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Conversation with Deirdre McCloskey: Win-win-win-win ... lose

By George F. DeMartino* and Deirdre Nansen McCloskey**

Scientific judgment requires quantitative *judgment*, not endlessly more machinery. As lovely and useful as the machinery is, at the end, having skillfully used it, the economic scientist needs to *judge* its output (Ziliak and McCloskey 2004, 527).

GEORGE: My graduate education was mainly in Marxian political economy. Deirdre, hear this: I studied economics at UMass-Amherst on purpose – to escape *bourgeois* thought!

DEIRDRE: Some of my best friends are Marxist.

GEORGE: I know. People thinking “surely she’s joking” don’t know you very well. Yes, like many progressive economists, past and present, I did my doctoral studies at the University of Massachusetts-Amherst Department of Economics specifically to immerse myself in the rich Marxian tradition of political economy.

DEIRDRE: I feel your pain. I swam a bit in some of the main currents of Marxism, though chiefly through assigned reading I got as a college student and then as a graduate teaching assistant. I was a casual Trotskyist, not politically active but “feeling the feels,” as the kids say today, singing Joan Baez, dreaming of solidarity. But I didn’t do the hard reading. I mean, I haven’t read *Capital* Volumes II and III.

GEORGE: At Amazon prices, how could the price theorist resist? Seriously, though, you are one of the biggest readers in economics today. And your writing, Deirdre, has led to an unintended consequence for me. Over the past decade this Marxian-trained economist has spent far more time reading McCloskey than Marx.

DEIRDRE: Winning.

GEORGE: (*laughs*) I certainly didn’t intend it. But as I turned my attention toward the ethical responsibilities of economists (DeMartino 2010), I found myself drawn to your work. So I hope you will consider me a most appreciative and respectful critic.

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DEIRDRE: I do indeed! And it's mutual, as have been my discussions over the past decades with Arjo Klamer and Jack Amariglio and Ralph Cintron and Steve Ziliak, and with you yourself in co-editing our *Oxford Handbook of Professional Economic Ethics* (2016, on which you did most of the work, it should be known).¹ I think that a good deal of scientific progress happens as a consequence of love, that is, cooperation and serious listening. People infer the opposite from, say, *The Double Helix*. They are mistaken.

GEORGE: And it is in that spirit that I hope to draw you out on an idea that I take to be central to your work. A central McCloskey argument which the student in me finds at least partially correctable but the critic in me finds entirely objectionable.

DEIRDRE: Shoot.

On the Matter of Compensation Tests

GEORGE: My concern is the rhetoric of *compensation* you employ to justify economic policy choices and, far more broadly, the liberal bourgeois economic order.

DEIRDRE: Compensation? Pay the lady; give up the goods; done deal. What's the problem?

GEORGE: Hold on. My point about compensation isn't about "mere exchange," though partly it is an issue of how you handle commutative justice. On the one hand you celebrate the historical economic turn away from retribution and toward compensation to resolve disputes as enormously consequential for emerging commercial society in Europe (McCloskey 2016).

DEIRDRE: True, I do.

GEORGE: The historical turn toward compensation permitted the flourishing of the bourgeois order, which in your account is responsible for a radical shift toward rapid economic growth and social betterment.

DEIRDRE: Also true. So we agree.

GEORGE: Were it only so! In tandem with the historical bourgeois flourishing claim, you celebrate efficiency-generating *uncompensated* innovations on grounds that everyone is compensated, one way or another, in the bye-and-bye (McCloskey 2010). The first argument strikes me as wrong but at least partially correctable. The second strikes me, when in the wrong hands or minds, as dangerous. Bad for political economy.

¹ In *The Bourgeois Virtues* (2006, xviii) I thank four unusual people for sustaining me and yet disagreeing with me for all these years about the bourgeois virtues: John Nelson, Arjo Klamer, Steve Ziliak, and my mother. Steve has been there since the beginning, autumn 1993, when I returned to Iowa City with a paper I had drafted on an airplane in reaction to an essay by Richard Rorty. That's love in action – though Steve's politics are closer to Rorty!

DEIRDRE: I hear you, dear George, but I very much doubt what you're saying is true. Pareto optimality and Kaldor-Hicks compensation are not ideas peculiar to me. They are the common heritage of economics since the rise of end-state utilitarianism, and especially in its orthodox Samuelsonian form – whose central character is what I call Mr. Max U. It's a little odd to set me up as defender of Max U, the representative jerk of the profession. Even *The Applied Theory of Price* (1982, 1985) expressed tentative doubts about “rational choice”. Yet Mr. Max U and monetary compensation are defensible for building roads and running the ordinary markets in which much of our lives proceed. That doesn't imply ignoring the sacred – though I admit that some economists, especially male economists, think it does.

GEORGE: Nor am I into Max U, so let me clarify where I'm headed. Let's begin with compensation in place of retribution. As you know, Jared Diamond (2012) discusses the practice of “sorry money” that is paid in New Guinea in response to harming. Diamond recounts this story. A traffic accident occurs that kills a child, and the truck driver is exonerated of any wrongdoing. The owner of the truck company nonetheless gives money to the parents saying, “This money is nothing compared to your son's life, but I give it to show how sorry we are.” In your work you recount and comment on this passage (McCloskey 2016, 444–445).

DEIRDRE: Yes. I commented on the case unfavorably. The guilty person was the uncle meeting his nephew getting off the bus. The uncle stood on the opposite side of the street, which led the boy to run across into the traffic. I think it's understandable that to preserve social peace, in a place where violent expressions of anger are indulged, the deep-pocketed trucking company felt compelled to come up with quasi-compensation. But I specifically complained about Diamond's account that under a bourgeois legal system (that is, one characterizing any portion of a society run by merchants) such a badly focused payment would be illegitimate. Under English common law, for example, it would be the boy's uncle who would be held responsible – not merely any rich person or company that happened to be on the scene. I said that the bourgeois rule would, of course, be better for forward-looking efficiency, by placing responsibility where *future* decisions would be best made. Relatives meeting school buses would take appropriate care. It's Coase. But it's also backward-looking justice. In Chile during the recent uprising by the left a young man ate an expensive meal at a high-end restaurant, and when the bill came he got up and announced loudly to the room that any of the rich bourgeois in attendance there should pay, and then walked out. A society in which such sorry money is routine will remain poor, and the poorest worst off. And it will not be just, either.

GEORGE: I'm with you...halfway. I'll explain why momentarily. You argue that a historical trend in the Germanic north of Europe to commercialize disputes over injury or harm represented a socially beneficial turn toward compensation for wrongs and harms that might otherwise generate social conflict and disrupt economic progress. In place of honor-based, eye-for-eye justice, “Germanic law codes of early times encourage *cash* compensation for dishonor” (*ibid.*, chp. 46). Payment for wrongs in the

form of “*wergelt*,” which became the norm in northern Europe, helped to curtail costly feuds that otherwise might have disrupted commerce. “In contrast, in the supposedly more advanced and mercantile south, a more primitive approach to justice survived. ... From Homer to El Cid to *The Godfather*, honor is absolute and wrongs are righted through altogether non-bourgeois forms of retribution that could and did disturb economic advancement” (DeMartino 2016, 89).

DEIRDRE: The passage was not a major point in the book, which was mainly about how liberalism arose in Europe. But, fine, what of it? A move to cash compensation, or to the King taking over punishment and forbidding private armies, has the effect of lining up the incentives better than with sorry money or blood feuds. True, one could view the goal of sorry money as being to pay for the public good of avoiding blood feuds and other private results of anger. But then it arises from a second-best, of inadequate enforcement of laws against violent expressions of anger. No: Vengeance is mine, saith the State.

GEORGE: Compensation has a very particular meaning in Samuelsonian economics. Compensation means restoring a person post-harm to her previous level of welfare. If welfare is measured in “utils” and she enjoyed 10 utils before the harm, she is brought back to 10 utils following compensation for the harm. By Samuelson’s logic (today’s mainstream econ), she is no worse off after the harm plus compensation than she was prior to the harm. So the rational agent is indifferent between the two situations.

DEIRDRE: Agree. As you know, I rail against Samuelsonianism. What’s your point?

GEORGE: Though our textbooks don’t mention it, the Edgeworth-Pareto-Samuelsonian welfarist approach presumes not just that all harms are repairable, but also that compensation is always adequate to effect the repair. In the standard approach to welfare economics, it works like this. An individual is harmed when she suffers diminished access to one or more goods that she values. The goods can be pecuniary or non-pecuniary. Compensation achieves repair when she gains increased access to *other* goods.

DEIRDRE: Yes. Notice that you have also described ordinary exchange. I suffer diminished access to a good I value when I face any opportunity cost. I take it that you are not objecting to markets in general, and are more careful about this than, say, Michael Sandel was in *What Money Can’t Buy* (2012), or the young man in Chile was.

GEORGE: No, I’m not opposed to markets in general. But let’s return to the matter at hand. It bears repeating: in the standard textbook treatment, and in more advanced treatments in welfare economics, compensation returns someone who is harmed to her previous level of welfare. She’s lost an apple, but the damage is fully recovered by increased access to pears – where the number of pears required to do the job depends on her marginal rate of substitution.

DEIRDRE: So let’s talk about the tort of breach. A breach in a contract is repaired either by specific enforcement (as the jargon has it) or by cash compensation. In modern labor law specific enforcement of labor contracts is forbidden. By contrast,

under the 18th-century law of servants in husbandry, a farmer could have an errant farm servant who had not carried out his end of the yearly bargain brought back and forced to work until the term was fulfilled. Nowadays you can't make a rock musician who fails to appear for his contracted performance come back under police escort and do the show – monetary compensation is what's allowed. I take it you agree that monetary compensation is an improvement over the quasi-enslavement of specific enforcement. It substitutes for physical coercion, reducing the prevalence of it in a society. That's what money in markets does – it substitutes for other ways of competing for goods, such as competing by Mafia coercion, aristocratic status, Party membership, wasted time in queues.

The Abuse of Compensation Tests

GEORGE: Yes, monetary compensation has its place. But there are limits, which is what I want to discuss with you. The immediate point is that under the textbook treatment, once compensation occurs, she is no worse off than she was prior to the harm.

DEIRDRE: Yes, that's how Samuelsonian economists think. Notice that it's not – Judge Richard Posner to the contrary notwithstanding – how lawyers think, not all the time. Lawyers and the rest of us normal people also have a notion of *backward-looking* Justice, not only Posner's *forward-looking*, economic Prudence. (I have a lawyer friend in Chicago who has practiced before Posner, and says that there are three branches of US law: federal, state, and ... Posner.)

GEORGE: Then I submit to you, Deirdre, that the compensation argument is wrong in several important respects. Not all harms are reparable. The loss of an apple and the other trivial examples given in our textbooks are not innocent – they are no doubt chosen to distract students from the idea that some harms are irreparable.

DEIRDRE: No, they are chosen to represent the ordinary and massively prevalent exchanges that you and I peaceably engage in, instead of stealing the pears or getting the State to do it for us.

GEORGE: No! The discursive choice to trivialize all harms and reparations as apples-pears tradeoffs reflects a deep ideological commitment in our profession, extending through the 20th-century and up to the present, to deflect the most serious critiques of market capitalism. It's rhetoric, Deirdre, designed not to describe neutrally, but to evoke a particular response. To close off a potent line of attack. Otherwise, our textbook writers would follow up the saccharine apples-pears example with cases where harm appears as the loss of what you call the sacred – where substitution can't effect repair. I'm thinking of the loss of freedom, or autonomy, or central rights, *or a child*. Those losses are not reparable. The libertarian in you and the Marxist in me can surely agree on this point.

DEIRDRE: Yes, though I much prefer the historically correct terms “liberal” for me, and for you “Bernsteinian revisionist” (joke, joke: I mean a left that is sympathetic with the downtrodden, as you and I certainly are, as against the hard-hearted social Darwinist thugs disdaining “losers” on the one side and the amoral Leninist thugs enforcing the “laws of history” in the Gulag on the other.) Yes, there is the sacred, incommensurate with apples or pears. That is, as I have argued in detail in many places, you can’t just stick “child” into a utility function and proceed as before.

GEORGE: Good. The next error in welfare economics is this: some harms that may be wholly or partially reparable *cannot be repaired through compensation*. I hope on this, too, we can agree.

DEIRDRE: Yes, and as you’ve just noted, I use the word “sacred” to refer to goods and harms that defy economic measure. To repeat an example I have given, a lunatic Samuelsonian utilitarian approaches a mother standing on the edge of the Grand Canyon with her baby in arms and says, “I’ll give you \$100 if you throw the kid into the Canyon.” She indignantly refuses. “Oh, so it’s the price, to bring you back to you previous indifference surface. All right, \$10,000.” She refuses again. “All right, my last offer: \$1,000,000.” “Get away from me, you creep!” Her sacred love for her child is not for sale. It is not an item, L_2 in her utility function. (This is what is wrong with George Akerlof’s Samuelsonian attempt to bring sacred identity into economics.)

GEORGE: Good. Then we also agree that for many serious harms, the appropriate means of redress is *acknowledgment, not compensation*. Apology, sympathy, gratitude, recognition, respect, honor – these are the means by which we help others achieve repair for deep harms. Diamond’s truck company owner understands – the main thrust of his intervention is to acknowledge the suffering of the parents.

DEIRDRE: Sure, but I see no reason why the trucking company, which did nothing blameworthy in justice and nothing that would need in prudence to be corrected in future to improve results, is to do the acknowledgement.

GEORGE: But surely the owner’s acknowledgment of the family’s suffering does not preclude appropriate expressions of remorse by the child’s uncle, or the bus driver. Repair for the family, to the degree it is achievable, is facilitated by community expressions of empathy and sorrow. In any event, the monetary transfer in this case, as in so many others, is intended to demonstrate the genuineness of the acknowledgement. Martha Nussbaum speaks of such cases this way: “indeed, we might say that the main importance of reparations, too, is *expressive* ... its primary significance [may be] a public expression of wrongdoing and the determination to do things differently in the future” (2001: 173 fn 8, emphasis added).

DEIRDRE: I agree. I just saw an excellent show about Pete Souza, the official White House photographer under Obama. As the Trump administration revealed its character, Souza compiled a little spin-off from his official photo book on Obama in which he put tweets by Trump side-by-side with photos from his voluminous files of the previous president doing the job right. One job for instance that Obama did

spectacularly well and Trump did spectacular badly was precisely the public expressions of wrongdoing and the determination to do better in the future.

GEORGE: Then we might agree, I hope, that the economist commits an egregious error when treating *all* transfers as compensation. The apples-pears argument fails in all the truly important cases.

DEIRDRE: You don't think that ordinary market exchange is "truly important"? Well, the sad attempts in the old Eastern Europe under communism to introduce a self-contradictory "market socialism" argues the other way. But of course I accept that there is a sacred sphere, an important one that we must attend to, and that is not fungible with ordinary goods – thus all my writings in the past twenty years. I am a (converted) Christian liberal. Martha is a (converted) Jewish liberal. Anyway, we are both liberals, and both acknowledge the sacred.

GEORGE: Of course. But what is this "ordinary market exchange" as you call it? In the standard liberal market ideal the purchase of a Mazzerati, say, and life-saving medicine, would be theorized just that way, no? In the liberal economic conception, the individual who can't afford the Mazzerati, and the father who loses a child owing to his inability to afford antibiotics, are treated identically. Of course their harms are not identical – it is obscene to measure them on the same scale. But notice, the harm that befalls each of them arises by way of what you call ordinary market exchange. What do our textbooks have to say? In a world of scarcity, none of us can acquire all we would wish to. Deal with it!

DEIRDRE: Well, why not give "universal access" to everything? You have no argument for not extending it to everything, making everything sacred. We tried out in 1917 sacred universal access for everything equally for everyone (though in practice some animals in the Party get to be more equal than others). In a large society, as against a family or a group of friends, it failed spectacularly. In the matter of US medical care, the better proposal is to delegitimize the monopolies supported by the State that make such care grotesquely expensive. For example, let Americans buy Canadian drugs. Let them buy any drug. Let them pay anyone to be a doctor. Let people exchange.

GEORGE: Count me unpersuaded. A step in the right direction, that perhaps we can both accept, is to follow Richard Musgrave in identifying a range of "merit goods" that should be made available to all – yes, *all* – outside of the market apparatus and independent of market logic (Musgrave 1987). One very partial test of which goods qualify might be this: if the loss of a good can be easily compensated for through the substitution of other goods, then the good might appropriately be produced for and distributed via markets – provided there is some adequate degree of fairness in the distribution of income. If on the other hand a good is non-substitutable, that good should be universally supplied. That criterion captures your sacred goods, but also adequate shelter, food, medicine, and more. Let's return to the father of the sick child. Is he just as well off after compensation has been paid to him as he was prior to the loss of his child's life? If he is, he is a psychopath – not a rational economic actor. You

and I and all economists who take just a moment to think it through know that he is not repaired through compensation. That should encourage us to advocate for the universal provision of medicine. How we get there is something we can debate. Breaking pharmaceutical monopolies might be an important step in that direction.

DEIRDRE: Certainly, he would be a psychopath, or, what is the same thing, Mr. Max U – or an extremely poor man in Cambodia willing to sell his daughter into prostitution. We must maintain a distinction between the sacred and the profane. Yet the distinction does not imply that only one should apply. It is not true that “all the important cases” must be decided on the side of the sacred. That was the point of *The Bourgeois Virtues*, and of my criticism in 2012 of Michael Sandel’s tut-tutting about the price system. Honoring monetary compensation in a restrained way can give very good results in the long run, for a poor man, or at any rate for his child later. Specific enforcement or socialized medicine or whatever is implemented right now often does not. How much better was the gradually spreading liberal regime after 1800? 3,000 percent better (which is the rough figure of the Great Enrichment, 1800 to the present).

GEORGE: You’ve made that point in your work better than anyone, and we’ll return to it momentarily. But first, I want to conclude this part of our discussion, on the economic prejudice that misleads us on compensation, by turning to a wonderful passage in Charles Dickens’ *A Tale of Two Cities*. The carriage of Monseigneur the Marquis, “one of the great lords in the power of the Court,” careens recklessly through a town square without regard for the safety of others.

At last, swooping at a street corner by a fountain, one of its wheels came to a sickening little jolt, and there was a loud cry from a number of voices, and the horses reared and plunged.” A crowd assembles around the carriage and the distraught father of a slain child. “What has gone wrong?” said Monsieur, calmly looking out...Pardon, Monsieur the Marquis!” said a ragged and submissive man, “it is a child.” “Why does he make that abominable noise? Is it his child?”

“Excuse me, Monsieur the Marquis – it is a pity – yes.” [To which the Marquis responds with disgust:]

“It is extraordinary to me,” said he, “that you people cannot take care of yourselves and your children. One or the other of you is for ever in the way. How do I know what injury you have done my horses. See! Give him that.”

He threw out a gold coin for the valet to pick up, and all the heads craned forward that all the eyes might look down at it as it fell. The tall man called out again with a most unearthly cry, “Dead!” ... The Marquis leaned back in his seat, and was just being driven away with the air of a gentleman who had accidentally broke some common thing, and had paid for it, and could afford to pay for it; when his ease was suddenly disturbed by a coin flying into his carriage, and ringing on its floor.

“Hold!” said Monsieur the Marquis. “Hold the horses! Who threw that? ... You dogs. ... I would ride over any of you very willingly, and exterminate you from the earth. If I knew which rascal threw at the carriage, and if that brigand were sufficiently near it, he should be crushed under the wheels.”

The Marquis offends us, economists no less than the rest of us, for his cruelty and brazen indifference toward the irreparable damage he has caused. But notice: the Marquis' calculations are consistent with the standard welfarist account that so many of our economic colleagues embrace.

DEIRDRE: I deplore Monsieur le Marquis, and I do not embrace the extension of such unethical behavior to the generality, or for that matter to the particularity. *The Bourgeois Virtues* (2006) says that Prudence does not suffice as an ethical guide, not even in a bourgeois and commercial nation – and even though economists have since the “New” Welfare Economics of the 1930s and more deeply since Bentham, lost the ethical plot.

GEORGE: Right. Prudence would have us see the case this way: A harm has been caused, and compensation has been provided – case closed. But the recipient of the payment will not accept it. The coin is flung back at the Marquis not because the amount is inadequate. Were the father driven by Prudence, he instead would have held up the carriage until *the adequate price had been paid*. The coin is flung back because indifferent monetary compensation is understood to be a grossly inappropriate response to the atrocity which caused the loss of life. Dickens knew better than present-day economists about harm remediation.

DEIRDRE: I have said so. My friend Arjo Klammer, he of humanomics before the name, brought me to understanding it sharply a long time ago. Suppose you go to a friend in distress, and he spends – note the economic metaphor – an hour comforting you. If at the end he says, “That’ll be \$100, for psychological counseling,” the demand for compensation for his opportunity cost is friendship-ending. Likewise if the husband leaves a \$100 bill on the bed after sex.

GEORGE: I note in this connection that promised monetary compensation to communities for public projects that threaten harm, such as environmental damage, sometimes *reduce* support for the projects (Frey *et al.* 1996).

DEIRDRE: Yes, Bruno is right. The other example is relaxing the rule that you pick up your child at daycare at 6:00 pm exactly. As an experiment the parents were allowed to pick up later if they paid a fine. When the cash compensation was instituted it had the effect of more, not less, late pick ups, because then it had been put on the basis of Prudence, not sacred Justice or Temperance or Love. You pays your money and you takes your choice. The other, older example is the classic argument about blood donation in Richard Titmuss' *The Gift Relationship* (1971; though his factual claims have been challenged).

GEORGE: It is instructive that communities sometimes refuse proffered compensation even when they have no other recourse. Better to live with the harm than to legitimize it by accepting a payoff. The case of the Lakota, Dakota, and Nakota (LDN) tribes (formerly referred to as the Sioux Nation) comes to mind. The 1868 Treaty of Fort Laramie guaranteed the the LDN tribes “‘undisturbed use and occupation’ of a swath of land that included the Black Hills, a resource-rich region of

western South Dakota.” The Treaty was immediately violated when miners discovered gold. A century later, the LDN sued the federal government for the return of its lands. The U.S. Supreme Court ruled in 1980 that the LDN were due compensation in the amount of \$102 million. The LDN refused the payment. The funds have remained in a trust ever since, accruing interest. Today the fund totals \$1.3 billion – not a huge sum, but not nothing (LeGro 2011). It remains unclaimed though the LDN have virtually no chance of having their lands restored to them. In this case the offer of compensation for sacred lands *deepens* rather than *heals* the wound.

DEIRDRE: I agree on all of this, the perfidy of the U.S. and the dignity of the LDN refusal to accept cash compensation.

Then Can We Agree to Excise Facile Compensation Tests from Economics?

GEORGE: *Really?* Then the two of us and others with ethical sensibilities that extend beyond standard welfare economics have no business invoking compensation as universally suitable for the harms that individuals and communities suffer as a result of economic arrangements – even if those arrangements are ultimately beneficial to some individuals. That approach fails to recognize that many economic and *econogenic* (economist-induced) harms are irreparable, and that many harms that can be repaired, wholly or partially, require acknowledgment, not compensation. Dickens got it exactly right. Economists fail to learn the lesson. Indifferent compensation trivializes the harm and belittles its victims. As a consequence, it actually deepens and compounds the harms it is intended to redress. Compensation absent acknowledgment insults and demeans. We know this in our bones, which is why Dickens’ scene is so arresting. Non-welfarists such as you and I should recognize that acknowledgement and not compensation does the work of repair in cases of deep, enduring harm. This is true even in cases involving monetary transfers. The test is this. When it matters from whom the transfer comes, the conditions under which it occurs, the sentiments that are conveyed alongside the transfer, and the words that are spoken, we economists should be alerted to the fact that the transfer represents something other than compensation. This insight has little to do with and may even conflict with bourgeois ideals. The idea comes to us from many other sources – our diverse theologies, secular humanisms, virtue ethics, feminist ethics of care, and beyond. It’s time for us, on the left and the right. ...

DEIRDRE: ... Remember, George, that I am a “liberal,” and cannot be placed along the one-dimensional Twitter meme that people insist on using for all political thinking. I am not on the right. I have never voted for a Republican (and the last time for a Democrat was 1972 for McGovern, against the Vietnam War; whoops, no, also in 2020 for Biden, as was everyone’s duty). We liberals float above the spectrum, saying to our friends who happily range themselves along it, “Consider, dears, that the issue is

whether coercion should be large or small, not whether – as both of you seem to think – that the issue is whether the 40 % of GDP coerced by modern governments should be spent either on literal war against the foreigners or on figurative war against the bosses.”...

GEORGE: Ok, time for leftists, conservatives, *and liberals* to reject the economist’s notion of compensation and to begin instead to reckon with the complexity of harms, harming, and repair. My leftist and your liberal and Christian guides demand this of us – they demand empathy in place of cool-headed calculations. Can we agree to join in the campaign to root out facile compensation tests from our profession?

DEIRDRE: “Facile,” yes, I agree with you – and there are plenty of those, such as the absurd convention in legal cases that the value of a life is the income that the dead person earned. Better: the sum of willingness to pay by family and friends, as a public good in the technical sense. (In that case, though, there are people who give me negative utility. Who gets to put in a bid?). But “thoughtful” compensations tests no, I do not agree that they should be taken off the table. When the balance is between two merely monetary rewards, for example, such a test makes perfect sense. That is the case of “protection,” taxing one group for the benefit of another. For example, U.S. buyers of autos in the 1970s faced quotas on Japanese autos, which raised the price of all autos to the buyers, to the extent easily of five times more than the salary paid for each Detroit job saved. In such instances, a dollar is a dollar ethically speaking, and maximizing GDP is the ticket, as in A.C. Harberger’s classic article in 1971.

GEORGE: I won’t engage you on the particulars of that case, but I do concede the point that there are instances where comparison of monetary gains and losses has a role to play in our thinking about public policy. The error occurs, as I’ve argued here and elsewhere (DeMartino 2015), when that logic is applied universally – even to cases involving non-substitutable goods and non-compensable harms. Unfortunately, much public policy imposes the loss of sacred goods – including trade liberalization! Beyond that, I want to concede another point. One can argue plausibly, as you have in your work and in this conversation, that monetary transfers can help to sustain social cohesion in ways that promote social wellbeing. Surely we don’t want to return to the world of eye-for-eye. But sustaining that argument requires that we recognize that the transfer is not repairing the irreparable or compensating the noncompensable – it is ‘buying’ social peace. That view is far less objectionable, I think, than the standard welfarist claim that transfers amount to compensation that restores the recipient to pre-harm levels of wellbeing.

DEIRDRE: It’s more than social peace, such as Count Bismarck in 1889 buying off the working class in the German Empire by introducing old-age pensions. But win-win-win-lose is the kind of society that many people want to be in. It is legitimate, that is, at the constitutional or ideological level of choice of the sort of society you want to be in. We offer people such choices all the time: immigration, for example, which is massively towards the win-win-win-lose places; or voting. It’s the Buchanan-Tullock

constitutional political economy. You believe in choice and voting, yes? Some of my friends on the left and right seem not to.

Win, Win, Win ... Lose – The Paretian Defense of Uncompensated Harms

GEORGE: A perfect segue to the next point I want to raise with you. I worry, Deirdre, that your invocation of compensation is dangerous in a profession where too many practitioners look to resolve ethical complexity via what the philosopher Howard Radest (1997) calls “moral geometry.” What I have in mind is your long-run Paretian defense of *uncompensated* harms. It is on display in this extraordinarily evocative, McCloskeyan defense of bourgeois economy:

The gain since 1800 from economic change has massively outweighed in monetary and ethical terms the loss to English woodmen disemployed by Swedish timber, or American blacksmiths disemployed by automobiles, or Indian bullock-drivers disemployed by motor trucks. The Win-Win-Win-Wins far outnumber the lone Lose. To put it back in terms of rule utilitarianism and constitutional political economy, what sort of society would you rather be born into: one that forbade every innovation that resulted in any loss whatever to anyone, and rested therefore at \$3 a day, and held that the sun “rose” and that painting must always be representational, or one that allowed innovation, perhaps with a social safety net like Norway’s, and resulted in \$137 a day, and allowed Copernicus and Picasso to make old ideas obsolete (2010, chp. 9)?

The Paretian defense presumes we are all made better off by a long series of efficiency-inducing uncompensated harms. It is at root contractarian because it presumes we would all prefer the efficiency-promoting uncompensated harm policy rule – that there would be unanimity among rational deliberators behind a veil of ignorance choosing policy regimes, and presumably among those populating the economy as well (cf. Adler and Posner 1999; Posner 1980; White 2006).²

DEIRDRE: That’s right: I just made such an argument, that someone who chooses to live in a win-win-win-lose society should be respected in her choice.

GEORGE: The defense asks us simply to accept that there is no basis for rejecting the consistent application of a decision rule, like Kaldor-Hicks, that ultimately benefits everyone – especially if we have reason to believe that the application of the rule would benefit everyone (including the disadvantaged) *more* than would other viable decision rules. Polinsky frames what he calls the “quasi-Paretian” case this way:

By broadening the notion of compensation to include bundles of changes that have some effective randomness in distribution, it thereby becomes possible to leave particular individuals uncompensated and worse off for single changes, yet assure them that they can

² See Hotelling 1938; Hicks 1941; Buchanan and Tullock [1962] 2004; Leibenstein 1965; Polinsky 1972; and Posner 1980.

(mathematically) expect to be better off as a result of the entire bundle (with the probability of actually being made worse off set at a value approaching zero) (1972: 408).

The Paretian case is intuitively appealing to the old Ricardian vice. But consider the long list of assumptions that must hold to sustain it. First, all harms must be of a nature that are not just repairable, but compensable. We have already put paid to that argument.

DEIRDRE: But you agree that there are hundreds of cases in which protection of Smith does not justify hurting Jones, where evil rent-seeking is the point, not the sacred harms you speak of. For example, one way of preventing racial segregation – aside from stopping the Federal Housing Authority from refusing mortgages for houses or farms to Black people, as it has done for seventy years – would be a Federal guarantee of house prices in an integrating neighborhood for some long term, say twenty years. It would bring Blacks on to the wealth-acquiring escalator of home ownership, and relieve thereby, at small expense to the public purse, the dismal 12 to 1 differential in net wealth.

GEORGE: Second, the magnitude of the losses – *all* losses – must be relatively small. Otherwise, the damage from the one loss might cancel all the previous and subsequent gains. Third, we must presume fairness in the distribution of wins and losses. Winning today cannot predispose you to win again tomorrow, while today's losers must be just as likely as today's winner to win in the next round.

DEIRDRE: You are making an assumption that is not apt given the facts, assuming that people are unwilling to enter into a free-market ideology that benefits, say, their grandchildren. On the contrary, people say it, and act it, very often.

GEORGE: No, I am only investigating the conditions that would have to be met for the Paretian defense of uncompensated harms to hold up. But I will say this – unless some fairness conditions on the distribution of harms hold, those grandparents will have no reason to believe that their sacrifices will redound to the benefit of *their* grandchildren. Now, I suppose one can imagine a society where many if not most economic harms are compensable, shallow, and fairly distributed. One can argue plausibly that the societies that come closest to fairness in the allocation of harms are those you are apt to find most objectionable – the European corporatist and social democratic regimes.

DEIRDRE: I have lived six years in social democratic places, three year each in the U.K. and the Netherlands, with shorter stretches in Sweden and Australia, and have no great objection to them – especially the ones that play cricket. But I have lived also in South Africa, which I also love (and also plays cricket) – but lament its corrupt and impoverishing protectionism. And everyone, including you as a speaker of the language of the place, knows that Italy, another country I love, and wish I had lived in more, is utterly incompetent at such fairness. One of the practical objections to delicate social-democratic policies, after all, is that some countries – the USA comes to mind, or India – cannot in fact implement them without notable disasters, such as U.S. farm

policy and other corporate welfare. A nice example of the contrast is that the Swedish government turned a stony face to appeals from Saab Motors to be saved, and had no complaint at all when Volvo was *bought by Chinese*. By contrast, the U.S. Congress rushed forward to succor the stockholders and protected workers of Chrysler, twice, and one can easily imagine what would happen if Chinese proposed to buy GM.

GEORGE: Well, then, what we might pursue is ‘economy harm profile analysis’ (DeMartino 2019), where we inventory an economy’s economic harms and economic harm-inducing mechanisms. We would want to know about the nature of the harms that each society generates, ameliorates, and prevents, and a good bit about the distribution of those harms over time.

DEIRDRE: You demand a general equilibrium cost-benefit analysis of everything, which cannot be done and therefore would bring all change to a halt. Yes, we need to decide, but at the level of the kind of society we want to live in. I want a liberal society of non-slaves – not slaves to husbands or kings or bureaucrats.

GEORGE: No, I’m looking for something more manageable. The relatively new “social harm” tradition that broke away from criminology provides some guidance. I’m thinking of Pemberton’s book *Harmful Societies*. I’m also thinking of Case and Deaton’s new book, *Deaths of Despair*; or Stuckler and Basu’s *The Body Economic*. Each of these books takes a harm-centric approach to social analysis. That’s what I’m suggesting. Short of a full-blown economy-harm profile analysis, we might take trends in inequality in incomes, wealth, vital goods (like health care and quality education), and COVID death rates as *prima facie* evidence of the depth of harms and the unfairness of harm distribution. A society becoming drastically more unequal over time – as the US society has done since the 1970s – should alert us to the fact that harms are serially correlated, in violation of the conditions necessary to sustain the Paretian defense of uncompensated harms.

DEIRDRE: It is not true that inequality has increased, even in the U.S. (yes, I realize you do not agree; but consider it possible that you may be mistaken). But in fact international inequality has sharply decreased. I do wonder why my friends on the left worry about U.S. matters, but do not take the cosmopolitan view of the Enlightenment. It has been a tension in the U.S. labor movement for a century and more. The ILGWU wants to be seen as international, but in fact wants protection that is harmful to foreign ladies garment workers. The intellectual work-around for its ethical failing is to run the economics backwards, and claim that imposing U.S. “standards” on, say, Vietnam would make Vietnamese workers better off. You bet: impose, say, a \$15 an hour wage on a textile worker in Ho Chi Minh City. How many will be employed?

GEORGE: Yes, international trends in inequality are complex, with rising national inequality offset by decreasing inequality across countries, and any full accounting had better recognize both trends. But I want to push you on the case of the U.S. Can we agree that contemporary U.S. political economy violates every one of the assumptions required to sustain the long-run Paretian defense of the uncompensated harms of bourgeois arrangements? Or might you accept the point but insist that the U.S.

economy and society no longer reflect bourgeois ideals, if they ever did? I would certainly concur, but would hold with Polanyi (1944) that such an economy and society are in principle unsustainable.

DEIRDRE: I do wish my friends on the left would not take Karl so seriously (see McCloskey and Hejeebu 1999; 2004). And I wish they would read instead his smarter brother Michael, a chemist just below the Nobel level (his son won it: it is an amazing family in all directions) who was a liberal in my sense.

The McCloskey Counterfactual

GEORGE: I want to draw your attention to another claim that is required to sustain the argument that submission to uncompensated harms in a bourgeois order is the best we can do. That claim, it seems to me, depends on the truth of the implied counterfactual that *no other achievable regime* could do better than bourgeois arrangements in promoting the wellbeing and freedoms of those worst off.

DEIRDRE: I deal in approximations, not on/off absolutes. Yes, I do claim that the Bourgeois Era has resulted in a 3,000 % increase in the real standard of living of the worst off. It's the magnitude of the Great Enrichment that makes claims from the left that "Oh, we can do so much better" look unwise. Most utopias have devolved into dystopias. As the political scientist John Mueller put it, "capitalism" (a highly misleading word, by the way) and democracy are "pretty good."

GEORGE: But only if we can sustain the claim that we live in the best of all *achievable* worlds are we ethically warranted in dismissing the torrent and quickening pace of uncompensated harms.

DEIRDRE: I note the pessimism, which the left shares with the right. We liberals are optimists about the capacity of liberated people to flourish, and see also the "torrent" of free lunches.

GEORGE: But as you know, there are always innumerable counterfactual accounts. Counterfactuals are, after all, figments of our imaginations, fictitious accounts of imagined worlds that do not and cannot exist (DeMartino 2021). Your genius lies in the acuity and creativity of your historical mind. That's what makes me read your work despite myself. Your breathtaking multi-volume bourgeois ideals project seeks to persuade us with evidence, argument, wit, and rhetoric that but for the bourgeois turn, with its acceptance of uncompensated harms, we would inhabit a substantially poorer world today where all of us (including the most precarious) are worse off.

DEIRDRE: The fact is that without the Bourgeois Revaluation in a new liberalism starting in the 18th century we would be still at \$2 a day. The evidence is overwhelming – you seek to dismiss it by praising my wit and rhetoric. Thanks, but the facts remain.

GEORGE: But notice: *your counterfactual puts your preferred economic arrangements into the arena against all conceivably achievable economic arrangements*. The problem is that, at the end of the day, we ultimately must take your counterfactual – without which your causal claims and defense of the bourgeois ideals fail – on faith. There is not now nor will there ever be an unimpeachable, knock-out argument to sustain or reject your counterfactual claim. Or mine. Or even Marx’s!

DEIRDRE: Oh, George You wish to flee to evils we know not of – or, rather, evils of tyrannical States we know all too well.

GEORGE: What most frightens me about your win-win-win-lose claim is that it countenances today’s misery, which might go uncompensated under the Paretian defense, for tomorrow’s wellbeing.

DEIRDRE: I think we’ve established that I do not rest the argument entirely on win-win-win-lose, and do emphasize the sacred. But on the other hand, would not your Italian ancestors or my Irish have enthusiastically embraced the 3,000% of the Great Enrichment? Come to think of it, they did. I am not proposing to “countenance misery.” That office I leave to my friends on the left and right who oppose economic progress for the wretched of the earth in aid of an imagined sacred to be achieved by staying in the village in Calabria or Ulster, or central planning of new villages. I am pointing out that in 1800 there was no way that redistribution or socialization would have made our ancestors much better off. Letting them enter for the price of a steamship ticket in steerage a society that honored innovation gave them the factor of 30 times more education, health, food, shelter, life.

GEORGE: But do you not worry that this line of thinking can too easily inure us to deep, irreparable economic harm and the harm we economists induce as we look to promote social betterment? It runs far too close to the reasoning of the self-certain revolutionary (or, for that matter, the neoliberal social engineer) who is prepared to cash in *these* lives for the sake of *those* lives. It licenses utopian thinking that brooks no interference – that sees mounting misery simply as the price to be paid for progress. “Utopia is where our grandchildren are to live,” quips the extraordinary libertarian philosopher Robert Nozick. His warning should be taken seriously by all of us who look to promote social betterment.

DEIRDRE: I of course agree. But if my view is utopian, dear George, you are Robert Owen reincarnated.

The Hegelian Challenge

GEORGE: Southern Indiana is beautiful, and New Harmony, Owen’s cooperative experiment in living, appeals. But I submit that there is a better way to approach the matter of harming to help. The finding that a series of deep, enduring harms is necessary to achieve a valued good under *prevailing* social arrangements should trigger in the minds of economists what Nussbaum calls the “Hegelian question”: “how can we

bring it about that citizens do not face such tragic choices all the time” (Nussbaum 2001, 187)?

DEIRDRE: I am no expert but Jeffrey Tucker’s recent book (2017) should put the quietus to Hegel scholarship. So?

GEORGE: In accepting the Hegelian challenge we should recall that “the arrangements that we observe in operation today, varied as they are, themselves constitute a subset of the full range of potential institutional possibilities” (Rodrik 2001, 12). For my part, win-win-win-lose reasoning is far too deeply ingrained in the economist’s mind. It inures the profession to irreparable harm and, as a consequence, it removes the Hegelian question from view. Our job, as critical economists, is to raise the Hegelian question whenever and wherever our colleagues rush to judgments that countenance harm. So let’s eliminate compensation tests from our vernacular and our ethics. Too many lives have needlessly been lost to Kaldor-Hicks.

DEIRDRE: I hear this from the left too much, as though modern economic growth was some immiserizing terror. Tell that, dear, to Giuseppe DeMartino or Caitlin McCloskey boarding the steamship in 1880.

GEORGE: Ok, let me try to take stock. I see that one hope with which I entered into this exchange has been validated. When irreparable harms are at stake, the economics profession has no business imposing moral geometry. Compensation tests have no place in decisions involving what you call sacred goods. I learned this from you, after all. As you and Steve Ziliak have put it in another context, “scientific judgment requires quantitative *judgment* ... As lovely and useful as the machinery is, at the end, having skillfully used it, the economic scientist needs to *judge* its output” (Ziliak and McCloskey 2004, 527). But I have not persuaded you, not even a bit, that your own Paretian approach to harm and harming is undone by the violation of its critical assumptions. If those assumptions ever held anywhere, they do not hold in the US today. Nor, it seems to me, have I impressed upon you the need for our profession to take a harm-centric approach as it pursues social betterment.

DEIRDRE: No, you have not. The pursuit of chimeras should not sacrifice the attainment of 3,000 %. I agree. Black Lives Matter. We can do much better – mainly by getting the State off our necks.

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