment to the EU</i> , Milton Park, Routledge, 2017	Pag.	???
FURIO STAMATI, Review of H. Zimmermann and A. Dur (eds.), <i>Key Controversies in European Integration</i> , Basingstoke, Pal- grave MacMillan, 2016.	»	???
EMMA TIEFFENBACH, Review of F. Guala, <i>Understanding Institu- tions. The Science and Philosophy of Living Together</i> , Prince- ton, Princeton University Press, 2016.	»	???

SYMPOSIA:
GLOBALIZATION AND GLOBAL HISTORY

EDITORS' PREFACE

GLOBALIZATION
IN HISTORICAL PERSPECTIVE.
A LONG-TERM VIEW

INTRODUCTION

GIUSEPPE BERTOLA[★]

ABSTRACT

This essays introduces views expressed at the “Workshop on Globalization in Historical Perspective – A Long-Term View” held on June 8, 2017 in the framework of Fondazione Luigi Einaudi’s “The ‘West’ in Globalization” research project.

Keywords: Globalization.

JEL codes: F21, F60, N10.

The following essays report views expressed at the “Workshop on Globalization in Historical Perspective – A Long-Term View” held on June 8, 2017 in the framework of Fondazione Luigi Einaudi’s “The ‘West’ in Globalization” research project.

It is commonplace to express concerns about globalization. Some consider it a source of economic and social problems, others see it as a welcome engine of progress but worry about its possible demise. Both can be correct in theory. Removal of market barriers makes it possible to increase the total size of the welfare pie, but is not beneficial for everybody, everywhere, and all times, because trade and competition reduce the income and welfare of those who would in autarky enjoy relative scarcity of the factors they own, or monopoly power. In principle, transfers can compensate losers. In practice, the information that would make this possible is not available, so international economic integration is rationally resented by those who expect or fear losses.

It is rarer and more constructive to recognize that whether globalization can or should take place is an essentially empirical question, to frame current hopes and worries in historical perspective, and examine past expe-

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riences to see how human societies may navigate the opportunities and pitfalls of interactions across their borders. It is not straightforward to do so, because history does look different to different people: Chinese, Persian, or Turkish eyes see the world from a historical vantage point that is very different from that of Western culture, and world visions can be and often have been manipulated to build national identities and support national interests.

Kevin O'Rourke's cultural background is Irish, hence unbiased by imperial or national grandeur, and was shaped during his distinguished career by living and working in various countries as both a historian, who knows well that geography and violence matter a lot in human society, and an economist, who wants to interpret rather than just describe the causes, effects, and mechanisms of trade and conquest. He and his work are highly respected and frequently cited by economists who know less than him about history and share his preoccupation with the distribution of welfare within and across countries. His "Varieties of Backlash" essay provides a constructive overview of the reasons why internationalization of economic activity can be resented, and of the ways in which government can in principle and have in practice deployed policies that preserve its political sustainability. Social welfare schemes can to some extent compensate actual and potential losers, and public budgets can buffer shocks that originate abroad. Depending on politico-economic and geopolitical conditions, however, these tools need not be deployed effectively, and the interaction of domestic and international policies explains globalization's ebbs and flows in history.

Rich countries did implement social and fiscal policy broadly in the post-war period, when trade grew strongly. The political climate is not as favourable to globalization now, and the next two essays highlight ways in which the current situation differs from previous historical experiences. Stefano Fenoaltea's "The backlash to globalization: some further thoughts" are those of an economic historian equipped with keen empirical and policy insights, and familiarity with both Europe and America. Opposition to globalization may be a reaction to the Americanization of culture he has witnessed in his long and highly productive career. Cultural dominance may of course be a plausible consequence of economic superiority, and this type of backlash mechanism would deserve to be explored in further research. It is natural to wonder whether negative views were expressed during and after the Renaissance about Italian trade and cultural imperialism by Elizabethan English thinkers, and perhaps in earlier times by Neanderthals about Homo Sapiens immigrants from Africa. It is also the case that when the rich were endowed with land rather than with financial and human wealth, trade in goods and commodities did not have the distri-

butional implications that now make it politically difficult; some backlash may be blamed on the failure of professional economists and politicians to predict and prepare for them.

Another relatively novel aspect of current experience is the role of financial markets. Ugo Panizza's "The Real Effects of Financial Liberalization: What do the data say?" essay brings to the issue the perspective of a very competent economist with extensive policy experience. Financial markets are segmented at the border of countries not only by cultural and technological barriers, but also by capital controls and other national policies. International trade in financial contracts should, like trade in goods, generate economic gains at the aggregate level: if the growth of international financial flows and balances is due to liberalization of cross-border exchanges, its variation across countries should be positively associated with favourable economic outcomes. The data, however, disagree. While financial liberalization and international imbalances are associated with a rich variety of other phenomena, such as cyclical booms and domestic policy reforms, an extensive empirical literature finds that financial flows are not directed towards countries that are or become more productive. Financial markets are obviously imperfect, hence a double-edged sword that countries may justifiably refrain from wielding. Further research could fruitfully aim to characterize the ways in which dysfunctional financial markets make liberalization damaging in specific circumstances.

Among the sources of globalization's currently weak political appeal it seems to me useful also to highlight international policy competition, which makes it difficult for national governments to enforce taxes and regulations that economic agents can easily escape across borders, and new modes of international economic interaction, which increasingly involves integrated production chains and trade of custom-made components rather than of commodities or finished goods. In both respects, the efficient scale of production and policy has become larger than that of the nations that proved capable of managing globalization after the demise of empires.

Even as the West benefits in the aggregate when it becomes easier for know-how and financial capital to be employed globally, within rich countries the lower middle classes that are politically decisive in a democracy resent the inability of governments to prevent the decline of their relative status. Supranational frameworks could suitably broaden the scope of the relevant policies. They are proving very difficult to develop, even in Europe, but academics and policymakers would be well advised to keep on devising and implementing ways to ensure the political sustainability of international economic integration.

VARIETIES OF BACKLASH

KEVIN O'ROURKE*

ABSTRACT

This essay reviews sources of backlash against globalization and discusses the role in history of government policies that absorb shocks so as preserve political sustainability of the international trading system.

Keywords: Globalization, Distribution, Geo-political Shifts.

JEL codes: F60, N10.

Roughly two and a half millennia ago, in Greece, a man called Aesop who may or may not have existed is supposed to have told a story, that was subsequently written down, about an oak tree. This tree was a proud and principled plant. It believed in rules rather than discretion; rules that ought to be followed, no matter what the circumstances. The oak tree was dismissive of its neighbour, the reed, which it regarded as excessively flexible, addicted to discretion, and forever shifting in this direction or that, according to the prevailing winds. It was, as Mrs Thatcher might have said, just a little bit wet. And so things continued, until one night a great storm arose. The oak tree was uprooted, while the reed remained unscathed.

The moral of the story is that shock absorbers are a useful thing to have. They are useful for plants, for automobiles, and for the international trading system. When shocks arise, as they inevitably do, the system needs to be able to adjust. Otherwise it risks breaking down altogether.

Globalisation is neither new nor irreversible. Economic historians have known this for a long time. In periods when the international trading system is relatively open, this is because of domestic political equilibria favouring trade over protection, as well as a favourable geopolitical equilibrium.

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When globalisation goes into reverse, this is because of a shock or shocks which undermine these domestic political equilibria, or the geopolitical system as a whole, or both. In this brief paper I will consider three types of shocks.¹ Two are slow-moving: long run shifts in comparative advantage, and long shifts in the international distribution of economic and military power. The third is shorter run in nature, although it may reflect imbalances that have been gradually building up over time: financial and macroeconomic crises. I will begin with long run shifts in comparative advantage, and the distributional consequences that this can give rise to.

1. DISTRIBUTIONAL SHIFTS

In 1999, Jeff Williamson and I published a book on the ways in which late 19th-century globalisation brought Europe and the land-abundant frontier economies of the New World into much closer economic contact with each other.² This had profound distributional consequences. In Europe, free trade lowered the returns to owning land, and from the 1870s onwards landowners responded by demanding, and in many cases obtaining, protection. Thus came to an end a half-century of progressive trade liberalisation that had begun at the end of the Napoleonic Wars. In the New World, mass immigration lowered the relative incomes of workers and increased inequality, with the result that immigration restrictions were progressively tightened in many countries. Late 19th century globalization undermined itself, by inducing distributional shifts and political responses.

In the concluding section of the book, Williamson and I wrote that:

Politicians, journalists, and market analysts have a tendency to extrapolate the immediate past into the indefinite future, and such thinking suggests that the world is irreversibly headed toward ever greater levels of economic integration. The historical record suggests the contrary... The record suggests that unless politicians worry about who gains and who loses, they may be forced by the electorate to stop efforts to strengthen global economy links, and perhaps even to dismantle them (O'Rourke and Williamson 1999: 286-287).

There is a reason that we framed our book in this fashion: the 1990s saw a heated debate among trade economists regarding whether the increasing inequality that was already apparent then, and had been ongoing since the 1970s, was due more to trade or to technology. If that sounds familiar, it

¹ See IRWIN and O'ROURKE (2014).

² O'ROURKE and WILLIAMSON (1999).

should. The political catastrophes of 2016 did not arise unexpectedly, like lightning in a blue sky: they were 40 years in the making. Ross Perot was a long time ago now! And academics have known since the early 2000s, at the latest, that opinions towards globalization in rich countries have varied by skill level exactly as Heckscher-Ohlin theory predicts, with less skilled workers being on average more hostile than the skilled (Scheve and Slaughter 2001; O'Rourke *et al.* 2001; Mayda and Rodrik 2005).

What the book did not discuss was what, if anything, policymakers can do to defuse protectionist pressures emerging as a result of such distributional shifts. A series of important articles and a book by Michael Huberman (e.g. Huberman 2012) discuss this issue in the context of the late 19th and early 20th centuries. He found that during this period several states began to develop a variety of social insurance programs that would later in the 20th century evolve into the modern welfare state. Strikingly, this development was most precocious in those countries that were most open to trade, mirroring Dani Rodrik's (1998) finding that more open economies have bigger governments. The point is that government interventions of various sorts, and maybe even the existence of a large government sector on its own, can help to protect workers against economic shocks, including those arising from international trade, and thus help preserve political support for openness. The social welfare state, and redistributive taxation, can limit increases in inequality. Government services can provide useful jobs for people across the skill distribution. In this perspective, George Osborne's austerity policies, which at the time might have been seen by some as market-friendly (because they were hostile to big government), in fact helped to cause the most market-unfriendly political development in Britain since the war, namely Brexit (Becker *et al.*, 2017).

2. FINANCIAL CRISES

The most celebrated recent example of deglobalization is surely the wave of protectionism that arose in the wake of the Great Depression. The classic analysis of the Depression emphasizes the role of the gold standard, which generalized negative monetary shocks, and made it impossible for countries to respond adequately (i.e. to loosen monetary policy, and less logically, but *de facto*, even to loosen fiscal policy) when they fell into recession (Temin 1989; Eichengreen 1992). Since the Great Recession, however, Anglo-Saxon economists have been emphasizing something that was perhaps always obvious to their German counterparts, namely the role of international capital flows (in particular to Central Europe) and sudden stops in making the Depression truly Great, in 1931 (Accominotti and

Eichengreen 2015). To the extent that this interpretation is valid, we have yet another case of globalization undermining itself. The sudden stop view of the Depression also suggests an obvious analogy between it and the Eurozone crisis, while the procyclical austerity pursued by European governments since 2011 is reminiscent of the flawed macroeconomic policies of the 1930s (although European monetary policy has obviously been extremely accommodating this time around).³

Eichengreen and Irwin (2010) demonstrate that there was a striking positive correlation between the length of time during which governments persisted in remaining on gold during the 1930s, and the extent to which they raised barriers to trade. The lesson seems clear: macroeconomic shocks imply the need for macroeconomic shock absorbers. Absent those, the demand for protection can become irresistible. (A second lesson may be that we should be wary of international capital flows, which helped provoke crises even during the classical gold standard period when the system supposedly worked well.)⁴ The good news is that globally, the policy response in 2008 was far superior to the interwar one (Eichengreen and O'Rourke 2009; Almunia *et al.* 2010). On the other hand, there seems little doubt but that the lurch towards procyclical austerity in Europe post-2011 helped fuel populist sentiment in various crisis-stricken countries around the European periphery. It is striking, however, that in 2016 it was the UK and US that succumbed to populism, even though those countries' macroeconomic policies were surely better than the Eurozone's after 2008. Perhaps this is related to the fact that it was in these two countries that the shift away from the state, and towards the market, has been greatest since 1979.

3. GEOPOLITICAL SHIFTS

Even though, as noted above, distributional shifts were already undermining late 19th century globalization prior to 1914, there is no doubt that the First World War brought the episode to an abrupt end, and ushered in a period of geopolitical instability that led first to the Second World War, and then to a Cold War. It thus had profound, negative implications for international economic integration that persisted until the 1990s.

At one level, the First and Second World Wars can be thought of as a failure of the international system to accommodate the rise of new pow-

³ On the other hand, it took a while to get there.

⁴ See for example BORDO *et al.* (2010).

ers, notably Germany and Japan. Strikingly, the world was still extremely globalized in 1914, but this did not suffice to prevent the outbreak of war, despite the often-expressed view that trade makes war much less likely. Indeed, there is an argument to be made that dependence on imports, in a context where these were potentially subject to blockade by the UK or US, was one motivating factor behind German and Japanese decisions to go to war. As Azar Gat has put it, “the quest for self-sufficiency in strategic war materials became a cause as well as an effect of the drive for empire, most notably in the German and Japanese cases towards and during the Second World War” (Gat 2006: 556). This seems especially obvious in the Japanese decisions to invade Manchuria, China, and Southeast Asia, but the dream of strategic self-sufficiency was also a constant obsession of Hitler’s, while as Avner Offer has convincingly argued these factors were also important in driving Anglo-German naval rivalry in the years preceding World War 1 (Barnhart 1987; Tooze 2006; Offer 1989; Bonfatti and O’Rourke 2017).

If there is an analogy today, it is with the rise of China, and with that country’s dependence on imported raw materials and energy, especially oil coming through the Straits of Malacca. This makes China vulnerable, while Chinese naval expansion, which could be seen as a logical response to this vulnerability, inevitably worries its neighbours and rivals further afield, leading to the potential for further escalations of tension.

The rise of new powers 100 years ago had catastrophic consequences, and it is vital that the world do a better job this time around. If ever there was a time to reassure all countries that they will be able to trust the market to provide them with the food and raw materials that they need to survive, this is it. Providing that certainty is in my view the most important function of the rules-based international trading system that we have today. That is why the 2016 votes in the UK and US are potentially so dangerous, and why ensuring that states retain the shock absorbers necessary to maintain a generally open international system is so important.

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THE BACKLASH TO GLOBALIZATION:
SOME FURTHER THOUGHTS

STEFANO FENOALTEA[★]

ABSTRACT

This essay highlights cultural and political sources of current backlash against globalization and argues that the economics profession should pay more attention to complementary policies that can ensure a more even distribution of gains and losses.

Keywords: Cultural Hegemony; Net and Gross Gains from Trade.
JEL codes: F60; N10.

Kevin O'Rourke is impressively learned, enviably wide-ranging, wonderfully intelligent: his presentation was, as we have come to expect, enormously stimulating. But he can speak for himself, and my "I wish I had said that" laundry-list is of no interest. On two points, however, I should have said more, or otherwise; on these I shall focus.

1. "THIS TIME IT'S DIFFERENT"

Globalization is not new, the point was rightly emphasized. There had been, in their time, "Roman" merchants in China, the Polos' trek to China, the Portuguese conquest of the Ocean Sea and contact with what we called "the New World"; there was in the later nineteenth century the liberalization of European trade, the mechanization of transportation, the fall in transport costs and growth in trade (and the ensuing backlash, with the widespread return to protection). We have seen it all before...

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Or perhaps not. Methinks this time it's different. I use the phrase with trepidation, as it runs rampant in the later stages of the once-a-generation stock-market booms, just before the bubble bursts and gives it the lie; but I submit that this time it *is* different, that "this time it's different" has some truth to it, or at least a sufficient appearance of truth to warrant consideration.

What I have in mind is this. The earlier globalizations involved trade in goods. Not only that, of course: also the introduction of diseases, with devastating consequences for Europe in the fourteenth century, the Americas from the sixteenth; against that, no backlash was (or proved) possible. The trade in goods also had consequences that were not good or universally welcomed. The devaluation of gold in Europe and the cowrie in sub-Saharan Africa may appear on this list: they were presumably not good, but neither very bad. More telling for my purposes is the "grain invasion" of the 1880s. Britain had already repealed its Corn Laws, it had already (transferred political power to those who) made the commitment to grow by developing industry and to overcome the Ricardian/Malthusian limits to growth by importing food; it could take the grain invasion in stride. But Britain was an exception.

In Italy, I dare say on the Continent, the ruling classes were land-rich, and expected deference from their social inferiors. So long as high transport costs kept cheap foreign grain at bay, agriculture was largely devoted to land-intensive grain production. The grain invasion altered economic equilibria, shifting production to labor-intensive "specialized agriculture". The shift in the equilibrium output mix altered factor scarcities, reducing the relative value of land, raising that of labor; it reduced social distances.¹ The backlash came soon enough, with the grain tariffs that protected the wealth of the wealthy, and kept the poor poor and in their place. Even Giolitti, that champion of democracy, the man who stopped using the Army to resolve industrial disputes, never took action to reduce or eliminate the tariff on grain. The tariff was specific, its real burden was eroded by the general inflation from the mid-1890s to the Great War; but no politician could cut the tariff rates, land scarcity and labor abundance were the foundation of society as it then was, and as those who then counted were determined to maintain it. Trade could be "too much", but a tariff to limit it set things right.²

¹ The analytics may be found in FENOALTEA (2011), Appendix 2.

² That a rising demand for labor is corrosive of the social order was brought home to me, half a century ago, by CROSLAND (1956). Let me refer here to a related hypothesis that has entered my mind, in the hope that someone qualified may consider it. I am struck by the con-

A tariff could exhaust the backlash, because the (operative) downside to globalization was an excessive trade in goods, in generic goods bought and sold on world markets (“wheat”). Today it’s different: globalization is the spreading reach of corporate capitalism, of quintessentially *American* corporate capitalism, that feeds a demand based not in physiology (“wheat”) but in a peculiar consumerist culture, pushed by advertising, embodied in everything from Coca-Cola (in the role of John the Baptist) to fast food, television programs, the internet, *et hoc genus omne*.

Yesterday’s globalization brought cloths and spices, coal and grain; at times, as noted, devastating disease, but that was an exception. Today’s globalization is for much of the world a *cultural* Black Death, a tendency to an Americanization that sweeps all before it, not as an exception but as a rule. We have seen it, in everything from clothing to diet, in Western Europe; and it can be considered, in many ways, deplorable.

Deplorable, perhaps; but more needs to be said. In the first place, nobody *forced* Western Europeans to Americanize, as it were, their diet and their clothes: preferences were freely expressed. But were these preferences informed? Was the likely increase in obesity, say, duly taken into account? And is individual choice here normative, or are there externalities involved? Is the casual comfort of one the eyesore of the other? Is ugliness depressing even for those accustomed to it? Millions visit Paris every year, enchanted by its *beauty*: surely beauty is a public good, ugliness a public bad?

Nay more, are the preferences actually for unattractive clothes, for artery-lining food? Or is the underlying preference actually, and directly, for Americanization? I believe there is, that is what cultural hegemony is all about: Western Europeans ape Americans as provincials ape Parisians. At least the young do, and they are the ones who count (not least because the middle-aged proceed to imitate the young); and to my mind what our young are understandably yearning for is America’s dynamism, its openness to talent, its willingness to let one and all pursue their ambitions without the endless barriers, legal and social, that here protect the rents of those who reap them.³ An understandable yearning, one I most certainly

trast between the two World Wars, in the use of the rank and file. In both wars the Russians seem to have valued them at their shadow price, but my concern is with the other European powers. The Second World War seems marked by a concern to limit casualties, the First by a lack of such concern that exceeds the limits of credible military stupidity, and makes that war seem one between the generations (*teste* the poets of the trenches) as much as one between nations. Could this reflect, I ask myself, the state of the economy in the run-up to the war? Did the senior commands pity the boys who had grown up in the Depression, and resent those (inadequately deferential) lads who had grown up during the *belle époque*?

³ I am here obviously projecting: as a young academic I certainly felt that I was very much my own person in the United States, where in Italy I would have been the lackey of whatever

share; but a frustrated yearning, we accept America's "deplorable" vices but steadfastly refuse its virtues.

All this from an Italian-American, or American-Italian, whatever I may be. But in a wider perspective, Western Europe and America are twin planets in the same cultural solar system, other societies belong to a different galaxy altogether: the Americanization of Western Europe is nothing next to the prospective Americanization of the rest of the world. Those societies face if one will the fate of North America, or better yet of the Hawaiian Islands: not physical genocide (so far as I know, but the history I have read may have been sanitized), but certainly cultural extinction.

Local cultures, traditional ways of life, are everywhere at risk, *felt* to be at risk. We may not approve of most traditional ways of life, many (women?) within them too may dream of Westernization (and perhaps many more do not, for reasons the Stockholm syndrome may or may not illuminate); but those who are empowered by those traditions (and the broader community that identifies with them) most certainly approve of them, and are not willing to sit idly by as they are destroyed. *Cet animal est très méchant, quand on l'attaque il se défend*. I see IX/11 and Bataclan as part of the backlash to this globalization, a backlash all too easy to understand: to those who immolate themselves to defend our way of life, we too erect monuments. To my mind it is the insidiousness and pervasiveness of our cultural attack on the rest of the world that sets today's globalization apart from those that preceded it, and produces a backlash that is not just legal and administrative but tragically violent.⁴

2. THE ROLE OF OUR PROFESSION

The backlash to globalization is of course also present, as we have been reminded, within our own neck of the woods; and my sense is that our profession emerges very badly from this episode. We have weighed in, as a profession, on the side of globalization, of the liberalization of trade; Ricardo proved, to our everlasting satisfaction, that "it is good for everyone".

Well, not really, we know that too: every exogenous price change damages either the buyer or the seller, neither tariff hikes nor tariff cuts can be good "for everyone". More specifically, the consequences of trade liberalization highlighted by the Ricardian given-resources model include fac-

full professor took me in.

⁴ Here too there may be precedents, such as, perhaps, the Boxer rebellion; but I lack the expertise to speak to it.

tor-price equalization, movements along the factor-price frontier induced by the movement along the production frontier. With given resources, in fact, the primary impact of all such movements involves a gain here against a loss there: those of us who have attempted to measure such things, using everything from a CGE model to a handy used envelope, have uniformly found that the net gain obtained from the exploitation of comparative advantages is piddling indeed next to the gross gains and gross losses.⁵ So piddling, in fact, that it may be entirely absorbed by the costs of adjustment, which the model neglects. When all is said and done what Ricardo's model establishes is not that trade liberalization is good, let alone for everyone, but that tariff changes are a way to redistribute income.

As I say, we know that; but it is something of a professional secret, that the initiated keep to themselves. The profession's message to the public, and to the politicians, is that the liberalization of trade ("globalization") is simply *good*. The basic textbooks I have seen in my half-century of teaching economics uniformly present the comparative-advantage model, and illustrate the expansion of the consumption set with the freeing of trade; not *one* so much as mentioned the factor-price frontier, a concept surely too close to the class struggle to be discussed with children present, or *devant les domestiques*.

But there is more, and it moves me from disappointment to embarrassment. A basic tenet of our modern "economic science" is that individual utilities cannot be compared, that a Benthamite calculus is simply not "scientific". Politicians engage in such calculations as a matter of course, but it is their trade, not ours: as *economists* we can unambiguously recommend only Pareto improvements.

The rub, of course, is that our reaction to any practical policy proposal should logically be "sorry, somebody gains, somebody loses, can't help you". Totally logical, but at the cost of social and political irrelevance, which was more than we could bear; so we devised the argument that we could recommend *potential* Pareto moves – like trade liberalization – because everybody *could* be better off, and if income and wealth were redistributed to the detriment of a particular class that was a political decision for which we bore no responsibility.

That triumph of ambition over intellectual honesty allowed us to push for globalization. Were we, as a profession, serious scholars and not snake-oil salesmen, we would have informed the public, and the politicians, of the *negative* consequences that globalization would have, for example for

⁵ See for example WILLIAMSON (1990) and FENOALTEA (1993); also FENOALTEA (2011): 252-257. No points for guessing who used which tool.

our unskilled workers, brought into direct competition with the unskilled poor of the entire world. We would have laid out the *complementary* policies that would have prevented, as far as possible, great losses for some even as others greatly benefited; we would have pushed for a (near) Pareto improvement, not for trade liberalization alone. Public opinion would have required, and the politicians would have made, an informed choice; and we would have served our countries well.

We did nothing of the sort, nothing to predict, and forestall, the large-scale losses that globalization would impose on significant segments of our societies; the backlash that is now upon us condemns our profession without appeal. Were *The Blue Angel* to be remade today, we would meet Immanuel Rath as a respected cabaret clown, and leave him, ruined by Lola Lola, a contemptible professor of economics (and yes, Virginia, that may now be a pleonasm).

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THE REAL EFFECTS OF FINANCIAL GLOBALIZATION
WHAT DO THE DATA SAY?

UGO PANIZZA*

ABSTRACT

This essay reviews empirical studies showing that financial liberalization is associated with large gross capital inflows but smaller net capital inflows; does not have clear payoffs in terms of growth; and has costs in terms of volatility and inequality.

Keywords: Capital Flows, Income Growth and Inequality.

JEL codes: F21, G15.

What are the macroeconomic effects of financial globalization? Neo-classical economic theory suggests that financial globalization, defined as the ability and willingness of individuals and firms to save and invest offshore, should have a positive effect on income per worker in capital-scarce countries and reduce the relative volatility of consumption in all countries.

The expected effect on income per capita (and growth in the transition to the new steady state) is linked to the fact that, with decreasing returns to individual factors of production, return to capital should be high in economies with limited amount of capital. In the presence of large return differentials, financial globalization should lead to net capital inflows to poor economies. These inflows, often referred to as foreign savings, will then complement domestic savings and allow for higher investment and growth rates. Certain types of capital flows, such as foreign direct investments,

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can also lead to technological spillovers. Financial globalization may also have collateral benefits which include financial deepening, institutional improvement, and better macroeconomic policies (Kose *et al.* 2009; for a critical view of these collateral benefits see Rodrik and Subramanian 2009).

Economic theory does not have sharp predictions about the effect of financial globalization on the volatility of GDP growth. On the one hand, globalization may reduce output volatility through product diversification. On the other hand, globalization can expose countries to external financial shocks. Along the same line, theory does not have sharp predictions about consumption volatility, which can be influenced by output volatility. As long as consumers have concave preferences, theory is instead clear about the effect of financial globalization on the relationship between output volatility and consumption volatility. As financial globalization allows for some degree of international risk sharing, it should also allow consumers to smooth the effect of temporary income shocks and hence reduce the ratio between consumption and output volatility.

So much for theory, but what do the data say about the relationship between financial globalization and each of output growth and volatility? A first challenge in answering to this question relates to measuring financial globalization. This is difficult from both a conceptual and practical point of view. Researchers have been using two types of measures of financial globalization: *de jure* and *de facto*.

De jure measures are based on balance of payment regulations, restrictions, and controls. They are usually built by numerically coding the International Monetary Fund's Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER) which describes more than 60 different types of controls. The most comprehensive, in terms of time and country coverage, of these *de facto* measures is the Chinn and Ito (2006) index of Financial Openness. The index, which is available for up to 182 countries from 1970 to 2015, is normalized to have mean zero and ranges between -1.9 and 2.3 (a higher value is associated with more financial openness). In 1970 the cross-country average was -0.45 and in 2015 the cross-country average was 0.36. The top panel of Figure 1 shows the evolution of the index for three groups of countries: advanced economies, emerging markets, and low income. In advanced economies, *de jure* financial globalization started immediately after the collapse of the Bretton Woods System in the early 1970s and continued rapidly until the mid-1990s when the cross-country average of the index reached a value of 2. Most developing countries had highly regulated capital accounts until the early 1990s when many emerging market economies started removing capital controls and liberalizing their domestic financial systems. The process of capital account opening and financial deregulation in emerging market economies peaked in 2007

when, in response to the global financial crisis, several emerging market countries started reintroducing some types of capital controls, mostly on inflows. There were no similar liberalization and re-regulation processes in low income countries.

There are problems with de jure measures of financial globalization. First, they do not capture the degree or effectiveness of enforcement of capital controls, which varies both across countries and over time. Second, there could be prudential measures that limit financial integration but are not listed in the AREAER because they are not balance of payment restrictions. Finally, certain countries could be very open but receive no inflows.

These arguments suggest that de facto measures could be preferable to de jure measures of financial globalization. There are two types of de facto measures: price-based and quantity-based.

Price-based measures of financial globalization rely on the idea that with perfect integration identical financial assets which are traded in different countries should have the same price (if not, there would be arbitrage possibilities). While theoretically appropriate, such measures are difficult to apply to developing economies as it is often difficult to find identical financial instruments which trade in different countries.

Quantity-based measures of financial globalization use actual cross-border financial flows.¹ As cross-border flows tend to be volatile, de facto financial globalization is normally measured as the sum of the gross stocks of foreign assets and liabilities over GDP. Data on gross liabilities and assets are sourced from Lane and Milesi-Ferretti (2007) and this indicator is sometimes referred to as the Lane Milesi-Ferretti index of financial globalization.² Figure 2 describes the evolution of the Lane and Milesi-Ferretti index and compares it with a standard measure of trade globalization (imports plus exports as a share of GDP). Until the early 1990s, de facto globalization grew at similar pace (just above the growth rate of trade globalization) in both developing and advanced economies. After 1990s, these groups of countries decoupled. De facto financial globalization continued to grow at a slow pace in developing countries but grew rapidly in advanced economies where the index climbed from approximately 100 in 1990 to 500 in 2010.

There is a large number of studies that assess the effect of financial globalization on growth and volatility (two classic surveys are Kose et al., 2009

¹ They are similar to measures of trade globalization which use total imports and exports as a share of GDP.

² LANE and MILESI-FERRETTI (2007) assembled a detailed dataset describing the international financial positions of up to 210 countries starting in 1970.

and Rodrik and Subramanian 2009, see Abraham and Schmukler, 2017, for a more recent survey). The consensus is that the growth effects of financial globalization are either inexistent or very small (however, see Henry, 2007, for a dissenting view) and that financial globalization is associated with higher macroeconomic volatility and no benefits in terms of the relative volatility of consumption.

Why is there a disconnect between theory and empirical evidence? One possible explanation is that the neoclassical view of the world is wrong (Goldstein and Hillard, 2009, present a heterodox perspective on the effects of globalization). Alternatively, the disconnect can be explained with the presence of market and government failures within standard neoclassical economic models.

There are two problems with the worldview that financial globalization allocates savings to high-return capital-scarce countries. First, net flows to capital-scarce countries are not as large as predicted by standard models (in fact, there are cases in which capital moves from poor to rich countries). This is the Lucas (1990) puzzle. Second, rather than flowing to high productivity countries, capital seems to be flowing to low productivity developing countries. This is the allocation puzzle (Gourinchas and Jeanne 2013).

Explanations for the Lucas puzzle include the lack of complementary human capital (Lucas 1990), poor institutions (Alfaro, Kalemli-Ozcan and Volosovych 2007), and the presence of capital controls (Reinhardt, Ricci and Tressel 2013). Another possible explanation is that developing countries may decide to abstain from tapping foreign savings simply because borrowing abroad is too risky to be sensible. There is evidence that developing and emerging market countries have precarious and procyclical access to international finance (Galindo and Panizza 2017) and that tapping foreign savings by running large and persistent current account deficits has costs in terms of output volatility without any benefits in terms of higher growth (Cavallo, Eichengreen and Panizza 2017).

As they tend to lose market access during recessions, developing countries are often forced to implement growth-reducing procyclical fiscal policies (Gavin and Perotti 1997). Public investment is often the adjustment variable and losing access to international financial flows can lead to budgetary cuts which, besides deepening the recession in the short term, may also have long-term implications as these cuts tend to concentrate on public investment (Easterly, Irwin and Servén 2008) and infrastructure investment (Serebrisky *et al.* 2015). Moreover, external debt is often denominated in foreign currency (Eichengreen, Hausmann and Panizza 2007) and funding domestic investment projects that do not generate foreign earnings with foreign currency debt can lead to dangerous currency mismatches. The literature on sudden stops (Calvo, Izquierdo and Mejía 2004, and Cavallo and

Frankel 2008) shows that countries that rely heavily on foreign savings tend to face sudden capital flights. These sudden stops force the affected country to abruptly close its current account deficit. This outcome is usually achieved through a combination of real exchange rate depreciation and import contraction, both of which are typically accompanied by recessions, especially in the presence of foreign currency debt. Hausmann and Panizza (2011) show that, in the presence of foreign currency debt, countries may be better off from abstaining from having a net external debt. If the private sector borrows abroad, the government may decide to offset private foreign liabilities by accumulating international reserves.

Gourinchas and Jeanne (2013) show that the allocation puzzle is really a savings puzzle. High productivity countries save more than low productivity countries and the public sector invests some of these savings abroad by accumulating international reserves. Higher saving rates in developing countries may be associated with precautionary savings in the absence of sound social insurance systems, or be an outcome of financial repression or, more in general, be related to the presence of domestic financial frictions. However, these elements cannot explain why savings rates are high in high-productivity East Asia and low in lower productivity Sub-Saharan Africa and Latin America (for a discussion of saving rates in Latin America, see Cavallo and Serebrisky 2016). The explanation is more likely to be related to the fact that it is growth that causes savings and not the other way around (the link from growth to savings can be easily rationalized with a habit persistence model in the spirit of Keynes's original analysis, Carroll and Weil 1994, and Carroll, Overland and Weil 2000). If fast growing economies have higher saving rates, they will not benefit from financial globalization as they do not need foreign savings.

Rodrik and Subramanian (2009) suggest that foreign capital does not lead to economic growth because many developing economies are "investment" constrained (i.e., they do not have enough investment opportunities) rather than being "savings" constrained. When capital flows into a saving constrained economy, the interest rate goes down and investment and economic growth increase. This is the textbook model in which the capital inflow leads to higher growth. In investment constrained economies, instead, capital inflows lead to a consumption boom and to an appreciation of the real exchange rate. The fact that the capital inflows are not invested but consumed is likely to lead to future crises (because, without investment, the country will not be able to repay its foreign debt) and the real appreciation will reduce the competitiveness of the manufacturing sector and growth.

Broner and Ventura (2016) propose a theory in which financial crises are driven by a change in government behavior resulting from financial glo-

balization. They assume that governments care more about the welfare of domestic investors and that when a large share of domestic financial assets are owned by non-residents governments stop taking actions that reduce the probability of financial crises. In this analysis, the link between financial globalization and financial crises depends on country characteristics that include GDP per capita and institutional quality. The model is also consistent with the observation that large gross financial flows are not matched by large net flows. Foreign borrowing by private agents is matched by the accumulation of foreign assets by other private agents and financial globalization results in foreign source of financing that are cheap but risky (because they are volatile and denominated in foreign currency) and a loss of safer domestic source of financing. The model shows that, under certain conditions, entrepreneurs borrow too much from foreigners and savers do not lend enough domestically. Broner and Ventura (2016) conclude that a combination of controls on capital inflows and outflows could help in ensuring that financial globalization leads to higher growth without increasing volatility.

Another potential negative side effect of financial globalization is an increase in income inequality. Recent papers have suggested that large financial markets (or financial liberalization) can be a source of inequality (Denk 2015; Denk and Cazenave-Lacroutz 2015; Brei, Ferri and Gambacorta 2016). A growing financial sector may lead to rising income at the top of the distribution by favoring access to investment products that are typically held by the rich. The very high wages earned by people in the financial industry are another source of growing incomes at the very top. Van der Weide and Milanovic (2014) also find a positive correlation between the size of the financial sector and income growth in top incomes in the US since the 1960s. While most research focuses on the effect of domestic finance on income inequality, recent work by Furceri and Loungani (2015) and Furceri, Loungani, and Ostry (2017) suggests that capital account liberalization has led to a significant increase in inequality especially in countries with low financial depth and inclusion.

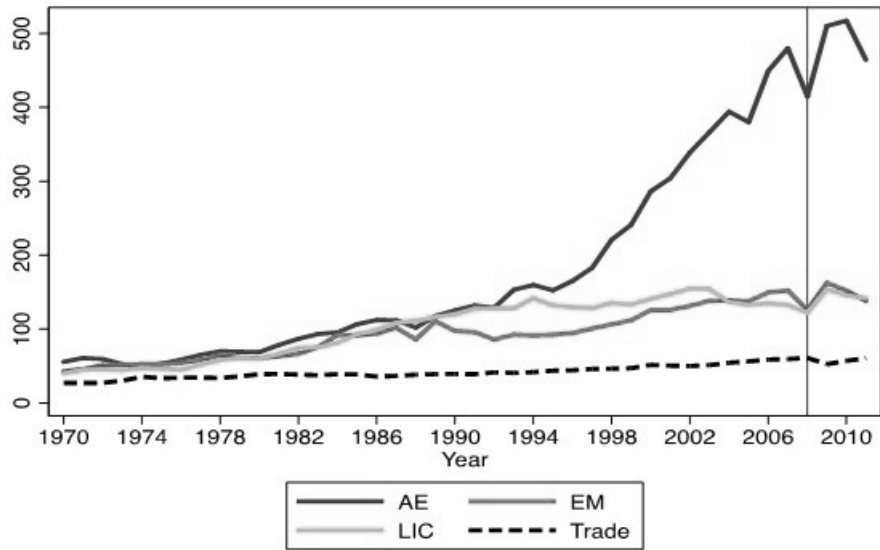
Summing up, while “economic theory leaves no doubt about the potential advantages” of capital account liberalization (Obstfeld 1998), the empirical evidence seems to contradict this clear-cut economic prediction. Financial globalization is associated with large gross capital inflows but smaller net capital inflows, it does not have clear payoffs in terms of growth, and has costs in terms of volatility and inequality. More empirical and theoretical work is needed to improve our understanding of the overwhelming effects of financial globalization.

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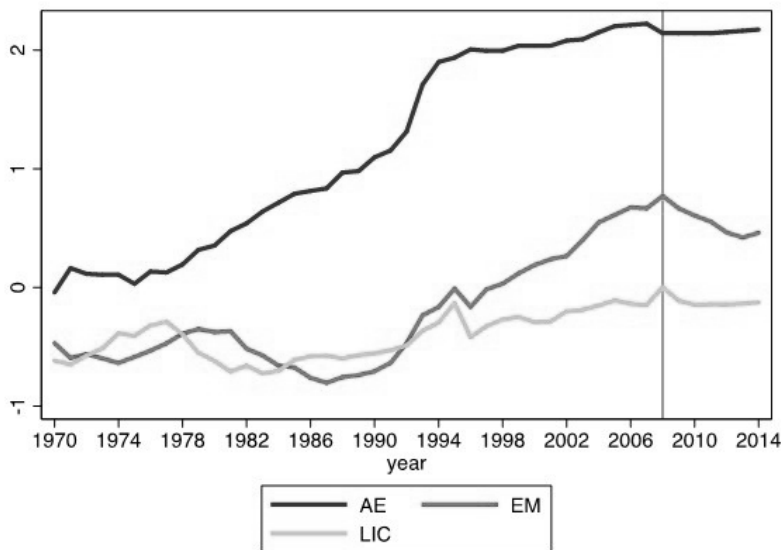
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Figure 1: *De jure* financial globalization.



Source: Own elaboration based on Chinn & Ito data.

Figure 2: *De facto* financial globalization.



Source: Own elaboration based on Lane and Milesi-Ferretti and World Bank data.

GLOBAL HISTORY

FOREWORD

FRANCESCO TUCCARI*

The papers collected in this section of the *Annals* focus in many ways on the multifaceted relationship between ‘globalization and ‘global history’. They assume that globalization as a historical process has changed our way of conceiving and writing history, inspiring a radical turn in historiographical theory and in historical research. At the same time, they indirectly suggest that this ‘global turn’ has substantially modified our way of understanding globalization and its history, which is – contrary to any kind of ‘presentism’ – a very long-run history.

The contributors discuss some major theoretical and ideological premises of this ‘global turn’ and its impact on various fields of historical research. On the basis of a wide and consolidated literature, they characterize ‘global history’ as an attempt to frame historical phenomena and processes in a global context, rejecting any sort of ‘centrism’ (especially European and Western) and rather reconstructing an ‘entangled’ or ‘mestizo history’ in which different civilizations, spaces, economies, biographies, knowledges, practices, goods, lifestyles, and so on, are strictly connected.

Some authors stress the new and rich perspectives opened by this approach. Marco Meriggi, for example, emphasizes that global history has allowed historians to criticize and recast the traditional notion of Eurocentrism and the idea itself of Europe. In the same way, for Laura Di Fiore the global view is very appropriate to deconstructing and rethinking the idea of the nation-state as the sole frame of reference for historical interpretation. In these fields, it is unquestionable that the global approach has furnished significant results with which to reconceptualise old and to some extent obsolete categories, stimulating very interesting and original research.

At the same time, however, this kind of approach is liable to major errors of perspective, especially if connected with a prevailing attention to short-term conjunctures or phenomena. In this sense, of great interest is

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the debate on the so-called 'Great Divergence' in the past two decades, analysed by Vittorio Beonio Brocchieri. In this case, a global and short-term outlook has led to overestimation of the horizontal connections among different spaces, economies and civilizations and to an evident underestimation of Europe's distinctive cultural, social, political and economic features developed during the two or three centuries preceding the Industrial Revolution.

More in general – as Patrizia Delpiano correctly stresses – global history is always exposed to three different risks: the risk of incompetence of historians, which arises alongside the lengthening of timeframes and broadening of spaces considered, especially in relation to the problem of documentary evidence; the risk of anachronism, which consists in asking the wrong question about the past; and the risk of assuming an "ideological" or "moral" standpoint connected to the needs of a globalizing world.

It is therefore indubitable that global history has opened new and very rich fields of research. But it is less clear if it can give us also a convincing and well-grounded representation of the making of the global world.

The papers that follow – including, from a different point of view, the article by Giovanni Gozzini, which analyses and compares the 'Great Depression' (1929) and the 'Great Contraction' (2008) stressing the 'natural' role of finance in world history – try to address this question.

GLOBAL HISTORY.
STRUCTURES, STRATEGIES, OPEN PROBLEMS

MARCO MERIGGI*

ABSTRACT

Through the critical discussion of some recently published works, the author reflects on the role of global history in the general landscape of contemporary historiography. In particular, he highlights the reasons why it is necessary to reconsider and recast the notion of Eurocentrism, which has long been dominant in historical research on the modern and contemporary age. One can, of course, continue to adopt a basically Eurocentric perspective (Europe in the world), especially in relation to the past two centuries of history. However, in light of a global-scale analysis, many typical beliefs of the classic Eurocentric approach do not seem as convincing today as they once did. Moreover, it seems evident that the global perspective necessarily suggests a rethinking of the very idea of Europe in the course of the modern age (Europe as such). In fact, at the beginning of the modern age, Southern Europe – today often considered backward in relation to Northern Europe – was decidedly at the forefront of globalization processes, performing the role of the prime protagonist of the process of European expansion around the globe. In any case, it appears clear from examination of the texts analyzed in what follows that today also scholars who do not necessarily share this approach are actively addressing global history and its problems.

Keywords: Global History, Eurocentrism, Historical Methodology.

In the past few decades, the global perspective has become increasingly attractive in the field of historical research. On the one hand, there are now dozens of books that have illustrated its genesis, methodological characteristics and research strategies; and empirical research on the subject is of enormous proportions.¹ On the other hand, its success has encouraged, at

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¹ Without any claim to exhaustiveness, see, for instance, CONRAD 2015 and DI FIORE and MERIGGI 2011.

the level of the academic organization of teaching and research – particularly, but not only, in the English-speaking countries – a proliferation of departments and study centres explicitly devoted to it. In Italy too, as part of degree courses in history, the teaching of global history has been implemented steadily in the past few years.

In short, global history today is fashionable, although the consensus that it enjoys is far from unconditional. Indeed, we can say that the more its success has increased, the stronger and more well-reasoned have become the reactions of those who, vice versa, do not share its guidelines.²

But in what does the proposal of global history consist? There follows an attempt to answer this question in extremely concise and simplified terms: 1) Global history pursues the objective of widening the panorama of historiographical investigation and of giving importance, consequently, not only to the Western context, on which historians have traditionally focused, but also to other areas of the world; 2) It seeks to achieve this goal by openly criticizing the narrative model which, since the nineteenth-century foundation of modern historical research, has been dominant: history as history first of Europe and secondly of its progressive dissemination in the world, by virtue of the supposed ‘genetic’ superiority of its values and mental orientations with respect to those characteristic of other civilizations and cultures; 3) It proposes, for this reason, an interpretative model of history couched above all in terms of intertwining, contact and connection, rather than conflict, contraposition and clash, among the various planetary societies, and aims to highlight their fundamentally hybrid nature which derives from, significant though not always visible, intercultural transfer processes;³ 4) From this point of view, global history is radically critical not only of Eurocentrism but also, more generally, of any form of ethnocentrism, because it tries to delineate an ‘entangled’ or ‘mestizo’ history;⁴ 5) It does not pursue, instead, as sometimes erroneously believed, the goal of reconstructing a synchronic and simultaneous history of the entire range of world civilizations; rather, it strives to identify single events or issues that involve societies and cultures of a different nature in a significant way, within a transnational and sometimes transcontinental space, which in general does not coincide with that of a single state or a single nation.

The fact remains that, in the common perception, global history means above all non-Eurocentric history. Starting from this implicit assumption we will now try to verify, on the basis of three recent books, whether and to

² See, for instance, PRODI 1999: 51.

³ SUBRAHMANYAM 2014; GOODY 1999.

⁴ GRUZINSKI 2004.

what extent a notion like that of Eurocentrism seems today to have really suffered from the attack launched against it by global history.

Published in 2016 was the updated edition of the classic study by Wolfgang Reinhard on the history of European expansion, whose first edition – four dense volumes which bore precisely that title – was published between 1983 and 1990.⁵ We now have a single imposing volume which is titled differently – *The Submission of the World* – and which proposes instead in its subtitle, with a small but significant variant, as well as with a chronological update, the original title: *Global History of European Expansion (1415-2015)*.⁶

This is not a pure and simple condensed reprint of the four original volumes, although many parts of them are offered without significant variations. The new edition is based on careful work of comparison with the literature that appeared during the quarter of a century between the publication of the last volume of the first edition and 2015. The mode of this comparison is easily verifiable by the reader in the large final bibliographic appendix, which occupies almost 300 of the total 1650 pages of the work. It can thus be seen that much of the recent literature used by Reinhard, sometimes sharing its results, sometimes criticizing its approach, is a literature produced in the sphere of global history. He moves from a ‘history of European expansion’ to a ‘global history of European expansion’.

We are faced with – it seems to me – the implicit combination of a Eurocentric perspective and a globalist one, in the belief that the two perspectives are not at all irreconcilable. In reverse, a combination is not only possible but also fruitful if, instead of focusing on the traditional internal constitutive factors of European history and on the corresponding geographical areas, one widens the analysis to include all the spaces in the world in which Europeans between the end of the fifteenth century and today have expanded, for better or for worse. In this sense, Eurocentric history remains fundamentally such, even if its reference space is no longer Europe. And of this still eurocentric history the author investigates in particular those spatial contexts in which the alleged self-sufficiency of the European model is fatally questioned by those currents of interchange and cultural contamination that are – as we have seen – one of the favourite themes of global history.

A few decades ago, as Reinhard was preparing the first edition of what he declares to be his most important work,⁷ the topics at the centre of his research did not at all enjoy particular importance in the context of

⁵ REINHARD 1983-1990.

⁶ REINHARD 2016.

⁷ REINHARD 2016: 11.

Western historiography. On the contrary: “In the 1980s they had a rather marginal character”. But – Reinhard argues – in the meantime there has been a change in the collective mentality which now makes their recovery and reworking more than justified. Today, in fact, that theme – not much considered at the time – “is at the center of both political and scientific discourse”.⁸

Very well informed on the forms taken by the impact of European expansion over more than five centuries in the various areas of the globe, Reinhard’s reconstruction largely employs, as said, the results generated by studies on global history and also engages in a measured debate with post-colonial studies; that is, with the specific cultural current of thought that in recent decades has most radically challenged traditional Eurocentrism; a radicalism that has in some cases even induced its exponents to look suspiciously at globalist historiography itself, accused of surreptitiously relaunching a basically Eurocentric perspective.⁹ And it is, substantially, this latter that we find, albeit with Reinhard’s full critical awareness, at the centre of his work. Despite making use of global contexts, and although it is driven by an approach often very critical of the modalities of Western agency in the world (today as yesterday), the analysis provided by the great German historian remains, in fact, primarily a discourse on Europe and its national states. It strongly stresses the gap between ideological representation, on the one hand, and reality on the other; the gap between the level – we may say – of civil promises and that of the many brutal and authoritative actions committed by the European states during both their ancient and recent colonial ventures. However, it fully reiterates Western exceptionalism, which the post-colonial perspective – all aimed at spending itself in favor of an “on equal terms” history¹⁰ – would instead resize and replace with alternative and at the same time autonomous narratives. In fact, one of the goals of post-colonial studies is to question both supposed European uniqueness and the political achievements which the West usually considers the symbols of its superiority: for example, the modern state, the centrality of the law, the nation grounded on popular sovereignty, democracy. This is seen as the only way to reconstruct in their own terms historical and cultural experiences marked by a profound otherness with respect to Western civilization.¹¹ Modern state, centrality of the law, na-

⁸ *Ibid.*

⁹ See, for instance, ASCIONE 2009.

¹⁰ DIETZE 2008: 69-84.

¹¹ An alternative line of analysis – critical on the issue of the supposed Western exceptionalism – is proposed in some of the essays collected in SEN 2005. But see, also, SEN 2004.

tion, popular sovereignty, and democracy are all incomplete achievements, according to Reinhard; in the West, however, they are less incomplete than in any other part of the world. In any case, they are all achievements of a Western origin, of a West which sees therefore through his analysis its role as the engine of modern world history reconfirmed.

Let us turn now to consideration of another book. The author – Serge Gruzinski – has in recent decades repeatedly adopted a strongly polemical approach to the narrowness typical of traditional Eurocentrism. He now appears to be, in his turn, basically persuaded of European supremacy in the making of the global world.¹² In past decades – as said – in works on the border between anthropology and history, Gruzinski – achieving results of exceptional quality and importance – has devoted much effort to interpretation of the first centuries of the modern age in terms of transnational and transcultural perspectives; the same ones advocated by the proponents of global history and therefore inclined to reduce the ‘obsessive’ – and at the same time limiting – emphasis on concepts such as state and nation on which most of the narratives of Western history rely. At the core of Gruzinski’s investigation is the idea that history should be studied as connected; that is, as a history of hybridization and contamination between different cultures and societies; a history in which the currents of interchange are mutual, and not uniquely characterized by a unilateral influence of the Western colonizing centres on the colonized peripheries.

It is an interpretation that the author has developed mainly by investigating a specific transcontinental political formation of the modern age, i.e. the Iberian Catholic monarchy between the late 1500s and early 1600s, of which he has evocatively illustrated the reasons that authorize its consideration as a field of intense multidirectional *metissage* and entanglement.¹³ In his latest book, Gruzinski resumes some of the results of his earlier work. His goal, however, is the construction of a profile of global history in which Europe is granted an indisputable centrality. The very concept of Eurocentrism, on the other hand, is to be considered – Gruzinski argues – as one of the specific products resulting from the globalization processes of the early modern age.

In the 1520s, two particularly significant events on a global scale took place within the space of a few years: on the western side, the start of the Spanish conquest of Mexico by Hernán Cortés; on the eastern one, the attempt made by the Portuguese to penetrate China.

The good result (for the Spaniards) of the Mexican adventure coincided

¹² GRUZINSKI 2015 (in Italian, GRUZINSKI 2016).

¹³ GRUZINSKI 2004.

with the beginning of the construction of a new West in an area of the world that had never come into contact with the ancient *Ecumene*. The less known – and almost never mentioned – Portuguese initiative, vice versa, failed miserably. And yet, it was from the simultaneity of these two ventures outside its borders that Europe acquired the conceptual assumptions to imagine itself as the centre of the world.

The roots of Eurocentrism, then, are located at that moment. In antiquity and during the Middle Ages, in fact, in the context of what was traditionally called ‘*Ecumene*’, the Europeans turned their eyes only towards the East. But from the sixteenth century onwards their gaze became broader: on the one hand, the West; on the other hand, an East that for centuries escaped the European domination and that, however, Europeans not only attended with an unprecedented intensity but also connected with the new Western world. The global plot that wrapped the world in the following centuries was therefore characterized by a largely European agency. But which Europe are we talking about?

The concept of Eurocentrism is, in fact, generally linked to factors that have marked the history of what is today Northern Europe. It is thus connected to issues such as the scientific and industrial revolution (the Weberian “disenchantment of the world”), or the experience of British and French imperial domination on a global scale between the nineteenth and twentieth centuries. One of the most interesting results of Gruzinski’s analysis is instead the appropriate emphasis on the processes of transformation of this concept.

The Europe that the world came to know in the sixteenth century was in fact the Iberian Europe, or better, considering the strong involvement of Italians, a Southern Europe. In the following centuries, this Europe underwent a process of undeniable decadence—and became, for the holders of Western ‘progress’, a not only geographical but also civil and cultural liminality.

Thereafter, the northern Europeans started to apply to the southern Europeans the same negative assessments that from the sixteenth century had been used by the latter to describe the populations of the new West that they had conquered. After being the centre of diffusion and direction of the Eurocentrism of the early modern age, the Iberian Peninsula and the Mediterranean became not only territorial but also cultural peripheries, parts of the ‘South’ of the world. This evidence induces Gruzinski to pose a question of great importance and interest: what are we talking about when we discuss European identity and modernity, since both are composed of many heterogeneous materials?

From the perspective suggested by this book, Eurocentrism has many

different faces, whose relative relief changes over time, so that the very nature of Europe – characterized by some unifying factors and many highly differentiated and conflicting ones – is a concept far from being static.

Moreover, it has been precisely the contact with other parts of the world that has played a decisive role in enhancing these differences, as well as in making them become causes of inter-European ideological and cultural conflict. The '*leyenda negra*', whose initial episodes Gruzinski recalls in this book, from this point of view is perhaps the first manifestation of that sense of distancing which still today makes it difficult for Northern Europe to resign itself to the idea that the protagonists of the first European globalization were the Iberians and the Italians.

We have thus come to address a crucial point: the relationship between Eurocentrism and capitalism. It belongs, in many ways, to the list of the strongest certainties on which our perception of history is grounded.

As well known, the idea of modern capitalist rationality as the exclusive outcome of Western culture – "*nur im Okzident*", only in the West – is at the basis of Max Weber's work *Economy and society*.

It is therefore very interesting to see how the new perspectives of global history are today actively interfering with this apparently so reassuring paradigm and contributing to its conspicuous transformation. This transformation is very evident in another recent work, the last one considered here: the profile of the history of capitalism written by Jürgen Kocka,¹⁴ not a global historian, but a scholar who for decades has been working – at the highest level – on themes of German history and comparative European history.

However, attentive and receptive as he always has been to every important innovation in the historiographical panorama, Kocka in this work actually thinks in terms of global history, giving, therefore, evidence of the strong influence exercised today by this trend also among those who habitually make use of other conceptual instruments and tools.

Specifically – Kocka warns in this work – European is not the phenomenon of capitalism as such; specifically European is the concept through which that phenomenon is usually thought. In the same way, specifically European (and Western) is the tendency to consider it a test of modernity; a tendency that emerged above all between the nineteenth and twentieth centuries, when Marx's and Weber's theories of capitalism were produced, and in which, at the same time, the concept of capitalism was linked in a substantially exclusive way to the industrial dimension. But – Kocka argues – before the age of industry there were worldwide many other forms

¹⁴ KOCKA 2016 (German edition 2013).

of capitalism. Considering the opening of “historiography to global history”,¹⁵ now necessary is a deep reassessment of the position of the West in the history of this multifaceted phenomenon.

One of the conclusions that Kocka draws from this reassessment is that, in the thousand years between 500 and 1500 AD., capitalism, in its mercantile form, had a global character and that within this global capitalism the role of Europe was for a long time not that of a forerunner, but rather of a latecomer with respect to the Arab and Chinese worlds, the true protagonists of pre-contemporary capitalist globalization processes. Of course, things changed between the late modern age and the nineteenth century, when the industrial form of capitalism became dominant and developed almost exclusively in north-west Europe, “even though it was made possible and conditioned by interconnections worldwide”.¹⁶ In other respects, the global perspective adopted by Kocka enables him to reconsider capitalism also from the point of view of the corresponding forms of work. The global capitalism of the modern age – but to some extent also that of the contemporary age – was not necessarily based on wage labour. Outside Europe, it was rather predominantly organized in the form of non-free labour (forced labour, slave labour, or indentured labour).¹⁷

There is enough evidence – I believe – to conclude that the perspective of global history has already played an important role, regardless of its possible future developments; and not only for the enlargement of the spatial reference frameworks that it has solicited, but also because of the incentives given to reconsideration of Western history itself in terms of ambivalence, as the three books examined here apparently demonstrate. We can still be persuaded – as we have been in the past – of the European centrality with respect to the modernization processes of the last centuries, from which today’s global world has sprung. But adoption of the scale of global analysis necessarily entails a profound reexamination of that Eurocentric perspective which we have long considered too obvious, linear and coherent.

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GEOGRAPHIES OF GLOBAL HISTORY

LAURA DI FIORE*

ABSTRACT

The paper, focusing on the pivotal spatial rethinking in global history, briefly reconstructs some implications of the assumption of an original spatial perspective in the global historical research from its beginnings to nowadays. The application of a constructivist perspective leads, on the one hand, to the choice of units of analysis basically alien to any form of centrism and to the hierarchies of meta-geographies; on the other hand, to the deconstruction of the traditional nation-state frame, historicized and reconceptualised in new ways in a global perspective. Moreover, after a rich debate developed in the years 2006-2015 about issues of space and scale, new life has come to global history through a more accurate empirical research, devoting more attention to contexts, social actors and primary sources.

Keywords: Spatial Turn, Regional Spaces, New National Histories, Microhistory, Social Actors.

Space is undoubtedly a central category in the context of global history. It is actually connected to one of its distinguishing features because global history aims, as well as to free itself from a Eurocentric perspective, also to reason outside the spatial framework that has long prevailed in the field of historical analysis, namely the state-nation one. Since its inception, global history has searched for spatial frameworks alternative to this unit of analysis, favouring spatialities that develop transversally to the national political-institutional scenario, traced from time to time by the processes being analysed: migrations, diasporas, circulation of ideas, ideologies, knowledge, political models, commodity chains, exchanges of objects, bacteria, diseases but also perceptions, imageries, memories. Therefore, con-

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nections design the spatial frameworks of analysis of the global history.

For these reasons, application to historical analysis of the suggestions of the ‘spatial turn’ movement can certainly be considered one of the most consolidated points of global history. Inspired initially by the theoretical reflections of Michel Foucault and Henri Lefebvre, this movement has directed renewed attention to the spatial dimension in the social sciences. Through the work primarily of exponents of critical geography, such as David Harvey and Edward Soja, the spatial turn claimed the centrality of space as an analytical category, so that, from an inert and simple background of the processes being analysed, it would become considered primarily as a social, cultural, political product (Warf-Arias 2009; Middell-Naumann 2010).

Global history undoubtedly made a notable contribution to the rethinking of the space category which, following this movement, has affected the historiography of recent decades. Absolute Cartesian space has been reconceptualised as inconceivable independently of social action, by which it is constantly produced. This constructivist perspective has therefore made a sharp break with an essentialist view of spatiality which had given rise, on the one hand, to a ‘spatial determinism’ in which physical space is conceived as a generator of historical phenomena, and on the other, to ‘methodological territorialism’, based on an extreme rigidity of the spaces, taken as independent data from the phenomena analysed (Langthaler 2012). But what are the implications of this constructivist perspective based on a relational conception of space?

Firstly, units of analysis of historical inquiry become frameworks corresponding to the subnational, transnational or macro-regional processes that represent the focus of the research. The spaces of the global history are therefore profiled as much more fluid than politically defined territories. On closer inspection, they present the characteristics that Daniel Nordman has recently attributed to ‘space’, distinguishing it from the ‘territory’ and describing the former as “*indifférencié, incomplètement structuré, traversé par des courants d’échanges, occupé par des réseaux fluctuants, économiques, sociaux, religieux, culturels*”, where the latter is “*enjeu d’une institutionnalisation, d’une appropriation, d’un pouvoir*” (Nordman 2015: 698). Responding to the spatiality described by Nordman appear the scenarios reconstructed in the texts devoted to the theme of Great Divergence (Pomeranz 2004; Bin Wong 1997; Frank 1998; Parthasarathi 2011), in those focused on the Atlantic space – from the pioneering studies by Curtin and Crosby (1969, 1972) to the most recent analyses by Morelli (2013), Thornton and DuPlessis (2012, 2015) – in the revolutionary studies on the Indian Ocean (Abu-Lughod 1989; Chaudhuri 1990) or in those that have identified a space composed of fractions of five nations of Southeast Asia, called Zomia, on the

basis of the rejection of the state by mountain inhabitants (Scott 2010). However, paths of exchange and *métissage* have been reconstructed also in the context of institutional structures, provided they do not coincide with national frameworks, for example in the case of the Catholic monarchy at the centre of Serge Gruzinski's book (2004) or of the numerous imperial contexts analysed in the perspective of global history.

Common to the spatial horizons of the global history, however, has always been the tendency to problematize the category of space and the consequent opening of scenarios tendentially alien to any form of centrism and to the hierarchies of metageographies, also undermined by the connected recovery of the non-Western countries outside crystallized visions such as the Westernization of the world and the European miracle. The most recent works of global historians show a marked continuity on the methodological level with this original line of inquiry, exploring new possibilities disclosed by what has also been simply called 'spatial history'. Among the many possible examples, the experiment, launched in 2015, of the *Global Food History Journal*, in which the focus is on the circulation not only of food but also of habits and food models at the origin of creative exchanges and hybrid gastronomic cultures, appears particularly interesting. Moreover, also in this case the space displacement contributes to overthrowing pre-constituted hierarchies. A recent article by Matthjis Kuipers (2017), devoted to the cuisine of the Dutch East Indies, has shown the appropriation by the Dutch of an Indonesian culinary model, the rice table, which, more than being adapted to the tastes of the colonizers, was imbued with new symbolic meanings whereby, for example, ordinary food became a ritual to be reserved for special occasions (2017). The process testifies to the survival of an indigenous food model under the wave of Europeanization that involved the territories in the early twentieth century. It was not, however, pure survival. As said, the result was a hybrid gastronomic culture in which the social values of the settlers overlapped with the Indonesian dishes, so that, after 1945, this food culture became an important element of identity within the Dutch homeland.

Another interesting example is provided by the recent texts focused on the 'Pacific' space, the oceanic expanse most recently explored by global history. The publication between 2013 and 2014 of four major works focusing on this area (Igeler 2013; Buschmann et. Al. 2014; Armitage et al. 2013; Douglas 2014) called for reflection on the role of the Pacific in global history (Hellyer 2016). Covering a time-span between 1500 and 1800, although with very different settings, the texts share reconsideration of the role of Europeans and Americans in the history of the Pacific that, in a global perspective, is extremely underestimated. Firstly, in the Pacific Ocean an imperialism developed which, although it proved undoubtedly beneficial for the

colonizers, did not have great expansive impetus and was characterized by extreme dependence on the locals as mediators. Moreover, a strong role of containment of the West was played by the Asian countries, whose weight on Pacific history remained central. One thinks, for example, of the influence that the tastes of Chinese consumers, and in particular the demand for sea otters, exerted on the economy of the Pacific ‘world’ between the 18th and 19th centuries. The term ‘world’ in relation to this ocean would tend to underline the interconnection of the oceanic regions and to emphasize the focus on the aquatic space in terms of “place of movement and transits” (Hellyer 2016: 301).

The very choice of the term ‘world’ is part of that construction of fluid spatial frameworks typical of global history. Another pregnant word, deployed in global history since its beginning, has been ‘region’. This term does not necessarily refer to macro-regions. As Paul Kramer has made clear, it can define spaces “from just-larger-than-local to the multinational and continental” (2012: 201). What characterizes the regional space is rather the emphasis on the historical production of places through political and social processes, with attention also focused on mental maps, and therefore on the processes related to perception and imagination. Of course, the concept of the region had already been introduced by the *Annales* school – in particular, by Fernand Braudel – whose global history undoubtedly collects the legacy. It had been (and still is) also a key concept for regional history, which activated an interesting dialogue with global history starting precisely from the difference between a *Land* as a strictly defined space and a *Région* conceived as a product of relationships (Editoriale 2012).

The implications of adopting a constructivist perspective in the historiographical field can also be grasped on a second dimension, namely in the deconstruction of the traditional unit of analysis of the nation-state, whose formation processes are historicized. In this way, the nation-state emerges as a spatial formation of a constructed and contingent nature, to be conceived, like other spatial entities, as a construct rather than assumed as an ahistorical and natural unit of analysis. It also becomes significant to analyse the relationships between the political-administrative spatial formations, including the nation-state, and extra-institutional spatialities, in order to understand how social actors moved among multiple geographies, in the past as today, thus also relativizing the experience of contemporary globalization and the alleged crisis of the state connected to it.

In this way, the rethinking of space also makes it possible not to expel the nation-state from the search for global history – as it seemed to be in the beginnings – but instead recover it in different ways. In the first place, it is essential to reconstruct the coexistence, in different historical phases, of various spatial structures, even in the period to which the apogee of the

process of territorialization in the framework of the nation-state, namely the 19th century, has traditionally been ascribed. In this sense, the current project coordinated by Matthias Middell at the University of Leipzig, “Between Reforming Empire and Nation State Territorialization: The Transatlantic Cycle of Revolutions, 1770-1830”, as well as the reflections of Osterhammel in his nineteenth-century global history highlighted, alongside the experiences of territorialization involving – though in different ways – states and empires, the persistence of “discontinuous social spaces” (Osterhammel 2014: 108). Secondly, a study of the nation-state in a global history perspective may be based on awareness, recalled by Sebastian Conrad, that both nationalism and the establishment of nation-states were the result of global processes. Regarding both the political model of the nation and its contents, it should be remembered that they were developed, starting from the nineteenth century, in a condition of dense global integration, of which contemporaries had a certain degree of awareness (Conrad 2015: 149).

Thus, reconstructing the production of nation-states through the processes of circulation of doctrines, political discourses and representations – but also of administrative practices – can shed new light on national histories. Moreover, the latter can be rewritten, in turn, from a global point of view once they have been inserted in a perspective of analysis that privileges economic processes, social networks and transnational movements and the mixed nature of certain cultural traits, rather than a completely inner paradigm aimed at leading the dynamics of national history mainly to endogenous factors. Attempts to free the nation from the narrow horizon of its boundaries by reconstructing the rest of the world within them have been recently undertaken in France and in Italy in the books *Histoire Mondiale de la France* edited by Bucheron and *Storia mondiale dell’Italia* coordinated by Andrea Giardina (2017; 2017).

On closer inspection, both sides disclosed by the adoption of the global spatial perspective emphasize human agency, adopting an actor-centred approach. This feature brings us to an extremely lively debate that has affected global history and has mainly originated from diffidence towards approaches on such a vast scale, inevitably judged as tending to generalization and the revival of a teleological and Eurocentric vision of history. The main reservations concern the risk that the specificities, the details, claimed in past decades by the historiographical trends that had in their turn tried to undermine the structure of traditional historiography – from social or gender history to the most recent post-colonial and area studies – may disappear.

Such criticisms already induced some years ago a methodological rethinking of the scale issues between the Anglo-American global historians, including Anthony Hopkins and Patrick Manning, who highlighted the im-

portance of privileging a point of view located at the crossroads between the global and the local. Another form of correction was put forward by the *histoire connectée*, which found particularly successful expression in the works of Serge Gruzinski (2004) and Sanjay Subrahmanyam (2005) and which made it possible to build broad stories firmly anchored to the specific contexts that they intended to analyse.

More recently, however, given the perplexities related to generalization problems, poor adherence to historical contexts, loss of specificity and limited recourse to primary sources attributed to a “supersized history” (Sebouh 2013), it has been recommended that global history should intersect with microhistory. Significant among the proposals is the genre of ‘global micro-stories’ understood as ‘global lives’, which, as theorized in an article by Francesca Trivellato (2011), has mainly materialized in the form of individual biographies in global contexts which use individual biographical paths as lenses through which to look at intertwining and global exchanges. Of particular relevance also appears the proposal put forward in a recent essay by Christian De Vito, who has proposed a declension of global history in terms of “micro-spatial history” (2015). His proposal consists of an interpretation of global history that avoids its equivalence with widening the geographical scale and identifies it with an essentially methodological perspective. ‘Global’ does not therefore indicate an expansion of analysis frameworks, but explicitly expresses the spatial rethinking of global history. In the context of this global history, understood as spatial history, the microhistory approach makes it possible to reconstruct the connections between different contexts, whose singularity is recognized and reconstructed through a direct relationship with the primary sources. This methodological proposal, which presents several points of contact with the reflections of Angelika Epple (2012), has recently found complete application in the research gathered in the book that De Vito edited with Anne Gerritsen, *Micro-spatial Histories of Global Labor* (2018).

Beyond the specific reference to microhistory, one gains the impression that this debate, developed mainly in the years 2006-2015 – revitalizing the more general methodological reflection on historical discipline – has now left room for more accurate empirical research, giving new life to global history. Thus, without necessarily resorting to microhistory, the most recent global history research shows greater attention to the contexts of which it analyses connections, also favouring an approach focused on social actors. An example to cite in conclusion is the recent book devoted to the “Mediterranean diasporas” (Isabella and Zanou 2015), in which the geographies of nineteenth-century liberalism, as the result of a syncretic construction based on the exchange and circulation of ideas, are reconstructed among multiple ‘Mediterraneans’ also through individual biographical

paths, constituting an illuminating example of reconciliation of spatial turn methodologies in a global perspective with fundamental elements of traditional historiography.

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THE GREAT DIVERGENCE VINGT ANS APRÈS:
TOWARD A MEDIUM-TERM SYNTHESIS?

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ABSTRACT

In the last twenty years the researches inspired by a global approach have given a fundamental contribution to the debate on the origins of 'modern economic growth' and of the so-called Great Divergence between the West and the Rest. However, the emphasis placed on the short-term conjuncture or accidental factors, such as the distribution of strategic resources, has led to an underestimation of the impact of cultural, political, social and economic developments in Europe during the two or three centuries preceding the Industrial Revolution.

Keywords: Global History, Great Divergence, Industrial Revolution, Modern Economic Growth.

Until the last decade of the 20th century almost all the theories that tried to answer the question "Why are we so Rich and they so Poor?" (Landes 1990) belonged to the family of "long term lock-in theories" (Morris 2010: 13). However different they may be, these theories on the origins of "modern economic growth" (Kuznets 1966) shared the notion of Europe or the West as having deep and lasting features that go back thousands of years and give it some inherent advantage over Asia or the Rest.

Scholars have looked for an answer in demography, geographic environment, endowment of strategic resources and in cultural and religious traditions and political institutions. The interpretation proposed by Max Weber is probably the most authoritative and influential 'lock-in theory' on the origin of modern industrial society. It is a very long-term theory that traces the origins of European primacy back to the Greek, Roman and Jewish roots of Western rationalism.

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Then something changed. Given the impressive development of East and South Asian economies, scholars became less confident in the ‘manifest destiny’ of Western hegemony. Western dominance suddenly appeared fragile and questionable in regard not only to the future but also the past. Consequently, a cluster of ‘*short term accident theories*’ began to compete with mainstream historical explanations.

Because of its shorter evolutionary history, the group of ‘short-termists’, although far from uniform, appears on the whole more homogeneous than that of its rivals. Indeed, it is termed the *California School* by virtue of the fact that many of its exponents, such as Kenneth Pomeranz, Roy Bin Wong or Richard von Glahn, worked in Californian universities.

Californians interpreted the Great Divergence (Pomeranz 2000) between the West and the Rest of the world as a recent, unpredictable phenomenon – “the most freakish of accidents” (Goldstone 2001) – whose explanation lies in a short-term conjuncture and in fortuitous circumstances. The distribution of strategic resources, like coal, played a key role in the emergence and shaping of the modern world. Even more important, however, is the emphasis placed on global connections and political and economic interdependencies among different world regions.

In opposition to various versions of European or Western exceptionalism, the Californians stressed the similarities among the advanced ‘organic’ (Wrigley 1988: 34) civilisations, like Western Europe, China or even India, whose levels of development were in the early modern period quite comparable. The preindustrial world was “*a world of surprising resemblances*” (Pomeranz 2000: part I).

Even developments that might seem utterly Western, the expression of a specific form of rationality, such as the Scientific Revolution or the Enlightenment, are then reinterpreted as the result of a collective transnational activity and of the “cognitive and cultural challenge” (Conrad 2016: 21) represented by the transcontinental interactions that imposed a reorganization of Western knowledge. Rather than move *vertically* in the “tunnel” (Blaut 1993: 3) of European or Western history it is a matter of constructing a plurality of *horizontal* (Frank 1998: 226) connections among different spaces, economies and civilisations.

It is highly debatable whether this global, multicultural, short-term theory of modernization really became the “new politically correct orthodoxy” that Landes deplored (Landes 2006: 3), replacing the traditional Eurocentric, endogenous, lock-in theories. Anyhow, in the last ten years the pendulum swung again.

Many scholars believe that the ‘Californians’ underestimated Europe’s cultural, social, political and economic peculiarities. They find it difficult to

accept the “episodic and atomistic view of social change” propounded by the revisionist paradigm (Bryant 2006) and to regard Western ascendancy, the Industrial Revolution and the resulting Great Divergence, as ‘freakish’, unpredictable accidents:

We do not consider the European nineteenth-century breakthrough as a really unexpected development, we rather view it as a fairly long process that continued from the fifteenth to the nineteenth century during which in some respects (e.g. military-technical and scientific) Europe was already ahead of the advanced countries of Asia, whereas in others (such as the level of craftsmanship) it still lagged behind (Grinin-Korotayev 2015: 10).

The choice of the fifteenth century as the starting point is not shared by all scholars. Some of them opt for an earlier dating:

The success of the economies of Flanders, Brabant, Holland and England in the late medieval and early modern periods was rooted in institutions that emerged in the High Middle Ages, the crucial transformative period when Western Europe emerged as a dynamic, innovative economy (Zanden 2009: 11).

Some others, like the neo-institutionalists Daron Acemoglu and James Robinson (Acemoglu-Robinson 2012) or even the ‘Californian’ Jack Goldstone (Goldstone 2008), identify the decisive turning point in the institutional framework that emerged in England from the Glorious Revolution. Almost a neo-*Whig interpretation of history* (Butterfield 1931).

Whatever the periodization chosen, the Great Divergence no longer appears to be the result of fortuitous circumstances, but rather the point of arrival of a ‘Long Road’. The Industrial Revolution should not be considered the result of a ‘vertical take-off’; instead it required a quite long ‘runway’. There is a clear continuity between this school of thought and the ‘revolt of early modernists’ of the late 20th century.¹ Both in fact emphasize not only the ‘striking differences’ (Vries 2013: 401) between Europe and Asia during the early modern age, but also those between the various European regions: that is to say, the preindustrial ‘little divergence within Europe’ (Zanden 2009: 95).

Analysis has focused mainly on three areas: market integration and allocative efficiency, human capital and scientific and technical development, and the role of the state.

Regarding the first aspect, the evidence points to a significant advantage in comparison with India:

¹ VRIES 1994: 249-270; ZANDEN 2002: 619-641.

The overall “macro” comparison between India and Europe showed a picture of distinct differences. First, the level of market integration was distinctly higher in Europe throughout the entire examination period ranging from the eighteenth to the early twentieth century. Moreover, this difference varied greatly over time. Europe started with a considerably higher level of market integration than India, experiencing early and steady expansion of market areas, so that the extent of trade and the level of integration were radically different in these two regions by the end of the early modern period (Studer 2015: 179).

A comparison with China on the eve of the Industrial Revolution, however, yields less flattering results for Europe: “According to the evidence presented in this paper, as for the period right before the Industrial Revolution took place in Western Europe, grain markets did not perform uniformly better” (Shiue-Keller 2007: 1205). Market performance in England – the most advanced European region – was anyway higher than in the Yangzi Delta, the most developed region of the Qing Empire.

Empirical evidence also shows that living standards in India, China and Japan lagged behind those in Europe (Allen 2005; Broadberry and Gupta 2006). Consequently, most scholars now reject the ‘Californian’ claims that Asia was as economically developed as Europe before the Industrial Revolution and suggest that “the divergence between Western Europe and at least India needs to be shifted back to the seventeenth century” (Studer 2015: 149).

However, integrated, efficient markets may be a necessary condition for the emergence of Modern Economic Growth, but not a sufficient one. A Schumpeterian technology-driven economic development must integrate a ‘Smithian’ market-driven growth. [An institutional framework – that is clear and respected property rights, enforceable contracts, law and order, a low level of rent-seeking, and a high degree of inclusion in political decision-making – is never sufficient.

As Joel Mokyr remarked, “better markets, more cooperative behaviour, and more efficient allocations simply do not in themselves account for modern economic growth” (Mokyr, 2012: 5). Modern economic growth required a scientific and technological revolution that in Western Europe occurred in the period from the sixteenth to the eighteenth century. Pomeranz himself gave to the advantages that Europe had “in certain, though not all, areas of science and technologies” the first place in a short list of “big differences favouring Europe” (Pomeranz 2006: 246)

This revolution arose from a set of not only political and institutional developments but also of radical cultural, almost anthropological, changes:

One may [...] argue that such critical junctures require a switch in people’s *cosmology*. And such a critical juncture was reached in Europe around 1600 AD

through the fundamental alteration in people's mode of thinking about the future [...] the future as a manageable entity had now entered the European economic mindscape (Rössner 2016: 49-50).

This distinctive European feature “is driven by deep cultural and institutional differences, but they have to do with the basic organization of society, not the metaphysical differences between Confucianism and Judeo-Christian religions” (Mokyr 2017: 296). We should therefore look for an answer in the European institutional framework and particularly in the political fragmentation of Europe. This pluralism provided unorthodox intellectual and innovators with a – relatively – open and competitive market for ideas. This point complement the traditional view of Western Institution as less ‘extractive’ than the Asian ones.

But where the traditional institutionalist approach emphasizes the benefits of the limits of state power, recent scholarship insists on the proactive role of the state in direct or indirect promotion of technical and economic development.

It is not the ‘extractive’, despotic character of the Ming or Qing empires that is responsible for Chinese ‘failure’ but, rather surprisingly, its fiscal sobriety and ineffectiveness. Reversing the conventional image of an omnipotent state, recent studies have shown that in fact in China the central state had a reduced grip on society and in many respects did not have the tools for effective interventions. In fact, there is little doubt that the level of taxation was much higher in ‘inclusive’ England than in China, and it is for this reason that “Great Britain became a state with far more infrastructural power than Qing China” (Vries 2015: 420):

The striking conclusion of our comparative empirical analysis must be that Britain, the first industrial nation, was a fiscal-military, mercantilist and imperialist state that did almost everything that mainstream economists think a country wanting to grow should not do. Taxes were high, as was public debt. There was an extensive bureaucracy and a government that intervened quite often in economic affairs. Expenditures for the army and navy were staggering. The country was very protectionist and not exactly democratic (Vries 2013: 433) .

The staggering expenditures for the army (and the navy) bring us back to the global, ‘systemic’, dimension. Among the consequences of the revival of the long-term approach, there has undoubtedly been the re-focus on the endogenous dimension of the Industrial Revolution and the Great Divergence. This led, in some cases, to rehabilitation of Weber's perspec-

tive, the *bête noire* of the California School's revisionism,² and also to some forms of eurocentric *revanchisme*,³ Also Wong has recently offered an explanation of Divergence that looks more "at traits particular to Europe rather than the relationships of Europeans to other world regions" (Wong 2016: 78).⁴

The growing fiscal-military effectiveness of European states derived from their being part of a highly competitive international system, and from the 16th century onwards it became one of the essential factors for an effective extra-European political and economic expansion (Hoffman 2015). The world market that emerged from the 16th century was the driving force behind the first phase of modern economic growth, as even non-revisionist scholars recognize: "Both the Netherlands and England expanded rapidly because they managed to capture increasingly large shares of international services (trade, transport and finance) and enlarged their share of key export industries" (Zanden 2012: 291). 'Power' was not a sufficient but certainly a necessary condition for 'Plenty'. (Findlay and O'Rourke 2007)

In conclusion, empirical research has questioned the most bold and optimistic revisionist statements about the incomes and technical and scientific development of non-Western countries on the eve of the Industrial Revolution. Due attention has also been paid to the consequences of cultural and institutional differences, particularly to the impact of the European 'fiscal-military state'. About twenty years after *China Transformed* (Wong 1997) and the *Great Divergence*, the two manifestos of the 'California School', the endogenous explanations of the Great Divergence have therefore regained some of the lost ground.

However, simply returning to the *status quo ante*, the old, essentialist, 'long term lock-in theories' is no longer an option. The contribution of the California School reconfigured the debate on 'the Rise of the West' and the "Old clichés about Asia's economic past are no long tenable" (Vries 2013: 58). It is also widely accepted that the process of modernization must be analysed in a global perspective as the result of the interaction of civilisations and economies having *approximately* the same level of complexity and development.

A new paradigm is thus taking shape; a paradigm whose structure is greatly indebted to the traditional theories of modernization but that "selectively incorporate those revisionist contributions that offer greater ana-

² See VRIES 2013: 436.

³ FERGUSON 2011; STARK 2015.

⁴ Wong refers to ROSENTHAL and WONG 2011.

lytical comprehension or enrich our range of empirical reference”. (Bryant 2006: 404). We could define it as a ‘medium-term theory’, path dependent but non-deterministic. We can no longer regard capitalist, industrial and scientific modernity as the necessary (or inescapable) outcome of European or Western history since the fifth century B.C. (o even A.D.) due to ‘essential’, congenital, characteristics of Western civilization. Yet, explanations dating the Divergence from the late 18th century and based on ‘fortuitous’ or even ‘freakish’ accidents are no longer convincing:

The social formations are pervasively integrated and interdependent structures of institutional and cultural configuration; and [...] the historical processes variably reproducing and transforming those structures are not random or irregular, but unfold in path-dependent sequences that give rise to catenated trajectories of varying temporal duration (Bryant 2008: 150).

In a medium-term perspective, the trajectories of European and non-European countries since the end of the 15th century assume distinctive importance. These were the centuries of the ‘space revolution’ that intensified and reshaped the relationship between civilizations and within Europe; these were the centuries of the Scientific Revolution that made *Enlightened Economy* (Mokyr 2009) possible and the political revolutions that laid or consolidated the socio-institutional foundations of modern economic growth.

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EARLY MODERN HISTORY
IN THE *JOURNAL OF GLOBAL HISTORY*

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ABSTRACT

This paper analyses to what extent, if any, global history has changed our understanding of the themes and problems of early modern history. It does so by undertaking a specific case study, that of the *Journal of Global History*, a periodical founded in 2006 on the initiative of a group connected to the London School of Economics and published by the Cambridge University Press. The journal is used as a lens through which to examine a number of issues: from the definition of global history to its links with other emergent historiographical perspectives (section 1); the time periods, topics and spaces on which global history has focused (section 2); and the discipline's protagonists and sources (section 3).

Keywords: Global History, Early Modern History, Historical Journals.

INTRODUCTION

Anyone wishing to understand whether and how the discipline of global history has changed our understanding of early modern history must adopt a historiographical perspective. One viable approach, as taken in this paper, is to choose the *Journal of Global History* (henceforth JGH) as a case study. The JGH, founded in 2006 by a group of scholars from the London School of Economics and published by the Cambridge University Press, has undeniably become an authoritative voice in its academic field. Studying the JGH also helps to build a vantage point from which to gain an initial

* Università di Torino. Address for correspondence: patrizia.delpiano@unito.it. Articles published in the *Journal of Global History* are listed in parenthesis in the text, using the surname of the author, year, issue number and page numbers. My analysis dates back to November 2017.

insight into preliminary questions that cannot be avoided (section 1), before examining, with reference to early modern history, the periodization, themes and spaces (section 2), and the protagonists and sources of global history (section 3), in order to identify the outstanding problems facing the discipline. All these questions are the subject of lively debate, for which the journal has been a sounding board and to which, for want of space, we must limit ourselves to making only essential indications.

Let us begin with some basic information about the journal. It was founded by three economic historians: Kenneth Pomeranz (UCLA), the well-known author of *The Great Divergence* (2000), Peer Vries (University of Vienna), and William Gervase Clarence-Smith (School of Oriental and African Studies, London). The supervising team has changed over time, and is currently made up of the aforementioned Clarence-Smith (editor-in-chief), an expert in the economic history of Southeast Asia; Barbara Watson Andaya (University of Hawaii), another Southeast Asia specialist; Merry Wiesner-Hanks (University of Wisconsin-Milwaukee), an expert in the history of gender; and Ronald C. Po (London School of Economics), an expert in Chinese history. The editorial board comprises around twenty scholars, twelve of whom belong to universities in the United States or the United Kingdom, while the others are based in Australia, Germany, Egypt, Japan, Hong Kong, France and Switzerland. The global dimension is broadened, however, if we consider their origins: nine of the twenty are from non-Western countries, although many of them were educated in the West. As a whole, these scholars ensure the availability of time-honoured expertise and wide knowledge of various parts of the world, although many concentrate on the modern and contemporary periods and Asian specialists predominate.

1. IN SEARCH OF GLOBAL HISTORY

What global history means for the editors of the JGH is made clear by their statement of intent: the journal aims to address – according to the declaration that appears in every issue – “the main problems of global change over time, together with the diverse histories of globalization”.¹ Thus global history, the definition of which is discussed in a large body of literature, is here construed as history that frames phenomena and processes in a global context and also as the study of the globalization process. This is a broad definition that takes account of both the chosen perspective

¹ <https://www.cambridge.org/core/journals/journal-of-global-history>.

and the specific theme of globalization, as confirmed by articles published in the journal over the years.

The JGH has close links with other emerging historiographical trends. It in fact hosts research that may be described, and is described, as ‘world history’ (see Manning 2003) and ‘connected history,’ making this global ‘laboratory’ extremely prolific. In this regard suffice it to note that the founder of connected history, the Indian historian Sanjay Subrahmanyam, has written for the journal (Subrahmanyam 2007). Global history as a broad-spectrum classification, then. And the identification of its origins also appears inclusive, as emerges from the article by Patrick O’Brien, *Historiographical Traditions and Modern Imperatives for the Restoration of Global History*, which serves as the JGH’s ‘prolegomenon’ (O’Brien 2006). O’Brien names the founding fathers of global history as William McNeill (1917-2016), author of the renowned *The Rise of the West* (McNeill 1963) and one of the promoters, in 1982, of the World History Association; Leften Stavros Stavrianos (1913-2004), author of *A Global History: From Prehistory to the 21st Century* (Stavrianos 1970); and Marshall Hodgson (1922-1968), whose works include *The Venture of Islam: Conscience and History in a World Civilization* (Hodgson 1974). Nevertheless, what O’Brien termed a “cosmopolitan enterprise” (4) was in fact based on a very long tradition which began with Herodotus and includes, among others, such non-Western historians as the Chinese Sima Qian, who lived in the first century BCE, and the Arab Mas’udi, who died in 957 CE. Hence, also as regards the question of innovation considered? by global history – debated between those who see it as a turning-point and those who emphasize its continuity, recalling the polycentric nature of its origins – the key word is the one used in the title of O’Brien’s essay, where global history is linked to the idea of ‘restoration’ of various traditions.

Finally, in regard to the identity of global historians, it is noteworthy that the majority of them work in Anglo-American universities. The exclusive use of English in the JGH is therefore not surprising, given that it has its origins in the English-speaking world where global history is mainly practised. But what is instead surprising is the journal’s review policy, which is focused almost entirely on books published in English; indeed, only six per cent of the reviews appearing in the JGH have been of books written in another language.

2. GLOBALIZING EARLY MODERN HISTORY: TIME PERIODS, THEMES AND SPACES

The monopoly of the English language does not impede a geographically and chronologically wide-ranging historical reconstruction. In fact,

the JGH's editorial project involves the entirety of human history, which is examined in each of its periods with especial attention to its global connections. In the contributions where global history is construed as the history of globalization, the journal gives voice to the diverse hypotheses of authors alternating between a view of globalization as a long-term process that began in the fifteenth century, and another of a globalization that came into being in the nineteenth century, and yet another that sees it as a phenomenon of the past thirty years. Inspection of the articles dealing, in full or in part, with the early modern era shows that the traditional chronological barriers used to subdivide early modern history (as also ancient and mediaeval history) are swept away in favour of a long, in fact very long, time span: from an article on the formation of great empires between 3000 BCE and the nineteenth century (Turchin 2009) to that on the migrations of the European population between the sixteenth and twentieth century (Lucassen and Lucassen 2009). Global history removes both geographic boundaries and chronological barriers, but it brings to the fore the fifteenth to the eighteenth centuries, even if they are revisited because they do not appear to know the traditional internal caesuras: the 1455 of Gutenberg, for example, and the 1517 of Luther, moments that are generally referenced to explain the existence of two European – Catholic and Protestant – worlds.

If we turn now to the themes of global history, there is no doubt that the discipline has raised new questions about well-known issues. It has allowed entrenched interpretations in various fields of research to be called into question – from those of colonialism to the 'Great Divergence' – subjects that are much debated in the journal but which I will leave to one side because Marco Meriggi and Vittorio Beonio Brocchieri consider them more fully in their contributions to this publication. Even so, there emerges a more general historiographical discourse centred on a comprehensive reinterpretation of modernity understood as a process that has led to the world in which we now live. The journal has the programmatic aim of overcoming the dichotomy between 'the West and the Rest'² and for a decade has contributed to revising the notion of the West's unstoppable progress towards world domination in favour of a view of the world as a polycentric system characterized by cultural and material exchanges between Europeans and the others. Several changes were not born in the West and then exported elsewhere; rather, they were the outcome of relations between different parts of the globe. The West, in other words, is not *the* undisputed protagonist of modernity.

And this, it seems to me, is the thread that links the articles that tackle

² <https://www.cambridge.org/core/journals/journal-of-global-history>.

a wide range of subjects: not only those that deal with economic history, but also others concerned with cultural, religious, social and political phenomena. In the cultural sphere, a phenomenon like the birth of modern science, for example, is explained by stressing the exchange of ideas, objects and techniques with the Orient: the result of the 'useful knowledge' to which, for example, the accounts of European travellers to China and India attest (Berg 2006, 2013). Religions lose their traditional differences: hence there emerges a Buddhism with unusual traits, one more similar to monotheist religions (Wheeler 2007), while Christianity is depicted as a unified religion because the focus of studies is not on the Christianity of internal wars but the Christianity of the colonial space, where syncretism triumphed (Parker 2013). Dichotomies that have long contrasted the West as the place of free labour with the Orient, especially Russia, as the place of servitude (Stanziani 2008) disappear. On the political level, the relations between European and local elites through the concept of 'hybridisation' so dear to Subrahmanyam have been emphasized (Roy 2011).

Two words recur in many articles: *relations* and *comparisons*. Relations include, for instance, those that connect Piedmont and Bengal by means of the introduction of Piedmontese silk-working techniques in Bengal (Davini 2009), or those that connect Great Britain to China through the first British diplomatic mission to China in the late eighteenth century (Berg 2006). Relation can signify 'impact', such as that on prices in various parts of the world in consequence of the French Revolution and Napoleonic Wars (O'Rourke 2006), or it can simply represent a 'view' such as that of the Russians who arrived in America in the eighteenth century (Winkler 2012). As regards comparisons, these are in some cases made between different places during the same period (Davids 2006), and in other cases (with strong risks of decontextualization) between different places at different times, from Vietnam and Japan in the sixteenth century, Mexico and New Zealand in the seventeenth and eighteenth century, and Canada and Australia between the French Revolution and the Second Vatican Council and beyond (O'Brien 2016).

The geographical spread is extensive and involves all the continents and most of the globe: from Africa (Inikori 2007; Prange 2006) to India (Washbrook 2007), from China to the Americas (2015: 3). The comparative perspective gives space to Europe/the West, terms that are sometimes ambiguously used interchangeably, at least in titles, whereas the analyses are in fact limited to individual countries or regions of Europe and/or the West. Thus, to give but one example, in a piece on deforestation and great divergence, the title alludes to a comparison between China, Japan and the 'West,' but the West is represented only by England and France (Saito 2009). In internal comparisons of Europe and the West, the juxtaposition

of Europe/West to other civilizations prevails. Where no comparison is made, non-European areas are prioritized. In fact, the greater interest paid to these areas is declared openly in the *Instructions for contributors*, which state that “conscious of past historiographical inequities, the journal particularly welcomes contributions from Asia, Africa and Latin America”.³

3. GLOBALIZING EARLY MODERN HISTORY: PROTAGONISTS AND SOURCES

With regard to protagonists, it should be noted that the accusation sometimes levelled against global historians, that of favouring an élite, i.e. of reproducing perspectives that are traditional in other ways, seems unfounded. If anything, it is true that the protagonists of JGH articles are generally frontier figures: traders (of goods and of men and women), migrants, missionaries, slaves, travellers, people who voluntarily or under duress move across confines and generate exchanges: from the Armenian traders who in the eighteenth century united Madras and Manila (Bhattacharya 2008) to the Russian merchants who, also in the eighteenth century, arrived in America having crossed the Pacific (Winkler 2012). The migrants include those who in the seventeenth and eighteenth century set out from Manila, sailed the ocean and created the first Asian communities in the Americas, in particular in Mexico (Clossey 2006); the slaves include the Indian Diegos, who in the 1570s asked the Spanish courts to grant their freedom (van Deusen, 2015), and those who at the start of the nineteenth century left America for Liberia (Everill 2012). For the most part these were men, but the journal also has the aim of establishing relations between global history and gender studies (2011: 3).

As regards sources, which are closely connected to protagonists, to be addressed is another criticism often made of global historians: that of producing broad syntheses based on the work of others rather than research based on first-hand sources. As far as the journal is concerned, this is absolutely not true. Instead, one can observe that in general it has a preference for sources that throw light on relations, which is to say those produced by so-called mediators: letters from missionaries, travellers and trading company officials, or travel accounts, but also goods and products of exchange. The majority of these are not complete series of sources (of archival data, for example), but rather documents that lead to case studies (Wheeler 2007). There is no claim to exhaustiveness. It is true – as some critics of

³ <https://www.cambridge.org/core/journals/journal-of-global-history/information/instructions-contributors>.

global history note, primarily in the field of so-called subaltern studies – that sources referring to non-European peoples are not abundant and that many themes are tackled exclusively, and often inevitably, with European documentation alone.

The problem of the relationship between first-hand sources and bibliography is certainly one of the unresolved issues of the global perspective, one which has prompted some scholars to rethink the way of doing history. One such is Giorgio Riello, professor in Global History at Warwick University and contributor to the JGH (Riello 2010), who has recognized that research on the global scale sometimes requires decades of individual work. He has thus stated, proposing a more collective way of doing history partly based on the skills of others, that: “Je suis arrivé à une conclusion très simple: si je veux écrire une histoire globale du coton, le point de départ ne peut pas être l’inépuisable océan des archives ni même la bibliographie qui encombre mon bureau. Le point de départ n’est pas dans les travaux des autres mais simplement chez les autres” [“I have arrived at a very simple conclusion: if I want to write a global history of cotton, the point of departure cannot be the inexhaustible ocean of archives or the bibliography that clutters my desk. The point of departure is not in the work of others but simply with others”.] (Riello 2007: 27-28), in other words in dialogue with other researchers endowed with expertise.

CONCLUSIONS

In conclusion, to be pointed out is that, in general, global history is a category in progress still undergoing definition. In this sense, it is significant that concrete research is accompanied by extensive theoretical discussion among scholars. It is as if it were currently more important to legitimize than to practice this history, which on the one hand appears in fashion, but on the other faces more than a few obstacles, including those linked to the defence of (supposed) national identities.

As regards the relationship between global history and early modern history, in the first instance the JGH demonstrates how the global perspective has highlighted the centuries of early modern history, a discipline that in Italy is experiencing profound marginalization in educational (but not only) terms. On the other hand, the JGH shows how global history has helped call into question the nexus, often taken for granted, between the West/Europe and modernity.

Moving to the remaining questions, the considerable expansion of times and spaces has specific consequences. In terms of periodization, there emerges an early modern period that no longer appears to recognize

the internal caesuras that are traditionally applied to Europe and are less significant on the global scale. This is an early modern era that, on closer inspection, tends to become blurred, even if the category of 'early modern' continues to be used in the journal. It is therefore necessary to understand which periodizations and which cleavages are valid for global history. In respect of spaces, the increase of interest in non-European areas of the world leads to comparisons that sometimes risk recreating somewhat condensed images of the West and Europe (identified by an interchangeable use of the two terms, which should be used with greater precision). This gives rise to questions about the relationship among global history, the history of Europe and the history of the West.

It is clear that the reconstruction of history on a worldwide scale requires substantial financial resources and multiple linguistic skills if one wishes to go beyond the English-language literature, the monopoly of which results, among other things, in the marginalization of other historiographical cultures. Hence three points seem to me particularly important from a methodological perspective. The first relates to the way of doing history based, at least in part, on synthesis. This is not a choice of all global historians, but the lengthening of timeframes and broadening of spaces brings a risk of advancing a history unsupported by documentary evidence.

The second point concerns the risk of anachronism: by asking questions about problems relevant to our time, do historians ask the right questions about the past? Do global relations, variously defined as hybridizations or syncretisms, accurately portray the realities of the past or do they exist only in the minds of global historians?

The third point concerns the ideological nature of global history. This involves something more than the obvious fact that every history is conditioned by the ideology of those who study it. Patrick O'Brien wrote about the problem explicitly: although he had no sympathy for post-modern positions, he maintained that the agenda of global history was not that of the scientific objectivity or impartiality of the scholar, but rather the "moral purposes, connected to the needs of a globalizing world" (O'Brien, 2006). For it is true that national history also had to do with the creation of national identities, and the history of Europe has to do with the construction of the European Union. But does this therefore mean that global history, in which similarities often overshadow differences and relationships eclipse conflict, and in which everyone seems progressively more similar in time and space, may have been made to manufacture a new identity in support of a cosmopolitan ideal?

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GREAT DEPRESSION, 2008 GREAT CONTRACTION,
AND WORLD HISTORY

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ABSTRACT

Several financial indicators display a secular U-shape curve with peaks in 1929 and 2008. To the contrary, the period of 'financial repression' inaugurated by the New Deal regulation is marked until 1970 by the absence of banking and currency crises. The main hypothesis of the article is that the 2008 crisis is the consequence of an autonomous process of financial globalization which begins in the 1960s with the expansion of the so-called Eurodollars and goes on over the 1970s with the market of petrodollars. The deregulation increasingly practiced by Western governments since 1973 is an effect rather than a cause of the cross-border flows of capital.

Keywords: Finance, Globalization, Great Depression, 2008 Financial Crisis, World Trade.

World History and history of finance are naturally connected. Compared with other drivers of globalization – e.g., international flows of commodities and manufactures, and human migrations – since ancient times capital was easier to manage and trade by cross-border exchanges of national currencies. Accordingly, money's peculiar volatility provoked recurring crises. Carmen Reinhart and Ken Rogoff (2009) offered a worldwide analysis of financial crises over the last two centuries which pointed to the correlation among international capital mobility, housing price cycle, banking crisis and government debt. What they call the 'Second Great Contraction' began in 2007 and was second only to the first Great Depression in the 1930s as by far the most traumatic event in the course of the twentieth century. Reinhart and Rogoff do not accept the idea (commonly ascribed to the heterodox economist Hyman Minsky) of an inherent weakness in

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the financial system provoked by cycles of speculative euphoria followed by distress and rush for liquidity. Indeed, their emphasis is on a 'this time is different' syndrome, particularly widespread in the emerging markets by an enduring confidence in public and private debt as a tool to solve the excesses of risk and leverage (i.e., the ratio of assets to liabilities).

Actually, the percentage of national economies in a financial crisis exhibits a secular U-shaped curve, with peaks in 1929 and 2006. The Great Depression and the Great

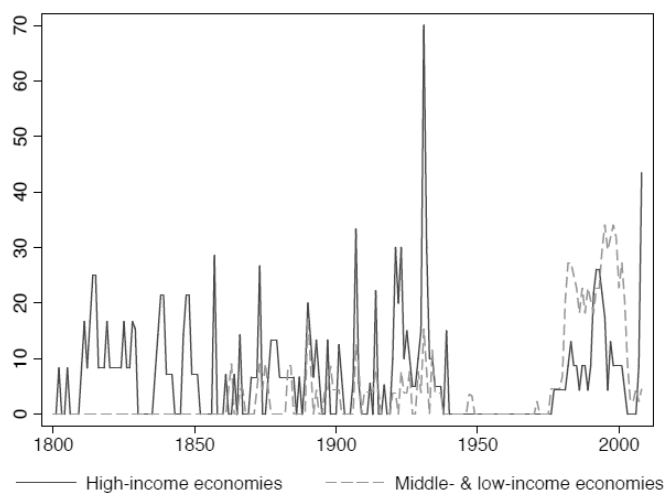


Fig. 1. Percentage of economies in a financial crisis, 1800 to 2000. Source: Alan M. Taylor, 'The Great Leveraging', in Viral V. Acharya et al., eds., *The Social Value of the Financial Sector: Too Big to Fail or Just Too Big?*, Hackensack NJ: World Scientific Publishing 2014, Figure 1 p.35.

Contraction had an apparent impact on world history involving both advanced and developing economies. However, the absence of crises over the period 1945-1973 demonstrates that a globally regulated finance was possible, and it was achieved by the New Deal legislation.

Further financial indicators show the same trend over the long run. The total value of the US financial assets (equities, private and government debt securities, deposits) peaked at 167 percent of GDP in 1929 (compared to 101 percent in 1900) but it was 194 percent in 1980, and 442 percent in 2007. Accordingly, wages in the US financial sector (relative to non-farm private wages) showed the same historical peaks in 1929 and 2006 (Roxburgh *et al.* 2009, Exhibit 1: 8; Philippon and Reshef 2012). Worldwide, a sample of industrial and developing countries documented the same secular U-shaped pattern for four basic variables of financial development (deposits to GDP,

stock market capitalization to GDP, number of listed firms to population, equity issues to gross fixed capital formation) (Rajan and Zingales 2003).

International capital mobility (including portfolio equity flows, foreign direct investment, bank finance, public and private bond issues), which had risen during the second half of the nineteenth century, also hit a trough in the interwar period and peaked in 1914 and 2000. Foreign capital stocks declined from their pre-1914 peak (approximately 20 percent of world GDP) to 8 percent of world GDP in 1930 and 5 percent in 1945. They reached the pre-1914 level by 1980 and climbed dramatically to 92 percent in 2000. Over the period 1970-2002 gross external assets (i.e., financial claims of citizens on foreigners) grew seven-fold as a percentage of World GDP (Obstfeld and Taylor 2004: 52-53; Rajan 2005: 322). Contrary to what O'Rourke and Williamson maintained in 1999 (O'Rourke and Williamson 1999: 209), the outward stock of foreign direct investment in 2007 largely exceeded the levels in 1910 and 1930, following an explosion in bilateral investment treaties that started in the early 1990s (Twomey 2000: tables 3.4 and 3.11; United Nations 2008: Annex table B.3).

Before 1914 the net creditor position of the core industrial countries accounted for more than half, while in 2005 the global stock of liabilities was more than equivalent to the world GDP, and the sum of net creditor positions was less than one-tenth. The accelerated expansion of capital movements supported the international circulation of financial risks rather than efficient transfers of savings (Brender and Pisani 2010: 44). Thus, the dynamics of finance over the long run showed a structural transformation which exceeded the scale of both boom and bust cycles and poor regulation by national financial institutions. Increasing financial intensity over the past 30 years has been driven by an increase in the scale and complexity of intra-financial system claims, that is, claims between financial institutions rather than between them and the real economy. The capital markets have increasingly performed the intermediation functions of the banking system. In January 2008 there were 12 triple A-rated (the best assessment provided by rating agencies) companies in the world, but 64,000 structured finance instruments rated triple A (Blankfein 2009).

Worldwide, in a sample of 79 countries the global value of financial assets increased from 120 percent to world GDP in 1980 to 260 percent in 1990, and 370 percent in 2007 (Roxburgh *et al.* 2011, Exhibit 1: 2; Greenwood and Scharfstein 2013; Philippon and Reshef 2013). A different sample of 14 advanced economies over the years 1870-2008 demonstrates that the Great Depression was followed by a period of financial repression while 1945 inaugurated a new financial age, when credit (supported by activist national macroeconomic policies within the Bretton Woods system of fixed exchange rates) decoupled from broad money and combined in-

creased leverage with augmented funding via the nonmonetary liabilities of banks. But after 1971 the Bretton Woods system was abandoned; the liquidity hoards provided by the post-war recovery evaporated; loans and bank assets reached unprecedented levels; and the frequency of financial crises (particularly twin crises in both banking and currency sectors) increased fourfold, despite the growing importance of institutional investors such as mutual and pension funds. After 1980 the elasticity (i.e., the proportional change) of financial output with respect to income rapidly reached a level that was more than double the previous average in every period (Schularick and Taylor 2012).

The market of derivatives and securities played a leading role in this expansion of global finance, and it was strictly connected with automated order-generating engines and electronic trading platforms. Information and communication technologies, in fact, made an important difference with respect to the Great Depression. They were neither mere external opportunities for financial investment (as in the case of the 2000 dot.com bubble and cars and radios in the 1920s) nor mere tools which reduce information asymmetries (as in the case of the inventions of the telegraph and telephone), but also internal drivers of change. Thanks to computers and algorithms, high-frequency trading (which is estimated to account for 40 to 60 percent of all trading activity across the universe of financial markets) looks at patterns of prices, volumes, and past trading activity, rather than evaluations of firm fundamentals. Hence, algorithmic trading can become a significant source of incidents and instability. In turn, the development of mathematical models designed to achieve a theoretically risk-free portfolio of financial assets and options (in the wake of the theory of options pricing elaborated by Black and Scholes, Nobel laureates in 1997) encouraged investors to use more leverage, as well as the financial industry to supply them with an increasing array of derivative securities (Kirilenko and Lo 2013). Humans are pushed to the periphery of a much faster, larger, and more complex financial environment.

The global scale of financial development exceeds the nation-state dimension. Eurodollars in the 1960s and petrodollars in the 1970s were the main drivers of a structural transformation from a state-based international monetary system to a market-based one, whereby the traditional and stable concept of a portfolio of liquid assets (reserves, government securities) was integrated by a new concept of liquidity based on issuing new liabilities to raise cash in financial markets especially through interbank trading. Liberalized capital movements provoked a dramatic increase of international financial flows from 1 percent of world GDP in 1970 to 8 percent in 2000 and to nearly 20 percent in 2007. Loans were easily provided to developing countries but, when interest rates rose in 1979, an unprecedented frequen-

cy of financial crises occurred, as displayed in Figure 1.

In 1929 the fracturing of the gold standard system had a disruptive effect on international trade, whose volume shrank by 25 percent between 1929 and 1932 (Cassis 2006: 182). The globalization backlash of the advanced economies produced a fall in demand and a worldwide collapse of commodity prices which affected the colonial economies in Asia and Africa, increasing their indebtedness and consequently inducing the colonial powers to pursue deflationary policies. The burden of the Great Depression was shifted to the rural poor, paving the way for the decolonization movements of the post-1945 period. By contrast, import substitution policies were adopted by many Latin American nationalist governments (Argentina and Uruguay were the first countries to abandon gold standard in 1929) and the recovery was significantly faster than in Western Europe (Rothermund 1996; Drinot and Knight 2014).

In 2008 world trade was shocked by a fall even faster than the Great Depression (-20 percent between 2008 and 2009). Moreover, the crisis reversed a thirty-year massive expansion in global exports, whose value at constant prices multiplied six times from 1972 onwards, largely thanks to the rise of China and other Asian countries. Unlike the interwar period, the emerging economies were no longer confined to the agricultural sector (their export of manufactures increased from about nil in 1929 to a quarter of the world total in 2000) nor constrained by protectionist barriers, which explain only 2 percent of the collapse in trade, as compared to estimates of 20-40 percent in the Great Depression (Baldwin 2009; Federico and Tena Junguito 2016; Kee *et al.* 2013; Grossman and Meissner 2010: 333-334). This time, the emerging economies experienced only a minor slowdown, relative to the stagnation and much slower growth of the West. The index of GDP (1993=100) in advanced economies was 201 in 2007, 199 in 2009, and 222 in 2012; in emerging economies respectively 279, 312, and 390. By comparison, during the Great Depression the same index (1921=100) in advanced economies (US and 12 Western European countries) was 143 in 1929, 116 in 1932, and 124 in 1934; in developing economies (8 Latin American countries and 6 Asian countries) it was respectively 135, 123, and 135 (IMF; Maddison 2001). Post-crisis recovery was much more uncertain in the 1930s along with a constrained and dependent position of non-Western countries. In the OECD countries, the harmonized unemployment rate peaked at 8.3 percent in 2010, compared to an unweighted average rate of 21.6 percent in 1932.¹

¹ Unemployment data from www.oecd.stat and MITCHELL 2003-2007. Higher data for 1932 but only referring to the industrial sector from EICHENGREEN and HATTON 1988, table 1.

The economic growth of the 1920s spread on a wave of liquidity favoured by the 1922 Genoa Conference, which allowed the central banks to hold foreign currency (in addition to gold) to cover their respective national currencies. But financial development in the 1920s was much more constrained than the 'flood' of Eurodollars and petrodollars after 1960. Sterling and the dollar shared reserve-currency status and international capital flows followed a boom and bust cycle, at first surging in connection with World War I financial debts and needs for reconstruction, and then stopping in 1928 (US capital exports dropped from 530 million to 120 million) as credit conditions tightened in New York (Ruggie 1982, 390; Eichengreen and Flandreau 2009). Reduced foreign lending contributed to the downturn in some economies (Germany, Argentina, Brazil) even before the US Great Depression. The share of foreign exchange in global monetary reserves fell from 37 percent in 1928 to a mere 11 percent in 1931. France played a major role, first by amassing reserves in sterling and dollars, and then by converting them into gold. France's sales forced the UK to suspend convertibility in 1931, and many of the other countries confronted the instability by exchanging dollars for gold. Increasing outflows of gold from the US pushed the Federal Reserve to raise the discount rate in 1931 with deflationary effects (Accominotti and Eichengreen 2016; Irwin 2010).

On the eve of 2008 crisis, international capital flows were tilted in the other direction, toward the US. In Federal Reserve Governor Bernanke's view, China (that after 2002 replaced Japan as the main US trading partner) was the originator of a 'global savings glut' which favoured rampant financialization and borrowing in the United States (Bernanke 2005). According to quantitative model-based exercises, between one-quarter and one-third of the increase in US household debt, which doubled in 2000-2007, can be explained by foreign asset accumulation. Over the same period foreign holdings of US mortgage securities rose from 500 billion to 1.5 trillion of dollars, equal to roughly one tenth of the outstanding US mortgage debt (Justiniano *et al.* 2014).

There was a clear interaction between the global financial imbalances and the accumulation of risk, but in fact foreign financial investment in US mortgage securities amounted in 2007 to one tenth of the total and it contributed to the crisis to an extent that could hardly be considered as decisive. In 2007 the large majority of the foreign holdings of US asset backed securities included European banks (49 percent) and offshore financial centres in the Caribbean and Channel Islands (36 percent). Other offshore centres like Hong Kong and Singapore accounted for a further 3.5 percent, and China held only 1.5 percent, largely preferring safer investment in US Treasury securities. In 2015 both China and Japan owned about 7 percent of the US gross national debt, respectively. Because China and other Asian

countries for the most part restricted their US purchases in such a way, they pushed down yields on safe assets and indirectly increased the appetite for alternative and riskier investments on the part of other investors. Over the period 1998-2007 credit growth in the US averaged around 14 percent of GDP each year – almost five times as big as the extra 3 percent of GDP flowing in from overseas (Kamin and DeMarco 2012: figure 3; Jagannathan *et al.* 2013). The accumulation of foreign exchange reserves accompanied increasing levels of savings flows from the developing to the developed regions of the world, which were absent in the Great Depression period and even in the late nineteenth century when the net flow of capital was from the United Kingdom. Thus, the global savings glut set in motion by East Asian economies after the 1997 crisis was a minor driver of the financial bubble. It was dependent on the greed of Western investors and managers who, beginning in the 1970s, favoured a global financial development to achieve short-run profits and avoid constraining national regulations.

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FORUM:
EUROPE IN HISTORICAL PERSPECTIVE

LUTHER AND EUROPE

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ABSTRACT

The article suggests an interpretation of the long-term significance of the Reformation in European history, bringing out how profoundly different the outcomes were to the original aims behind Luther's formulation of his dramatic protest. Unleashed by the desire to restore the doctrinal basics of a faith that the Church of Rome had betrayed, the Reformation quickly led to a religious fragmentation of Europe that saw the final decline of christianitas and the rise of religious pluralism. The result of bloody wars of religion, this pluralism finally forced States to recognize the principles of tolerance and, later, religious freedom, which constitute an essential aspect of European civilization and its cultural heritage. In short, the story is a classic example of the heterogenesis of ends.

Keywords: Europe; Reformation; Liberty of Conscience.

Throughout Europe 2017 was the year of Luther, the 500th anniversary of the ninety-five theses of Wittenberg, throbbing with authentic Christian faith and moral indignation against the scandalous preaching of indulgences and the distant pope in Rome who was responsible for it. Luther's rebellion is still a lively and living heritage, if everywhere there was a need to evoke the origins of the Reformation, to reflect on the dramatic moment of its birth, and to weigh its historical significance. The exhibitions, conferences, seminars, monographs and collections of essays were satisfying more than just a specialist interest in the great issues linked to the caesura that was carved into Europe by the Augustinian friar who had found in *iustitia ex fide* both the answer to a personal religious crisis and the theologi-

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Text of a lecture given in Turin on 30 November 2017 on the occasion of the inauguration of the exhibition *Lutero, la Riforma, l'Italia*.

cal certainty that could make him God's tool to bring down the Anti-Christ on the throne of Peter. "When I was sleeping and drinking beer in Wittenberg [...] the Word of God did such things to bring the papacy down, that no prince and no emperor would have been able to do", the Saxon reformer would complacently tell the students he invited to his home years after. In almost every country of the world that I am aware of there are Lutheran Churches or Churches with various Reformation connotations (Methodist, Calvinist, Anglican, Baptist, Mennonite, Congregationalist, Presbyterian, Quaker, Seventh-day Adventist, Pentecostal, Unitarian, etc.) to which around 700/800,000,000 Christians belong, almost a third of the total. This is an imposing fact, then, a decisive factor in European history, a fundamental feature of identity for men and women the whole world over, but above all in the western world, and Germany in particular, an inescapable yet precarious keystone of the process of constructing that European unity which is now in a state of deep crisis.

If we turn to the past, if we re-read Luther's theses or his other seminal writings, if we try to understand the significance of the Reformation and the epoch-making historical change it set off, what seems most distant and threadbare to us is the essential thing for which Luther was fighting. And this was the theological truth that *sola Scriptura* had allowed him to understand, i.e. *sola fides*, justification by faith alone (with the consequent negation of the value of works), as the main foundation of a new Christianity in the individual conscience of the believer and in the Church at large. Europe divided on this and *christianitas* fell apart, and, with it, the longstanding medieval political model that saw the emperor and the pope as the two highest authorities, one responsible for temporal and the other for spiritual government. It was the theory of the two suns formulated by Dante in *De monarchia*, with his conception of two authorities, both appointed by God and both sovereign in their distinct ambits. And, on closer inspection, it was the reflection of an original seed of Christianity, what has been called its structural "dualism", clearly expressed in Christ's words, "Render unto Caesar the things that are Caesar's and unto God the things which be God's" (*Matth. XXII, 21*), which has always prevented the sacred from being wholly absorbed in the sphere of the political and, vice versa, the political in the sphere of the sacred. Hence, among other things, the fundamental distinction between inner forum and outer forum, between conscience and law, between sin and crime. Unlike the other great monotheistic religions, in fact, precisely because it emerged from the Roman Empire with its mighty legal and institutional structures, Christianity was aware from its origins (not ontologically, but historically) of the limits drawn by public law and political power, even though the edict of Theodosius (380) rapidly replaced the edict of Constantine (313). In short, Church and State never

became one in the West, despite the many attempts over the centuries to sacralize temporal power or extend the power of papal hierarchy to the temporal sphere. Obviously, the abstract model of the separation of powers underwent many variations, depending on the constantly changing balance of power actually in force at any given time. Sometimes secular power asserted its authority over papal power, as during the Avignon captivity, or the reverse, as in the *Dictatus papae* of 1075, in which Gregory VII peremptorily asserted that “*solius papae pedes omnes principes deosculentur*” (as two years later he would force Henry IV to do at Canossa), that “*illi liceat imperatores deponere*”, that “*sententia illius a ullo debeat retractari et ipse omnium solus retractare possit*”, and that “*romana Ecclesia nunquam erravit nec imperpetuum Scriptura testante errabit*”.

Charles V, who forced Luther to retract his doctrines at Worms, may have been the last emperor to interpret his role of supreme political authority in this way, with all the responsibilities and duties involved, in a Christendom that was falling to pieces. Significantly, in the last days of his life, at Yuste, he wanted to see Titian’s extraordinary painting known as *La Gloria* (now housed in the Prado), in which he is depicted kneeling in prayer at the feet of the Trinity on the Day of Judgment, after laying on the ground his imperial crown, apprehensively awaiting a response on how he had exercised the enormous power God had conferred on him. Of course, there were many political and religious reasons that created difficulties for the supreme authority of the Holy Roman Emperor, which harked back to that of the Roman Caesars in the ancient world. Not the least of these difficulties was the rise of the new absolute monarchies and embryonic nation States such as France and England, while Spain remained divided in its various historical kingdoms over which the crown exercised powers that were far from homogeneous. It is significant that, during the Thirty Years’ War, the Count-Duke of Olivares planned an armed invasion of Aragon to eliminate its ancient privileges and the *fueros* that exempted it from royal taxes. It was Castile, with its American silver and its invincible *tercios*, that bore the immense weight of Charles V’s empire and its constant wars, becoming the heart of the Austro-Burgundian dynasty, even transforming the Flemish dance into the Andalusian *flamenco*. One need only read the protocol of any of Charles V’s diplomas to realize how varied and fragmented his powers were, regulated by a myriad of rules and customs, different from case to case, founded on an infinitely complex web of historical and personal loyalties, so much so that they needed always to be listed one by one and *in toto*:

Carlos V, por la divina clemencia emperador de los romanos, siempre augusto, rey de Alemania, de Castilla, de Aragón, de León, de las Dos Sicilias, de Jerusalén, de Hungría, de Dalmacia, de Croacia, de Navarra, de Granada, de To-

ledo, de Valencia, de Galicia, de Mallorca, de Sevilla, de Cerdeña, de Córdoba, de Córsega, de Murcia, de Jaén, del Algarve, de Algeciras, de Gibraltar y de islas Baleares, islas Canarias, Indias y tierra firme del mar Océano, archiduque de Austria, duque de Borgoña, de Lorena, de Brabante, de Estíria, de Carinthia, de Carniola, de Limburgo, de Luxemburgo, de Gueldres, de Württemberg, de Calabria, de Atenas, de Neopatria, conde de Flandes, de Habsburgo, de Tirol, de Barcelona, de Artois y Borgoña, conde palatino de Henao, de Holanda, de Zelanda, de Ferrete, de Friburgo, de Namur, de Rosellón, de Cerdeña y Zutphen, landgrave de Alsacia, marqués de Burgovia, de Oristán y Gociano y del sacro romano Imperio, príncipe de Suevia y Cataluña, señor de Frisia, de la Marca esclavona, de Puerto Naón, de Vizcaya, de Molina, de Salinas, de Trípoli y Malinas etc.

It is worth reading this long list of kingdoms, duchies, marquisates, counties, principalities and seigneuries, to which other titles and dominions are added in other documents, which reflects better than anything else the indecipherable mosaic of Charles V's power. He was a sovereign of Spanish, Italian, German and Flemish peoples in permanent battle with the France of the Valois, whose mother tongue was nevertheless French (he was born in Ghent). His chancellors, ministers, generals and confidants had such names as Granvelle and Gonzaga, Hurtado de Mendoza and Savoia, Egmont e Gattinara, Croÿ and Manrique de Lara, Lannoy and Doria, Álvarez de Toledo and Medici, and were bound together by loyalty to the dynasty and the insignia of the Golden Fleece they displayed on their chests. The list, however, contains an embryonic idea of Europe: a supranational Europe, compactly Christian and papal in religious terms (apart from the widespread Jewish presence and the Spanish *moriscos*), whose confines coincided with those of the Ottoman Sublime Porta on the Mediterranean and in the Balkans, and disappeared into the endless Sarmatian plains, where Ivan the Terrible strengthened the Russian and Orthodox presence and took the title of Tsar, proclaiming himself heir of the Byzantine Caesars. On the contrary, politically speaking, the fall of the Roman Empire and the migrations of peoples in the high Middle Ages had fragmented the powers in a sort of ever-changing galaxy that centuries of history had shaped and re-shaped. In this context, between the fifteenth and sixteenth centuries, new and increasingly robust States were emerging, and what remained of the Holy Roman Empire could not compete with them. Far from uniting Europe, the great absolute monarchies would give life to a fierce political and military competition, fed first by the dynastic structural expansion of the crowns and then by economic rivalry, colonialist imperialism, and the opposing and ever more extreme nationalisms fed by Romanticism until the terrible tragedies of the twentieth century. From all this – very late in the day – there finally emerged the premises for a new European dimension, which is now under fire from the crude forms of populism that are

spreading everywhere.

It was, indeed, the Reformation that gave the *coup de grâce* to the historical reality and the sacred myth of the Empire. It would block and finally make impossible the birth of a powerful Austro-German State and transform Germany into a myriad of atomized powers that were finally reabsorbed into the *Reich*. This process was set off by the secularization of the huge landed estates of the Teutonic Order and the Livonian Brethren of the Sword by the prince-electors of Brandenburg, who would gradually become dukes of Prussia, kings of Prussia and finally emperors of Germany. Charles V himself had to recognize his failure to compete with all his adversaries (France, the Schmalkaldic League, the Ottoman Empire), and his powerlessness to rule that German world, whose religious pluralism was partially acknowledged in the Peace of Augsburg in 1555. He decided to divide his kingdoms, leaving his brother Ferdinand the task of handling the ungovernable German world and assigning his son Philip those more or less uncontaminated by heresy, even though the revolt of the Dutch Calvinists would not be slow to explode. For more than a century, the so-called “iron century”, Europe was to be swept into the maelstrom of religious wars: civil wars as in France, wars of subjects against sovereigns as in Flanders, wars of States against States, down to the barbaric and tragic shambles of the Thirty Years’ War. For centuries Catholic and Protestant controversialists wove endless webs of biblical and patristic citations to refute their adversaries’ doctrines, oppose *auctoritas* to *auctoritas*, rail against each other with insults and anathema, convince the mighty of the land to fight in defense of one truth or other, unleash wars, justify atrocious violence, and send heretics of every kind to the stake.

Now, however, those who once cursed each other as Lutheran heretics or wicked papists, as the worst enemies of God and the den of every vice, have become long-lost brothers watched over by a congregation of cardinals, while another congregation works on ecumenism, embracing every faith in the world, representatives of which meet each year in Assisi to reaffirm their shared commitment to peace. The Sovereign Pontiff of Holy Roman Church embraced the female Lutheran pastor of the Swedish city of Lund, while in Regensburg a few years earlier theologians – always ready to supply good reasons for any cause and bend the unchangeable word of God to the prosaic needs of the present – hastened to explain that the break between Catholics and Lutherans was merely a misunderstanding and, in the end, they had always seen things the same way – more or less. In any case, as is well known, what is impeding the ecumenical dialog is not this or that theological doctrine, but above all the question of the power of the pope and ecclesiastical hierarchy. *Pace* God, however, in the long run it is not theology that judges history (as it has always claimed, and sometimes

still does), but, fortunately, history that judges theology. We should therefore rejoice that the age of anathema was substituted by one of hugs and prayer meetings, but we should also note – if only *sotto voce* – that Europe became a bloodbath in the name of these anathema, and so it would be proper to assume a modicum of responsibility in recognizing one's errors and one's fallibility in judging men and historical events.

One of Luther's heresies was the denial of the sacrament of confession made to a priest – something Roman theologians never tired of execrating, only to be forced to accept now that this sacrament has been largely abandoned by many practicing Catholics, convinced by their conscience, and not by Luther, that sins are to be confessed to God alone, who alone can forgive them. This is one of the many consequences of the gradual secularization of religious faith of every stamp, which – like it or not – has been increasingly removed from the moral control (and, still less, the repression) of the ecclesiastic authorities and the custodians of theological orthodoxy. The same goes for sexual morality, for how one conceives the family, and for the right to life and death. In all of these ambits we are witnessing an enlargement of the space for conscience and the religious and moral sensibility of each individual man and women, in the name of a Christianity that seems to be experienced less and less as a code of beliefs, and more and more as an inner faith, a force inspiring choices coherent with the Gospel message of loving one's neighbor, a historical and liturgical framework in which to place one's sense of living and dying. To put it in a nutshell in a way that takes us back to the sixteenth century, many Christians who claim to be Protestants or Catholics do not seem to identify so much with the faith of Luther or Bellarmine, as that of Erasmus, although he was execrated and condemned by both sides.

As the Reformation spread further and further, the institution of the Church tottered, old certainties became blurred by new doubts and anxieties, and Luther's protest set off political and social tensions, many had looked to Erasmus as the supreme humanist and master of knowledge. He had insisted on an incisive reform of the Church, while also landing lethal satirical blows on friars and popes in works such as *Iulius exclusus*, *The Praise of Folly*, the *Colloquia* and *Ciceronianus*. But on Luther, the bold "Eleutherius" as he called him, he avoided taking up a position and remained silent for some time, aware that contributing to his condemnation and siding with the papal militias risked cancelling all hope of renewal. He did not allow himself to be caught up in the furious polemics on indulgences, purgatory, the veneration of saints, vows, pilgrimages and other "trifles", as Luther called them, but when he did intervene, in 1524, with the *De libero arbitrio*, he did so on the crucial point that made his ethical Christianity incompatible with Luther's theological Christianity. The latter had no prob-

lem in accepting the logic of predestination in his *sola gratia*, something that Erasmus abhorred. Hence his insistence on a *modica theologia* and his impassioned defense of a Christianity that found in free will the foundation of mankind's moral responsibility, made the search for peace and harmony a religious duty, and entrusted eternal salvation to the "immense mercy of God".

There is no doubt that this Christianity, the Christianity of Erasmus, is closer to a modern sensibility, that it is the outcome of a long historical process whose development actually coincides with the gradual secularization of the State and of ethics, culture and science, and that the Reformation played a decisive, if involuntary, role in this. And it is in this perspective – in my view – that we can find Luther's authentic modernity, the umpteenth confirmation of that heterogenesis of ends whose very unpredictability constitutes a sort of general rule of history and its main motor forces. When Luther fixed his ninety-five theses to the door of the church of the castle of Wittenberg (always supposing it actually happened) he could have been imagining anything but what then happened. He thought he was combating Friar Johannes Tetzel's brainless and unscrupulous preaching on indulgences and the false ideas of the Christian faith it insinuated among believers. He thought he was exhorting the cardinal, archbishop and Elector of Mainz Albrecht von Hohenzollern and the Elector of Saxony Frederick the Wise to do something to prevent the abominable practices of simony, of which the sale of indulgences was just one of the many manifestations. He thought he was carrying out his task as a pastor of souls who had realized the falsity and impiety of the ideas being instilled in the faithful and could not remain silent, as he wrote to the cardinal of Mainz. He thought he was raising a serious theological problem to the professors who were his colleagues in other universities. He did not think he was reforming the Church, and when he realized the historic significance of his doctrines, thought the end of times was imminent and that it was urgent to reform belief, not the Church.

Still in 1521, after publicly burning the year before Pope Leo X's bull *Exsurge Domine*, in which he had been condemned, and the *Corpus iuris canonici*, he appeared before Charles V at the Diet of Worms dressed as an Augustinian friar, just as Lucas Cranach depicted him in the first portrait of him. It was the immediate, enormous success of his writings and the thirst of the German princes to take possession of the immense goods of the Church that changed this obscure Saxon friar into the *Hercules germanicus* capable of withdrawing the whole of Northern Europe from papal obedience and finally smashing European Christendom to pieces. It was the speed with which the new art of the press spread his religious message, the consensus he acquired by virtue of the terrible crisis of moral credibil-

ity in the clergy and the ecclesiastical authorities, the widespread religious unease this unleashed in ordinary Christians, and the unheeded appeals for renewal that had long been urging a profound reform *in capite et in membris* that transformed his indignant protest against papal indulgences into a landslide that made *tabula rasa* of the old Catholic Church. But it was also the readiness with which Luther consigned the fate of his preaching to the German princes, justifying what was called a “campaign of banditry” against Church property, no less, and above all taking on the role of tutor of their authority, condemning and combating any ferment of rebellion, raising obedience to the highest Christian virtue. This was also how, for good or ill, he left a profound mark on German history in the following centuries.

Nevertheless, as we know, the end of times did not arrive, while other, more radical reformers promptly appeared on the scene alongside Luther, and still more were to come in future. Toward 1520 Huldreich Zwingli set in motion an incisive reform of the Church in Zurich that did not depend on the terrible inner tensions of a friar tortured by his anxiety over salvation and dissatisfied by the *via perfectionis* of ascetic practices, as Luther had been till 1515-16, but on a rigorous need for philological consistency between the dictates of Scripture and the rules of theology. Other Swiss and Rhenish cities followed his example, and in 1530 no fewer than three Protestant confessions were presented at the Diet of Augsburg: the Augustan, the Helvetian and the Tetrapolitan. Meanwhile, since the 1520s the populace had been shaken by the preaching of the Anabaptists and their appeal for radical evangelical witness, and for a return to the apostolic Church of its origins. The obvious social and political implications of this suggested the most severe repression throughout Europe. Only a few years had gone by since the theses of Wittenberg, but already the Protestant world was divided, while in Rome – despite the terrible Sack of 1527 – all prospect of reforming the Church still seemed very distant.

The appearance on the scene in Geneva of the steely John Calvin brought a new expansionist phase of the Reformation, but at the same time would see the rise of new heresies, starting from the anti-Trinitarian one of Miguel Servet. When Servet was burnt at the stake on Calvin’s orders in 1553, this welded indissolubly anti-Trinitarian theology with the defense of tolerance and freedom of conscience. One of the figures who conducted this battle was the great Savoyard Sebastian Castellio, who deserves credit for affirming with limpid clarity that “killing a man is not defending a doctrine, but is killing a man”. Alongside him were, above all, some Italian exiles *religionis causa*, Lelio Sozzini, Giorgio Biandrata, Giampaolo Alciati, Matteo Gribaldi, Valentino Gentile (also condemned to death in Switzerland a few years later) and many others, who in the end had to flee

toward the countries of Eastern Europe, where political power was weak enough to guarantee some margins of freedom. Here, anti-Trinitarianism, fed by biblical philology and religious rationalism, would finally find an institutional dimension in the so-called *Ecclesia minor fratrum polonorum* and a guide of profound religious and theological depth in Fausto Sozzini. It finally became Socinianism, the *bête noire* of every kind of Protestant theologian, and which, through the close relations that had existed since the early seventeenth century with Arminians and, later, the Dutch Remonstrants spread throughout Europe as an anti-dogmatic form of Christianity that was latitudinarian, rationalist and tolerant. It was the Christianity of Sir Isaac Newton and Jean Leclerc, John Locke and the young Voltaire, Samuel Clarke and much of the Anglican High Church in the late seventeenth and early eighteenth century. Meanwhile, still in England, from the bubbling magma of Oliver Cromwell's first revolution and the New Model Army, there emerged a dizzying myriad of new sects, whose shared matrix in Congregationalism – which claimed the right to choose freely which Church and which pastor to follow – became the clear premise of the free political association of citizens, while in 1644 John Milton argued for the abolition of all censorship in his *Areopagitica*.

The Protestant galaxy became more and more fragmented and divided, and already in the sixteenth century Lutheranism itself saw a bitter conflict opening up within it, between the so-called Philippists (heirs of the moderation of Philip Melanchthon, Luther's right-hand man, whose love of learning earned him the title of *praeceptor Germaniae*) and the intransigent Gnesio-Lutherans – the pure followers who were intransigently tied to their master's words. In short, in just a few years the Reformation world was to become a plural world, divided between various confessions and sects and riven by bitter conflicts, theological hatred and mutual condemnation. As an Italian exile in Basle wrote in 1550, "Satan is not only in Italy, the Anti-Christ is not only in Italy, and not only in Italy is the cause of all crimes, all impiety, and all evil: the papacy". But in the end that plural world was to become pluralist: Catholics and Protestants, Anabaptists and Quakers, Calvinists and sometimes Jews would gradually learn that one can trade profitably, honor a contract, and do excellent business with people of different beliefs, that one can talk about politics, have a beer and even make arrangements for marrying one's children with those who think differently about the Eucharist or honor their God on a day other than Sunday.

The *ius reformandi* of Saxony in the 1530s – the right to reform the Church according to Lutheran theology and liturgy, and so forbid the impious and superstitious papist cults – would become in Hugo Grotius' Holland *ius circa sacra* – the right of the political authorities to legislate on

religious matters to halt the brawling and overbearing of the theologians. Half a century later, in the England of the Glorious Revolution, the Toleration Act was promulgated in 1689 under the guidance of Locke's *Epistola de tolerantia*. This work had asserted the general principle (one still valid now) that no form of behavior can become legal or illegal because some want to give it a religious value, and that opinions, beliefs and faiths are therefore freely allowed as long as they do not violate the laws of the land. One need only consider that, until the Council of Vatican II, the Catholic Church continued to launch its anathema against freedom of conscience as mere freedom to err. For his part, Luther was certainly not a champion of tolerance and was wholly in agreement with Zwingli on the desirability of condemning the Anabaptists to death by downing. Yet he had been the first to disobey, to burn Leo X's bull, and to tell Charles V to his face at Worms *Hier stehe Ich* – here I stand – claiming that he could not retract what he had written without going against his conscience. It was he, a man of order *par excellence*, who involuntarily justified all future religious disorder, which would always be able to appeal to his example.

And it is here that we can see the modernity of the medieval figure that Luther was in many respects. It was an unintentional modernity, one might say, because, in the end, from his legacy, that *Hier stehe Ich*, derives a founding pillar of modern Europe. Not the monolithic Europe of medieval *christianitas*, but the Europe that had learnt from its religious fragmentation to live alongside difference, that talked about religious tolerance and then freedom of conscience, that looked with curiosity and interest at other cultures and civilizations and learnt to compare itself with them, even if with a view to conquest and dominion which would assert itself brutally during the long season of colonialism. Jacques Benigne Bossuet, the preceptor of the French dauphin, was wrong, then, when he explained in his *Histoire des variations des Églises protestantes* of 1688 that the main weakness of the Protestants lay in their rejection of papal authority, which meant abolishing the only possible judge of religious truth. The result was their breaking up into a myriad of small Churches and sects, forever ready for new divisions, new variations, which were grafted onto each other in an endless spiral. Actually, far from weakening the new Churches that arose with the Reformation, those variations would justify themselves by giving life to a plural Christianity in the ambit of a single society. Being unable to present itself as a State religion, it thus became a motor force of the process of secularization. And there is another, no less relevant aspect that forces us to look at Luther as a bearer of modernity, whatever his intentions were. For good or ill, it was he, or rather the landslide caused by his protest that determined, however slowly and laboriously, a reaction of the Catholic Church itself. At first, the reaction was merely repressive, with the Holy of-

face of the Roman Inquisition and the *Index* of forbidden books, but later it developed in a pastoral, liturgical and missionary form in the long season of the Counter-Reformation, whose very name evokes a commitment to conflict, anti-heretical militancy, and ideological clashes encouraged by Rome before, during and after the Council of Trent. Whether one likes it or not, it was due to Luther and the Reformation that a process of renewal began in the Catholic Church too, one that would interest the whole of Europe that had remained loyal to the papacy.

A few years ago politicians argued about tracing the roots of Europe's identity – Christianity, the legacy of classical culture, the Enlightenment – while we need to understand that its true identity lies precisely in its multiple diversity. In its emerging from the bloody wars that devastated it uninterruptedly until the last century, and in discovering that pluralism, tolerance, democracy, political and religious freedom, the separation of Church and State, the protection of minorities, and the assertion of human rights can only emerge from difference and the conflict that brings, and from the resulting need to regulate it. And what is normally described as European civilization consists precisely of this. It is a civilization that Europe itself has often betrayed internally as well as in its conquest of the world, but Europe alone has been able to create it, and the defense of it coincides today with protecting its political and cultural survival. That is why it is still useful to reflect on Luther, on his legacy and on the historical role of his theses of 1517.

LEGAL ORDER IN THE DRAFT:
EUROPE ON THE EVE OF THE 100TH ANNIVERSARY
OF THE TREATY OF VERSAILLES

JOSEPH STRAUS*

ABSTRACT

Europe and the Globe have in recent years witnessed a series of unprecedented challenges of fundamentals of national, European and international legal order. States ignore decisions of competent courts, put international treaties in question, or are about to marginalize constitutional principles. Consequently, legal values are not acknowledge, past experiences ignored or misinterpreted and the peaceful future put at risk. The disastrous consequences of mistakes of the Treaty of Versailles and the inability of Europe to avoid them are recalled. The situation of Europe in the aftermath of the Cold War, as seen by some prominent US observers is addressed and the “Initiative for Europe” of the French President Emmanuel Macron, pleading for an independent and sovereign Europe, analyzed. A plea is made to replace the inefficient patchwork of memoranda and treaties which came into being after the end of Cold War by an international legal order, based on clear rights and obligations of all parties directly involved, necessary to secure an enduring peace in Europe.

Keywords: Legal Values, Treaty of Versailles, Cold War, Initiative for Europe, Radbruch’s Formula, Pufendorf’s Treaty Standards.

1. US President Donald Trump is contesting the competence of the World Trade Organization’s (WTO) Dispute Settlement Body to decide international trade disputes, Croatia and China, although for different reasons, ignore decisions of international courts of arbitration, Hungary does not care about a judgment of the Court of Justice of the European Union,

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Catalonia does not care about the Spanish Constitution and the decision of the Spanish Constitutional Court as regards the legality of its independence plans, and Poland reduces the independence of its judiciary. The list of actual challenges of international, regional and national law could be extended at will. In view of the extent of these challenges and their possible consequences this is a relatively new and concern causing phenomenon. All the above mentioned challenges and also those not mentioned have in common that they do not acknowledge legal values, such as justice (in the sense of equality), purposiveness (the idea of intent) and legal certainty.¹

Those responsible for these challenges share the characteristic that they ignore their experience from the past, either intentionally or not, or interpret them in a very biased way. Trump's USA has been the initiator and the main driving force for the establishment of the WTO and its legal order. Internationally active US companies have greatly benefitted from it and the fact that the macro-economic effects on the US economy were less favorable has nothing to do with the WTO jurisdiction. The consequent and fair application of EU law by the EU Member States has enabled Croatia to become an EU Member and benefit from its legal and economic order. The globalization which is based on WTO legal order has helped China to achieve an entirely unimaginable and unpredictable rise to the second place of economic and soon also technological and scientific world powers, with the perspective that in a few years it will even catch up or overtake the USA.² Hungary enjoys the fruits of the jurisdiction of the Court of Justice of the European Union, which over the years has responsibly co-shaped the legal order of the Union on the basis of the mentioned legal values. Catalonia has seemingly forgotten that it has achieved its remarkable economic performance within the democratic Spain, and seemingly also forgotten the catastrophe which afflicted the country nearly one hundred years ago. Finally, one of the pillars of the everywhere visible economic achievements of Poland is its membership of the European Union, whose integral and indispensable fundament is an independent judiciary.

The question is whether the initiators of those challenges are aware of the mid- and long-term risks and consequences of their activities and of their responsibility for all those directly or indirectly affected. International, regional and national laws seldom comprise sanctions against the responsible ones, except by democratic elections, which, however, if at all

¹ PAVČNIK 2017: 13-14. Cf. also LEAWOODS 2000.

² According to statistics compiled by the US National Science Foundation (NSF), China has already overtaken the United States in terms of total number of science publications. (cf. TOLLEFSON 2018: 390).

can only remove the consequences of such activities. Sadly, the experience demonstrates that mistakes from the past, irrespective of their disastrous consequences, seldom prevent their repetition in the future, possibly with even more far-reaching negative consequences. Most recent scientific findings demonstrate how superior nature is in this regard: human cells, namely, record the past and predict the future.³ The legal order, established at all levels by states, lacks such a mechanism. Indeed, the settled principles of “natural law” constitute the legitimation basis as well as the critical instance for assessing positive law. According to the concept of so-called “rational naturalistic law” (“rationalistisches Naturrecht”), the principles of “natural law” (“natürliches Recht”) were predetermined in human rationality (“Vernunft”) and would enable man to recognize (also in the legal sense) what is appropriate to his nature.⁴ This sounds nice, however, because “natural law” is not subordinate to laws of nature, on whose basis our cells function its principles have no such direct and unavoidable effects. The final recognition of “what is appropriate to their nature” legal subjects, especially at the state level, as a rule, reserve for their own assessment. They invoke the principle of sovereignty although the latter is often undisputedly limited. Thereby it is not easy to get rid of the feeling that they act according to the phrase *quod licet jovi non licet bovi*, thus contrary to legal values.⁵

The duty of society at large and especially of the legal profession is, openly and clearly, if necessary also by disregarding so-called political correctness, not only to red-flag the hazards which today jeopardize the achievements gained based on many years of strict respect for legal values, but also to exert themselves actively to pave the way for rationality and unconditional recognition of legal values. The legal profession, which as a rule actively co-shapes positive law, national and international, indeed also has an obligation to see that positive law is based on principles of justice/equality, purposiveness and legal certainty and to prevent, from the outset, the danger that positive law could conflict with legal values in the sense of one of the well-known formulae of Gustav Radbruch, namely that,

where there is not even an attempt at justice, where equality, the core of justice, is deliberately betrayed in the issuance of positive law, then the statute is not merely ‘flawed law’, it lacks completely the very nature of law. For law, including positive law, cannot be otherwise defined than as a system and an institution whose very meaning is to serve justice. Measured by this standard, whole portions of National

³ Cf. KELSEY, STEGLE and REIK 2017.

⁴ More at MITTELSTRASS 2013: 513 ss., 514.

⁵ According to BOGGS 2006-2007, this phrases symbolizes “the opposite of what I consider to be the rule of law”.

Socialist law never attained the dignity of valid law.⁶

In view of the Radbruch's formula and the as yet not addressed international public law challenges, for instance related to the events surrounding Crimea, this contribution may refer to a statement, which clearly demonstrates the hazards which evolve if legal values are not adequately respected and the lessons from the past not adequately learned. It originates from a publication of James A. Baker III, former Secretary of State of the USA, a highly respected lawyer and one of the most profound experts in the field of international relations. It reads as follows:

The Treaty of Versailles solved the 'German problem' in exactly the wrong way – by sealing the defeat with territorial and economic retribution. This resolution certainly demoralized Germany in the immediate aftermath of war, but the resulting grievances fueled something unimaginably worse and more dangerous. One hesitates to stretch historical analogies too far, but little is required to see something similar happening in Russia. The end of the Cold War was certainly not settled by anything like Versailles, but from Russia's perspective, the results have been much the same – a humiliating loss of territory, prestige and power. Russia's economic and political problems have stemmed largely from Russia's own failure to implement the necessary reforms to encourage the creation of a market economy, but it would not be difficult –indeed, it has not been difficult – for Russian demagogues to blame the West for the troubles ordinary Russian men and women have experienced during the past decade. Couple all these developments with the expansion of NATO up to Russia's doorstep and the use of NATO as an offensive (as opposed to defensive) alliance to bomb Russian allies, and you have a recipe for disaster. By continuing to treat Russia like a potential adversary, we may encourage it to become our enemy, the very thing we fear. The best way to find an enemy is to look for one, and I worry that that is what we are doing when we try to isolate Russia. The same principle would apply, of course, if we were to embark on a policy to try to isolate China.⁷

2. The year 2018 marks the hundredth anniversary of the end of World War One, the causes of which have been brilliantly and in great detail, but in the end and presumably on purpose, in political and legal terms, anemically presented by Christopher Clark in his 2013 book "The Sleepwalkers". In 2019, Europe will be reminded of the Treaty of Versailles signed on June 28, 1919. It is not known, whether Christopher Clark, encouraged by the great success of his "Sleepwalkers", is working on a book analyzing the

⁶ RADBRUCH G. 2006.

⁷ BAKER J.A. III 2002: 95 ss., 100.

causes of World War Two. However, if so, the Treaty of Versailles and its consequences will certainly be at the center of all of his deliberations. One would have expected that the thoughtful 2002 reminder of the former US Secretary of State, James A. Baker III of the consequences of mistakes made in the Treaty of Versailles, and his diplomatically wrapped historical analogy between the negative consequences of the Treaty of Versailles,⁸ on the one hand, and those of the end of the Cold War, which was “certainly not settled by anything like Versailles”, on the other, would have received in Europe the attention which they certainly deserve for Europe. Instead, for the European public, politicians and lawyers the Treaty of Versailles and its disastrous consequences were seemingly buried in oblivion. Contrary to James A. Baker, who is by no means alone with his worries,⁹ those responsible for the future of Europe, either are not aware or on purpose suppress Baker’s insightful analysis and concerns. Let alone, do they seriously try to find a balanced and resilient cure for the unresolved and frightening legacy of the Cold War which is already visible on all hands and whose primary, luckily predominantly “cold, battlefield” was indeed Europe.

How Europe’s vision of its future is noticed by the world is best illustrated by a statement of Henry Kissinger, another highly regarded and respected former US Secretary of State, who in November 2016, asked by Jeffrey Goldberg from *The Atlantic*, “Why is there no vision in Europe?”, replied as follows:

Maybe they have gone through too much. Maybe they have lost too much. If you look at the succession of leaders in 19th-century Britain – Castlereagh, Canning, Disraeli, Gladstone, Salisbury – they were all significant men governing a coherent society. At Queen Victoria’s Jubilee at the end of the 19th century, 100 warships paraded for her. Today, the entire British navy has only one capital ship.

Beyond Britain, the EU, despite the economic Eurozone, has not been able to unite around a uniform political or strategic approach to the world. It does not seem possible to create a European army. Actually, I do not even see a mechanism

⁸ Most competently analyzed by KEYNES 1971.

⁹ For Instance, James A. Warren comments and cites from the diaries of the late US diplomat George Frost Kennan, as follows: “George Frost Kennan, America’s most influential 20th century diplomat, wouldn’t have been at all surprised by Russia’s recent military incursion into Ukraine. Indeed, it could very well be said that he predicted such a development as early as 1997. ‘I have been rendered most unhappy’, wrote the former US Ambassador to Moscow, by the admission of ‘Poland, the Czech Republic and Hungary to membership in NATO’. How was such a development ‘to be reconciled with the assurances to the Russians that they need not worry, that the extension of NATO’s borders to the east has no military implications?’ Indeed, Kennan saw nothing in the rapid and reckless expansion of NATO ‘other than a new Cold War, probably ending in a hot one, and the end of the effort to achieve a workable democracy in Russia’” (WARREN 2014).

with which the continent could develop a strategic concept. Born in Europe, I say this with regret and the hope that I am describing an interval, not a trend. The decline of Europe, which shaped international order for centuries, is going to be a serious loss.

And, on the follow on question of Goldberg: “Do you consider it a loss?”, Kissinger answered:

It is not yet a loss, but it is striking that three weeks after Brexit, not one European statesman has articulated a vision of Europe’s future. They are the continent that built the international world. And *no one* has stood up with the vision of Churchill. They’re talking about tactical matters while they’re in the process of giving up the essence of what they’ve struggled for and what they’ve represented throughout history. Today, a standard statement is that when Europe is weak, it cannot conduct great foreign policy, therefore it must be, at a minimum economically cohesive. That is only partly true. At the end of World War II, when Europe was exhausted and devastated, they produced Adenauer [in Germany] and Schuman [in France] and De Gasperi [in Italy]. They had a vision. Now, their successors risk transforming their vision in bureaucracy.¹⁰

3. In November of 2016 even Henry Kissinger, who among the visionaries of Europe surprisingly has not mentioned general Charles de Gaulle, with all his experience and far-sightedness, could not foresee what will happen six months later, namely the election of the thirty-nine years old Emmanuel Macron for French President, on May 7, 2017. It is not known, whether President Macron had read the Kissinger-Goldberg conversations of November 2016, blaming the Europeans for lack of vision for Europe. In any case, it took him only four months to disprove Henry Kissinger’s verdict: On September 26, 2017, President Macron in a speech titled “Initiative for Europe – A Sovereign, United, Democratic Europe”,¹¹ has developed what Kissinger called for, namely the “vision for Europe”. For some commentators, the new French President “seems to have taken on the mantle of past French Presidents such as Charles de Gaulle and François Mitterrand, who saw Europe as the vehicle that would one day replace France’s diminishing power in world affairs.”¹² Indeed, as the first “Key to European

¹⁰ GOLDBERG 2016.

¹¹ “Initiative pour l’Europe – Discours d’Emmanuel Macron pour une Europe souveraine, unie, démocratique”. Available at : <http://www.elysee.fr/declarations/article/initiative-pour-l-europe-discours-d-emmanuel-macron-pour-une-europe-souveraine-unie-democratique/> (accessed February 8, 2018).

¹² BRIANÇON 2017.

Sovereignty”, the English synthesis of the speech provided by the Elysee, reminds one of General Charles de Gaulle’s endeavors of the mid 1960s, namely:

1.A Europe that guarantees every aspect of security

In defence, Europe needs to establish a common intervention force, a common defence budget and a common doctrine for action. We need to encourage the implementation of the European Defence Fund and Permanent Structured Cooperation as quickly as possible, and to supplement them with a **European intervention initiative** enabling us to better integrate our armed forces at every stage¹³ [emphasis in the original]

This plea can well be understood as recalling the right, but even after decades not yet realized ideas of his predecessors. For how urgent Emmanuel Macron views the security aspect of Europe’s sovereignty is demonstrated by the very end of the synthesis, where, indirectly the President recalls the failure of the Treaty of Versailles:

The time when France proposes is back. At this moment, I am thinking of Robert Schuman, who dared to propose building Europe, in Paris on 9 May 1950. I remember his powerful words: ‘A united Europe was not achieved and we had war.’

Emmanuel Macron, 26 September 2017¹⁴ [emphases in the original]

It cannot be by chance that the “official” synthesis of Macron’s speech ends with this quotation which dramatically recalls the past European tragedy, which by all means should be avoided. For President Macron, whose name immediately follows the Schuman quotation, the danger of a war in Europe seems real. Surprisingly and even causing deep concern is the fact that in the aftermath of the speech, not the security aspect of Europe but the other five keys to European sovereignty, namely the migration challenge, focus on Africa and the Mediterranean, Europe exemplary in sustainable development, Europe’s innovation and regulation adapted to the digital world and Europe standing as an economic and monetary power, stand at the center of political discussion. The same is true for those issues

¹³ Link to this official synthesis in <http://www.elysee.fr/assets/Initiative-for-Europe-a-sovereign-united-democratic-Europe-Emmanuel-Macron.pdf> (accessed February 8, 2018).

¹⁴ It is noted that in the full French text of the speech reproduced by Elysee, does not end with the quoted sentence: “Mais le temps où la France propose pour avancer avec l’Europe et avec tous les Européens qui le souhaitent, ce temps-là est revenu, et je pense à cet instant à Robert Schuman le 9 mai 1950, à Paris, osant proposer de construire l’Europe. Je pense à ses mots saisissants lorsqu’il dit: ‘L’Europe n’a pas été faite et nous avons eu la guerre’”.

which President Macron has addressed under “a united Europe”, “a democratic Europe” and “What Europe for 2024?”. The difficulties which even Germany, the one part of that Franco-German engine which the French President views as decisive for mastering the challenges of Europe, has with accepting Macron’s vision, are well illustrated in a shattering testimony of Jürgen Habermas. Habermas, who sees in Macron’s initiative a “historically unrivaled opportunity”, and Germany obliged “to take possessions of the ball kicked into their half of the field by the French President”, writes as follows:

When looked at dispassionately, though, it is just as unlikely that the next German government will have sufficient far-sightedness to find a productive, a forward-looking answer when addressing the question Macron has posed. I would find some measure of relief were they even able to identify the significance of the question.¹⁵

4. The French President Macron is certainly correct with his claim that Europe with its 500 Million inhabitants should be truly sovereign, i.e. avoid to become, if not already remain, in the global context “an animal which is less equal than others”, to paraphrase George Orwell.¹⁶ Therefore Europe must urgently and substantially improve its armed defense capability. However, one of the lessons which Europe should have learned from the failed Versailles Treaty should certainly be that military capability to defend itself, does not secure an enduring peace. It can and does, indeed, constitute an important deterrent against potential aggressors, but even if potentially superior, it cannot eventually prevent armed conflicts with disastrous and detrimental consequences. Even the recent history is full of bitterly frightening examples of the kind.

When Robert Schuman, in 1950, identified the lack of united Europe before World War Two as the cause of the war, he most probably had not in mind common European armed forces, but a Europe sharing and standing for common political, economic and social values, and respecting the legitimate interests of its states. Thus, what is most needed in Europe for an enduring peace and prosperity, in addition to a credible defense capability, is a rational, balanced, coherent, but also cohesive political, legal, economic and social order, which takes into account the interests of all

¹⁵ HABERMAS 2017. If one considers that pilots of the German Air Force, for lack of suitable/available helicopters, have to be trained on helicopters of the General Automobile Club (ADAC) (<http://www.zeit.de/politik/deutschland/2017-12/adac-bundeswehr-hubschrauber-pilote...>), this vitriolic comment of Habermas does not seem even too far-fetched.

¹⁶ ORWELL 1961: 114.

directly involved parties, be they members of the EU or not. Bearing in mind that in the last fifteen years some of the concerns explicitly expressed by the former US Secretary of State, James A. Baker III, have, sadly enough, partly already materialized, Europe should undertake all possible efforts to negotiate and develop legal instruments which will complement its efforts to establish and secure its sovereignty in the global context with the establishment of a common intervention force, a common defense budget and a common doctrine for action. In order to identify the appropriate legal instruments and also the legitimate interests of all involved at, and affected by, the end of the Cold War, it may be helpful to make a closer analysis of the negotiation documents, in the meantime declassified,¹⁷ which contain evidence of the circumstances and conditions under which the Cold War found its end. It should be recalled that Samuel Pufendorf, in the aftermath of the Peace of Westfalia of 1648, in his endeavor to avoid relapse into confessional warfare developed a theory “about the moral relationships of agents (individuals and groups), the authority and duties of states, and the lawful interactions among these. His chief objective, too, was to avoid destructive social conflicts and the devolution on any level into the antagonistic and, he thought, self-defeating condition known as the state of nature”.¹⁸ For Pufendorf only a system of rules, organized whenever possible in the form of rights and duties, can constitute a coherent structure, a system.¹⁹ It would seem that the patchwork of memoranda and treaties²⁰ which came into being after the end of the Cold War does not meet those criteria.

5. President Macron has perfectly realized for whom the bell rings. Leaving his vision of Europe and his wake up call unheard and not to undertake the necessary steps to realize at least the very core of his vision, directly

¹⁷ SAVRANSKAYA and BLANTON 2017.

¹⁸ Pufendorf’s Moral and Political Philosophy, Stanford Encyclopedia of Philosophy (first published September 3, 2010, revised November 3, 2015) (<https://plato.stanford.edu/pufendorf-moral/>).

¹⁹ Cf. STRÖMHOLM 2005: 1 ss., 3.

²⁰ E.g. Budapest Summit Declaration: Towards a Genuine Partnership in a New Era of December 6, 1994, Treaty on Conventional Armed Forces in Europe of March 9, 1989, Treaty on the final Settlement with respect to Germany of September 12, 1990, Charter of Paris for a New Europe of November 21, 1990 (which with its ambitious “Institutional Arrangements”, remained a “dead letter”), Convention on Conciliation and Arbitration within the OSCE of December 15, 1992, or the Memorandum on Security Assurances in connection with Ukraine’s accession to the Treaty on the Non-Proliferation of Nuclear Weapons of December 5, 1994, to name but some.

touching upon most vital genuine interest of Europe's security, would be grossly negligent. Those European leaders who criticize him, some even in a disrespectful manner, may wake up one day and see their country in a hot battlefield, feared/predicted by the wise late Ambassador George Frost Kennan already in 1997.²¹ Only then they may realize that the conflict which would affect their country most had actually erupted without their active participation and not because of their genuine interests. They may only then also realize that the conflict could have been prevented, had Europe built up the sovereignty President Macron is pleading for, and act accordingly, i.e. successfully advocate and defend its interests in a manner that would make the 500 million Europeans "as equal" and independent "as others" global players.

Let us leave such a scenario just as a still avoidable nightmare. But, it is high noon that the international legal order, if necessary adapted to new circumstances and legitimate interests of all directly involved, sails into still air and arranges for a harmonious political and economic development and enduring peace in Europe and the entire Globe, based on legal values. All efforts must be undertaken to prove that Henry Kissinger, in 2016, described "an interval" of Europe's weakness and not a "trend" leading to its final decline! Schuman has seemingly already "found" a worthy successor. Where to find the successors of Adenauer and De Gasperi, who could join Emmanuel Macron and built up a European peace order, which will include all former Cold War adversaries and meet Pufendorfs' standards, however, is still an open question.

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²¹ See *supra* note 9.

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ARTICLES & COLLOQUIA:
ECONOMICS, MODELS AND VALUES

MODELS IN ECONOMICS:
FABLES, FICTIONS, AND STORIES

BRUNA INGRAO*

“We essentially play with toys called models”

(RUBINSTEIN 2006: 865).

ABSTRACT

Mathematical modelling is the dominant linguistic instrument in contemporary economics, and the canon with which to assess the scientific character of theories; but it has forever lost the pretence of truth. In current research practice in the discipline, mathematical models are conceived as born from the economist’s imagination, and flexibly adaptable for reasons of interpretation or technical convenience. A model is the formalization of some fictional world. The criteria used to associate models with the explanation of economic events are loose and controversial. No shared, structured canon exists to validate or reject the significance of a model, and even the criterion of empirical validation has lost appeal. New currents in methodology reflect the practices in advanced research, suggesting that models in economic theory should be conceived as fables, fictions, or thought experiments on fictional cases. Academic communities validate models according to their presumed technical novelty, or because of fashion, ideology, and power. Sophistication in mathematical language is the primary canon conventionally adopted to validate models as acceptable within the mainstream. The paper questions the paradoxical coexistence in economics of the ambitious pretensions to hard science, and the ideas on mathematical models as fictional narratives about economic Wonderlands, which dominate in research practice and are reflected in studies on methodology.

Keywords: Mathematical Models, Fables Stories, Scientific Explanation.

JEL Codes: A11, A12, B41.

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1. MATHEMATICAL LANGUAGE AND THE QUEST FOR SCIENTIFIC TRUTH

In 1844, writing on commercial crises, J.S. Mill attributed a myopic vision to traders in improvident speculations; he suggested that young persons to be employed in trade should be trained to understand better the fundamentals in the trend of prices [Mill 1967 (1844); Forget 1990]. His approach was both elitist and enlightened; the social philosopher does not share the myopic vision of the merchant in the understanding of economic life. In the invisible hand passage, Smith had expressed a similar judgement on the narrowly focused mind of the common trader, against the pretence of businessmen to express sound judgements on the welfare of society. In the 19th century, the scholars who built the mathematization of economics aimed at conquering scientific truth. They conceived the abstractions that mathematical modelling imposes in economic theory as the quest for ideal schemata of market phenomena which abstract from frictions. Mathematical language is the instrument of rigorous argument to uncover the inner laws of markets. Cournot, Walras, Jevons or Pareto, to cite the outstanding pioneers of mathematical modelling in economics, pursued the quest for scientific truth.

Cournot stated that the abstract idea of value in exchange in the mathematical theory of wealth should not be too far from “the actual objects” to which it should be applied; it should not become an “idle speculation” [Cournot 1971 (1838): 17]. He excluded utility from mathematical reasoning because he saw the idea as not amenable to scientific definition [Cournot 1971 (1838): 10]. In his *Recherches*, as in later works, he held that the idea of wealth can be studied as a mathematical object because contemporary societies are moving towards increasing rationalization in exchange: real markets move towards the reduction of frictions by progressively adopting rational evaluation and measurement [Cournot 1971 (1838): 10]. Walras, who argued that mathematical reasoning is the “rational method”, not empiricism,¹ adopted the scientific procedure to start from the real types (*types réels*) of phenomena; these should be schematized into the ideal types (*types idéaux*), that is, conceptual structures rigorously defined on which to prove theorems, as with the ideal definitions of geometry. The concepts in mathematical economics are ideal skeletons of market phenomena, inspired by and abstracted from the types of market phenomena observed in reality. Mathematical language applied to the ideal types makes it possible to revert to experience to apply the theoretical conclusions reached. According to

¹ “La méthode mathématique n’est pas la méthode *experimentale*, c’est la méthode *rationnelle*”. [WALRAS 1926 (1900): 29].

Walras's normative approach, pure economics deals with ideal exchanges in perfectly competitive markets, which are normative standards towards which to approximate market realities because they respond to the criterion of commutative justice. Pure science conceives the perfect normative frame to regulate markets.

Throughout his life, Pareto was torn between the commitment to pure science in mathematical language and the search for the comprehensive understanding of social life that only the synthesis reached in sociology could offer [Pareto 1980 (1899): 170]. In his first treatise, he declared that his aim was "(...) to offer an outline of economic science considered as a natural science and founded solely on facts." [Pareto 1964 (1896-1897), I: III]. He defended the principle of successive approximations, pursuing the search to approach empirical evidence by proceeding from pure and applied economics to sociology to capture the complexities of social life. In pure economics he sketched the fictional character of the *homo oeconomicus* as a first step in theoretical research, but he aimed at going beyond it, venturing into applied economics and sociology [Pareto 1980 (1899): 170; Pareto 1982 (1918): 636]. Marshall took care to clarify the connections between mathematical modelling and economic reality; his cautious attitude towards mathematization is well known, although whether it changed over the years is controversial.² In a well-known letter, he wrote:

The fact is I am the dull mean man, who holds Economics to be an organic whole, & has as little respect for pure theory (otherwise than as a branch of mathematics or the science of numbers), as for that crude collection & interpretation of facts without the aid of high analysis which sometimes claims to be a part of economic history. [Letter to W.A.S. Hewins, the 12th of October 1899 quoted in Coase 1993 (1975): 413].

Fisher, another pioneer of mathematical economics, wrote a book to explain how common people, and even the majority of businessmen, are victims of the money illusion in times of monetary instability (Fisher 1928). After failing to anticipate the collapse of stock prices in October 1929, he sought to rebuild the theory of fluctuations to account for the severity of major recessions. In *Booms and Depressions*, testing theories to fit the facts, he studied the early evolution of the depression in the US economy (Fisher 1932). He separated the "tendencies", i.e. the dynamic forces that theoretical analysis isolated by abstract reasoning on fluctuations, from the explanation of each episode in historical reconstruction (Fisher 1933: 338).

All these scholars, on different methodological premises, trusted the

² See Letter to Edgeworth, 28 August 1902 in PIGOU 1925: 437.

direct relevance of theory to understanding the real world of markets. In their quest for scientific truth, they shared the idea that economists are learned scholars who reach more enlightened intelligence in assessing the overall picture of the economy than do traders in their ordinary business. In designing the policies to be undertaken, they did not refrain from taking full responsibility for the consequences that they derived from their theoretical analyses of market economies. In contemporary mathematical economics, the quest for scientific truth is dead. We may or may not like this crude fact, but a crude fact it is. No scholar aims at discovering the laws of phenomena, as the pioneers did in the 19th or early 20th centuries, with their shared endeavour to place mathematical economics on the same scientific footing as physics. It was a major change with wide cultural roots.³ On the evidence of the change, J. Reiss proposed “the explanation paradox”, and he argued that no solution is as yet available (Reiss 2012).

- (1) Economic models are false.
- (2) Economic models are nevertheless explanatory.
- (3) Only true accounts can explain. (Reiss 2012: 49).

In current research practice, economic theorists conceive models as conceptual tools born from their imaginations, and flexibly moulded for analytical reasons, or purposes of interpretation. Families of models are explored, or abandoned, according to the conventions prevailing in diverse academic communities, and notably on account of their presumed productivity in terms of analytical results. Each model may be developed into further multiple versions; no economist thinks that the specific model he/she is working on has the character of truth, or that it provides a theory of general validity. The canon of scientific procedure is a linguistic one: mathematical modelling. The standards in terms of conceptualization, evidence, interpretation are blurred, or not relevant at all. Complaints recur on the state of the discipline, or the pitfalls of some families of models; but there is no consensus on shared canons with which to validate models as regards their significance to build sound interpretations of historical evidence. The epistemological turn, as attested by the evolution of research practices, calls for debates on models and scientific explanations among scholars in economic philosophy and methodology.

This paper considers the ‘explanation paradox’ with especial attention paid to the recurring references to mathematical models as fictional nar-

³ G. Israel extensively analyzed epistemological turns in the evolution of mathematical modelling (ISRAEL 1996, 2015).

rations or engineering devices which deal with wholly artificial Wonderlands. It highlights the dead ends towards which the extreme modelling freedom is leading, and the cultural impoverishment that it produces in the discipline.

2. PLURALISM AND ANARCHY IN ECONOMIC THEORY. BUILDING CASTLES IN THE AIR?

Contemporary economic theory is going through a phase of fragmentation and anarchy. Models, and the accompanying interpretations, deal with issues in distinct fields of research, each using specific procedures and linguistic codes. There is no family of mathematical models that has the ambition of offering a global overview on the working of markets. In 2004, Colander, Holt, and Rosser Jr. convincingly argued that ‘mainstream’ theories in economics, as they are validated or explored in research by authoritative academic elites, are a set of evolving ideas (Colander, Holt and Rosser Jr. 2004: 486-487). There is no dominant paradigm of established ideas that constitutes a stable core of economic theory; mainstream economics is a “complex, adaptive system” that is “loosely held together by its modelling approach to economic problems” (Colander, Holt and Rosser Jr. 2007: 308). The empirical soundness of the theory of rational choice as inspired by Olympian rationality has been discredited by research in behavioural economics;⁴ but the emergence of this new field, and studies on ideas of bounded rationality, have not discredited the mainstream models, which assume perfectly rational, forward looking agents. They live side by side in contemporary economics. Amidst the variety of hypotheses and interpretations validated by academic elites, the shared canon is mathematical language; mathematical modelling is mandatory as the standard requirement of the scientific approach, with priority over any reference to evidence, however defined, on the basis of statistical techniques or detailed knowledge from historical studies. In conformity with what T. Wolfe calls the high tide of ‘scientificization’ in the humanities, scholars aim at showing up as hard scientists, to get recognition in the world of science and academia.⁵ Scientificization bias has advanced research towards mathematical complexity *per se* as the safest way to acquire academic prominence; it

⁴ Herbert Simon named ‘Olympian rationality’ rational choice with no limits or costs in information gathering, in opposition to the idea of bounded rationality, or procedural rational choice under informational constraints.

⁵ “Get hard! Whatever you do, make it sound scientific!” (WOLFE 2016: 87).

is the prime criterion for validating research at the edge.⁶

Whatever the complexity of the mainstream, contemporary economic theory *par excellence* speaks the language of mathematical models, which are families of mathematical objects evolving under the joint pressure of the effort to produce robust analytical results and the effort to connect in interpretation their bare skeleton to some conceptualization of economic phenomena, or to presumed regularities observed in data. In current practice and interpretation, models are devices for logical investigation into fictional worlds.

An economic model is based on a mathematical skeleton subject to a number of logical requirements concerning the set of its primitive concepts, axioms, equations, or functional forms. The skeleton *per se* becomes a proper economic model when names and meanings are attached to its equations and functional forms, which are understood as building a world of conceptual interactions involving fictional agents or variables whose behavioural rules are specified by imposing structure on it. The mathematical skeleton is moulded by mathematical forms and the specific constraints imposed on them; its cognitive reading yields the conceptual picture of some fictional space of social interaction, notably some fictional economy. The second step requires the narrative arguing of some story about the interpretation of the fictional world in the model as it is explicitly suggested by the scholar who conceived it, or by other scholars developing or criticising the model in question. At the third cognitive step, the fictional characters interacting in the model's scenarios may be transfigured into situations related to actors and events in real economies, if any such interpretation is advanced.⁷

M. Morgan argues that the narrative which accompanies an economic model is not just a rhetorical or heuristic device; it is a crucial cognitive procedure that permits use of the model to explore reality, and attribute

⁶ "First, success in academic economics came from publishing 'hard' papers – meaning papers that used rigorous and preferably difficult mathematics". (KRUGMAN 2011: 311).

⁷ For a typical example, the reader is referred to the model in the article "Banking, Liquidity, and Bank Runs in an Infinite Horizon Economy" by M. Gertler and N. Kiyotaki (GERTLER and KIYOTAKI 2015). The authors name and define the fictional characters acting in the fantasy scenario that they build (artificial households, artificial banks); they impose their behavioural rules with the restrictions that they deem appropriate. Stories are narrated on the events which may happen in the artificial economy (e.g. events called 'banking distress', 'bank runs'). Numerical examples are provided to narrate the alternative paths of events in the model's context. In the last section and in the conclusion, the authors advance suggestions and 'insights' as regards the messages that the stories on the artificial economy convey in view of interpreting the real world of financial crises and economic policies. Occasional links to the real world are mentioned along with the fictional narrations.

meaning to its use (Morgan 2001: 361). The economic model combines deductive and narrative reasoning. Even in a static model, deductive logic on the structure of its mathematical skeleton is complemented by answers and questions articulated in narratives to account for sequences of events in the fictional world that the model depicts, and their connections with dimensions of reality (Morgan 2001: 369). According to Morgan, the stories narrated on a mathematical model establish links with aspects of the real world, even if only by exploring a specific or typical case (Morgan 2001: 369, 377). If the stories told on models are a crucial component in the cognitive activity of building theories, their status is highly controversial. It is disputable whether they relate to occurrences in market societies, in past history or in contemporary times, or whether they just explain in narrative language what is going on in the artificial world of the model. The criteria adopted to associate models with narrative accounts related to real occurrences in the economic world are multiple and loose; different economists adjust them to their own epistemological views.

According to the criteria that M. Friedman proposed in his essay "The Methodology of Positive Economics" more than half a century ago, the validity of a hypothesis in economic theory should be tested by its predictive power, not by the conformity to realism of the specific assumptions adopted in advancing it (Friedman 1953: 5). A hypothesis is always descriptively false because it abstracts some crucial element from a mass of circumstances; it abstracts, however, from the complexities of observed phenomena with the aim of reaching a good approximation according to the interpretation the scholar has in mind (Friedman 1953: 8-9). Friedman conceived theory as "a body of substantive hypotheses" to be tested according to the criterion that they should be "sufficiently good approximations for the purpose in hand"; he downplayed logical consistency as a secondary concern (Friedman 1953: 5-6). Predictive power is the ultimate criterion of the effectiveness of each theory for the specific issue dealt with. This view is very distant from Walras's dream of discovering the both normative and scientific laws of markets; but theory is still conceived as the building of substantive hypotheses to be empirically tested. In Friedman's essay the anchorage of theory to reality is stronger than in the current practices of academic research in economics. Today the very notion of theory is in question: is an economic theory a coherent set of substantive hypotheses about what is going on in the world, or is it just a set of assumptions and theorems on the fictional interactions at work in the imaginary world of some fantasy 'economy'?

In the late 1970s, R. Lucas advanced looser requirements about predictive power as regards mathematical modelling in macroeconomics.

According to Lucas, to build a model is to build some coherent ‘artificial’ economy created by scientific imagination to serve as a laboratory. The model builder provides the set of instructions that put together some clockwork economy, an engineering device mimicking the time series of actual economies. The requirement is no longer the predictive power of a body of substantive hypotheses; it is the mimicking power that the “mechanical imitation economy” exhibits *ex-post*, in simulations showing that its artificial variables move in conformity with the overall trends of past time series (Lucas 1980a: 697). To test such mimicking, the scholar should establish a meaningful correspondence between some artificial variable in the analogue system and some relevant variable in the historical time series; but the *ex-post* conformity is not constrained by any strict condition of resemblance between the mechanical imitation economy and the real world of economic events. Since the 1980s, the real business cycle models that have transformed macroeconomics have been built on extreme ‘as if’ assumptions. Applying the technique of calibration, their mimicking power is checked on assigned values of parameters whose legitimate source in microdata and empirical validity are subject to heated controversies.⁸ Macroeconomists have depicted fictional worlds of hermit economies with no pretence to providing good approximations in the representation of complex economic realities.

Does the looser requirement on mimicking substantially constrain the acceptable range of models admitted in economic theory? Empirical evidence is commonly considered a requirement of scientific theory in the natural sciences. Are historical evidence or predictive power important for contemporary mathematical modelling in economics? The answer is nuanced, but on the whole negative. In some fields, the mimicking requirement is an operational criterion for the selection of models in the evolution of theories; it dictates removal from the edge of research of the models that seem to fail it, amidst controversies on how statistically to assess sound evidence in sophisticated econometric research. In broad fields of research, no evidence requirements whatsoever are imposed on models either by the mimicking of historical time series or by any whatever conformity with observed evidence, *ex ante* on assumptions or *ex post* in historical interpretation.⁹ Mathematical models are conceived as conceptual sets of instruc-

⁸ For a summary of the main controversies on real business cycle models, see DE VROEY 2016, chap. 16-17.

⁹ “Thousands of economic models have been adduced to explain real-world phenomena without ever having been tested in the lab or elsewhere”. (REISS 2012: 54). The example *par excellence* is the Arrow-Debreu model of general equilibrium; but examples are available *ad libitum* from macroeconomics to microeconomics to game theory.

tions to build logical structures for the mere purpose of exploring fictional cases. They are not even conceived as analogue, clockwork systems; they are fictional castles in the air explicitly built for thought experiments.¹⁰ Thought experiment on fictional interactions is at the core of the game theoretic research that has won prominence in many fields of economics. In pursuing axiomatization in economic modelling, G. Debreu proposes an extreme view of modelization freedom by disconnecting the mathematical structure from interpretations; he gives priority to the axiomatic skeleton. The axiomatic theory, as the set of primitive concepts and the coherent system of axioms on which theorems are proven, may be applied to address questions on imaginary environments, which may be read as referring to ideal, economic contexts, the suggested interpretations being just “the last step of the analysis” (Debreu, 1986: 1265).

Neither the predictive nor the mimicking requirements discipline the freedom of imagination that is admitted in conceiving the stories attached to the mathematical skeletons. In principle, contemporary modelling practices admit whatever number of fictional economies may be created by the most various set of instructions, with almost no restrictions in terms of correspondence to actual behaviour, evidence checked on historical events, or accurate predictions. The generally accepted dominant rule is the conventional assumption of the forward-looking rationality predicated of the agents operating in the fictional economies. No longer a hypothesis about the behaviour of real economic actors, it is a technical model building principle justified by the rule of economy of means in scientific discourse, or left unexplained.¹¹ To paraphrase Mitja Karamazov’s thorny question, without Olympian rationality does this “means everything is permitted now, one can do anything” in the economic Wonderlands?¹² The rationality assumption stands because outside its realm anything may happen in the fictional worlds of models.

The professional economist is an engineer who designs artificial ‘economies’ building the appropriate mathematical layout. When the aim is to change actors or interactions, the task is to coherently design some fic-

¹⁰ In 1982, Sargent, describing his joint work with Wallace, spoke of a “spectacular” example built to show a patently artificial behaviour for the purpose of a thought experiment (SARGENT 1982: 382, 387). In 1980, Lucas built an artificial cash-in-advance model to explain money theoretically; a large body of literature on money deals with models about artificial, trade interactions in wholly fictional contexts (LUCAS 1980b; LAGOS, ROCHETEAU and WRIGHT 2015).

¹¹ “John Muth’s hypothesis of rational expectations is a technical model-building principle, not a distinct, comprehensive macroeconomic theory.” (LUCAS 1981: 1).

¹² “Without God, and the future life? It means everything is permitted now, one can do anything?”, in *Brothers Karamazov*, Part 4, Book 11, chapter 4.

tional world anew. As a consequence, in advanced research in economics, models are developed, or discarded with no regrets, according to academic fashion, promises of further results, or technical dead ends. At the close of his Nobel Lecture, Lucas moved away from R.E. equilibrium models with misperceptions and monetary surprises, declaring that they did not offer a satisfactory theory of business cycles; it was time to look at the edge of research: the real business cycle models (Lucas 1996: 679-680). The discarded models had originated a vocal revolution in macroeconomics that had been claimed to be a radical turn introducing major theoretical innovations. They were dismissed in a few lines.¹³

3. THE STATUS OF MODELS IN CONTEMPORARY ECONOMICS: HARD SCIENCE OR FANTASY FICTION?

In 1997, Solow, addressing questions of method in macroeconomics, underlined “the model-building philosophy that motivates and guides economics”, differentiating economics among social sciences (Solow 1997: 55). In his description, he proposed a simplified vision of the approach that in methodological debate is named the ‘isolationist view’ (Solow 1997: 46). He anchored mathematical modelling to the strategic simplification of ‘causal arrows’ in economic reality, with the ultimate aim of illuminating what goes on in the world.¹⁴ The isolationist view underlines the nature of models as simplified representations able to isolate crucial aspects of the economic world in an abstract theoretical frame (Grüne-Yanoff 2009: 1). Along separate paths, N. Cartwright and U. Mäki developed the isolationist view with explicit reference to J. S. Mill, and to ideas of method inspired by natural sciences (Mäki 2009; Cartwright 1998, 2009). According to Mäki, the model builder constructs a surrogate system that aims at representing some outside target system. In the surrogate system, scientific representation is to be distinguished from resemblance; it admits, and requires, the procedure of isolating the causal factors or mechanisms which appear most

¹³ From the historical perspective, the passage at the edge of research from R.E. models with misperceptions to real business cycle models was promoted both by the adoption of new modelling technologies and by the failure of previous R.E. models to satisfy the mimicking requirement.

¹⁴ “A model is a deliberately simplified representation of a much more complicated situation. (...) The idea is to focus on one or two causal or conditioning factors, exclude everything else, and hope to understand how just these aspects of reality work and interact.” (SOLOW 1997: 43).

relevant.¹⁵ The modeller manipulates assumptions to serve the purpose of isolation and focus the attention on the relevant strategic links (Maki 2009: 30). Many problems are open in the isolationist view when applied to explanation in the social sciences, since in social life the causes may not be separable, or they cannot be neatly isolated as in laboratory experiments. It certainly fails to portray how today economists work in mathematical economics.

Mathematical economists do not focus on isolating the main causal factors or mechanisms; notably so scholars in advanced macroeconomic theory. The dominant epistemological paradigms dictate requirements of consistency or robustness; assumptions are selected more for mathematical convenience than to satisfy isolation causality, since the mathematical skeleton should provide theorems in terms of equilibrium or dynamic properties.¹⁶ Contemporary mathematical modelling in economics is a complex set of cognitive practices that fail to be inspired by the neat isolation of some causal factors or reproduce experiments involving isolation (Knuutti-la 2009: 60; Grüne-Yanoff 2011).

Methodological debate reflects the change of focus ongoing in research. Among scholars defending the isolationist view, the assertion prevails that the narrative reasoning attached to economic models says something about the real world. Conversely, the prevailing fictionalist views signal the artificial nature of models, telling stories born from the imagination.¹⁷ Models are variously compared to literary narratives, where imaginary contexts tell us something about life. References to parables, fables, fairy tales, novels are suggested by scholars dealing with their own work, or in debates on method (Gibbard and Varian 1978; Morgan 2001, 2007, 2012; Rubin-

¹⁵ “Models represent in two ways, both of which require the model to be a model of something else. First, to say that a model is a representative of some target is to say that it stands for that target as its surrogate. (...) M resembles, or corresponds to, the target system R in suitable respects and sufficient degrees. This second aspect of representation enables models to serve a useful purpose as representatives: by examining them as surrogate systems one can learn about the systems they represent. However, one might also fail to learn about the target by examining the model, but this should not be taken to imply that there is no representation. Representation does not require resemblance: it only requires issues of resemblance to potentially arise”. (MAKI 2009: 32).

¹⁶ The representative household assumption is almost ubiquitously adopted in macroeconomic models, although the conditions for aggregate behaviour to correspond exactly to that of some representative agent are very restrictive (HENDRY and MUELLBAUER 2018: 295). Linearity assumptions are adopted when non linearity would increase mathematical complexities, or generate intractable dynamic behaviour. Stability assumptions are postulated. And so on and so forth.

¹⁷ The nature of the divergence is a matter of controversy. See the debates in *Erkenntnis*, n. 7, 2009.

stein 2006; Grüne-Yanoff and Schweinzer 2008; Sugden 2000, 2009). The roots of economic theory in historical interpretation being lost or severed, mathematical economists turn into fantasy-writers, notwithstanding their scientific ambitions; they build up parallel worlds that they freely explore in the mind, as do writers and readers of literary fiction.

A. Rubinstein, an outstanding scholar in game theory, maintains that in building game-theoretic models, economists narrate fables (Rubinstein 2012). An economic fable is a short story couched in common language that narrates the imaginary situation in which fantasy characters act in a fantasy context; the economic fable deals with their interaction in behaviour assuming they are motivated by self-interest.¹⁸ The story is based on the model's mathematical skeleton; thanks to intuitive judgement, the economic fable teaches something about situations in the real world which scholars or readers might happen to face or be involved in.¹⁹ The insights furnished by rigorous mathematical analysis are placed at the same cognitive level as the pearls of wisdom that a centuries-old tradition in narration ascribes to fables.

The word 'model' sounds more scientific than 'fable' or 'fairy tale' although I do not see much difference between them. The author of a fable draws a parallel to a situation in real life. He has some moral he wishes to impart on the reader. (...) We do exactly the same in economic theory. A good model in economic theory, like a good fable, identifies a number of themes and elucidates them. We perform thought exercises that are only loosely connected to reality and that have been stripped of most of their real-life characteristics. However, in a good model, as in a good fable, something significant remains (Rubinstein 2006: 881).

To stand on sound ground, R. Sugden conducts a comparison between models in economics and realistic novels which narrate what happens in the fiction of credible worlds. Economic models explore 'self-contained imaginary worlds', with no claim to providing simplified pictures of aspects of reality, not even in abstract, symbolic language (Sugden 2009: 17). Novelists make their 'realistic' stories credible to the readers; mathematical models in economics are constructions of "credible counterfactual worlds" (Sugden 2000: 28).

¹⁸ "A description of an economic model is like the introduction in a tale, presenting the heroes, their interests and the setting in which they operate". (RUBINSTEIN 2012: 19). Rubinstein fails to specify the distinction between fables and fairy tales, on which ample debate exists in literary studies.

¹⁹ "We will take the tale's message with us when we return from the world of fantasy to the real world, and apply it judiciously when we encounter situations similar to those portrayed in the tale". (RUBINSTEIN 2012: 16).

Credibility in models is, I think, rather like credibility in ‘realistic’ novels. In a realistic novel, the characters and locations are imaginary, but the author has to convince us that they are credible – that there could be people and places like those in the novel. (...) Simplification and isolation are allowed, of course; we do not expect to be told everything that the characters do or think. But what is being simplified is not the world of actual events, but the world imagined by the author (Sugden 2000: 25).

Other scholars speak of case-based knowledge. They maintain that economic theorists cannot claim to propound substantive hypotheses or conjectures of general validity. Their aim is not to furnish accurate description. Economic models explore thought experiments about fictional cases that may “convey a message”. The knowledge acquired should be conceived as case-based reasoning, from which conclusions about similar cases in reality, if any, may be inferred, the inference being based on the assessment of resemblance to the theoretical case (Gilboa, Postlewaute, Samuelson and Schmeidler 2014: 516). Theorists conjecture that their models are used by other people to infer insights about situations occurring in the real world; but they are not required to advance any such inference when building the mathematical fictions born from their imaginations (Gilboa, Postlewaute, Samuelson and Schmeidler 2014: 519). The model stages a hypothetical set of events, and its story is never wrong. Under some scientific varnish, the idea of case-based knowledge is again evocative of fables or fantasy fictions. The theoretical case born from the theorist’s imagination conveys insights to help understand economic reality; but it may be spectacular, or exemplary, or plainly unreal. The audience of ‘practitioners’ makes the inference, if they so wish; the readers will take care of it if that is the case.²⁰ In radical interpretation, provided that the stories are well built in mathematical language, it is not the aim of trained, academic economists to suggest how to draw conjectures. The theorists are spared the effort at inductive inference, whatever the cognitive procedures with which it might be reached; in principle, the validation of a canon for sound inference lies outside their

²⁰ “As stated, the example can be viewed as the claim, ‘I have observed a case in which idealised agents, maximizing expected utility, with the following utility functions and the following information structure, behaved in such and such a way’. The relevance of this observation for prediction will depend on the perceived similarity between the idealised agents and the real agents one is concerned with, the similarity between the situation of the former and that of the latter, and so forth. An economist who is interested in real agents would therefore have to judge to what extent the situation he studies resembles the idealised situation in the ‘case’ reported by Akerlof; see Sugden (2009), who argues that it is the reader who must make the mapping between a model and the reality it models.” (GILBOA, POSTLEWAUTE, SAMUELSON and SCHMEIDLER 2014: 518).

expertise and tasks.²¹

If economic theorists fail to specify the cognitive instruments with which their audience should connect fictional cases to the explanation of real occurrences, a question legitimately arises concerning the faculty of judgement to assess resemblances and to draw inferences. Is it innate intuition, or does it depend on rational, procedural checks? Are audiences trained to reach sound assessments on similarity? Who are the experts, if any, who might train them to infer sound conclusions? Sugden trusts the credibility property as a warrant for good inductive inferences from the credible, counterfactual worlds to the real world (Sugden 2000: 28). However, as Reiss effectively underlines, the credibility *per se* of some proposition among a group of researchers does not guarantee that a sound explanation is advanced.²² Historical studies on the evolution of economic theories plainly show how prominence is gained or lost in academic communities for reasons including ideology, visibility, and power; issues of technical tractability are prominent in validating the success of models among academic elites. An alternative interpretation suggests that the credibility of models should be checked through robustness analysis (Hands 2016; Lisciandra 2017; Kuorikoski, Lehtinen and Marchionni 2010). Robustness analysis, strictly a mathematical criterion, is interpreted as being a requirement on the overall stability of the results reached in some family of models, when changing one or more specific assumptions. It suggests interesting evaluations, considering the proliferation of multiple versions of similar models in academic literature, once a line of research is acquiring prominence. Since it aims at specifying the canon of assumptions unifying a family of models, on which their main results stand, it helps to reach judgements on the consistency of a line of research in mathematical economics. However, it cannot resolve the issue about how to reach sound judgements on the relevance of fictional models for explanation, and their clues to understand real occurrences. In a historical perspective, as a criterion to assess lines of research, it should be complemented by deeper conceptual analysis of the evolution of progressive or degenerative research programs.

In these debates, the differences between literary narratives in their rich variety and mathematical models in economics are poorly accounted for

²¹ “The common practice in economic theory is to use models without a clear specification of the similarity function that should be used to apply them to concrete problems.” (GILBOA, POSTLEWAUTE, SAMUELSON and SCHMEIDLER 2014: 519).

²² “Many factors affect judgements of credibility, most of which have no essential relationship with explanatoriness: the specific experiences and values of an individual, his or her upbringing and educational background, local customs and culture, social norms and etiquettes of a community of researchers, its theoretical preferences and history” (REISS 2012: 56).

(Ingrao 2015). Let us just note that in literature credibility is relevant well beyond realistic novels, or echoes of immediate resemblance. J.R.R. Tolkien was meticulous in conceiving the Middle-earth. Literary credibility has multiple dimensions, including psychic coherence in characters, in continuity or change, and the sequences of crucial events. Writing well-constructed stories is a major task in storytelling that is appreciated by both readers and literary scholars. Moreover, the superficial comparisons between models and literary writings fail to explore the cognitive and emotional process by which literary narrations are enjoyed, and whether a rich plurality of meanings live in their stories. If the grasshopper dies because it has no food in the cold season, should the readers infer that it is good to save for the winter, or that our neighbour will die if we are not compassionate? Does the fable suggest that songs give plenty of joy? Literary narration does not aim at dictating catechismal precepts; on the contrary, fables, fairy tales, stories, fantasy fiction or realistic novels freely explore the challenges, the conflicts and vagaries in human identities and human lives. Their fascinations and their messages are decoded anew with changing values and historical experience. Tolstoy, when asked about the meaning of his novel *Anna Karenina*, declared that to express it he should have to rewrite the whole novel (Propp 1966: 222). Fables, fairy tales or fantasy stories, much as realistic novels, treasure multiple layers of meanings, which are explored with the clues offered by the cultural heritage of custom, ethics, and the humanities.

What are or should be the cultural sources on which judgements about credibility, resemblance, or other forms of inductive inference are assessed as regards mathematical models in economics? They are left in the shadows.

4. THE HONEST DISCLAIMER AND ITS VIOLATIONS

Sugden proposes the crucial question neatly: do models build a bridge towards understanding the real world? He acknowledges that the gap between mathematical models in economic theory and the real world is wide, and difficult to bridge in rigorous ways²³; economists often hide it by ‘rhetorical devices’, but somehow a transition has to be established.²⁴ The

²³ “Economic theorists construct highly abstract models. If interpreted as representations of the real world, these models appear absurdly unrealistic; yet economists claim to find them useful in understanding real economic phenomena. This prompts the question: Do these models really help us to understand the world, and if so, how?” (SUGDEN 2009: 3).

²⁴ “Somehow, a transition has to be made from a particular hypothesis, which has been shown to be true in the model world, to a general hypothesis, which we can expect to be true

controversial bridge calls into question the insights that models convey, and their foundations on sound cognitive procedures. What are the cognitive processes by inductive inference, by resemblance or analogy that should build the transition from the infinite variety of fictional Wonderlands in models, and the stories narrated on them, to the explanation of economic events in past history or in contemporary societies? The significance of building mathematical models depends on this question; but the recommended steps, checks, or constraints are vague. Neither shared practices are validated in the profession as sound scientific procedures, nor is focal attention devoted to the issue in academic communities.²⁵ Authoritative scholars skip the passage, confining it to a sphere of language other than scientific language proper. We are even told that it is not a major task for economists as model builders to address the issue. The scientific reasoning that mathematical language admits is about the stories told on the mathematical skeleton, and their inner logic. It has nothing to do with the world. Here is the answer R. Weintraub proposed to T. Lawson, in a polemical discussion in 2005.

In general, both equilibrium and stability (in the sense that any trajectory of the dynamic system initially 'near' equilibrium converges to equilibrium under the system's dynamic laws) are features of the model. And as Dorfman et al. (1958, p. 351) said so directly, "It is the model we are analyzing, not the world". So much for terminology. (Weintraub 2005: 448).

The bridge should be neither built nor crossed: it is, to paraphrase Wittgenstein, unspeakable, and thus not to be spoken of. A disturbing conclusion follows. The economist building a mathematical model somehow pertaining to the field of economics has the right to disclaim any responsibility for proposing sound interpretations which connect it to aspects of reality as a cognitive device relevant for reading what goes on in the world, events in contemporary history or appropriate policies. The messages on issues of economic policy have no pretence to the same logical rigour reached in dealing with policies in the fictional models.²⁶ Although the aim of mac-

in the real world too" (SUGDEN 2000: 19).

²⁵ "In economics (and perhaps, as the example from biology suggests, in other sciences too) there seems to be a convention that modellers need not be explicit about what their models tell us about the real world. Given this convention, it is hardly surprising that the question of what role models play in economics is controversial among methodologists" (SUGDEN 2009: 16).

²⁶ "At the beginning of this talk, I said that my main purpose was to discuss connections between policy in the model I was about to set out and policy in the United States, today. My experience is that an economic model, if it is concrete enough to be visualized, has a life of his

roeconomics is to deal with policy issues, no robust, rational arguing is anchored to the stories narrated in mathematical models to speak on economic policies in the real world. As self-contained worlds, models are never wrong, provided the mathematics is correct.

First, one need not wonder why economists feel that they gain insights and understand economics better using models, whose assumptions are wrong. In the case-based approach, models cannot be wrong. As long as the mathematical analysis is correct, a theoretical case is valid, the same way that an empirical or experimental case is valid as long as it is reported honestly and accurately. Cases do not make any claim to generality, and therefore they cannot be wrong. (Gilboa, Postlewaute, Samuelson and Schmeidler 2014: 520).

Should theoretical economists assume responsibility for the results which they predicate in the mathematical models that they disseminate? In principle, like model engineers, they speak rigorously only about the fictions that they conceive as self-contained imaginary worlds or theoretical cases. They are not primarily concerned with the applied significance of the cases that they explore on assumptions which might prove wrong if related to some external economic reality. Are they accountable for providing sound interpretations as regards the insights that the models which they build convey on events in economic history, or on policies to be adopted in real circumstances? In principle, they speak rigorously only about what goes on in the artificial clockwork models. The rest is silence; or it is talk, with no pretence to rigour. This is the strict, paradoxical conclusion of such epistemological premises.

Some scholars defend the principle of transparent fairness in being unaccountable for interpretations with honest strictness. Rubinstein has pronounced a fully honest disclaimer. He trusts game theoretic models only as far as they provide rigorous reasoning on abstract strategic interaction; he does not trust them at all as providing solutions on issues of economic policy (Rubinstein 2012: 129). The honest disclaimer sheds disturbing light on the social utility of economic theory. One might wonder in what consists the advantage of mathematical modelling if the constructive addition that models provide to our knowledge for improving economic policies is so poor. Moreover, the disclaimer has a corollary: why should mathematical language *per se* be a canon of scientific advancement? Speaking in mathe-

own, and people will draw such analogies between it and 'reality' as they find helpful, quite independently of how one might wish or try to direct them. I will sketch the connections that seem clearest to me, but with the understanding that they cannot be established on the same logical level at which we can understand the internal workings of the model itself" (LUCAS 1986: 129).

mathematical language performs the magical trick...the magical words irrespective of the substantive knowledge. The disquieting conclusion should follow that professional economists abdicate pretensions to offer suggestions based on richer knowledge than laypersons have.

They know the technical cogs in clockwork models, but they can barely suggest ‘insights’ or ‘connections’, if any, on events and policies. Since their understanding of the world is not improved by the practice of rigorous modelling, since they cannot rigorously infer message from their mathematical fables, should we trust them as being rational in their inductive judgements, and under what meaning of rationality?²⁷

In fact, in the profession, the exceptions to the honest disclaimer are many, and repeated. It is a defensive device against charges of building models on patently false assumptions, or of fancying about amazing Wonderlands; but it is most often not respected, and notably so by the scholars in macroeconomics (De Vroey 2016: 304 ff.). E. Prescott violates it repeatedly.²⁸ Lucas, ambiguous on the disclaimer, is not always cautious in proposing interpretations.²⁹ Theoretical economists do not know how much of their ‘expertise’ as model builders might be “transferable to the conduct of policy in the world of today”, a “difficult question”, to use Lucas’s own words.³⁰ He suggests that patently false or misspecified models convey messages, and in his retrospective view on his own theoretical work, he emphasises the effort to shed light on pressing monetary issues (Lucas 2013; Sargent 2015: 55, 56). In recent debates on the state of macroeconomics various scholars have promoted the use of highly fictional DSGE models tested by calibration techniques as instrumental in formulating quantitative policy advice to monetary policy authorities (Christiano, Eichenbaum

²⁷ On the strictures of the meanings of rationality in economics, see INGRAO 2014.

²⁸ “The increased stability of the economy and the improved performance of the payment and credit system may be due in part to the diffusion of findings of Finn’s and my “Rules Rather than Discretion” paper. People now recognize much better the importance of having good macroeconomic institutions such as an independent central bank” (PRESCOTT 2004: 375). He made such a strong assertion in his Nobel Lecture, three years before the global financial crises. Many passages in Prescott’s writings signal that he interprets the results of fictional models as stating plain truths about reality (DE VROEY 2016: 304 ff.).

²⁹ De Vroey found interesting notes on methodology in Lucas’s archives; but he notes: “However, in his published papers, Lucas gave no clue as to what he meant exactly” (DE VROEY 2016: 178).

³⁰ “I will begin by considering the dynamics of policy in the context of a specific, necessarily very simple, general equilibrium model. This will occupy most of my time and when I am finished, we will have arrived at a fully understood consensus as to how monetary and fiscal policy ought to be conducted in this artificial society. Then we can turn to the more difficult question of determining how much of this expertise is transferable to the conduct of policy in the world of today” (LUCAS 1986: 1-2).

and Trabant 2017).

5. THE CONTROVERSIAL BRIDGE: ONE OR MANY LANGUAGES IN ECONOMICS?

Such a contradictory state of the art in economics is inherent in the exclusive emphasis placed on mathematical sophistication as the primary aim in theoretical work, and the dominant criterion to assess scientific rigour. In fact, the bulk of the contemporary economic literature is learned narrative prose that as such is not recognised as ‘scientific’ discourse. Both inside and outside academia economic discourses in narrative prose flourish, forming a large body of literature addressing controversial issues and heated debates on policies. In textbooks, in essays, in articles for the press, narrative prose forms the backbone of the discipline; it is influential in spreading persuasion on currents of ideas, definition and conceptual understanding of theories, intelligence of events, appropriate policies. Narrative prose systematically accompanies model building, being crucial for bridging the gap between the imaginary worlds in theoretical economics and the reality of economic events. The fictional worlds in models acquire life thanks to narratives which go beyond formal properties, evoking resemblance to real economic phenomena³¹ (Gibbard and Varian 1978; Grüne-Yanoff and Schweinzer 2008; Morgan 2007, 2012). The “narrative account of events” attached to game theoretic models plays a primary role in conceptualization, and in the articulation of questions and answers (Grüne-Yanoff, Schweinzer 2008: 136, 140; Morgan 2012: 344 ff.).

It is not clear where these narratives come from, and for what reasons one is preferred to another. Debreu’s view of the axiomatic approach is silent on the source of primitive concepts, and why the scholar should impose specific restrictions on the axioms. If they are intended to be tales exploring the fictional cases portrayed in the models, their interest is questionable as regards the discipline of economics proper. If they are covertly or explicitly predicated as credible stories, somehow connected to real events in

³¹ “We will argue that the game structure and the model narrative together constitute a model of an economic situation. We call this the game model. (...) While there is widespread agreement that game theorists engage in the practice of telling stories when teaching or presenting new game models, it is more controversial whether this narrative is part of the game model in the more substantial sense claimed above. In this section, we discuss the different functions that narratives have when using game theory to model economic situations. We argue that each of these functions is necessary for the use of game theory as an economic model, and that therefore the narrative is a necessary part of the game model” (GRÜNE-YANOFF and SCHWEINZER 2008: 136).

the economy, by what sources is their credibility established? What is the lexicon that they use? Are they inspired by the heritage of shared culture in other fields of economic discourse outside economic theory proper? Are they influenced by the literature in economic history or the history of thought? Indeed, Lucas's Nobel Lecture is a learned discourse on the quantity theory of money with references to the history of thought, statistical evidence, and controversies on policies. To be assessed, the fictional worlds of models require the prose of economic culture, a specialist language with philosophical roots and ideological echoes, built in long controversies on interpretation and historical reconstruction.

Eventually, the complexity of building inferences comes to light, involving ideas, values, background in historical knowledge, and the perception of fruitful exchanges with other fields of culture. When scholars openly address the issue of sound reasoning, the complexity of what theory is in economics becomes apparent if theory is understood as a body of argued explanations to improve the understanding of economic realities, and not just the exploration of self-contained fictional worlds. At the core of economic theories, conceptualization requires coherence in specialized language going beyond the proof of theorems on mathematical objects. Concepts in economics arise from deep roots in the history of economic ideas, which have connections with philosophy and the debate of ideas in the humanities at large. They cannot be severed from these roots and links. Ideas such as price, good, choice, competition, equilibrium, welfare, equity, growth, development, to give but a few examples, cannot be properly understood when severed from the wider cultural heritage to which they belong, much like the narrative interpretations which use them to speak about events in the real world. Because the status of economic discourses in narrative prose is not being properly recognized in academia, if not as subsidiary or didactic or merely lavish, its canons of rigour remain unchecked and in the shadows.

Are contemporary theorists in economics hard scientists on their own methodological criteria, or are they storytellers or fiction writers like the despised scholars in the humanities? Neither of the alternatives work. We cannot go back to the nineteenth-century search for truth in mathematical modelling; but we cannot accept the final dissolution of economic theory into dispersed fragments of arbitrary Wonderlands, whose contact with reality are so ill-defined that theoretical economists end up refusing to assume responsibility for what they might suggest in terms of explanation and policies. The economic mainstream, with its controversial, evolving core, should not be defined by the dominance of mathematical modelling. It cannot rely on economic fables disconnected from both evidence and

intelligence of the real world. Thus, we should rebalance the primacy of mathematical language in economic theory. To dare cross the controversial bridge, we should acquire, and assess, knowledge from multiple languages, sources, inquiries. This is the only rational strategy with which to address the complexity of historical events in changing societies, which is the aim of economic culture to enlighten. To check by inference the credibility of fictional economic stories, to propose substantive interpretations, or to creatively conduct economic policies – all tasks that the economic profession must undertake – sound economic theory should be rebuilt in learned narrative prose rooted in various languages of culture, in intensive dialogue with research in economic history or history of thought, and with the joint support of learned exchanges with philosophy and the humanities.

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COLLOQUIUM:
LUIGI EINAUDI ON VALUE JUDGMENTS
IN ECONOMIC SCIENCES

INTRODUCTORY NOTE

In the early 1940s Luigi Einaudi published *Ipotesi astratte e ipotesi storiche e dei giudizi di valore nelle scienze economiche* (Torino, 1942-1943),¹ which represented at that time the most accomplished expression of his conception of the method of economic science. It was long believed to be the only, definitive, version of his essay. However, a few years ago, a new, rewritten and unpublished version of it was discovered in the Archives of the Fondazione Luigi Einaudi in Turin. This new version contained major structural changes, with various handwritten insertions, parts and even entire sections erased and several new pages added. Einaudi intended to publish this version as a second and profoundly modified edition of the same text and to present it, along with other re-worked pieces, as the concluding essay of one of the volumes of his *Complete Works*. This second version has been recently translated and published in a critical edition: Luigi Einaudi, *On Abstract and Historical Hypotheses and on Value judgments in Economic Sciences*, critical edition with an Introduction and Afterword by Paolo Silvestri (Routledge, London - New York, 2017).

The papers published in this section are revised versions of the presentation and discussion of this text held at the Fondazione Luigi Einaudi on 12 October 2017.

In the Appendix we publish (courtesy of Luigi Einaudi's Family and Routledge)² the last two sections of the new conclusions added by Einaudi to his essay.

¹ L. Einaudi 2014 [1942-1943], "Ipotesi astratte e ipotesi storiche e dei giudizi di valore nelle scienze economiche", *Atti della R. Accademia delle Scienze di Torino*, 78, II: 57-119. Engl. transl.: "Abstract Hypotheses and Historical Hypotheses and on Value Judgments in Economic Science", in R. Faucci, R. Marchionatti (eds.), *Selected Economic Essays*, vol. 2, New York: Palgrave Macmillan: 21-66.

² We wish to thank Luigi R. Einaudi for releasing the right to this work, and Routledge for granting permission to republish the pages inserted in the Appendix of this section.

ECONOMICS, HUMANITIES AND VALUES

PAOLO SILVESTRI*

ABSTRACT

This introduction provides a re-reading of Luigi Einaudi's *On Abstract and Historical Hypotheses and on Value Judgments in Economic Sciences*, focusing on how Einaudi conceived the relationship among economics, the humanities and values. In particular, its aim is: (§ 1) to explain the reasons why this essay can be considered a confession of a humanist-economist who constantly stepped "beyond the hedge of the garden reserved to the economist"; (§ 2) to clarify the nature of one of the main doubts that Einaudi had concerning the issue of value judgments, with specific reference to the problem of entanglement of fact and value; (§ 3) to cast further light on why, at the end of his life, Einaudi claimed: "I proudly place economic disciplines within the humanities".

Keywords: Economics, Humanities, Fact-Value Entanglement, Luigi Einaudi.

JEL codes: A12, A13, B31, B41.

On Abstract and Historical Hypotheses and on Value Judgments in Economic Sciences (henceforth the 'present essay') is one of Einaudi's (2017) most unique and thoughtful essays. This new version allows us to better understand its crucial relevance from several perspectives: the history and methodology of economic thought; the role of economists in the public sphere, the role of economics and its relation to other disciplines and to social values; an anthropological and humanistic perspective. Overall, it also allows us to understand Einaudi's uniqueness and originality within and beyond the Italian tradition in public finance, thereby also illuminating his attempt to provide an epistemological foundation to his enduring enquiry into the

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causes of good and bad polities. Therefore, it may not be an exaggeration to describe the present essay as Einaudi's "personal *summa*" (Silvestri 2017b: xxv).

In many respects, the commentaries by Francesco Forte, Riccardo Fauci and Raimondo Cubeddu¹ published in this section, further speak to the richness of this essay, as well as to its diverse and possible interpretations.

In this short introduction I will simply provide another possible interpretation or re-reading of the present essay, focusing on Einaudi's way of conceiving the relationship between economics, the humanities and values. In particular, I will try to: (§ 1) explain the reasons why this essay can be thought of as a confession of a humanist-economist who constantly stepped "beyond the hedge of the garden reserved to the economist"; (§ 2) clarify the nature of one the main doubts Einaudi had on the issue of value judgments, with specific reference to the problem of entanglement of fact and value; (§ 3) cast further light on why, to the end of his life, Einaudi claimed: "I proudly place economic disciplines within the humanities" (Einaudi 1959: ix).

1. If the first version [Einaudi 2014a (1942-1943)] of the present essay testifies to the tormented and wavering nature of Einaudi's methodological reflections and debates over the previous years, the second version testifies also to his doubts about the first version as well as to his awareness of the great importance, complexity and difficulty of the problems he was endeavoring to solve. The dubitative way he presented the rewriting of the conclusions of the present essay only partially reflects his own "doubts". These doubts were clearly expressed in the sheets (the first drafts of the rewriting) that he sent to his interlocutors² with the aim of eliciting further comments and critiques. Some of these sheets were significantly titled by Einaudi *Doubts voiced to the economist* (henceforth: DVE).

Perhaps one of the best ways (to begin) to understand both the inner torment that prompted Einaudi's methodological reflection of the 1930s and '40s, as well as the rewriting of the present essay, is to follow the logic of one of his important editorial decisions. It was Einaudi's intention that the present essay be inserted and published as the *concluding* essay of one of the volumes of his *Complete Works*. But why did Einaudi decide to republish an old review-essay on William Smart's *Second Thoughts of an Economist* as

¹ But see also the review by FOSSATI 2017.

² Gioele Solari, Alesandro Passerin d'Entrèves, Giuseppe Bruguier Pacini and Antonio Giolitti.

the *opening* essay of that same volume?

Significantly, Einaudi had titled his review-essay (and reinterpreted Smart's work) as *Confessioni di un Economista* [Confessions of an economist] (Einaudi 1917). Since this review-essay had been written many years prior to Einaudi's methodological reflections and 'second thoughts' that led him to the rewriting of the present essay, it can be viewed as Einaudi's concluding confession. In other words, here Einaudi is explicitly talking about Smart, but implicitly speaking about himself.

These pages of Smart's are highly personal and very revealing [...]; they implicitly allow us a glimpse into a confession of his scientific doubts, into his effort to look beyond the hedge of the garden reserved to the economist, so as to see what is happening in the vast world and how economic problems are linked to moral and religious problems, and to the very question of the ends for which life is worth living (Einaudi 1917).

Without doubt, Einaudi was one of the last humanist-economists. In this context, there can also be no doubt that the judgement he gave on Adam Smith's three souls, "*moralist*", "*historian*" and "*economist*" (Einaudi 1938), can rightly be addressed also to Einaudi himself (Forte and Marchionatti 2012: 620). Smith and Einaudi's 'three souls' address the *same problem*, namely the *study of man and society*, from three different perspectives and/or in different moments.

To put it another way: if for Adam Smith political economy was the "science of a statesman or legislator" [Smith 1974 (1774): 428], for Einaudi the "economic sciences" – evoked in the title of the present essay: primarily political economy and the '*Scienza delle finanze* – were the sciences of good/bad society and good/bad government.

Einaudi's long-lasting enquiry into the causes of good and bad polities reached its peak in *Myths and Paradoxes of Justice in Taxation* [henceforth *MPJT*] [Einaudi 2014c (1940)],³ and was further developed in the second part of the present essay, in terms of the dialectical contrast between "state" and "non-state" (Einaudi 2017: 61-65), along with its epistemological justification in the third part: "On value judgments in economic sciences".

With such an enquiry Einaudi, as humanist-economist and "economist-whole-man" (Einaudi 2017: 38), went well "beyond the hedge of the garden reserved to the economist". But what did he see beyond the hedge?

³ In particular, in the last two chapters added to the 1940 edition [EINAUDI 2014c (1940)]. These two chapters were partly the fruit of the debate with his pupil Fasiani, as recently discovered (see FOSSATI and SILVESTRI 2012). In turn, this debate is at the origin of the first version of the present essay.

2. To answer this last question, I think it important to dwell on one of the methodological “doubts” that Einaudi confessed to the interlocutors to whom he sent the first draft of his rewriting. Both his arguments and his doubts can be related to two main problems: a) the issue of value judgments; b) the distinction between economics and philosophy. These two problems are set within the broader thesis of the *conventional* nature of the divisions between disciplines and the analysis of the alleged separation between the economist *qua* scientist and the whole man.

Einaudi addressed the issue of value judgment from different perspectives: from the issue of values that may be implicit in the selection of the problem or in the choice of the object of study made by the economist,⁴ to the demarcation between theorem and counsels, theoretical and normative language and their reciprocal translatability (Einaudi 2017: 38-40), all the way to the general problem of the demarcation between science and non-science.

Nevertheless, in the third and last part of the present essay the issue of value judgments is analyzed from a more complex perspective. Here, such issue hides two different problems, which, in Einaudi’s discourse, seem to have overlapped and been held together by his reflection on the alleged indifference of the economist *qua* economist towards *ends*: 1) the issue of whether and when to take up a position with regard to the ends pursued by ruling powers; 2) the difficulty of separating rigorously, in the analysis of society, the study of means and the *understanding* of ends of human action.⁵

The first problem could not be resolved entirely through a ‘methodological’ reflection because, in some respects, it concealed not (only) a methodological problem but also a *deontological* problem. Such a problem has to do with two conflicting values: remaining *super partes* or taking a stand?

As to the second problem, which, for our purposes, is more interesting, Einaudi introduces his main thesis with the following argument:

There is no plausible reason why scientific research should come to a halt when faced with good and evil, or when beholding the ideals and reasons of life,

⁴ In this regard, Einaudi claimed that these kind of implicit value judgments are at the source of the scientific enterprise: the “passions” of the economist guide him in “feeling” the “relevance” of a “problem” (EINAUDI 1941, 1942), that is to say, in Weberian terms, of the problem that the economist deems *worthy* of study. In some respects, Einaudi’s reflection can also be paralleled to that of MYRDAL (1953, 1958), or to what we today call “methodological value judgments”. On this see BOUMANS and DAVIS 2015: 170-171.

⁵ These two points were already mentioned in EINAUDI 2014b [1942]. With regard to this essay, Hayek declared that his position had become similar to that of Einaudi, with specific reference to the “false belief that science has nothing to do with values” [HAYEK 2014 (1970): 355].

almost as if these were *untouchable* concepts. [...] Perhaps, the idea could be voiced that the specific task of the economist begins, in accordance with the legitimate canons of the division of labor, only from the moment when decisions have been actually made and recorded. It is then that the economist has to take stock of the situation, starting out by acknowledging that men have made this or that decision, with all that follows. But if *what follows* turns out to influence choices that have already been made, if the results of such choices and the choices themselves have an effect on the actual reasons for the choices, then how can one say: this is where science starts; and before this there is ... what? (Einaudi 2017: 68).

This point was further explained and developed in some of the following sections of the third part through (at least) two major thesis, which can be summarized as follows (Silvestri 2017d: 122):

a) the economist's "indifference towards the reasons underlying choices" mainly depends on his decision to fictionally put into brackets (or consider as exogenous) the ends of human choices and/or the institutional or moral context within which those choices take place (Einaudi 2017: 68-69). Nevertheless, such an indifference is not always possible if the economist wants to gain a better understanding of some economic phenomena as well as of society as a whole: to this purpose the economist have at least to have an *understanding* of those ends⁶, and, sometimes, is forced to "re-enact the entire causal chain [of means and ends] which, for reasons of the division of labor, we severed at a particular point" (Einaudi 2017: 69). As Einaudi stated in the summary of the last paragraph (§ 27) of the first edition: "it is impossible to study choices while pretending to be unaware of the ends from which they sprang".

b) The division among disciplines, as well as that between science and non-science, are merely "conventional" and have no more than a "practical utility" (Einaudi 2017: 70), and in any case it does not give any scholar the "right to excommunicate" other scholars (Einaudi 2017: 70-71).⁷ This thesis, connected to the general claim stated in the old Abstract ('the economist's decision to refrain from value judgments [...] is legitimate if motivated by the scientific division of labor, but illogical in the perspective of the more general quest for truth'), was further extended to the reflection on the division between Economics and Philosophy.

In the letters he sent his interlocutors and in part of his rewriting of the

⁶ On this see HAUSMAN and McPHERSON (2006: 293-294).

⁷ Einaudi had a clear perception that the debates on so-called demarcation problem (Science/non-science) may turn into normative, dogmatic-excommunicating wrangles among disciplines, schools or scholars. On this see SILVESTRI 2016.

present essay, Einaudi reformulated his own example of the analysis of the policy of tax exemption of a social minimum of existence (Einaudi 2017: 74-76) to better explain and further develop this point.

In these letters he refers critically to the Paretian separation between economics and sociology as well as to his logico-experimental “method”. In Pareto’s view, this last was the only true ‘scientific’ method, where ‘science’ stands for: a) that which investigates facts and only facts; b) the reign of measurable and of factual knowledge (ascertained through the logical-experimental method itself). In Pareto’s view, all the rest is non-science or *non-sense*.

Einaudi’s main objection is that the instrumental reasoning and the possibility of taking values as mere facts can work only till a certain point of the analysis. As soon as the analysis is expanded to consider other data and, above all, the social consequences of such a fiscal policy, the economist may end up analysing concepts, “idea”, “sentiments” and “passions” – such as oligarchic-plutocratic or demagogic regimes, “strong or weak polity”, “prosperous or decadent states” (DVE: 18-19), “economic relations of massive fortunes and political-social relations of hatred and envy, on the one hand, or of fear and scorn on the other” (Einaudi 2017: 76), as well as “social, political and religious ideas” forming a chain of ‘reciprocal reactions and counteractions’ (DVE: 19) – which are not easily treatable from a “scientific” point of view (Silvestri 2017d: 125).⁸

Einaudi’s doubts concerning the economist’s reasoning when facing these concepts and ideas are extremely relevant since he seems to discover that they lie *on the threshold between fact and value*. As he further explains, and (rhetorically) asks his interlocutors:

a) such concepts and ideas do not belong to the reign of “measurable” and “calculable”, nor can they be subject to a “cost-benefit” analysis; b) if the analysis leads to the conclusion that the ruling class is “‘leading the state towards its own ruin’, isn’t it an implicit value judgment?”; c) “What does the philosopher [but also the historian, the politician, the moralist, etc.] add so that the judgment [on value] exists?” (DVE: 18-19, in Silvestri 2017d: 126).

In the final draft of the present essay, Einaudi did not develop the first two issues, (a) and (b), even though he continued to believe that these kinds

⁸ It is likely, in this regard, that Einaudi held an “anti-Robbinsian position” (FORTE and MARCHIONATTI 2012: 594), even though he did not state it explicitly. Nevertheless, it is also true that, spurred by the debate with Fasiani, Einaudi was forced to develop an anti-Paretian position with specific reference to the demarcation issue, the theory of choice and the separation between Economics and Sociology (as he explicitly stated in his DVE sheets).

of implicit value judgments are sometimes unavoidable. Nevertheless, the relevance of this intuition cannot be overlooked.

What Einaudi seems to discover, or at least to guess, is that in his reasoning the economist may find himself face to face with concepts on the borderline between fact and value, where the ‘purely’ descriptive and the ‘purely’ evaluative parts of these concepts cannot be separated so easily. Although Einaudi did not analyse this issue further, his intuition can be paralleled to Putnam’s idea of the “entanglement” of fact and value, where such entanglement is particularly evident in the case of “thick ethical concepts” [Putnam 2002, 2012 (2003): 112].

3. In his *Preface* to the 1959 edition of *MPJT*, Einaudi puts forward two basic claims that seem intimately connected. On the one hand, he “proudly placed” economics, and himself as an economist, within the “humanities” (Einaudi 1959: ix). On the other, he dwelt on the developments of welfare economics, although this reflection seems a pretext for providing an admirable re-interpretation and synthesis of some of the ideas that had led his enquiry into the causes of good and bad politics and prosperous and decadent societies.

Although Einaudi recognized the theoretical progress and concrete results of welfare economics, he pointed out that prosperity, i.e. ‘welfare’, means first and foremost “well-being”. Accordingly:

[Welfare] is not composed only of the wealth that is measurable and summable, mentally translatable into money. ‘Welfare’ is different and it is something more than wealth; it is a composite of wealth, contentment, good social relations, good government, solid – even if small – families, lack of envy and hatred among different classes, which is replaced by emulation which elevates the mediocre and does not morally abase the great. [...].

[Just as] taxation is not a purely economic fact [...] the well-being of a political body is not composed only of material goods. Nations, kingdoms, empires, grow and decay for primarily moral and spiritual reasons. Tax too is a factor of stability or decline; and the moment in which tax by a factor of stability becomes a factor of decadence is decisive for the future of the state [...].

We are still far from the critical point; and it is worth expressing the hope that scholars’ impassioned aspiration towards the creation of increasing wellbeing for all peoples does not restrict itself to material wellbeing, for this could signify and provoke envy, hatred and decadence. What is truly required is above all moral and spiritual wellbeing, such as will signify the emulation of individuals, cohesion within families, and the solid ordering of social classes and orders, for these are the sentiments from which there arise great states. (Einaudi 1959: XVI-XIX).

For Einaudi, ‘economics’ has never provided a privileged point of view on society and man; it has always been just one among many others ‘humanistic’ points of views on man and society. His claim that the separation between disciplines is merely conventional, his ‘humanistic’ understanding of the economist as a “whole man” who, in turn, tries to understand and explain “whole men”’s “passions”, “sentiments”, “social, political and religious ideas” and their social consequences not always belonging to the “reign of calculable and measurable”, as well as his intuition of the problem of entanglement of fact and value, deserve the greatest attention. In any case, there is still much work to do “beyond the hedge of the garden reserved to the economist”.

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ECONOMICS, VALUE JUDGMENTS AND INTERDISCIPLINARITY

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ABSTRACT

The paper deals with the methodological issues that Einaudi addressed in his rewritten version of *On Abstract and Historical Hypotheses and on Value Judgments in Economic Sciences*, by placing them within the framework of his broad and deep understanding of the ethical foundations of a good polity. In particular, the paper focuses on the role of value judgments in economic science in general and in the science of public finance in particular, and the intrinsic interdisciplinary character of these disciplines as ‘human’ sciences and not as mere ‘scientific’ sciences.

Keywords: Economics, Value Judgments, Interdisciplinarity, Luigi Einaudi.

JEL codes: A12, A13, B31, B41.

1. The critical edition of the rewritten and unpublished version of Luigi Einaudi’s (2017) *On Abstract and Historical Hypotheses and on Value judgments in Economic Sciences* shows that Einaudi did not change his position, as has been commonly thought until now, from the defence of economics as a ‘pure science’ to an approach of a passionate economist in which matter both the value judgements and the interaction between economics and other social sciences.

Luigi Einaudi, in regard to the Italian science of public finances and public economics of the last century, is known as the leading figure of the ‘economic school’ in contraposition to Benvenuto Griziotti, leader of the ‘political school’: on the one hand Einaudi with a ‘pure science’ economic approach; on the other, Griziotti with an ‘impure’ interdisciplinary approach combining economics, law, and political science. The fact that

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Einaudi, in the last period of his life, maintained that economists cannot abstain from value judgments, according to the dominant opinion, merely means that he justified this impurity for applied economics at normative level. The same would apply to the interdisciplinary approach. This opinion appears incorrect when reading the essay by Einaudi commented on by Silvestri, and other writings by Einaudi to which Silvestri directs attention.

The interdisciplinary approach and the relevance of value judgements in these works by Einaudi are important at both the theoretical and applied levels.

As Silvestri shows, in the last two chapters added to the second edition of “Myths and Paradoxes of Tax Justice” (Einaudi 1940), Einaudi outlines his economic theory of good government as a ‘good rules’ government: this theorization is not a ‘pure economics’ one, because it concerns the ‘goodness’ of the rules, i.e. of the institutions, primarily from the point of view of ethical values and because individuals interact in the community as ‘entire persons’ or ‘whole men’, not merely as ‘economic men’.¹

The two themes of the rules as institutions and of communities of ‘entire persons’ in a perspective that includes human values beyond the economic ones, reappear in Einaudi’s review-articles (Einaudi 1937a, 1942b) on two books by Röpke, respectively *Crises and cycles* (Röpke 1936) and *Die Gesellschaftskrisis der Gegenwart* (Röpke 1942),² as well as in the preface [Einaudi 2014a (1942)] to the handbook of Costantino Bresciani Turrone, *Introduzione alla Politica economica (Introduction to Economic Policy)*.

The second version of Einaudi’s essay edited by Silvestri does not deal solely with the above-mentioned methodological issues. It presents examples of interdisciplinary models that illustrate them: the model of the citizens who, acting in accordance with good agreed rules, give origin to the good government of their community; that of the élite as a dominant or ‘elitarian’ class; and that of the fiscal illusion.

These models would have a central role in the theorizations of the public choice school of public economics in its interdisciplinary approach to law, politics, sociology, and ethics.³

2. Here, however, I shall deal with the methodological themes that Einaudi addresses and which form the core of Silvestri’s analysis: i.e. the role

¹ On Einaudi’s notion of good government see the essays collected in HERITIER and SILVESTRI 2012 and, in particular, FORTE 2012 and SILVESTRI 2012.

² On Einaudi and Röpke see FORTE 2009b.

³ See BUCHANAN 1960. Allow me to cite two papers of mine: FORTE 2016, FORTE and BRADY 2017.

of value judgements in economic science in general and in the science of public finance in particular, and the intrinsic interdisciplinary character of economic science and the science of public finance as human sciences and not as mere 'scientific' sciences. I begin with the first theme.

Einaudi's theory on the unavoidable role of value judgements in the economic sciences is grounded on 'de facto' observation of a positive economic nature:⁴ individuals, in their behaviour, are driven, to various extents, by non-ephemeral value judgements. Therefore, consideration of them, in positive economic analysis, makes it possible to understand the causal factors behind what happens in the society considered.

Through recognition of the ethical values that motivate the behaviour of individuals, one may ascertain the ends of the members of the community and the choices which, in relation to these ends and value judgements, if free to choose, they would make directly, or indirectly through their representatives and the government.⁵ What are the consequences of a socio-political organization that adopts the values prevailing in the community, and what are those of one that does not?

If the values to which persons tend and the ends that, consequently, they pursue through private actions – individual and collective – and public ones are advantageous to many people and do not damage anybody, the society obtains a general benefit (in the current expression, the society realizes a positive sum game), achieves equilibrium, flourishes, and advances. If the values to which the persons tend and the ends that they consequently pursue through their private and public actions systematically give advantages to some and losses to the others, the result is a complex disequilibrium situation.

The 'passionate' economist moved by the value judgement that the ultimate purpose of economic science is not scientific knowledge as such, but rather the practical end of the advantage for some individuals or for society as a whole, cannot be indifferent to the two diverse results described above, which, in turn, were driven by diverse value judgments in society. A passionate economist, therefore, must take account of these value judgements and their diverse results in the institutional models and/or in policy proposals that s/he presents for economic policy. However, observation of society shows that the values which are shared to different extents may

⁴ Empirical observation of the value judgements to which Einaudi refers, however, is not easy and, at the beginning, it is often replaced by an anthropological view of the reality which is subsequently strengthened by repeated observations. See on this point FORTE 1961, especially §§ 3.2-3.5.

⁵ The description of value judgements and the passage from them to the ends and their description involves delicate problems of language. See FORTE 1961, §§ 5.2.-5.8.

not be respected. The laws of the human behaviour are imperfect, unlike those of physics or biology, and it is very difficult to take account of their complexity.

In this way, value judgements are taken as anthropological data of the society studied, which are relevant for both normative economics and the formulation of an appropriate normative apparatus.

3. Einaudi's thesis of the relevance of value judgements as anthropological data on the society studied and for the economist and the other social science scholars who study them, entails recognition that the laws of positive economics and of public economics do not have the same degree of certainty possessed by the laws of physics or chemistry or biology as sciences of nature. Einaudi's view that positive economics as a 'human science' differs from the 'natural sciences' has been re-asserted by James Buchanan, who adds that the social scientist shares with the artist the need to imagine alternatives to what s/he observes (Buchanan 1992: 151). One of the main reasons for this is that human behaviours change depending on the rules or institutions within which behaviour takes place (Buchanan 1992: 153). If different rules of the game change the result, this entails that it is possible to devise models of normative economics which have features of 'pure science' not very dissimilar from those of the natural sciences of physics, chemistry, biology when applied to obtain given practical ends. Of course, there is a variable degree of imprecision between the abstract results of a model of normative economics with given rules of the game and its specific results when applied to a given real situation. On the other hand, the applications of the knowledge of the natural sciences also have some degrees of indeterminacy due to the complexity of real-life situations. In the case of medicine, even when applied to animals and not only when applied to human beings, there is a twilight area of lack of precision similar to that of the policy suggestions of the social sciences due to the complexity of real-life cases.

4. For Einaudi the main source of empirical knowledge relevant to devising the optimal public economy institutions is historical research with an interdisciplinary approach comprising economics, law, political science and sociology which is the task of the ideal historian. Indeed, he propounded the "ideal schemata" of good government, discussed in chapter XII of his *Myths and Paradoxes of Tax Justice*, by studying the Athens of Pericles [Einaudi 2014b (1940)]. He devoted very limited space to the other fields of

interdisciplinary research in law and economics; however, he did not deny their 'scientific' value or their importance for economic science. Precisely on the basis of historical observation, he believed that there is no clear-cut boundary between economics and the other social sciences. Actually, the chief difference between historical and theoretical hypotheses relating to economic laws derives from the fact that the freedom and the will to choose pertaining to humans make their coincidence impossible, rendering them different from the scientific laws of natural sciences relating to mere objects or to subjects without freedom of voluntary choice.

The continuous interaction among the various economic, ethical, political, institutional and legal factors emerging from analysis of the sequence of events of economic history characterizes the difference between the historical hypotheses relating to economic laws and the abstract hypotheses which are at the basis of pure economics. By using the positivist method of successive approximations to reality, it is possible to move from the abstract models of pure economics to examination of concrete cases by means of the historical laws of political economy in which elements of interdisciplinarity are inevitably present.

However, according to Einaudi, because the reality is so complex, in historical economic research the scholars of economic history normally cannot examine all the political, legal, institutional, sociological, ethical components like the perfect 'full historian', because they do not have enough time and the systematic knowledge to do so. Broadening the interdisciplinary horizon and, at the same time, deepening the economic analysis is difficult, and there is the risk of doing superficial work in each of these field.

However, let me recall Luigi Einaudi's "Preface" to the essays on "Science of public finance and tax law" by Benvenuto Griziotti (1956). In expressing his appreciation for the interdisciplinary studies by Griziotti and his pupils (the so-called School of Pavia), Einaudi maintains that economists and scholars of law may fruitfully cooperate in the search for the reasons that justify the fiscal institutions, in order to reduce them to a system, an order. In this context he praises Griziotti's fundamental contribution to the economic analysis of tax laws with his distinction between causal taxes and the non-causal ones: i.e. on the one hand the taxes which have a relation with public expenditure, which give a return to the taxpayer, and which may be classified as imposts (taxes in the narrow sense), contributions, fees, according to their relation with the public expenditures that justifies them; on the other hand, the taxes which are required from the taxpayer without a rational justification, thus without direct or indirect benefits to the taxpayers and the community. The causal taxes should be conceived as a system; the non-causal ones should be considered arbitrary and abolished

or subject to the narrowest application (Einaudi 1956a: VII-VIII).

The ethical component has a central place in Einaudi's thought. Indeed, saving, which is at the centre of his economics, both for the good government of the household's economy and the market system and for the good government of the public economy, is a primary 'virtue', as one may deduce from the reasons why it is done: providence, link among generations, basis for the independence of the person and the family, to start and develop an enterprise [Einaudi 1924 (1919)]. The respect for private property, the freedom of contracting, the freedom to choose one's work imply an ethical value judgement because they imply the choice of a free competitive market economic system. They, together with the right to save and the safeguarding of savings and investments, and the right to do business, assure both the welfare and dignity of persons and families (Einaudi 1949, 1988).⁶

In creating and developing an enterprise, there is the ethics of creativity not only for oneself but also for the society. In the care and increment of individual property and personal investments, too, there is a component of creativity with an ethical value as concerns realization of the person and the family.

Labour with its retribution based on its economic value has an ethical value both because it contributes to the realization of personal autonomy and dignity and because it implies and develops the formation of 'human capital'. The satisfaction with work well done and accomplishment of the duty of providing for the welfare and dignity of the family has an ethical meaning (Einaudi 1932).

In the spontaneous respect of the contract there is an ethical value mixed with the Smithian principle that 'it pays' to behave correctly in society.

The political class and public servants as an 'elite' distinct from the political and bureaucratic élite as administrators endowed with superior powers pursue the ethical principle of serving the public interest (Einaudi 1936b).⁷

However, Einaudi did not examine the ethical themes of economics except in the debate with Benedetto Croce (Einaudi 1937b) because he humbly thought that he did not have adequate philosophical competence.

But he did believe in the scientific value of interdisciplinary work. This, in my view, is one of the main reasons why he chose myself as his successor to the chair of public finance at the University of Torino and, consequently,

⁶ See also FORTE (2012).

⁷ See also FORTE and SILVESTRI 2013, and SILVESTRI 2012.

as likely chairman of the “Laboratorio di Economia”: at that time I was nothing but a young economist, even though I had already developed a marked interdisciplinary approach to law and economics of public finance and belonged to the new interdisciplinary Virginia public choice school.

5. In conclusion, one may now resolve the apparent contradiction between the position Einaudi took in this essay and the position that he took, in his controversy with Giorgio del Vecchio, in defence of pure economics as free from any particular value judgment, as in the methodological formulation of Lionel Robbins, according to which (pure) economics is the science of the choice of maximization between a given end with the given means (Einaudi 1936a). If the models of pure economics are to be relevant to positive economics, they need to choose ends and means that may have a place in real-life societies, abstaining from value judgements about whether these ends and means are moral or immoral from the point of view of the economist. Thus, to provide an example of what Einaudi had in mind, the economist might study the theoretical model of maximization of the collectivist economy, as Enrico Barone did, showing that to maximize its income, the Ministry of Production, for the collectivist enterprises, should adopt the same prices that emerge in the market economy in situations of competition. In comparing different economic systems with different public finances and public sectors, and different solutions to their problems, the economist must be ‘impartial’, i.e. as far as possible free from his/her preferences for given values, and given legislations and political choices.⁸ Of course, scientific knowledge requires impartial, objective reasoning. But the economist has also the professional duty to explain which solutions are good and which are damaging for the welfare – economic and non-economic – of the members of the community, on the basis of the values which s/he believes to be the best.

This stance, which we find in the manuscript of the second version of the essay by Einaudi, was forcefully asserted in a preface of 1914, republished in all the successive editions of his textbook on public finance and in the final one of 1956. The economist and more generally the social scientist – claims Einaudi – cannot be professionally indifferent to the values assumed at the ‘pure science’ hypothetical level [Einaudi 1956b (1914): 498-501].

In 1961, in one of his last writings, published posthumously, Einaudi

⁸ Complete objectivity, however, is impossible because the subjects differ: see EINAUDI 1942a, 1942c.

reasserted the thesis exposed in the pages of 1914 as follow:

The task of the economist who is not only a mere expert [...] consists also in seeing the linkages between economic performance and political, moral and spiritual performance [...]. I say that the separation of the means from the ends is unreal and must be firmly rejected. The study of the means [...] is inseparable from the study of the ends. Adequate means react on the ends. The means of freedom are incompatible with illiberal ends (Einaudi 1962).

Clearly, Einaudi did not at all change his approach to economics as ‘political economy’; he worked on expressing it better in general and in relation to his own belief in freedom as the guiding value of a passionate economist.

Indeed, from 1943 on, free from dictatorial controls, he set ‘pure theory’ aside and devoted his assiduous intellectual enterprise – as a “moralist, economist, historian” (Forte and Marchionatti 2010) – to designing and discussing the principles of good government – at the supranational, national and local level – of a community of free persons.

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ON EINAUDI'S 'VISION' OF THE GOOD POLITY

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ABSTRACT

Einaudi's *On Abstract and Historical Hypotheses and on Value Judgments in Economic Science* can be understood as an attempt to provide an epistemological justification of his search for a good polity. The paper outlines Einaudi's 'vision' of the good polity by focusing, in particular, on his reflections on the nexus among social structure, model of state and fiscal system.

Keywords: Luigi Einaudi; Good Polity; Good Government.

JEL codes: A13; B31; B41.

1. The critical edition and translation of Luigi Einaudi's unpublished rewriting of *On Abstract and Historical Hypotheses and on Value Judgments in Economic Science* (Einaudi 2017) is an important contribution to economic methodology. After reading this essay, edited and introduced by Paolo Silvestri (Silvestri 2017a, 2017b, 2017c, 2017d), a well-known Einaudi specialist,¹ most non-Italian scholars will ascertain that the Turin economist was not only a brilliant columnist of the *Corriere della sera* and *The Economist*,² a renowned expert on income taxation, a long-life liberal intellectual, being in sequence Professor, Senator, Minister, Governor of the Bank of Italy and President of the Italian republic. He was also a philosophically-minded intellectual.

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¹ See *inter alia* Silvestri's monographic work on Luigi Einaudi's liberalism and good government (SILVESTRI 2008).

² See respectively EINAUDI 1959-1965 and 2000.

2. Einaudi's meditation upon the ideal features of a society where economic growth and distributive justice marched hand in hand led him to depict the "heavenly city", namely, a society in which the individual welfare is high and the respect of rights is warranted by the spontaneous discipline of many well-educated citizens. The living example of this society, Einaudi observed, could be found neither too far nor too remote from Piedmont. The historical experience of Switzerland – the country that hosted Luigi and Ida Einaudi flying away from Fascism in 1943 – shew that true patriotism requires, above all, the existence of friendly and peaceful sentiments towards all those countries which believe in the same values. These sentiments, which form the basis for a working democracy, were guaranteed by the social structure of Switzerland, a nation characterized by the economic independence of proprietors and the comparatively limited number of proletarians. In fact, as Adam Smith taught, it is the spread of small property among the working class that nourishes its civic patriotism.³

3. One of the main features of the Italian theory of public finance is the relation between the tax system and the nature of the state. Antonio de Viti de Marco, whom Einaudi praised as the founder of the Italian "modern" tradition in public finance, opened his *First Principles of Public Finance* with the definition of two diametrically opposed ideal types of state, the liberal-competitive and the dictatorial-monopolistic (De Viti de Marco, 1936, ch. 1). Luigi Einaudi inspired his own ideal system to de Viti's scheme. In *Myths and Paradoxes of Justice in Taxation* [2014 (1940)] Einaudi completed his discussion on the Italian tax system by adding a theoretical-historical meditation. He concluded that it is the model of state that determines a particular tax system and not *vice versa*. In order to clearly explain his position, he referred to the system of taxation in ancient Greece, particularly Athens during the age of Pericles (*ibid.*, chapter XII). Here, Einaudi argued, we can ascertain the co-presence of the best form of fiscal system – based on voluntary *leithurghiai* – and of the best form of a state, *qua* influenced by the highest political philosophy, due to Plato.⁴ In fact, his *Politeia* dictated the tasks of the state in any given historical age and/or country.

4. Einaudi's reference to history in discussing the various models of tax-

³ See WINCH 1978.

⁴ See the meaningful reference to Plato's definition of the "elect class" in EINAUDI 2017: 70.

ation presenting the structure of Italian public finance system was mainly due to his preoccupation that too abstract interpretive models could lead to preposterous ideological conclusions. This was principally the case of Marx's economics, based on the fallacious identification of the creative entrepreneur with the rapacious capitalist. Against this confusion Einaudi protested. The so-called "capitalist", he maintained, is no other than the "silly servant of the market", because he is most useful, but he is not aware of his own role (Einaudi 1943). In fact, the Smithian "invisible hand" tends to balance the market forces which are intimately antagonist. This antagonism is *per se* providential. The spirit of organization showed by the working class provides a remedy to the absence of "invisible hand", although the improvements in the economic conditions of the workers are most due to struggles, as Einaudi himself documented in *Le lotte del lavoro* [Einaudi 2012 (1924)].

5. The working of the invisible hand principle *plus* the free organization of the working people in trade unions do not imply a static society: quite the reverse. In his writings Einaudi is most able to present the cases for continuously changing situations where human inventiveness is put to trial. The course of human history teaches us that there is no unique pattern of economic growth. Obviously, a minimal set of conditions has to be respected, in order that human creativity can freely work. Where and when these conditions have been respected, we can detect the presence of a *Buongoverno*-based society. The famous Sienna fresco by Ambrogio Lorenzetti on the effects of bad and good government⁵ exemplifies the idea that any social and economic order is the natural outcome of a good policy – a policy that best stimulates the endowment of creativity inherited by any historically given society. A pluralist approach to the major problem of economic growth is therefore necessary. The teaching we can get from Einaudi's meditation on history is that the course of human creativity is unpredictable. Who could have foreseen the extraordinary economic success of the Italian "republics",⁶ or the flourishing of agriculture in Eighteenth century Lombardy after the long Spanish misgovernment? In his preface to the writings of the great economist and patriot Carlo Cattaneo,

⁵ The Lorenzetti fresco was employed by Ernesto Rossi, one of the most affectionates Einaudi's disciples, as flap cover of his pioneer collection of Einaudi's writings (EINAUDI 1955). It is a pity that Rossi's work, although mentioned in the general bibliography of EINAUDI 2017, is not utilized by Silvestri.

⁶ Simonde de Sismondi, the Swiss historian of the early Renaissance Italian city-states, was most praised by Einaudi. See EINAUDI [1953 (1941)].

Einaudi praises the intelligence of the Austrian rulers, who guaranteed a safe reward to the entrepreneur by introducing a uniform taxation which exempted the neat surpluses over the average gains (Einaudi 1939: 41-46). Economic reforms and economic growth proceed hand in hand.

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ON THE MORAL FOUNDATIONS
OF THE SCIENCE OF GOOD GOVERNMENT

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ABSTRACT

The paper proposes a philosophical-political interpretation of Einaudi's On Abstract and Historical Hypotheses and on Value Judgments in Economic Science. It shows how this essay can also be understood as an attempt by Einaudi to lay down solid theoretical and moral foundations for the theory of public finance. In so far as the knowledge of *La Scienza delle Finanze*, conceived by Einaudi as the science of good government, is supposed to guide political decision making, and in so far as it may end up by imposing certain behaviours on citizens, such science cannot avoid the problem of its moral justifications.

Keywords: Economics; Value Judgments; Good Government; Coercion; Luigi Einaudi.

Let me say at the outset that the first version of Einaudi's [2014c (1942-1943)] *Ipotesi astratte ed ipotesi storiche e dei giudizi di valore nelle scienze economiche*, which I read for the first time decades ago, initially left me somewhat disappointed. Nevertheless, nobody knew that Einaudi himself was not at all satisfied with this version and that immediately after its publication he decided to rewrite it in a second extended and profoundly modified version. This hitherto unpublished version has now been translated into English and published (Einaudi 2017) as an admirable critical edition, with an introduction and afterword by Paolo Silvestri.

Thanks to the (re)reading of this new version, I have realised that my disappointment was due to reasons that had little to do with the essay in question. Put briefly, the first time, attracted by the essay's title, I read it thinking I would find an echo of that *Methodenstreit* which was then among

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my research topics. Thus, I made the mistake of superimposing my interests on those of Einaudi.

Mistakenly, I could not understand why Einaudi, whom a decade before had urged an Italian translation of *Untersuchungen* by Carl Menger and of *The Scope and Method of Political Economy* by John Neville Keynes,¹ had then in this essay cited only the contribution by John E. Cairnes to the debate on the nature of the social-economic sciences between the nineteenth and twentieth centuries, and not, to give examples of scholars who were obviously well known to him, those of Max Weber, Francesco Ferrara, and more recently but very influentially, of Lionel Robbins. This question should have warned me. Additionally, what I ask myself today is why Einaudi, having knowledge of these thinkers, chose to follow a path of his own, which, in my opinion, would leave both him and us dissatisfied.

I have now come to the conclusion that it is useless to search for the 'motivation' of Einaudi's essay on methodological debates on '*economia astratta*', or '*pura*', held in Italy in the late nineteenth and early twentieth centuries. The occurrence of expressions such as 'abstract and historical hypotheses', 'value judgements', and 'economics' in the title seems partially misleading to me. My impression is that Einaudi was not particularly interested in those debates but in something else which was perhaps more important.

I will propose a philosophical-political interpretation because, like Francesco Forte,² I am inclined to think that Einaudi was looking for the theoretical and moral foundations of the theory of public finance that would have placed his liberalism (not only economic but also political) on more solid footing.

In fact, it seems to me that Einaudi was trying to give order to something that, at the time, was more pressing than the abstract consideration of the method: to find a theoretical foundation and justification for the science of public finance that he himself developed in an original way until the last two added chapters of his *Myths and Paradoxes of Tax Justice* [Einaudi 2014b (1940)]. This could have become advantageous also to respond to the questions raised by Benedetto Croce in the various points on the debate on *liberalism* and *liberism* (Croce and Einaudi 1957) in which Einaudi had sometimes found himself in 'philosophical anxiety' and had been forced to defend a liberism with which he did not fully identify.

In other words, Einaudi was searching for the theoretical foundations of an economic science – which he considered a 'moral science', as under-

¹ See SILVESTRI 2008: 90-91.

² See the essay by Francesco Forte (2018) published in this issue.

lined by Paolo Silvestri (2017b: xxvii) – conceived not only, and reductively, as a breeding ground of solutions to practical problems [*Conoscere per deliberare (Knowing for Decision Making)*], but also as *the* ‘Science of Buongoverno’. In reality, the Einaudi-Croce debate was motivated not so much by the issue of the breadth and soundness of the intervening spheres (State vs. Market) – since, like Croce, Einaudi did not think that all public goods could be produced by the market (a solution that, to be honest, no one considered) – as by the fact that Croce conceived the economy, as well as economic science, as an instrument of politics of his ‘ethical-liberal State’, and, moreover, that Einaudi thought that without a good knowledge of economic science, political choices would become inevitably ill-chosen. Whence derived the search for the foundation of this knowledge, and the reflection on the complex questions connected to its transformation into political decision making. This all leads me to think that between these methodological reflections and Einaudian liberalism, the connection is closer than may appear.

Additionally, proof can be found in the paragraphs devoted to the *state* (significantly written in lower case). It almost seems that Einaudi – besides responding to Mauro Fasiani, though the two questions could be connected – was interested, not in finding a justification for the State as such, but in establishing a model of a ‘better political order’. In fact, he writes that the intrinsic ends of the state cannot be viewed as exclusive ends of the group considered as a unit, [the state] is not a body that pursues economic ends, or *interests*, in the same sense in which the latter word is commonly taken [...]. The state, or rather men who live in political society, pursue economic, moral and political ends in consonance with their collective life as part of the state [...]. There exists no ends of the state that are not also the ends pursued by men, by all men (Einaudi 2017: 59-60).

Here, Einaudi’s problems seem to have been those of the possibility and the modes of justification of the state, since,

to start out from the premise that there exists a *unit* called the state, and that the governing class can, in its exercise of power, deal exclusively with the interests of this entity, instead of concerning itself with the particular interests of all those belonging to the public group, means starting out from an unreal premise (*ibid.*: 59).

Not to mention that “thousands of martyrs have died over the millennia in protest against the transcendental idol of the state placed above and outside of men who compose it”. This is a conception of the state that Einaudi firmly rejects:

Do we wish to admit today that there can exist a *modern* state which pursues

ends concerning the group alone, and thus that such a state can, in the name of the group, order man to violate the commandments dictated by his conscience? To be sure, a monster of this kind may have existed; but it is neither a modern state nor one that is compatible with the freedom of man. The *modern* state is, and cannot be other than, one that pursues ends of moral and spiritual elevation of mankind and which, *for this reason and for no other reason*, also pursues the end of the economic wellbeing of the men through and in whom the state itself is manifested (*ibid.*: 61).

So, if we wanted to read this essay in a liberal philosophical-political perspective, we would note that Einaudi is aware of the fact that the ‘perfect morality’ of the liberal state is corrupted by the impossibility of avoiding coercion, and that the reduction of coercion, being the only possible and practical solution, requires the elaboration of criteria capable of justifying its use by the state: a task as difficult as the combination of efficiency and justice.

For this reason, the many pages added to the conclusions of the second version give me the impression that Einaudi’s search for a theoretical foundation of *La Scienza delle Finanze* was an unfinished quest. In so far as the *knowledge* of economic science is supposed to guide political decision making, and in so far as it may end up imposing certain behaviour on citizens, *La Scienza delle Finanze* cannot avoid the problem of its moral justifications. If economic justifications need to prevail over moral justifications, it is then a question of political philosophy that cannot be avoided by anyone who asks if a good polity will ever be possible without resorting to coercion. It is an issue that cannot be resolved by discussions on ‘methods of social sciences in general’. And Einaudi could not solve it by dialoguing with (actual or ideal) interlocutors like Fasiani, Bruguier Pacini, Cairnes, Cantillon, Cournot, Gossen, Marshall, Marx, Pantaleoni, Pareto, Pigou, Puviani, Ricardo, Spinoza, Walras, de Viti de Marco. The issue of coercion is to be addressed by adopting a different perspective.

However, it is not something to dramatize: that solution, in fact, has yet to be found by anyone. Like other liberal thinkers who do not underestimate the question, and who are not so intellectually dishonest as to solve it with empty rhetorical formulas or by delegating it to the invisible hand of history, not even Einaudi, like no other political philosopher – liberal or not – managed to find a solution to a dilemma that remains unsolvable: that of the philosophical justification of coercion,³ not just to achieve

³ Also Friedrich A. von HAYEK (1982: 44-45), in regard to the *morality* of the kind of coercion which is essential for the production of collective goods, wrote that it “is, perhaps not as obvious as the morality of the rules which merely prevent the individual from infringing the

economic goals but ethical ones as well. However, Einaudi addressed this problem; even if his Christian conscience could not but feel the utilitarianism (or hedonism) of some of his interlocutors a too narrow perspective. Certainly, a science of public finance worthy of the name can reduce that coercion, and perhaps even justify it in light of the inevitable costs of maintaining a civil cohabitation that makes the quest for its solution possible. And yet, especially if one believes that the state has among its tasks that of also educating and elevating its citizens, everything becomes more difficult, because even education has a cost to share and uncertain advantages.

Einaudi's purpose, then, seems to have been that of finding a solution to the inevitability of values and choices. He knew that efficient public allocations can reduce coercion if politics and its dynamics allow such allocations to be done (and he did not ignore this problem, as he actually had experience with how difficult it is!). He also knew that in the state, even in a 'liberal-liberalist' world, there is a wide spectrum of collective goods that cannot be rapidly produced, even by the dynamics of a perfect competitive market. And since this perfect competitive market does not exist for the 'gnoseological' reasons highlighted by the 'Austrians' in those years, the problem of identifying the criteria for sharing the costs of production and the benefits of those collective goods remains central and unsolvable. In fact, different costs incurred by individuals should give rise to equal benefits, even for those who have not participated in the production process; or, if one does not believe in the invisible hand, a solution to the economic problem by political means: the socialist solution.

To escape from this *impasse*, summarised in "the economist's attitude of indifference towards the reasons underlying a choice", Einaudi seems to have understood that he would have to leave the "premises of classical arguments on prices in a system of free competition" (*ibid.*: 68). But, by not doing so, he could not rationally justify his own choice, but merely illustrate his own reasons. So much so, that Einaudi did not hesitate – in a "note" that, in the first version, was the very conclusion of his essay, and that in the second version, is moved to the *Bibliographical note* – to declare his option for "the liberal ideal" by stating in the aforementioned note:

I refer here to *liberalism* and not *liberism*, as liberism is a rather more restricted concept, although it is quite frequently compatible with liberalism and has a concrete content in terms of its application, in particular, with regard to certain commercial problems and customs duties. Liberalism implies an ideal of life and springs from absolute moral imperatives, liberism fulfils the more modest function of enumerating the hindrances and objections imposed by human nature

protected domain of others".

against the implementation of lines of reasoning that are, in themselves, correct and which would lead to certain forms of state intervention perfectly compatible with the liberal ideal. Liberalism is an ideal of life, liberism is a mere contingent practice deriving above all from political-moral considerations (*ibid.*: 93).

Hence it seems that liberalism is that ideal of life which relies on increasing individual knowledge and morality to allow good public choices – assuming that they do not have unintended consequences – and liberism is that theory which, in a Mandevillian manner, claims that also knowledge and good intentions have unintended, and very often, unwanted consequences.

The state of uncertainty in which Einaudi remained can be well summarised by the sentence that concluded the first version of the essay (and in the second, concludes the *Bibliographical note*), in which he observes that if the premises and arguments of economists were productive of great scientific outcomes, credit should at least in part be given to their ideals of life. Consciously or otherwise, they possessed and possess a certain ideal, which still underpins their thought and mode of reasoning today. Why should this be shrouded from view, and why should there be desire to mask the profound links that define the realisation between what a man wants and what he does? Between ideal and action? What are these facts, which are supposed to strictly delimit the field of enquiry of science, if not outcome of human action, that is to say, in the last analysis, the outcome of the ideals that move the human spirit? (*ibid.*: 93).

This passage, which seems to echo Friedrich A. von Hayek (1942: 276), if developed, could have put the whole question in different terms. But, as said, Einaudi decided to relegate it to the *Bibliographical note*, facing, in the added concluding pages, an arduous path.

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APPENDIX[★]

ON ABSTRACT AND HISTORICAL HYPOTHESES
AND ON VALUE JUDGEMENTS IN ECONOMIC SCIENCES.
CONCLUSIONS

LUIGI EINAUDI

So is the conclusion negative? Is it the case that economists or, more generally, scientists do not pronounce value judgments? Are the latter the privilege of the whole man who, as a historian or philosopher, meditates on the problems of life and prescribes to himself the commandments of good and evil, selects the ends to be achieved and, given the ends, establishes which among the means are in conformity with morals, such means being the only ones that can be used? In other words, is there a dualism between two types of figures: on the one hand, a scientist who concerns himself only with the congruence and the adequacy of the means available to achieve the end and with the possibility of reaching the various different ends in relation to the existing means, versus, on the other hand, a philosopher who constructs a hierarchy among ends and the morally allowable means and then bans any means judged to be immoral, without concerning himself with their economicity?

I am merely raising doubts: far be it from me to claim I have a solution to the problem. If a scientist working in the field of the moral sciences set out only to solve abstract problems, there could be no dualism, properly speaking, since the studies would be conducted on different planes and there would be no necessary logical contact between them. It would be up to the scientist to deal with abstractions, the arbitrary section of a complex reality – in fact, one of the multiple aspects of reality; while the historian and the philosopher would have the task of dealing with reality taken as a whole. There would be no need for the two orders of research to meet.

[★] We re-publish here, courtesy of Routledge, the conclusions of Luigi Einaudi, *On Abstract and Historical Hypotheses and on Value judgments in Economic Sciences*, critical edition with an Introduction and Afterword by P. Silvestri, London – New York: Routledge: 2017: 87-91.

And yet, might it not be that the abstract method adopted in research determines the aim and content of the study rather than being a mere tool for conquest of the truth? And is this maybe a tool that economists, and other categories of scholars as well, utilize not so much because it is the only existing tool but simply because – given that immediate observation and analysis of the full extent of reality has been shown to be impossible – they have had to be content with tackling the study of reality cut up into segments, into sections, with successive attempts to grasp now one aspect, now another, of reality itself? This notwithstanding, since the aim of their research is one and one alone, namely knowledge of the full extent of the whole of reality, it is logically inconceivable to argue that there is a fundamental, irreducible dualism between the logical position of the scientist, who aspires to acquire knowledge on reality through abstractions that successively draw closer to reality, and the historian-philosopher who aims to engage with the world of the whole of reality. Accordingly, this scenario cannot be portrayed as a contrast, but should instead be seen as different modes of conquering truth. The mode adopted by a scientist is tentative, he proceeds by hypothetical propositions and by demonstrations contained within the limits of the hypotheses he has made; but the hypotheses are not the fruit of mere fantasy. *Hypotheses non fingo*, Newton said. Economists do not feign absurd hypotheses; the hypotheses are drawn from contemplation of reality and seek to aid in its interpretation. If a historian and a philosopher wish to know the whole range of realities and do not disdain any means to reach the desired knowledge, if a moralist, if a priest, if a prophet issue an order for observance of the good and condemn evil by starting from the supreme ends of life or from the word of God, then they too, basing their proclamation on the experience of the past, or on intuition or interpretation of reality along with awareness of mystery, are seeking to achieve the very same knowledge of truth.

Moreover, dualism cannot be founded on the contrast between the rational and the irrational. Dualism cannot validly be explained and legitimated by a trite appeal to the fact that men often do not behave rationally and that, on the contrary, they reject supposedly rational behavioral rules and espouse irrational rules, which appear inexplicable in the eyes of the scientist. For a scientist's aspiration is that men's behavior should be prompted uniquely by a procedure of reasoning.

Here it is certainly the scientist who is in the wrong, inasmuch as he overlooks the limited character of the knowledge that can be acquired with his methods of research, which are necessarily abstract and therefore par-

tial. One might ask, is the irrational something different from those aspects or sections of reality that escape the scientist's observation? What multitude of things are unknown to scientists and perhaps will never be known to them! Therefore scientists are hesitant and prefer *if*-clauses and restrict the validity of their arguments and their conclusions to the validity and the scope of the simplified premises they have posited as the foundation of their research. But in no way do they claim, on such grounds, that their conclusions suffice to set rules for human action: they are well aware that above and beyond the premises they have posited there exist factors that are partly unknown, perhaps destined never to be known and measured, which nevertheless exert an influence on the actions of men.

If others – historians, philosophers, moralists – endeavor to go beyond the limit of knowledge attainable through reasoning, and if, by the study of history, intuition or contemplation of human nature, or by a flash of genius or a revelation from the beyond, others are induced to take a step forward in the knowledge of reality, to dictate the eternal rules of good and evil, to indicate the ways of life, then a move of this kind by no means genuinely gives rise to a dualism between science and philosophy, between science and history, between science and morals. There can be no dualism where the common aim is discovery of the truth. In the quest to achieve his aim, a scientist proceeds with reasoned arguments, calculations, experience; and the truth he discovers is certain within the limits set by the premises of his arguments, by the rigor of his calculations and the precision of experience. In the field of the moral sciences a scientist can determine only the laws that regulate rational human behavior, that is to say, behavior endowed with the rationality that consists in the presence of means appropriate for the ends that man endeavors and is able to achieve, given the means available. Can it be claimed that a philosopher or a moralist are using behavioral rules inspired by any other principles? Philosophers and moralists can say that among the ends of life, the accumulation of wealth has no place or has a secondary place, and is restricted to certain categories of men. And indeed, no economist has ever stated the contrary: – rather, economists restrict themselves to clarifying which laws can be regarded as prompting men to engage in rational behavior, to the extent to which men do indeed strive to accumulate wealth. A moralist can, sometimes at the risk of his life and often of his peace of mind and freedom, strongly condemn the existing distribution of wealth and its detrimental use by the rich; he can order the rapacious wealthy to return their ill-gotten gains. But his condemnation in no way contradicts the teachings of economists, whose statements are limited to demonstrating that since the distribution of wealth is what it is, the inevitable consequence is that the goods chosen by men are what they are and the costs and prices are this or that. The economist adds, however, that if

the pattern of wealth distribution were different, if for instance there were appropriate laws limiting monopolies, privileges and the natural or artificial favors which have the effect that some of the population grow rich while others become more and more impoverished, and if, insofar as possible, the purchasing power of the currency unit stayed constant, and if, furthermore, the new generations of the less fortunate were given extensive chances of elevating themselves through study and internships, then demand and production would obviously be directed towards a quite different range of consumption goods, and the economic structure of society would be different, the relative weight of the various industries would no longer be the same and production costs and the prices of goods would likewise be different.

Moralists can correctly teach that happiness, the moral standing of human behavior and the spiritual plenitude of life do not depend on the range of goods possessed; a moralist can point to the examples of Spinoza who built up his philosophical system while earning a living cleaning diamonds. And, again, the moralist finds no contradiction in an economist who restricts himself to observing that given the frailty of human nature, the overwhelming majority of men are not spurred to lift up their face from the rough earth towards the sky: they cannot be expected to elevate themselves to a higher level of spiritual and moral life if, in order to obtain the wherewithal for physical life, they are obliged to cope with grinding drudgery day by day and if, due to the paucity of their earnings, they are forced to live huddled in repulsive promiscuity in unsanitary hovels. Accordingly, the moralist finds no contradiction if, in such conditions, the economist points to technical progress as the most suitable tool both to reduce the daily toil suffered by men seeking to eke out a living and secure the goods they need for their existence, and also to make a greater amount of time available that would allow men to aspire to produce goods of a higher order, which elsewhere¹ I called leisure goods. Admittedly, the opportunities offered by technical advancement do not in themselves imply the certainty that man will devote his time – a factor that has thus become available to him – to procuring goods of a higher spiritual order; rather, it can well be said that the abundance of material wealth generates sloth and vices. But if attention turns to the squalid life imposed on the multitudes as a result of their utter destitution, as compared to the vicious life favored by the lucky, then the latter option seems less necessary and universal, and it is the task of moralists, politicians and ministers of the Church to provide guidance,

¹ [Editor's note:] Here there is a note [*cf. supra*] which implicitly makes reference to the rewriting of L. EINAUDI, "Dell'uomo fine o mezzo, e dei beni d'ozio" (book review of L. BANDINI, *Uomo e valore*, Torino, Einaudi, 1942), *Rivista di storia economica*, 7 (3-4), Sept-Dec. 1942: 117-130.

through education and example, that will direct the opportunities arising from technical advancement towards pursuit of the good.

Thus it is not a question of contrast and dualism between science and philosophy, or between science and morals. Since philosophy, morals and religion are all likewise striving to find truth, they cannot spurn the chance to draw advantage from the rich content of arguments, experiences and calculations that science offers them. A philosophy based exclusively on intuition and on illumination springing from a spark of genius would seem stunted, for if philosophy is indeed justified in prying into the unknown, the irrational, or mystery, it must however rest on the solid ground of knowledge of reality. Only science offers this starting point, develops the investigative tools required for the discovery of truth, slowly but surely restricts the field of the irrational, albeit by successive achievements each of infinitesimally tiny value, and in so doing offers philosophers, moralists and politicians the opportunity to endow with richer and more persuasive content the rules they establish for human behavior. Learning how to use the power of reasoning, to contemplate the external world with open and discerning eyes, to replace mere intuition and wonderment with critical reasoning, and to move towards an attitude whereby impulsive – i.e. irrational – behavior gives way to a different behavioral mode in which human action is preceded by conscious specification of its aims: does not all this constitute the true value of science? By exerting influence over men in this manner, science acquires a content that is not exclusively abstract and formal. Rather, its content is substantial. It influences the teachings of philosophers and moralists, the action of politicians, historians' interpretation of the events of the past. Philosophers and moralists no longer set out the aims of life on the basis of intuition and illumination; instead, prompted by scientific advances, they take the precepts of reason into account. Science thereby contributes, within the limits of its nature, to building up the spiritual and moral edifice within which man lives, it helps to determine the value of human actions and to draw a line between good and evil. Thus even the very separation between the whole man and man as a scientist, between reality and abstraction, between concrete action and pure reasoning is shown to be an abstraction. The extremely close link between thought and action, between reasoning and behavior, between logic and morals, was already admirably stated in the words of Pascal: "L'homme est visiblement fait pour penser; c'est toute sa dignité et tout son mérite; et tout son devoir est de penser comme il faut".²

² B. PASCAL, *Pensées*, d'après l'édition de M. Brunschwig, sec. 2, n. 146 [in French in the text] [English transl.: "Man is obviously made to think. It is his whole dignity and his whole merit; and his whole duty is to think as he ought" (B. PASCAL, *Pensées*, trans. W.F. Trotter, introduction by T.S. Elliot. Mineola, NY: Dover Publications: 45)].

DOCUMENTS AND RETROSPECTIVES

INTRODUCTORY NOTE

FRANCESCO CASSATA*

The correspondence between Luigi Einaudi and Irving Fisher, conserved at the Luigi Einaudi Foundation, consists of 34 letters, between 1911 and 1946.

Although not particularly abundant, this correspondence presents three major points of interest.

First of all, it opens an interesting window on the early reception of Irving Fisher's work in Italy and particularly within the so-called "Turin School" of Economics. Starting from his academic lectures, delivered at the University of Turin and at the "L. Bocconi" University in Milan respectively in 1909-10 and 1910-11, and from the essay presented the following year at the Royal Academy of Sciences in Turin (Einaudi 1912a), Einaudi adopted, in fact, Fisher's theory of income to support and legitimize his proposal for fiscal reform based on exclusive taxation of realized income and exemption of any sort of savings (Pavanelli 2006: 275). In a confidential letter sent to Fisher in January 1938, Einaudi listed retrospectively – among the Italian economists "favourable to the taxation of realised or consumed income" – several important representatives of the Turin School, such as Giuseppe Prato, Mauro Fasiani, Gino Borgatta. The other side – "more numerous", as Einaudi himself had to recognize – included Antonio De Viti De Marco, Umberto Ricci, Paolo Ricca Salerno, Benvenuto Griziotti, Augusto Graziani, Giulio Alessio, Guglielmo Masci.

Along with Fisher's theory of capital and income, it was Fisher's redefinition of the quantity theory of money in *The Purchasing Power of Money* (1911) that attracted the enthusiasm of Einaudi and his collaborators. In October-November 1911, *La Riforma Sociale* positively reviewed *The Purchasing Power of Money*, and in January 1912 Einaudi sent to Fisher a copy of this review, written by Gino Borgatta (Borgatta 1911). The US economist immediately reacted by involving Einaudi in the plan for the constitution

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of an International Commission on the Cost of Living, which Fisher was seeking to set up in order to analyse the causes of the price level increase. Fisher was particularly interested in asking Einaudi to intervene on his behalf and obtain the support of the political authorities, and more generally of the Italian audience. Einaudi responded positively, publicising Fisher's initiative in *Corriere della Sera*, in an article titled "È possibile frenare il rincaro della vita ed il ribasso delle rendite pubbliche?" published on 27 February 1912 (Einaudi 1912b).

In a letter sent to Einaudi in January 1913, Fisher distinguished the project of the International Commission on the Cost of Living from his plan for stabilizing the dollar, by directing especial attention to the general need for "more extensive and more reliable data": "Better data are needed as to the rise of prices, apparently world-wide; as to the best methods of combining statistics of prices into 'Index numbers;' as to the relative importance of the various possible causes for the increased cost of living; as to its effects; and as to how the various remedies proposed would actually operate". Fisher's commitment to making his theory empirically meaningful was crucial. It led to *The Purchasing Power of Money's* attempted statistical verification of the quantity theory of money; to annual articles in the *American Economic Review* (1911-1919) on the equation of exchange; to his *The Making of Index Numbers* (1922) and the "ideal index" (the geometric mean of the Paasche and Laspeyres indexes), and finally to Fisher's Index Number Institute, whose weekly commodity price index was accompanied by weekly articles by him.

The importance of mathematics and statistics in constructing economics as a science represents a second point of convergence in the correspondence between Einaudi and Fisher. On the one hand, from 1911 Einaudi provided Fisher with statistical data directly produced and published by the Turin School of Economics: in particular, the goods price data from 1881 to 1913, analysed by Necco (1915), and *L'Italia economica*, i.e. the statistical yearbook compiled by Riccardo Bachi and published as a supplement to *La Riforma Sociale* from 1908 to 1921. Moreover, Pasquale Jannaccone – since 1916 professor of statistics at the University of Turin and general secretary of the International Institute of Agriculture between 1910 and 1912 – was the author of one of the most insightful critical reviews of *The Making of Index Numbers*. Published in May–June 1923, Jannaccone's was the only Italian review – together with a memoir by Corrado Gini on elimination methods – mentioned by Fisher in appendix IX to the third edition of *The Making of Index Numbers*. In this review, Jannaccone endorsed the establishment of Fisher's "ideal formula" as a general "measurement model" (Jannaccone 1923: 245). On the other hand, in September 1925 and again in September 1929, Fisher asked for Einaudi's impressions regarding the weekly publica-

tion of his Index Number Institute. Two years later, in December 1931, the Yale economist, as founder and first president of the Econometric Society, invited Einaudi to become a Charter Member and propose candidates for membership (in July 1932, Einaudi proposed for election Vincenzo Porri and Mauro Fasiani).

The last minor, but interesting, element in this correspondence concerns Fisher's public health-oriented eugenics. As Annie L. Cot pointed out, for more than 25 years Fisher led a "double career" as a university professor of political economy at Yale and as an active campaigner for Progressive American eugenics (Cot 2005: 796). In November 1946, the US economist sent Einaudi a copy of his address to the directors of the "Irving Fisher Foundation", to be established "for research in economics, sociology, hygiene and general problems of human betterment". In this letter, Fisher invited Einaudi to join the Advisory Committee of the Foundation, together with Ragnar Frisch, Wesley Clair Mitchell and Jacob Marschak. The Foundation never had any money and never undertook any studies (Allen 1993: 290). But in light of the fact that the Foundation was intended, in Fisher's words, "to provide for the continuation through the remainder of my lifetime of the various endeavours for human betterment in which I have been actively engaged", the nomination of Einaudi cannot but appear as a sign of profound intellectual affinity between the two economists.

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Annals of the Fondazione Luigi Einaudi
Volume LII, ???????? 2018: ?????

APPENDIX

LETTERS BETWEEN IRVING FISHER
AND LUIGI EINAUDI BETWEEN 1911 AND 1946

Yale University
Department of Political Economy
New Haven, Conn.

460 Prospect Street
January 23, 1911

Mr. Luigi Einaudi
4 Via Giusti,
Torino,
Italy.

Dear Sir:

I thank you most sincerely for sending me the book on Index Numbers for Italy. I am very glad to see this book, and particularly interested to see how the figures for Italy correspond with those for other countries.

I enclose a copy of a letter just sent to the Monetary Commission. You doubtless will hear from them soon and learn how to get their publications.

Very sincerely yours,
Irving Fisher

Copy
January 23, 1911

Mr. A.P. Andrew,
Monetary Commission,
Tresasury Department
Washington, D.C.

My dear Dr. Andrew,

I have received a letter from Luigi Einaudi, 4 Via Giusti, Torino, Italy, asking whether it would be possible for him as Editor of *La Riforma Sociale* to re-

ISSN: 2532-4969

doi: ????????????????

ceive for purposes of review copies of the publications of the Monetary Commission.

Would you be so good as to communicate with him on this subject?

He is evidently greatly interested and has just sent me one of the publications of a pupil of his, Necco, giving index numbers for prices for Italy.

Very sincerely,

Yale University
Department of Political Economy

Prof. Irving Fisher
460 Prospect Street
New Haven, Conn.

March 2, 1912

Prof. Luigi Einaudi,
4, Via Giusti,
Torino, Italy.

My dear Professor Einaudi:

I thank you for your interesting letter of February 19th in which you express your approval of the plan for an International Commission on the Cost of Living. Thank you also for sending me the copy of your two papers which I was very glad to receive.

Under another cover I am sending you a copy of "The Equation of Exchange" for which you asked, together with some articles by myself, in which you may be interested.

Yours very sincerely,
Irving Fisher

Yale University
Department of Political Economy

Prof. Irving Fisher
450 Prospect Street
New Haven, Conn.

October 10, 1912.

My dear Sir:

I enclose two articles, one showing the practical certainty of a continued high and rising cost of living, the other proposing a partial remedy. Both afford, I think, arguments for calling an International Conference on the Cost of Living. The bill for this having passed the Senate, and having been recommended by the House Committee on Foreign Affairs, will probably come up for consideration in December.

In the meantime could you secure additional support for the measure from influential individuals and organizations and inform the undersigned?

Very sincerely yours,

Irving Fisher

Yale University
Department of Political Economy

Prof. Irving Fisher
460 Prospect Street
New Haven, Conn.
November 6, 1912.

Professor Luigi Einaudi,

16 Piazza Statuto,
Torino, Italy.

My dear Professor Einaudi:

I have your letter of October 20, for which many thanks. I thank you also for sending me a copy of your study an Income which I am glad to have.

Yes, the Crawford-Sulzer Bill was postponed for action until Congress reconvenes in December. Then I hope sincerely that it will be passed without further

delay. The excitement of the political situation in the summer caused many matters to be held over until after election.

You have probably by this time received various articles and pamphlets which I sent you last month, one of which outlined in brief a plan which I have suggested for stabilizing the purchasing power of the monetary unit. I am sending you under separate cover a copy of a typewritten Memorandum which I have prepared giving a detailed account of how this plan would work under various conditions, and I would like very much to know what your judgment of this proposal is, if you have time to examine the Memorandum. Practically everyone who has studied the detailed Memorandum has approved the plan. I have already sent you extracts of some endorsements which I have received and I am sending you some more recent ones also.

As some misunderstanding has arisen in the minds of men who have only seen the brief account of the plan and have not examined the Memorandum, I have prepared a list of "Answers to Objections", which I am also sending you and which I think meets all objections which have thus far been raised.

Hoping that you will write me your opinion of the plan or any criticisms, I am yours very sincerely,

Irving Fisher

THE ECONOMETRIC SOCIETY

An international society for the advancement of economic theory
in its relation to statistics and mathematics

Dr. Charles F. Roos, Secretary
Smithsonian Institution Building
Washington, D.C., U.S.A.

Professor Irving Fisher, President
4150 Prospect Street
New Haven, Conn., U.S.A.

December 21, 1931.

My dear Sir:

As President of the Econometric Society, I have the honor to inform you of your election to Charter Membership. The purpose of this international society is the advancement of economic theory in its relation to statistics and mathematics, and we hope the society may be a significant influence in transforming economics into a real science.

Enclosed are a copy of the report of the organization meeting of this society and a copy of the constitution which was adopted. Enclosed also is a list of those elected to Charter Membership. I hope that you will grant us the privilege of including your name.

The Society plans to hold meetings in Washington, D.C., and New Orleans, Ma., during the Christmas holidays, as you will see by the enclosed copy of our

program, and I hope that, if you can conveniently do so, you will arrange to attend some of these sessions.

Very sincerely yours,
Irving Fisher

July 26, 1932.

Professor Irving Fisher
President of the Econometric Society
New Haven, Conn.

Dear Professor Fisher:

I hope you will excuse my belated answer to your favor of January 29, 1932. I know that other members have already proposed for election at the next session of the Council the names of:

Vincenzo PORRI, professor of economics at the Turin School of Economics,
Corso-Peschiera 30; Turin;
Mauro FASIANI, chargé de cours at the Sassari University.

Can you add my name to the list of proposers? Both of them are genuine scholars, alert minds, and have achieved noteworthy results in the field of pure economics.

I append a short bibliography of such publications of mine which I think are related to the spirit of the Econometric Society.

Very sincerely yours
[Luigi Einaudi]

PROFESSOR IRVING FISHER
460 PROSPECT STREET
NEW HAVEN, CONNECTICUT

November, 1933

My dear Sir:

I am sending you a reprint of my article in the October number of “Econometrica” on the “Debt-Deflation Theory of Great Depressions”.

If my chief contention is correct, namely that the main secret of great depressions usually lies in the fact that the effort to reduce debt really increases it under certain circumstances and tends to produce the many consequences noted in the article (and elaborated in “Booms and Depressions”), and if the “debt-deflation theory” is “both new and important”, I am naturally anxious that this reprint shall reach all serious students of so-called cycle theory.

I did not try, in “Booms and Depressions” itself, to make any specific claims but merely made a very general statement in the preface. This was partly because of my unfamiliarity with the literature (although thus far no one has found the theory definitely anticipated). Moreover the book was written for immediate usefulness and I feared that, if I emphasized the newness of the theory, I might excite distrust in the lay reader.

But now that the theory is being widely accepted, I fear it may not be traced to the proper source and that my book may be regarded merely as a popularization of previously accepted conclusions.

I would be grateful if you can supply me with any additional names of “cycle” students and still more if you can indicate any anticipations of this theory other than the few partial anticipations noted in the article.

Very sincerely,
Irving Fisher

PROFESSOR IRVING FISHER
Box 1825
NEW HAVEN 8, CONNECTICUT

November 21, 1946

Professor Luigi Einaudi
Governor, Banca Italia
via Nazionale
Rome, Italy

My dear Professor Einaudi:

I am writing in regard to the "Irving Fisher Foundation" for research in economics, sociology, hygiene and general problems of human betterment.

I am enclosing herewith copy of my address to the Directors of the Foundation which will show you in detail the nature of this proposed organization.

The Foundation is, at present, on paper only but I am looking forward to its having funds, partly from me, and partly from others. In fact, such have been promised.

I would like to nominate you to be one of the Advisory Committee. So far only three others have been approached, Professor Ragnar Frisch, Professor Wesley Clair Mitchell and Professor Jacob Marschak, all of whom have accepted.

The Advisory Board is, as its name implies, merely for advice. I want to first constitute the Economic Section of it and to have this section cover the leading economists of the world. There will be more from America than elsewhere but not very many from any one country. I would particularly like to have your suggestions as to other economists and especially those outside the United States.

In the United States I am thinking of Schumpeter particularly, and also Marget, Hamilton, Witte, Graham Nourse and Marriner Eccles.

There are several other possibilities. I shall expect to select fine other Yale economist, probably either Fairchild or Westerfield.

I thought as possibilities among European economists of R.G. Hawtrey, who is now President of the Royal Economic Society, Sir William Beveridge, Arthur L. Bowley, Erik Lindahl, Professor Ohlin, Schumacher of Germany (if living), Mahalanobis of Calcutta, Soong of China, Verrijn Stuart and Tinbergen of Holland.

For England I think Beveridge would count most as a name as he is better known probably than any other living English economist throughout the world. Of course, the influence of the name is an important consideration but I would not like to have very many who did not deserve the reputation they have.

Hoping that you may be willing to lend your name and wish best wishes, I am,

Sincerely,
Irving Fisher

I'll appreciate criticisms and suggestions

BOOK REVIEWS

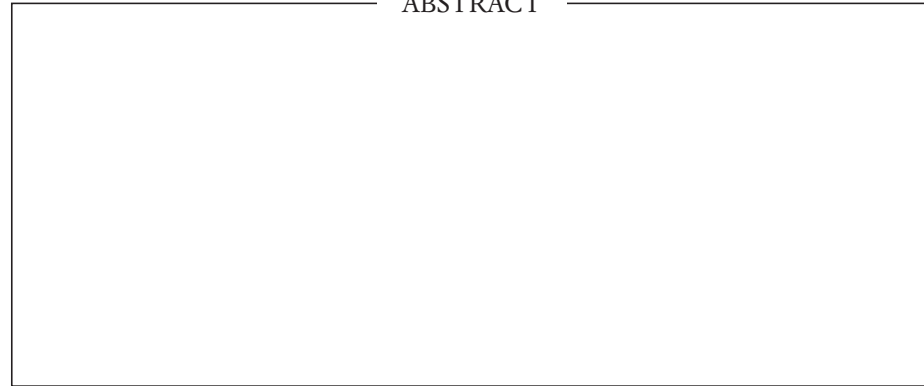
Annals of the Fondazione Luigi Einaudi

Volume LII, ????????? 2018: ?????

REVIEW OF M. CERETTA AND B. CURLI (EDS.),
DISCOURSES AND COUNTER-DISCOURSES ON EUROPE.
FROM THE ENLIGHTENMENT TO THE EU,
MILTON PARK, ROUTLEDGE, 2017

PEPPINO ORTOLEVA*

ABSTRACT



This is an ambitious book. The fact that it is a collective effort does not diminish its scope, which we can read not so much in the title of the book, as in the title of the preface by the two editors: *Rescuing Europe from Its Rhetoric*.

Which rhetoric? First of all, the discourse which makes Europe the daughter of the Enlightenment, the fruit of a progressive project for the advancement of a more open society. The book not only criticizes the idea of a direct relation between the idea of the European unity and the Enlightenment, it also emphasizes the conservative aspects of the European project, from the reactionary thinkers of the early Nineteenth century to the Cold War. This conservative trend is often overlooked but it has left

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its imprint on the European institutions in a variety of aspects that the book richly explores. In a nutshell: even though Spinelli and Rossi's early approach still had something of the Leninist Spinelli had once been, the unification of Europe has never had the style, or the self-representation, of a "revolution". The second rhetoric the book explores and partially discards is the one implicit in the discourse of an European identity: a word which has become crucial in the political language of the last decades. In fact, if defining a European unique "personality" was difficult at the beginning of the integration process, it has become even more difficult after the fall of the Berlin wall, and the unification of two half-continents that a whole millennium had kept persistently divided.

The great majority of the 11 essays in the volume converge in this critical approach.

The first part of the book, *Thinking and Regretting Europe*, could also be defined an archaeology of the concept of Europe particularly in the French thought, with the essays by Patrizia Delpiano, Manuela Ceretta, Giuseppe Sciarra. It shows that the Enlightenment authors were rarely interested in the continent as such, and the brevity of the anonymous entry *Europe* in *Encyclopédie* (written by Louis de Jaucourt and his team) could, at first sight, be considered an evidence for that. In saying this, however, the authors are not inspired by the anti-Enlightenment attitudes so current in cultural studies, on the contrary Patrizia Delpiano rightly criticizes some stereotyped approaches that tend to read Enlightenment as the matrix of all evils. Rather, the essays show that the great thinkers of that age thought more in cosmopolitan than continental terms, that they should be considered universalists rather than Europeanists. The opposite is true for a later and generation, that of reactionary thinkers. Here the book refers not so much to *Christianity or Europe*, the only historical and political essay by that great poet and thinker, Novalis, as to the idea of Europe proposed by some French political philosophers in the same period, particularly by that often surprising thinker, Louis de Bonald. In Ceretta's analysis he prefigured an idea of Europe that is more similar to the one we have seen developing in the last decades.

The second part of the book is centered on the discourses about Europe in more specific areas, from the military, to energy, to political institutions. Here I was particularly interested by Barbara Curli's essay on the nuclear policies and rhetoric of the early period of European integration. The conception, dominating at the time on both sides of the Iron Curtain, which opposed the "bad" nuclear to the "good" nuclear, exerted an evident influence. But another aspect was also relevant: the modernist attitude that relied on technoscientific progress more than on political institutions. Two slogans, "On behalf of the Europe of tomorrow", "not the Europe of

Charlemagne, but that of the Twentieth Century”, synthesize this rhetoric. Finally, Curli shows that in that the pioneers of Europe shared an approach to energy policy that in later and apparently more “integrated” stages is nowhere to be seen.

The third part of the book is centered, with a variety of approaches, on *Communicating Europe*. Belluati and Cepernich discuss, in a rightly problematic essay, the idea of an European media space. Is a media space possible, one may wonder, in a cacophony of languages? Umberto Eco’s notorious joke “La lingua europea è la traduzione” emphasizes that European unity is made of diversity, but also reminds us the weakness of a common space based on such an imperfect medium as translation. Also in this third part, an original perspective is offered by Di Peri and Zardo on the perception of Europe on the part of Tunisia after the “Arab” spring, or we should more correctly say the Tunisian spring. In this essay we see that Europe may be perceived as a unit by other parts of the world more clearly than by itself.

I could not touch all the themes treated in this rich collection, and I apologize with the other authors: Marco Di Giovanni, Paolo Caraffini and Filippo Maria Giordano, Giovanni Finizio and Umberto Morelli, Maria Cristina Camotto and Rachele Raus, Michelangelo Conoscenti. Only two final remarks. The first: European “identity” remains a big and elusive problem for many different reasons. One of the most serious is that the identities that are more and more part of our political landscape are generally tied to heroic and conflictual myths, be they national, or revolutionary, or nostalgic of a real or more often imaginary past. Europe does not have foundation myths, the history of its integration is even boring. Moreover, it has a history of conflict, yes, but internecine ones. Is a discourse of unitarian identity possible in these conditions? Or is an alternative rhetoric possible, not based on identity?

Second and final. Was really Bonald’s idea of Europe so similar to ours? The Europe as he conceived of it had been destroyed by the Reformation. His Europe was more similar to a rather dreamlike going back to the Middle Ages. The Enlightenment’s representation of the continent was probably more articulated and interesting than one may think. Let us go back to the *Europe* entry in *Encyclopédie*, by Jaucourt, himself a Protestant: “il importe peu que l’Europe soit la plus petite des quatre parties du monde par l’étendue de son terrain, puisqu’elle est la plus considérable de toutes par son commerce, par sa navigation, par sa fertilité, par les lumières et l’industrie de ses peuples, par la connaissance des Arts, des Sciences, des Métiers, et ce qui est le plus important, par le Christianisme, dont la morale bienfaisante ne tend qu’au bonheur de la société. Nous devons à cette religion dans le gouvernement un certain droit politique, et dans la guerre un certain droit des gens”. In this expression only seemingly minor of the

Enlightenment (but Jaucourt's immense work has recently been reconsidered), we find a partially realistic, partially utopian, idea of Europe based on "droit politique" and "droit des gens" which I find more similar to a possible idea of a unitarian Europe than that of Bonald.

REVIEW OF H. ZIMMERMANN AND A. DUR (EDS.),
KEY CONTROVERSIES IN EUROPEAN INTEGRATION, BASINGSTOKE,
PALGRAVE MACMILLAN, 2ND ED., 2016.

FURIO STAMATI*

ABSTRACT

Only four years have passed between the first two editions of Hubert Zimmermann and Andreas Dür's well-received collection of essays. Much has happened in Europe in the meantime: the risk of Grexit and the shock of Brexit, repeated terrorist attacks, humanitarian catastrophe in the Mediterranean rim, the lingering effect of the Eurozone and the Ukrainian crises... The need to make sense of these developments is urgent and widely felt. Should the heat of the moment not be enough to justify an update, the book, now about one-sixth longer, has been extensively rewritten and restructured, increasing its quality and scope. Sixteen thematic chapters, structured as pairs of short essays on a particular? 'controversy', put forward clashing arguments on European integration, one favourable and one opposed to its direction and achievements.

The volume discusses in-depth the fortunes of the EU, understood

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as a political community (or polity). John McCormick and Jan Zielonka in Chapter 1 and Desmond Dinan and Mats Persson in Chapter 2 debate whether it is a success or a failure. While McCormick and Dinan describe it as an unexpectedly effective global role model, Zielonka and Persson lament its overreaching ambitions and scant adaptive capacity. In Chapter 4, Richard Bellamy and Christopher Lord examine the vexed question of the EU's democratic deficit, both concluding that the EU can only approximate the ideal of government of the people by the people and for the people. Chapter 6 sees Ulrike Liebert and Jonathan White assessing the viability of a common European identity and public sphere, whereas Rachel Epstein and Christopher Bickerton weigh the long-term pros and cons of the 2004 enlargement in Chapter 13.

In this first group of essays, one notices two recurring points. On the one hand, the EU's political and geo-political results are not just remarkable, but ones of a sort once deemed impossible. This applies as much to unification itself as to the pursuit of European democracy, identity and geographical expansion. Although such polity-building achievements were not solely the result of explicit Europeanist ambitions, the institutionalisation of a supranational political order was a precondition for them, often a necessary one. On the other, burdened by its own successes, integration is losing momentum. Not only is the EU increasingly fatigued by the provision of new political and economic goods; it also fails to learn from its mistakes and to redress the side effects of its initiatives in a timely manner. The cumulation of past shortcomings is evolving into a chronic politico-institutional malaise, which may lead the project into irrelevance or a sudden, USSR-style, break-up. Even worse, European policymakers rarely stop short of reiterating their old mistake of subordinating the resolution of specific problems – the democratic deficit, for instance – to the achievement of 'some more Europe', whatever that might mean. So, with varying emphases, the four critical essays all touch upon the measure of obliquity and pretension that characterise – and eventually undermine – supranational problem-solving. Zielonka and Lord enrich this discussion by considering the potential advantage of refocusing the EU's priorities away from its old federal ambition and closer to the challenges at hand.

Other chapters deal with controversial aspects of European policy-making. Chapter 3 by Derek Beach and Uwe Puetter deals with the historical tension between intergovernmentalism and supranationalism, proposing an empirically informed re-articulation of both concepts. Closer in their diagnosis than in their analyses, the two essays affirm the novel emergence of a distinctive form of EU governance. Neither supranational nor purely intergovernmental, the latter is characterised by a wider policy scope and by deeper politicisation than the old 'permissive consensus'; moreover, it

proves irreducible to the traditional lines of conflict opposing the left and the right or national authorities to the ones in Brussels. Beyond integration fatigue, the chapter acknowledges a systematic disconnect between political innovations and polity dynamics in today's EU. Chapter 5 on the Court of Justice provides further food for thought on the topic. Here, Karen J. Alter and R. Daniel Kelemen contend that the supranational judiciary managed to fill a leadership vacuum that even the member states deemed damaging for integration: a development, Jeremy Rabkin replies, that risks fostering political radicalism within the EU. Thus, if only superficially, the chapter tackles the fundamental question of whether constitutionalism should constrain or empower government in its representative and policy-making functions.

Against the backdrop of the previous discussion, one may be tempted to conclude that the growing politicisation of constitutional principles, in the absence of a firm normative order, is as much a source of dynamism as of hindrance for polity-building in today's EU. A similar reasoning can be applied to expertise, a topic that the book indirectly addresses in Chapter 7, on lobbying, and Chapter 10, on financial regulation. In the former, not one of the best in the book, Laura Horn and Angela Wigger detail the danger and fears of interest groups 'capturing' the supranational government, while David Marshall frames lobbying in a historical perspective, against the changing ambitions of EU institutions. In the latter, Daniel Mügge and Jörn-Carsten Gottwald furnish a dense and informative account of EU decision-making on financial and banking regulation – a highly technical policy sector – focusing on what has changed since the global crisis, and how. Both agree that the EU's approach has been incremental, opaque and overall inconsistent. However, what Gottwald calls 'experimental' and 'adaptive', Mügge finds 'irreflexive' and driven by the external leverage of corporate interests and of the US model of financialised economy. The two perspectives are complementary: while Mügge brings back politics where Gottwald mainly sees policy-learning, the latter is more of a realist when it comes to assessing the role of democracy in financial regulation.

Yet another set of chapters deal with EU policies. Chapters 8 and 9 shed light on the achievements and shortcomings of the single currency. Henrik Enderlein and Waltraud Schelkle see it as a minimalist response to strong market rigidities and as an incomplete but desirable risk-sharing mechanism. Their analyses are well-reasoned and enable the readers to come up with their own evaluations. Andreas Nölke and Tel Sadeh look favourably at "differentiated monetary integration", with options ranging from assisted exit to reinforced supranational oversight on national budgets. Unfortunately, their far-reaching policy suggestions suffer from a rather vague account of the inevitable transition phase. The book addresses two more

policies characterised by strong adaptive pressures and transnational public-private networks: the Common Agricultural Policy (Chapter 11) and the Common Security and Defence Policy (Chapter 14). Besides the specific merits of their contrasting evaluations, the four essays provide neat accounts of the long-term interplay between policy problems and entrenched social and political interests, enriching the methodological panoply of the book with their enjoyable pluralist accounts. The EU's foreign policy and its normative value is discussed in Chapter 12. Here, Daniela Sicurelli concisely presents the common wisdom that European foreign policy revolves around 'soft power' and the sponsoring of principles and norms. In turn, Mark A. Pollack's well-documented essay defends the thought-provoking perspective that the EU is an inconsistent advocate of its own values and, in fact, a power player on the international stage.

Finally, two brand-new chapters (15 and 16) address the topics of Brexit and of the resurfacing 'German question' in Europe. Matthias Matthijs contends that Germany's geo-economic power has offered the wrong kind of leadership and a wrong understanding of responsibility throughout the recent crises faced by the EU. In one of the most convincing essays in the book, Miguel Otero Iglesias and editor Hubert Zimmermann conversely characterise Germany's as a "stabilising leadership" set on "passive mode". Over the last decades, and so much more under Angela Merkel, Germany has granted the EU stability without assertiveness, mustering enduring internal consensus even on domestically sensitive issues. Martin Rhodes and Alan Sked debate instead the new role of the UK, looking at its concern for multi-lateral free trade and its special relation with the US. Confident that, under the umbrella of the WTO, the UK will be able to agree a unique and beneficial trade deal with the EU, Sked advances a few interesting points, but eventually loses out to Rhodes' substantive arguments.

Beyond the value of the individual essays, the editing work is also to be complimented. Each chapter is opened by a short introduction, where the editors identify the main points of contention, provide some factual and theoretical background and suggest thematic links to other chapters in the book. With just a little effort, the editors have taken care to make the book more accessible and reader-friendly, averting the risk of dispersion with a nice 'hyper-textual' approach.

There are, however, some minor flaws. The heterogeneity among the essays may leave some readers confused. Some contributors let their final evaluation stem from a careful examination of their sources; others sharpen their arguments, taking an uncompromising position. Some works are richer and more up-to-date in their bibliography; others mostly refer to their author's own publications. These inconsistencies risk misguiding the casual reader into thinking that some topics are inherently less controver-

sial or less well researched than others. Teachers assigning the book to their students should be mindful of this perspective trick. In view of a third edition, further improvements should be considered. The analytical index could easily be made thicker and more detailed, catering to researchers and doctoral students interested in specific topics. The bibliography could also be better structured, presenting court judgements and newspaper articles in dedicated lists. More homogeneity should also be achieved among the quality and scope of the empirical and scholarly sources of the various essays, which would increase the worth of the book as coursework material.

In sum, thanks to its uncommon balance between accessibility and depth, the book manages to address a wide and varied audience. Interested just in single sections or in the entire volume, readers will find a wealth of well-discussed arguments, supported by rich and up-to-date bibliographical indications. Scholars glancing beyond their field of expertise, teachers designing an undergraduate course or doctoral students looking for a dissertation topic will find the writing enjoyable, the debates engaging and the discussion informative. Citizens interested in European politics may also profit from this collection as a solid starting point for their own personal research, to broaden their views and even call into question some of their assumptions. In times like ours, of political and intellectual polarisation, there is great need of exercises in reasonableness and pluralism as thorough and enjoyable as Zimmermann and Dür's.

REVIEW OF FRANCESCO GUALA,
*UNDERSTANDING INSTITUTIONS. THE SCIENCE AND PHILOSOPHY
OF LIVING TOGETHER*, PRINCETON UNIVERSITY PRESS, 2016

EMMA TIEFFENBACH*

ABSTRACT

If one wishes to understand what money is, to whom should one turn as the most reliable source of knowledge? Of course, economists propose themselves as the experts on the matter. Who, if not those who study interest rates, prices and exchanges could know more about the nature of money? Yet, with a few exceptions, those philosophers in the burgeoning field of social ontology who ask ‘what is money?’ (or, for that matter, ‘what is a marriage?’, ‘what is ownership?’, ‘what is a cocktail party?’, etc.) tend to ignore what past and present social scientists maintain on these issues. John Searle comes to mind as having such an insulated approach. Since *The Construction of Social Reality*, Searle has repeatedly claimed to have found no definition of institutions on the part of those scholars who are the most concerned with them.

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Understanding Institutions leaves a different impression about the state of the art. In this elegant book, Francesco Guala shows that social scientists, economists in particular, can actually be trusted in how they understand the notions which they apply. Guala finds in game theory the relevant conceptual framework in which to explore the nature of institutions. Following David Hume, David Lewis, and Edna Ullmann-Margalit, he defends a view, termed the *rule-in-equilibrium* account, which conceives institutions as solutions to coordination dilemmas. For example, to determine what a marriage is, we must look at the range of coordination dilemmas which married couples have resolved: Who cooks? Who picks up the children from school? Who washes the dishes? etc. Likewise, the institution of ownership states *who* will make use of *what*? The highway code indicates which side of the road to drive on. Cocktail parties? I gather they specify *when* to entertain and *who* to bond with.

The overall purpose of Guala's book is to show that a game-theoretical approach to institutions need not be at odds with more profuse philosophical accounts. Guala propounds a 'unifying account' that does justice to both sides. For all of its originality and insights, however, Guala's theory of institutions may be more reductive than truly integrative. As we shall see, those features of institutions that philosophers often stress – deontic powers, constitutive rules, the reflexivity of social kinds – do not fit well with his naturalistic approach.

The book consists of two parts. In the first, Guala presents and motivates his account, which combines two apparently unrelated views of institutions. On the hand, the *institutions-as-rules* view conceives institutions as implemented rules that facilitate relationships. Why do we follow these rules? The answer to this question is provided by the *institutions-as-equilibria* view, which stresses the interest that people have in finding a solution to coordination dilemmas. The problem with the *institutions-as-equilibria* view is that it is too inclusive. The situation in which, in times of drought, residents keep hosing their lawns is a paradigmatic case of a Nash equilibrium. And yet it does not correspond to any institution. Equilibria can also be found in animals, but the latter do not have *bona fide* institutions. Guala's *rule-in-equilibrium* account retains the strength of the two accounts. At its core is the notion of 'correlated equilibria', which are equilibria upon which agents would converge if they were helped by a 'public event' (a ceremony, a decree, or any environmental cues making certain options focal) that serves as a coordination device. Public events index certain strategies on certain conditions: "if in Commonwealth countries, drive on the left, if elsewhere, drive on the right". Because the *rule-in-equilibrium* view conceives institutions as ruled-governed actions, rather than as strategic choices, it captures the normative aspects of institutions that are missing from

the *institutions-as-equilibria* view.

In chapter five, Searle's theory of institutional facts in terms of constitutive rules – of the 'X counts as Y' form – is presented as one further instance of the *institutions-as-rules* view. This classification is surprising because the rules that pertain to the *institutions-as-rules* view are regulative ones. However, drawing on earlier works with Frank Hindriks, Guala contends that constitutive rules can be eliminated. The argument turns on an explication of the Y terms as referring to rule-governed activities. For example, properties are whatever entities that a certain person make use of. Money is whatever entity is acquired for the sake of exchanging it. Constitutive rules are thus reduced to regulative rules by treating the Y institutional terms as shortcuts for more lengthy descriptions of particular activities.

In the 'interlude' that separates the two parts of the book, Guala discusses, first, the topic of mindreading. Following David Lewis, he conceives coordination in terms of mutual expectations, while also rejecting Lewis' notion of common belief as cognitively too demanding. As Guala suggests, lower-level cognitive capacities, like empathy, imitation, or replication of feeling, are all that are needed for the meeting of minds. The interlude also discusses the need for collective intentionality as a necessary feature of institutions. Contrary to Gilbert, who sees in joint commitments an essential feature of social conventions, Guala notes that racist institutions involve no joint commitment on the part of those against whom they discriminate. One may reply, however, that while Gilbert's account of conventions is ill-suited to explaining racist institutions, Guala's rule-in-equilibria approach may not fare better in this respect. Victims of discriminatory institutions display behaviours (where they sit in a bus, where they reside in cities, who they marry) that others have imposed on them. The notion of equilibrium does not account for the coercive aspect of discriminatory institutions, and in fact misconstrues them as solutions to strategic games.

The second part of the book draws the implications of the *rule-in-equilibrium view* in regard to several philosophical debates in social ontology. These chapters represent, in my opinion, the most innovative, captivating and thought-provoking part of the book. In the chapter "Reflexivity", Guala revisits the notion of self-fulfilling prophecies as further instances of rules-in-equilibria. In light of paradigm examples (children performing as badly as they are expected to; run on the bank), he first recognizes that classifications do modify institutional kinds. As he puts it, "the observation of behaviour confirms the expectations of the players, and the expectations induce behaviour that is consistent with the expectations" (125). But Guala also shows that once self-fulfilling prophecies are construed in this way, there is nothing intrinsically bad (nor, for that matter, intrinsically good) about them. For instance, the situation in which bank clients are when they

all keep their money stored in the bank is just another, albeit desirable, instance of a self-fulfilling prophecy: the choice is one that nobody has an incentive to change unilaterally.

Chapter 10 discusses the distinction between natural kinds and social kinds, and the tendency, examined by social constructionists, to offer pseudo-explanations that deny such a difference. For instance, it is easy to believe that the category of women is natural kind. But many of the traits that we believe to be intrinsic to women (such as being good at raising children) are not biologically based. If these traits occur more often in women, it is in response to our sexist expectations. According to Guala, the rules-in-equilibrium view of institutions casts a new light on the underlying, causal mechanism at work. Indeed, the theory reveals that certain social arrangements (he works/she raises the children) are “not inevitable, and the reason is that they are just one equilibria among others”. So social constructionism and the rules-in-equilibrium view similarly stress the contingency of institutional rules.

Chapter 11 deals with the view that institutions non-causally depend on our representations for existing. The idea that money is what is believed to be such is a leitmotiv in social ontology. Versions of this idea can be found in Ruben, Thomasson, Dilthey, Gadamer, Ricoeur, Taylor, Peter Winch and, of course, Searle. Guala stresses three main implications of this view, namely, that social kinds are not real, that we cannot be possibly wrong about them, and that they can be known from the armchair. These three implications are then refuted in chapter twelve, where Guala convincingly argues that what makes some entity x (a piece of paper) a member of a social kind s (money) is not fixed by people’s representation of the conditions (say, being issued by the central bank) that make x a member of s . The real content of social terms, Guala shows, is determined by the *actions* or patterns of activities associated by these terms. A party is the action of gathering and having fun. Money is the action of accepting the same thing as means of payment. The upshot of the analysis is that a social institution is “a system of actions and expectations” (172) that exist independently from folk-psychological views about its condition of existence.

Guala’s definition of institutions ultimately rests on identification of their typical functions, but how are these to be discovered? Guala is no friend of armchair *a priori* explorations. The properties of social kinds, he claims, are “discovered *a posteriori*, through empirical investigation”. But, as he also admits, relying on empirical studies begs the question as to how genuine and pseudo instances of social kinds must be distinguished. However uncommon same sex unions have been, it seems wrong to rule them out as pseudo-examples of marriage. To reconcile realism (institutions are worldly determined) with reformism (institutions can be substantively re-

shaped for the better), Guala urges a functionalist view: whichever form they take, the conceptual boundaries of institutions are to be fixed by the coordination problems which they solve.

The above summary blatantly fails to cover the range of issues and examples that Guala manages to consistently integrate in the 14 chapters that compose his book. *Understanding Institutions* painlessly introduces novices to the most important issues in social ontology. Guala is obviously good at making sense of a wide range of situations by reading them through the lens of game theory. I am thinking, among many others, of the passage where he applies Thomas Schelling's S-shaped model of propagation to explain why an increasing proportion of people in a population choose to 'come out'. I suspect that the same mechanism may be at play in the more recent #metoo movement. While admiring the achievement of making a wide range of issues in social ontology accessible, the experts will also find much to reflect upon—and potentially challenge. In the remaining part of this review, I will point to three concerns.

First, Guala construed institutions as having coordination dilemma as pre-conditions. Interestingly, Carl Menger's explanation of money, which Guala invokes in support of this view, may in fact not perfectly illustrate it. Granted, Menger's account shows that a central authority need not play a coordinating role in helping agents converge on the same good. But the story may also be interpreted as showing that *agents need not coordinate at all* for money to arise. The few barterers who start using some goods as media of exchange only need to ask themselves, when reviewing candidates for that role, "how popular is this good on the market place?". And while the barterers need to anticipate correctly the saleability of, say, cowry shells, before ascribing them the function of media of exchanges, the point is that they need not be concerned by the reason(s) why cowry shells sell well. This is because whenever someone uses cowry shells as a means of exchange, s/he 'votes' for them, so to speak, thus further increasing their saleability on the market place, in a self-reinforcing manner. If, in the end, cowry shells perform by and large the function of money, this is due to a snowball effect whereby the uncoordinated choices of a few barterers influenced the choices of others, and so on until all unintentionally converged on cowry shells. The crux of Menger's story is, as I read it, to dispense with all coordination devices, be they centralized or decentralized. But if this is so, it follows that it is too strong a requirement to ask of institutions that they solve coordination dilemma. For a coordination dilemma may not characterize all pre-institutional stages.

My second critical remark concerns Guala's treatment of institutional normativity. According to Guala, the equilibrium approach that he favours supports a functionalist theory of institutional norms that explains their

existence by pointing to their benefits. Norms exist because they make certain choices more predictable, if only by making certain options more salient. The idea is that because people have an interest in solving coordination dilemmas, they have an incentive to follow the norms that help them converge on the appropriate equilibria. But many have objected to this cost and benefits analysis of institutional rules, suspecting that it does not account for all the complexities and varieties of institutional 'oughtness'. There is, first, the problem, put forth by Jon Elster, of pointing to something that occurs at t_2 in order to explain something that occurs at t_1 . That the effect of institutional rules is to enhance coordination cannot retroactively explain why these rules were adopted in the first place, unless one provides the feedback loop that links the effect to its cause. Another shortcoming of reducing rules to incentives is that it fails to capture the nature of their binding force. Guala considers making others' behaviours more predictable as one prominent way in which institutional rules enhance coordination. But it is not certain that institutional rules weigh on us as mere predictive tools. As H. L. A. Hart notes in *The Concept of Law*, red lights indicate that drivers have an *obligation* to stop, and not only that they *are likely* to do so. The non-instrumental notion of obligation at play here does not fit well into Guala's functionalist framework.

My third critical comment regards the convergence that Guala finds between social constructionism, on the one hand, and his own account, on the other. Both views, Guala contends, show that social arrangements are 'not inevitable', but the argument, I submit, rests on an ambiguity regarding what it means for a social arrangement to be 'not inevitable'. In the context of equilibrium theory, the term means that the social arrangement is just one solution, among equally rewarding ones, to a coordination dilemma: the left side of the road is as good as the right side for driving. Now social constructionists seem to refer to social arrangements as 'not inevitable' in a different sense. What they mean is that certain social arrangements are the products of cultural factors that are partly under our control and that therefore could be otherwise if only we freed ourselves from our biased expectations. Whereas the game theorist stresses the equivalence (in terms of pay offs) of options, the social constructionist focuses on our responsibility in letting these options prevail as the result of our prejudicial expectations about *who* must do *what*. Put differently, the social constructionist is likely to dispute the game theorist's assumption that the two options 1) 'she raises the children/he works' and 2) 'he raises the children/she works' are equivalent. Unlike the game theorist, s/he will also insist on the importance of spelling out the details of the contingent path that widely resulted in 2).

INSTRUCTIONS FOR AUTHORS

1. The papers should be provided in anonymous form, with a separate cover where authors are required to indicate their name, affiliation and e-mail address.

2. Articles should be written in standard English and should not normally exceed 8,000 words, including footnotes and references. An abstract of about 200 words is also required, together with up to five keywords and three JEL classifications.

Papers failing to satisfy the linguistic requirements will be rejected without considerations.

3. Authors should carefully check the conformity of their manuscripts to our editorial guidelines. In particular, they should obey the following requirements:

- Non-English words should appear in italics.
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ZAMAGNI V. 1988, *The Economic History of Italy, 1860-1990*, Oxford: Clarendon Press.

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PAXTON R.O. 1950, "The Five Stages of Fascism", *Journal of Modern History*, 70 (2): 1-23.

KRYBURG H.E. 1995, "Keynes as Philosopher", in A.F. Cottrell and M.S. Lawdor (eds) 1995, *New Perspectives on Keynes*, Durham: Duke University Press: 7-32.

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<http://openanthcoop.net/press/http://openanthcoop.net/press/wp-content/uploads/2010/11/Graeber-On-the-Moral-Grounds-of-Economic-Relations4.pdf> (accessed: May 5, 2015).

RODRIG D. 2004, "Rethinking Growth Policies in the Developing World", Draft of the Luca d'Agliano Lecture delivered on October 8, 2004, in Fondazione Luigi Einaudi, Torino, Italy. Available at: <http://scholar.harvard.edu/files/dani-rodrik/files/rethinking-economic-growth-luca-lecture.pdf> (accessed: December 12, 2016).

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7. All tables and charts or other art should be submitted in separate files from the main text of the manuscript.

Direttore responsabile: Terenzio Cozzi
Registrazione del Tribunale di Torino, n. 1927, del 6 aprile 1968
Richiesta variazione al Tribunale di Torino il 14 luglio 2017

ISSN 2532-4969

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