



**Department of Economics  
School of Social Sciences**

**Two rhetorical strategies of laissez-faire**

**By Andy Denis**

**Department of Economics  
Discussion Paper Series**

No. 03/10

# Two rhetorical strategies of laissez-faire

Andy Denis\*  
City University  
London

## Abstract

For many economists, including those who have made the most marked contribution to the development of the discipline, their work has to be understood in the context of the rhetorical strategy they were pursuing – what they wanted to persuade us of and how they wanted to do it. The paper identifies two fundamental rhetorical strategies of *laissez-faire* resting on entirely distinct ontological foundations. What distinguishes these two strategies is the way they articulate the individual with the general interest, how they relate the micro to the macro. The two strategies discussed in the paper are characterised by the stance they take on a fundamental ontological issue, the way in which the things which appear to us in the world are related to the things or matters which compose them. A reductionist approach suggests that we can understand an entity at one level as a congeries. An entity in this view is just an aggregate of entities at a lower, substrate level – a purely external unity. The properties and behaviour of an entity can then be understood in terms of the properties and behaviour of the constituent lower-level components, *taken in isolation*. In this approach, phenomena at some level are regarded as having just the qualities enjoyed by its lower-level, substrate elements, writ large. The contrary, holistic, stance is to view the qualities of phenomena at one level as emergent at that level, and to assert that an entity can be understood as a product of the *inter-relations* between its component parts. We have, then, a pair of contrasted approaches: a polarity which is productive in the study of schools of thought, of competing methodologies, and of rhetorical strategies in economics. The paper applies this approach to the work of Smith, Keynes, Hayek, Lucas and Friedman.

**JEL classification numbers:** B0, B4

**Key words:** *Laissez-faire*, ontology, rhetoric, reductionism, holism, invisible hand.

---

\*Address for correspondence: Dr Andy Denis, Department of Economics, City University, Northampton Square, London Tel: 020 7040 0257, Fax: 020 7040 8580, Email: [a.denis@city.ac.uk](mailto:a.denis@city.ac.uk). URL: <http://www.staff.city.ac.uk/andy.denis/>

## 1 Introduction

Smith, Malthus, Ricardo, Marx, Keynes, Friedman, Hayek: what is common to all of these as well as many others is that they all had a pre-existing general social philosophy and were in search of a theoretical underpinning for the policy framework they already wished to prescribe. This is by no means a criticism: it is precisely their engagement with policy issues, the vigour and tenacity with which they pursue their goals, and their commitment to their beliefs, which gives what they have to say its interest, relevance and bite. Neither is it in any way to deprecate more curiosity-driven research undertaken with fewer or lighter axes to grind. And neither is it, finally, to deny that there is a dialectic, an interplay between theory and the desired outcome of that theory. It is just to say that for many economists, including those who have made the most marked contribution to the development of the discipline, their work has to be understood in the context of the rhetorical strategy they were pursuing – what they wanted to persuade us of and how they wanted to do it.

This paper highlights two rhetorical strategies of *laissez-faire*. Not that they are the only ones: there are others. These strategies tend to blur into each other: individuals are inconsistent and borrow from each other without necessarily paying much regard to the methodological foundations of what they borrow. Nevertheless, I will argue that there are two fundamental, *interesting*, strategies which we can identify, and that they rest on entirely distinct ontological foundations.

In the period of modernity, individual interests, to be socially acceptable, have to be articulated with the general interest: sectional interests have to be presented as identical – or at least congruent – with the interest of all. What I want to argue in this paper is that what distinguishes the two strategies which I identify is precisely the way they articulate the individual with the general interest – or to put it in economic language, how they articulate the micro with the macro.

To tell a plausible and coherent story one needs implicitly or explicitly to address a number of ontological issues. Writers are compelled to take a stand on a number of questions about the fundamental nature of the world. For example, monism-dualism-pluralism: is there at base just one kind of world stuff, or two – matter and spirit, or phenomenal and noumenal – or are there many kinds. Again, if you adopt monism, then is the one kind of world stuff of which everything we see is a manifestation, matter in motion, or is it something else. The two rhetorical strategies which I want to discuss today are characterised by the stance they take on just such a fundamental ontological issue, namely, the way in which the things which appear to us in the world are related to the things or matters which compose them.

## 2 Reductionism and holism

One possibility is that we can understand an entity at one level as a congeries – like grains of sand on a beach or potatoes in a sack. An entity in this view is just an aggregate of entities at a lower, substrate level – a purely external unity. The properties and behaviour of an entity can then be understood in terms of the properties and behaviour of the constituent lower-level components, *taken in isolation*.

Now, firstly, regardless of what we *call* this approach, I submit that it is an interesting approach, one that exists in the world, and in the scientific community, and one that has important consequences. We need to study it, to discuss it, to understand it. We need the concept, and we need a name for it. I can think of no better name than the *reductionist* approach. It is an approach which aims to *reduce* the qualities of a phenomenon to those of its substrate. However, care is needed: we need to note that the term ‘reductionism’ is used very diversely. Reductionism can mean the reduction of the world to a single world stuff, and in this sense it is just a synonym for monism. In this meaning, idealism is reductionism as it reduces everything in the world to the spirit, ideas or abstract forms, of which what we see is just a manifestation. Again, ‘reductionism’ as used by Dan Dennett, Marvin Minsky, and writers concerned with the computational theory of mind, is just materialism, and what *I* call reductionism is what Dennett, for example, calls ‘greedy reductionism’. We can’t explore that further here. Whatever the problems associated with the use of the word elsewhere, I use it here to mean the approach which regards phenomena at some level as having just the qualities enjoyed by its lower-level, substrate elements, writ large.

The contrary stance is to view the qualities of phenomena at one level as emergent at that level, and to suppose that an entity can be understood as a product of the *inter-relations* between its component parts. We have, then, a pair of contrasted approaches: a polarity which is interesting and *productive*, I submit, in the study of schools of thought, of competing methodologies, and of rhetorical strategies in economics. Again we need a name and despite all the problems associated with this name, I have chose to designate this approach the *holistic* approach to emphasise the need it perceives to consider things as wholes, rather than as congeries of isolated atomic components.

One way of thinking about the polarity between *reductionism* and *holism* is as a tension between the claims that the whole is, and is not, equal to the sum of its parts. This usage follows that adopted by Douglas Hofstadter and spelled out in his usual entertaining and insightful way in *Gödel, Escher, Bach*:

“HOLISM is ... simply the belief that ‘the whole is greater than the sum of its parts’. No one in his right mind could reject holism.  
“REDUCTIONISM is ... simply the belief that ‘a whole can be understood completely if you understand its parts, and the nature of their “sum”’. No one in her left brain could reject reductionism.” (Hofstadter 1980: 312)

A striking analogy can be drawn between the opposition between reductionism and holism, on the one hand, and that between classical and Keynesian economics, on the other. Just as Keynesian economics claims its model of the economy to be the general case, and the classical model to be a special case within that model, when the economy just happens to be operating at full employment, the holistic standpoint would claim to be the general case, and the reductionist model to be a special case which holds when the entity in question really is a congeries. Adopting the Keynesian standpoint or the holistic view, the question as to whether there is full employment, or whether the object is a congeries, is an empirical question which has to be addressed anew on each occasion, while the contrary views of the classical school and reductionism simply *assume* full employment, or that the entity is a congeries, respectively.

### 3 Ontology and policy prescription

So how do holism and reductionism relate to strategies of persuasion in economics? A start can be made by looking at the conception of society of some eminent twentieth century economists, and noting a real tension between the approaches of Milton Friedman and Robert Lucas, on the one hand, and Friedrich Hayek, on the other. Economics, Friedman says, is based in the study of ‘a number of independent households, a collection of Robinson Crusoes’(1962: 13). Lucas agrees: ‘An economic system is a collection of people ...’(1987: 29). Note the language: ‘number’ is about a purely external relation, a relation of contiguity, while ‘independent’ stresses again the primacy of the isolated, atomic households over any relations that might subsist between them. Finally, what, or who, could be more isolated than a Robinson Crusoe? Lucas’s view that a system is just a collection could conceivably be just a throw-away line, so it’s worth exploring a little further the argument which he develops on these issues. An apparent social pathology, such as unemployment could conceivably be analysed using one of two approaches: either we could analyse it holistically as something emerging at the macro level, unintended by anyone, or we could regard it as simply the aggregate or sum of all the micro level individual agent decision on hours to work. Characteristically, Lucas opts unambiguously and emphatically for the latter: ‘To explain why people allocate time to a particular *activity* – like unemployment – we need to know why they prefer it to *all* other available activities’ (1987: 54). The logic is clear: social unemployment is just the sum of all the individual decision to be unemployed. Reducing the social phenomenon to individual decisions makes it a matter of free choice, it explains the apparently suboptimal as really optimal. So this question of unemployment as an individual matter is absolutely critical: ‘Among the questions raised about McCall’s model of unemployment, the most pressing are those concerning its purely individual character’ (1987: 57).

“I have centred this discussion of unemployment on McCall’s original model of the decision problem facing the single unemployed worker. As soon as this simple problem is *stated*, it leads to a host of questions about the worker’s objectives and his market opportunities, which in turn leads directly to some of the central questions of the theory of unemployment”. (1987: 65)

As soon as we have re-formulated the problem of unemployment as an individual matter, in other words, we have assumed away precisely the most important features of the issue: the quantity constraints that households face in labour markets, the involuntary quality of the unemployment imposed on households by the pathological set of relationships within which they are embedded. But the concept of ‘involuntary’ unemployment is anathema to Lucas:

“McCall’s decision to model unemployment as ‘voluntary’ ... was, and still is, subjected to ignorant political criticism ... In fact ... it is exactly this ‘voluntary’ aspect of McCall’s formulation that leads it immediately into the first coherent analysis ... In my view, focusing on unemployment as an *individual* problem ... is the key step in designing social policies to deal with it. But I began this section with another question in mind as well: whether modelling *aggregative* unemployment in a competitive way as in the Kydland and Prescott model (and hence lumping unemployment together with ‘leisure’ and all other non-work activities) is a serious strategic error in trying to account for business cycles. I see no reason to believe that it is. If the hours that people work –

*choose* to work – are fluctuating it is because they are substituting into some other activity.” (1987: 67)

Unemployment, for Lucas, is an individual matter, a matter of choice, and hence voluntary. He applies this approach, again, to the consideration of ‘separations’ – that is, workers being given the sack. Why do workers remain out of work after they’ve been dismissed – ‘separated’? To understand why sacked individuals may remain out of work, Lucas says, we need to solve ‘the problem of understanding the behaviour of individual workers once they are separated, and of explaining why they react to this situation – *choose* to react to it by substituting against work’ (1987: 68).

Lucas is well aware that Keynes is the paradigmatic opponent of the stance he is proposing, and dismisses Keynes precisely for failing to adopt this individual-centred approach:

“It is a remarkable and, I think, instructive fact that in nearly 50 years the Keynesian tradition has produced not one useful model of the individual unemployed worker ... By dogmatically insisting that unemployment be classed as ‘involuntary’ this tradition simply cut itself off from serious thinking about the actual options people are faced with.” (1987: 66)

Finally, in the last paragraph of the book, where he is standing back from the detail of his analysis and identifying the fundamental issues at stake, Lucas again chooses to emphasise the tension between what I have identified as holistic and reductionistic approaches, and to use this framework to condemn Keynes:

“The most interesting recent developments in macroeconomic theory seem to me to be describable as the reincorporation of aggregative problems such as inflation and the business cycle within the general framework of ‘microeconomic’ theory. If these developments succeed, the term ‘macroeconomic’ will simply disappear from use and the modifier micro will become superfluous. We will simply speak, as did Smith, Ricardo, Marshall and Walras, of *economic* theory. If we are honest, we will have to face the fact that at any given time there will be phenomena that are well-understood from the point of view of the economic theory we have and other phenomena that are not. We will be tempted, I am sure, to relieve the discomfort induced by discrepancies between theory and facts by saying that the ill-understood facts are the province of some other, different kind of economic theory. Keynesian ‘macroeconomics’ was, I think, a surrender ... to this temptation. It led to the abandonment, for a class of problems of great importance, of the use of the only ‘engine for the discovery of truth’ that we have in economics.” (1987: 108)

Whatever one thinks of the content of what Lucas is saying in these passages, it is, I think, powerful evidence that he adopts what I have called the reductionist approach, and self-consciously so. At the end of the book he chooses to summarise by focusing on the methodological issue of the reducibility of the macro to the micro. It is also noteworthy that he has no answer to Keynes, Keynes is simply subjected to uncomprehending dismissal and demagogy. The Keynesian analysis of involuntary unemployment is not teased apart in order to overcome it theoretically, but subjected to the ignorant political criticism that it is ‘ignorant political criticism’.

It is also clear that there is an intimate connection between the adoption of a reductionist approach and a *laissez-faire* policy prescription. If unemployment is an individual matter, then it is freely chosen, and can be ‘lumped in’ with leisure. So apparent social pathology can be explained away as in fact voluntary and hence,

presumably, optimal. So the message is that there is no macro-level pathology, and no macro-level policy intervention is indicated. It is well-known that the New Classical Macroeconomics, of which Lucas is a key figure, proposes the *PIP* – ‘policy ineffectiveness proposition’. And – to return briefly to Friedman – it is also well-known that Friedman is equally in favour, in the words of the title of his book, of capitalism and freedom. It is in fact pretty widely accepted that there is a link, not a tight or one-to-one link, but a link nonetheless, between reductionism and *laissez-faire*.

For a contrasting view, let’s turn briefly to Keynes – briefly as our topic is rhetorical strategies of *laissez-faire*, and Keynes is strictly outwith our remit. Three years after the publication of *The General Theory*, standing back from the detail of that theory, in the Preface to the French Edition, Keynes sets out

“what I regard as the main differentiae of my approach. I have called my theory a general theory. I mean by this that I am chiefly concerned with the behaviour of the economic system as a whole ... And I argue that important mistakes have been made through extending to the system as a whole conclusions which have been correctly arrived at in respect of a part of it taken in isolation.” (1973: xxxii)

This statement is clearly holistic in my sense of the word. It is an assertion that there is a natural dichotomy between *microeconomics*: conclusions correctly arrived at in respect of parts taken in isolation, and *macroeconomics*: the study of the behaviour of the system as a whole. And the latter cannot be reduced to the former.

Keynes’s opposition to *laissez-faire* is well-known. His economic theorising was designed to lead to the policy prescription he wished to sustain. The order of society is an unintended consequence of individual self-seeking behaviour, something which emerges at the level of society as a whole. There is therefore no particular reason to believe that outcomes will be socially desirable, and there will in general be a need to take collective corrective action to mitigate those outcomes (Denis 2002b).

There is thus at least some tendency for a holistic ontology to lead to an interventionist, activist policy prescription at the macro level. Does this mean that there is no opening for a holistic strategy in defence of *laissez-faire*? It does not. I want first to turn to a passage in Toynbee, and then to consider in some more detail what Hayek has to say of relevance to these points.

At the beginning of the last of several very different versions of his magnum opus, *A Study of History*, Toynbee sets out his definitions of key terms. The definition of ‘society’ is as follows:

“SOCIETY is the total network of relations between human beings. The components of society are thus not human beings but relations between them. In a social structure ‘individuals are merely the *foci* in the network of relationships’ ... A visible and palpable collection of people is not a society; it is a crowd.” (1972: 43)

Now this is an excellent statement of the holistic view of society, and makes very clear the differences between the holistic and reductionist approaches to the analysis of society. But what is particularly interesting is the provenance of expression he cites, that ‘individuals are merely the *foci* in the network of relationships’, for this is none other than Friedrich Hayek (1979: 59). And this is no accidental phrase, as we

can see when Hayek addresses the question of the equality or otherwise between wholes and parts:

“That a particular order of events or objects is something different from all the individual events taken separately is the significant fact behind the [phrase of] ... ‘the whole being greater than the mere sum of its parts’ ... [I]t is only when we understand how the elements are related to each other that the talk about the whole being more than the parts becomes more than an empty phrase.” (1952: 47)

“The overall order of actions in a group is ... more than the totality of regularities observable in the actions of the individuals and cannot be wholly reduced to them ... a whole is more than the mere sum of its parts but presupposes also that these elements are related to each other in a particular manner.” (1967: 70)

So, clearly, Hayek is appealing to just the kind of ontology which I have ascribed to Keynes and called holism. So what about Hayek’s policy prescription: how does that fit in? It is well known that Hayek denies any significant scope for state action in the economy. But if order is emergent, how are we to believe that it is *benign*, human-favourable, and that action at the collective, macro level is uncalled for?

What I want to suggest is that as well as the more widely known reductionist underpinning for *laissez-faire*, there is also a holistic rhetorical strategy for *laissez-faire*, and that Hayek is a prime instance of this standpoint.

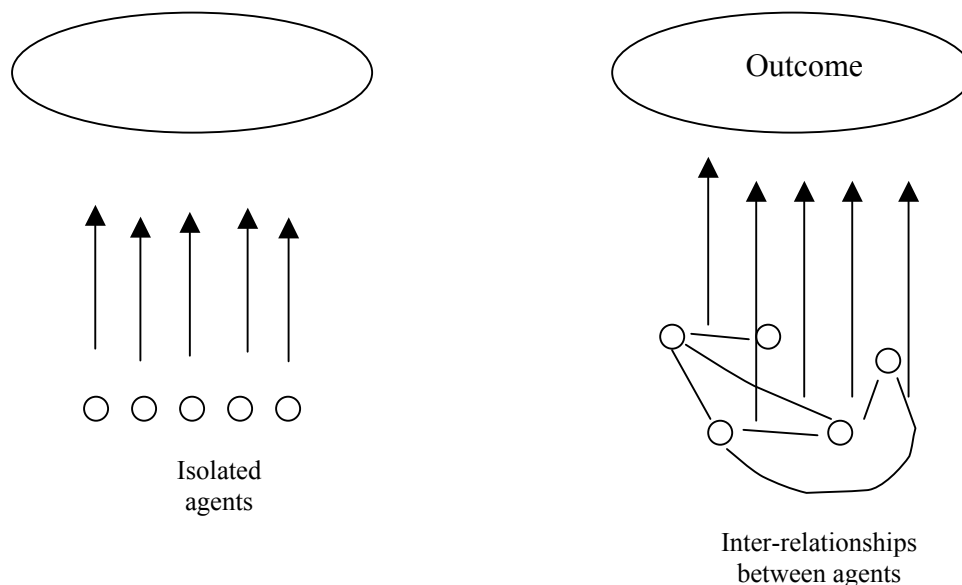


Figure 1, A and B

In Figure 1A, the social outcome is just the sum of the results of the individual level decisions. If the individuals are utility maximising, then we automatically get social welfare maximisation at the macro level. In Figure 1B, the social outcome is a product of the inter-relationships between the micro level agents. Individual utility maximisation at the micro level does not tell us what will emerge at the macro level.

#### 4 The second rhetorical strategy of *laissez-faire*



The problem for the reductionist strategy is that it is very easy to point out ways in which the world is not structured in the way reductionism would imply. Chairs, as Alan Haworth points out (1994: 35), do not consist of molecules that are hard, green or uncomfortable. Hardness, greenness and uncomfortability are properties of the chair that emerge at various levels far higher than the individual molecules of which the chair consists. And in economics individual rationality only issues in collective rationality, markets, that is, only spontaneously generate efficient outcomes, in highly restrictive, hypothetical circumstances, for example, under the condition that there are no externalities in any market.

The Prisoners' Dilemma is an example of a case where individual utility maximisation does not lead to collective welfare maximisation: the spontaneous outcome is suboptimal. By 'the Prisoners' Dilemma', here, I mean precisely those situations where the prisoners do in fact face a dilemma, in particular, not merely the two-player, one-shot game, but also the indefinitely iterated multiplayer game (Denis 2001 Chapter 2). The game illustrates the situation where decision making takes place at some disaggregated level such as the individual agent, the household or firm, for example, or the individual human being, but the consequences of the individual's decision impact on others in ways not impounded into the payoffs to those individuals. We have a situation where there are partially overlapping and partially conflicting interests: overlapping on the main diagonal of the payoff matrix, where both agents are pursuing the same strategy, and conflicting off the main diagonal, where they are doing different things. But partially overlapping and partially conflicting interests characterise the human condition: we all share a desire for a larger cake, and we all have an individual interest in acquiring a larger slice.

So, faced with these problems, *laissez-faire* needs an alternative rhetorical strategy. The holistic rhetorical strategy of *laissez-faire* says that, granted that order is emergent at the macro level, and the qualities of macro level entities are not a simple reflex of the qualities of the micro level substrate, *nevertheless* we can be confident that outcomes are desirable because there exists some mechanism, a black box, which ensures that they are.

The problem facing the holistic theorist who wishes to support *laissez-faire* is how to overcome the antagonism between, the mutual incompatibility of, a holistic ontology and a reductionist policy prescription. The resolution of this problem is to insert a black box between the two, a mechanism which, it is possible to claim, will preserve the contradiction, keeping its two poles both together and apart. While it is possible, I think, to reject reductionism out of hand as being inconsistent with the world that we observe, unless one wants to argue that there are no externalities, prisoners' dilemmas or coordination failures of any kind, it is not possible similarly to reject the black box mechanism *a limine*. There is always the possibility that it might work. It is an empirical matter and each such mechanism which is proposed has to be investigated on its merits. To do that we have to look inside the black box. I'll say just a few words about Adam Smith's black box mechanism, and then conclude with a slightly more detailed look at Hayek's version.

For Adam Smith, the content of the black box is both very simple and very mysterious. The *deus ex machina* which absolves us from the responsibility of taking care of ourselves at the collective level is just a kindly deity who ties up all the loose

ends behind our backs and leads us by the hand safely across the dangerous road of life to our final reward in the pleasant land on the other side:

“all the inhabitants of the universe, the meanest as well as the greatest, are under the immediate care and protection of that great, benevolent, and all-wise being, who directs all the movements of nature; and who is determined, by his own unalterable perfections, to maintain in it, at all times, the greatest possible quantity of happiness.” (TMS VI.ii.3.1)

“[T]hat divine Being[’s] ... benevolence and wisdom have, from all eternity, contrived and conducted the immense machine of the universe, so as at all times to produce the greatest possible quantity of happiness”. (TMS VI.ii.3.5)

So whatever we mere mortals do, in pursuit of our own interests – or, presumably, for any other reason – we play our part in the universal plan, and do just what is required for the maximisation of social welfare, of the ‘quantity of happiness’. Happiness is always at a maximum – we live in the best of all possible worlds (Denis 1999, Denis 2001 Chapter 4, Denis 2005).

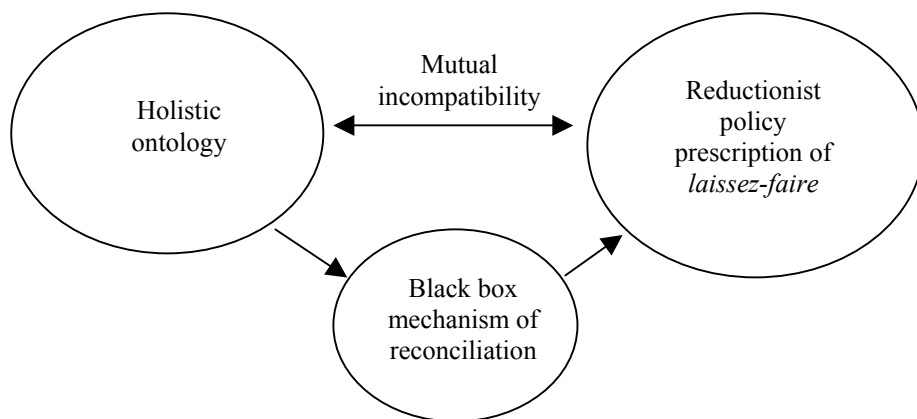


Figure 2

There is a tension between a holistic ontology, which might be expected to lead to interventionism, and the reductionist policy prescription of *laissez-faire*. The one seems to contradict the other. The two are reconciled by means of a black box which mediates between them. The policy prescription of *laissez-faire* is reductionist because it assumes that we can act AS IF utility maximisation implies welfare maximisation, either (a) because it does – the reductionist stance, or (b) because a black box ensures the optimality of social outcomes.

For Hayek, however, the content of the black box which reconciles a holistic world view with a reductionist policy prescription is an evolutionary process. This is a much more sophisticated and plausible account. If we are prone to believe, with Smith, in supernal agencies, if our minds are infested, as Richard Dawkins would have it, with the mind virus, the meme complex, of religion, then we may well regard the question as answered. If we are denied this comfort, then we can simply reject his invisible hand mechanism without there being a lot we can say about it. Hayek’s evolutionary theory is completely different, and its evaluation presents us with a real challenge (Denis 2002a).

Whitman in his *Constitutional Political Economy* paper (Whitman 1998) brings out very nicely the connection between Hayek's rules of conduct and Dawkins's memes and meme complexes, but I think we can go even further. Hayek makes an original contribution here: a striking, profound, and exciting account of the evolution of systems of rules of conduct, the social equivalent of the genotype (memotype, perhaps?), via their effects on the order of actions of groups of individuals, which corresponds to the phenotype in biological evolution.

“Not every system of rules of individual conduct will produce an overall order of the actions of a group of individuals ... and it is at least conceivable that the same overall order of actions may be produced by different sets of rules of individual conduct ... The same set of rules of individual conduct may in some circumstances bring about a certain order of actions, but not do so in different external circumstances.” (1967: 67-68)

The holism I've already ascribed to Hayek is clear here in his discussion of the evolution of institutions. Some individual conducts will fail to sustain a social order; sometimes the same social order may be sustainable by quite diverse alternative individual conducts; and the same individual conducts may sustain different social orders depending on the circumstances.

However, having set out this framework, he proceeds to attempt to embed within it a specific theory of evolution, the theory of group selection, in which it is social outcomes and not individual behaviours which are selected:

“*transmission* of rules of conduct takes place *from individual to individual*, while what may be called the natural *selection* of rules will operate on the basis of the greater or lesser efficiency of the resulting *order of the group*... The evolutionary selection of different rules of individual conduct operates through the viability of the order it will produce.” (1967: 67-8)

The idea is that self-seeking behaviour has to be made consistent with the general interest. Some sets of social relations will channel individual interest in one direction and some in another, and evolution will ensure that the sets of social relations which do the best job of reconciling individual interests will be just those selected for. So Hayek claims that the selection of rules of conduct operates at a different level than that of their transmission. It is unfortunate but not accidental that he gives no examples or illustrations of these processes. There are two points. Firstly, in a regime characterised by individual decision making, individuals will choose those rules of conduct that serve their purposes. Secondly, the only circumstances under which the rules of conduct which cause greater efficiency for the group will be selected, is just those in which the individuals have an incentive to choose exactly the rules which will benefit the group. So the only case in which group selection works is just the case in which it is redundant. Hayek continually disregards the fact that if individuals are to make the decisions, and if the decisions made are to be in the interest of the group, then individuals must face an incentive structure which ensures that group and individual interests are aligned. Repeatedly, Hayek claims that it is the successful, the beneficial outcome for the group, which determines the selection of institutional practices. It is just assumed that individuals will have the same interest, which is to assume social problems away:

‘T[h]e origin of institutions [is to be found] ... in the survival of the successful.’ (1960: 56-57). Evolution is ‘the prevailing of more effective habits and practices’ (1978: 256). “We need to show, with the help of economic analysis..., how rules that emerge spontaneously tend to promote human survival ... rules generally tend to be selected, via competition, on the basis of their human survival value ...” (1988: 20)

Hayek (1967: 70) explicitly identifies his theory with that of V.C. Wynne Edwards in his 1962 book *Animal Dispersion in Relation to Social Behaviour*. Richard Dawkins, representing the standard view in evolutionary biology, has succinctly explained what is wrong with this theory:

“A group, such as a species or a population within a species, whose individual members are prepared to sacrifice themselves for the welfare of the group, may be less likely to go extinct than a rival group whose individual members place their own selfish interests first. Therefore the world becomes populated mainly by groups consisting of self-sacrificing individuals. This is the theory of ‘group selection’ [expressed] in a famous book by V.C. Wynne-Edwards [*Animal Dispersion in Relation to Social Behaviour*]... [But if] there is just one selfish rebel, prepared to exploit the altruism of the rest, then he, by definition, is more likely than they are to survive and have children. Each of these children will tend to inherit his selfish traits. After several generations of natural selection, the ‘altruistic group’ will be over-run by selfish individuals, and will be indistinguishable from the selfish group.” (Dawkins, 1989: 7-8)

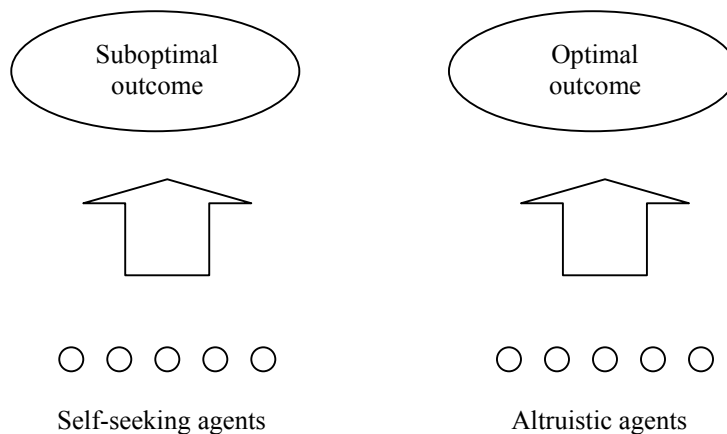


Figure 3, A and B

In the Wynne Edwards approach, the altruistic behaviours adopted by the agents in Figure 3B ensure an optimal social outcome, while the self-seeking behaviour of the agents in Figure 3A leads to socially suboptimal outcomes. The implication is that there is an externality: either agents act selfishly and impose costs on others, as in Figure 3A, or they altruistically bear those costs themselves, as in Figure 3B.

Dawkins’s response to the group selection argument is to point out that there is an important difference in the behaviours of the two sets of agents. The agents which behave selfishly are doing the best they can given what everyone else is doing: we have a Nash equilibrium. In evolutionary theory the corresponding concept, due to John Maynard Smith, is that of an evolutionarily stable strategy (ESS). It is an ESS to act in a self-seeking manner. It is not, however, ESS, or a Nash equilibrium, for the agents to behave altruistically, to shoulder themselves the costs which selfish agents

would impose on those around them. Such a strategy is vulnerable to invasion by (or mutation to) an alternative strategy of acting more selfishly, which, by definition, will be successful at the expense of agents pursuing the altruistic strategy.

By arguing that the group comes first, and that the individual has to adapt to it, Hayek is forced to abandon one of the central tenets of modern economics, that of methodological individualism. Methodological individualism appears in various formulations, but these are basically variants of two key ideas:

- that all social behaviour must be reduced to the actions of optimising individual agents; and
- that the explanation of social behaviour must be consistent with the actions of optimising individual agents.

The first is an expression of reductionism, the second an expression of materialism. This simply asserts that agents follow their material interests – a specific application to society of the general principle that the qualities of any entity have to be consistent with, and articulated with, without being reduced to, the qualities of lower, substrate level entities.

By arguing that the group comes first, Hayek abandons this rational kernel of methodological individualism, and, like Smith, adopts an attitude of contempt for individuals in both theory and policy which I have discussed elsewhere (Denis, 2001: 180-186). At the end, in both Smith and Hayek, the invisible hand is displaced by the mailed fist.

In sum, then, I have identified in this paper two rhetorical strategies of *laissez-faire*. The judgement on the first, the reductionist strategy, is that we can reject the notion *a limine*. On the second, the holist view with an added black box mechanism to reconcile ontological holism with policy reductionism, this is more difficult, and we have to examine the precise nature of each candidate black box mechanism. Of the two examined here, Adam Smith's 'invisible hand of Jupiter', was a matter of belief and not of rational debate. Hayek's evolutionary theory turned out not to work, but to assume what it was intended to prove: that individuals would spontaneously act in the social interest. The argument rested on an exploded theory of group selection.

## 5 The two central theses of libertarianism

Finally, I'd like to compare the argument presented here with the closely allied argument of Alan Haworth. Haworth (1994: 34) argues that libertarianism is 'seriously broken backed in the sense that it must abandon one of its central theses'. By adopting both a reducibility thesis and an invisible hand thesis, libertarianism is logically inconsistent. Haworth illustrates these theses with citations from libertarian sources as follows:

### The reducibility thesis

"Since inequality arises from the operation of innumerable preferences, it cannot be evil unless those preferences are themselves evil."  
(Sir Keith Joseph and Jonathan Sumption, 1979 *Equality* p 78)

## The invisible hand thesis

“the grand principle that makes us social creatures, the solid basis, the life and support of all trade and employment without exception is *evil*.”

(Mandeville, 1715; see Phillip Harth (ed) Bernard Mandeville *The Fable of the Bees* p 68. This passage in Mandeville is cited – approvingly – by Hayek, 1988: 12-13.)

These citations clearly show that Haworth’s two theses of libertarianism concern the distinction I have drawn between holism and reductionism. Keith Joseph’s reductionist argument is that the outcome of individual preferences must by definition have exactly the properties of those individual preferences. Mandeville’s concern is to convince us that (a) the quality of social outcomes may be different from, indeed opposite to, that of the substrate, as is also shown by the subtitle of his book – ‘private vices made publick benefits’; and (b) that some mechanism exists to ensure the desirability of public outcomes.

It is clear, therefore, that the tension between these two positions has been noticed before. The contribution of this paper is to spell out how they embody, not a logical inconsistency within a single rhetorical strategy, but two distinct strategies, based in entirely different methodological and ontological foundations: the reductionist rhetorical strategy of *laissez-faire*, and the strategy of conceding holism, but attaching to it the assertion of a black box mechanism ensuring desirable spontaneous outcomes for society.

## **Bibliography**

Richard Dawkins (2<sup>nd</sup> ed, 1989) *The Selfish Gene* Oxford: Oxford University Press

Andy Denis (1999) ‘Was Adam Smith an Individualist?’ *History of the Human Sciences* 12 (3): 71-86.

A.M.P. Denis (2001) *Collective and Individual Rationality: Some Episodes in the History of Economic Thought* City University, London: PhD Thesis

Andy Denis (2002a) “Was Hayek a Panglossian evolutionary theorist? A reply to Whitman” *Constitutional Political Economy* 13 (3): 275-285.

Andy Denis (2002b) ‘Collective and individual rationality: Maynard Keynes’s methodological standpoint and policy prescription’, *Research in Political Economy* 20: 187-215.

Andy Denis (forthcoming, 2005) ‘The invisible hand of God in Adam Smith’ *Research in the History of Economic Thought and Methodology* 23A.

Milton Friedman (1962) *Capitalism and Freedom* Chicago: Chicago University Press

Alan Haworth (1994) *Anti-libertarianism. Markets, philosophy and myth* London: Routledge

Friedrich Hayek (1952) *The Sensory Order. An Inquiry into the Foundations of Theoretical Psychology* London: Routledge & Kegan Paul

Friedrich Hayek (1960) *The Constitution of Liberty* London: Routledge & Kegan Paul

Friedrich Hayek (1967) *Studies in Philosophy, Politics and Economics* London: Routledge & Kegan Paul

Friedrich Hayek (1978) *New Studies in Philosophy, Politics, Economics and the History of Ideas* London: Routledge & Kegan Paul

Friedrich Hayek (1979, 2<sup>nd</sup> ed) *The Counter-Revolution of Science* Indianapolis: LibertyPress

Friedrich Hayek (1988) *The Fatal Conceit*

Hofstadter, Douglas R. (1980) [1979] *Gödel, Escher, Bach: an eternal golden braid*, Harmondsworth: Penguin.

John Maynard Keynes (1973) *The General Theory of Employment, Interest and Money*. In *The Collected Writings of John Maynard Keynes* Volume VII. London: Macmillan/Royal Economic Society

Robert E Lucas, Jr (1987) *Models of Business Cycles* Oxford: Blackwell

Adam Smith (1976) *The Theory of Moral Sentiments*, ed DD Raphael and AL Macfie. In *The Glasgow Edition of the Works and Correspondence of Adam Smith* Volume I. Oxford: Clarendon Press/OUP

Arnold Toynbee (1972) *A Study of History* Oxford University Press/Thames and Hudson

Whitman, D. G. (1998) "Hayek contra Pangloss on Evolutionary Systems." *Constitutional Political Economy* 9: 45-66