

Cupiditate et Potentia: the political economy of Spinoza

Hans-Jürgen Wagener*

1 Introduction

Benedict Spinoza (1632–77) is rarely mentioned in histories of economic thought. This neglect is quite understandable as far as economic theory proper is concerned. Things ought to be different when human action and its institutional constraints – i.e., political economy – are the object of historiography. For here Spinoza has to be considered among the founding fathers of modern evolutionary social theory. Hayek (1978) credits Mandeville (1670–1733) with this achievement. Although Mandeville's indebtedness to Spinoza has not been fully documented yet, we would agree with Den Uyl (1987) that the latter must be seen as an important influence.¹

It is well known that Spinoza himself was influenced by Hobbes (1588–1679) and so he was also, of course, by the discourse in the Dutch Republic of his time, above all by the work of the de la Court brothers (Malcolm 1991). Pieter de la Court (1618–85) and Johan de la Court (1622–60), the first perhaps more economically, the second more politically oriented,² dealt with questions of political constitution and economic order in a quite different manner than Hobbes had done. They advocated democratic institutions in order to get sufficient countervailing powers to keep up freedom – of trade as well as religion – and to get all relevant interests represented in government. It will be shown that Spinoza elaborated on their ideas of institutional design. But, unlike the de la Courts who had no theoretical ambitions, he based his policy recommendations on a theory of value and of human action. It would be utterly wrong – taking into account his life as well as his ideas – to see in him a metaphysicist detached from the world with a 'comparative lack of involvement in the life of action' (Hirschman 1977: 23). His theory may be abstract and his method (*ordine geometrico*) may be cumbersome. But a modern economist would be the last person to complain about that.

When treating the economic role of the state, neoclassical theory accepts the state as given (cf., for instance, Stiglitz 1989). In a similar way, a theory

of the state is missing in (neoclassical) neoinstitutional economics. This lacuna has been remarked upon by North (1981; see also Eggertsson 1990) who made a first attempt to fill it. The new political economy, of course, cannot do without a theory of the state. So it is no wonder that Buchanan in his 'Marginal notes on reading political philosophy' (Buchanan and Tullock 1965) refers to Spinoza as one of the starting points of this theory. Buchanan recognizes the fundamental difference between Spinoza and Hobbes pointing to the fact that Spinoza's is a genuine theory of political order. 'Spinoza's work, in many respects therefore, may be taken as the most appropriately chosen classical precursor of that of this book' (ibid.: 313). However, Buchanan takes only the *Political tract* into consideration and he is preoccupied with the distinction between constitutional policy and operational policy. So he misses Spinoza's theory of behaviour and his theory of interdependence of the political and the economic order.

Spinoza's works relevant for our investigation are the *Ethics* (Spinoza 1985) and the two political tracts (Spinoza 1958).³ The *Theological-political tract* (*Tractatus theologico-politicus*) was published in 1670. The *Political tract* (*Tractatus politicus*) remained unfinished and was published together with the *Ethics* in 1677 in the *Opera posthuma*.

2 The ethical foundations

In his *Ethics* Spinoza develops – among others – what may be called the micro-foundations of human action. This has become a good tradition of the 'moral sciences'. It is far beyond the intentions of this paper to reconstruct the whole argument which is an admirable, though highly complex edifice. We will only refer to some basic concepts which make clear that here one of the starting points of modern social theory is to be found.

The fundamental axioma, that every thing tries to preserve itself (Spinoza 1985: 498) is already well known from Hobbes and Grotius (cf., Wagener 1994): such is the nature of things. This motive force is called appetite and, insofar as man is aware of it, desire. 'Desire [*cupiditas*] is the very essence of man . . . i.e. . . . a striving by which a man strives to preserve in his being' (ibid.: 555) which implies to be active and to live happily.

Things do not exist in isolation, but in interaction with other things – they are affected by them. These affects, together with the fundamental desire, make men act. There are many things external to the individual which are useful and, hence, objects of desire. Let it be clear, the term 'things' refers not only to material objects, but also to other men. So Spinoza's utility calculus is not restricted to 'goods', but entails all forms of individual interrelations.⁴ All possible affects can be reduced to three basic ones, namely

Cupiditate et potentia: *the political economy of Spinoza*

desire in general and joy or pleasure (*laetitia*) and sadness or pain (*tristitia*), where pleasure is defined as transition from lower to higher perfection or power of existence and pain the other way round (ibid.: 531).

Spinoza seems to adhere to a strict individualism and subjectivism. So, affects are subjective ideas about a higher (pleasure) or lower (pain) existential power (*existendi vis*) of the individual which then result in desires (ibid.: 542). In modern parlance we would say: the affects result in individual preferences. These subjective ideas, however, and hence also the individual preferences, are by necessity confused. As far as they are true, man is said to be motivated by reason; as far as they are false, man is said to be motivated by passions. Man does not know by nature about the true character of affects. He has to acquire knowledge and insight.⁵

Knowledge is at the core of Spinoza's treatment of human action. Human knowledge is by necessity imperfect. Yet it can be improved, which is a major cause of evolution. It also can be uncertain which makes expectations one of the central guides of action. We may be in doubt about the effects of a future event whose occurrence is uncertain in our minds. So expectations are by definition confused: the probability of the occurrence of the event implies the complementary probability of its non-occurrence (ibid.: 534) of which only one can be true.

Time and probability have influence upon the force of affects or, in economic terms, upon the subjective value of goods. 'Good' has to be understood in a very broad sense, since affects can be caused by any external thing, human as well as non-human. Its subjective value decreases with the distance in time and the probability of the expected event. This is to say that affects which are imagined for the present time are more intensive than those which are imagined for the future. The reason is that 'an imagination . . . is more intense so long as we imagine nothing that excludes the present existence of the eternal thing' (ibid.: 551).⁶ Spinoza (ibid.: 557–8) defines virtue (we may be inclined to call it in modern terms utility) as active affects, i.e., affects which objectively contribute to self preservation. So, in the state of perfect knowledge there can be no myopia: 'If the Mind could have an adequate knowledge of a future thing, it would be affected toward it with the same affect as it is toward a present one' (ibid.: 583). Without such an objective utility concept it is rather difficult to argue about myopia and passions, as can be seen in Böhm-Bawerk (1921).

In accord with his radical subjectivism, Spinoza defines the norms of good and evil and derives preferences from it.

Good and evil are nothing else than pleasure and pain insofar as we are aware of it (Spinoza 1985: 550), and by this very nature of good and evil everybody prefers the good and detests the evil (ibid.: 556). The radicalism of Spinoza's approach becomes evident when we compare it with Bentham's

principle of utility. Bentham (1970: 15) objects against the subjectivist: 'If he is inclined to think that his own approbation or disapprobation, annexed to the idea of an act, without any regard to its consequences, is a sufficient foundation for him to judge and act upon, let him ask himself whether his sentiment is to be a standard of right and wrong, with respect to every other man, or whether every man's sentiment has the same privilege of being a standard to itself?' The first alternative is qualified by Bentham as despotic, the second as anarchical. Spinoza could not disagree more with these self-denying morals: 'No one strives to preserve his being for the sake of anything else' (Spinoza 1985: 558).

When there is no common standard of good and evil, such as Bentham's greatest happiness of the greatest number, it may be interesting to learn how Spinoza founds social cooperation and the civil state. This is done by the principle of harmony and the principle of domination of affects. Against Hobbes' *homo homini lupus* Spinoza postulates *homo homini Deus*: 'When each man most seeks his own advantage for himself, then men are most useful to one another' (ibid.: 563).⁷ Due to the definition of utility, this is not a plea for rivalry and should not be equated without qualification with Adam Smith's almost identical proposition. Rivalry does not derive from reason, but is the result of passions not maximizing the vital power. The desire for a scarce good, for instance, must be a passion creating pleasure with the owner and pain with the non-owner. A man guided by reason will not strive for a thing which he cannot wish at the same time for all others (ibid.: 556, 561–2). Spinoza's principle of harmony lies at the foundation of a market society. But, unlike later pragmatic English ideas, it is radical in the sense that it implies a principle of generalization: maximum utility (and peace) will be reached when people restrict their desires to those which potentially can be fulfilled for everybody.^{8,9}

In real life they will not do this autonomously. In real life people do have passions. But they must also have a latent interest in restraining these and thus acquiring higher utility. An affect can only be restrained or dominated by a stronger one (ibid.: 550). Even true knowledge of good and evil will not do the job, unless it is considered as an affect, i.e., unless its utility is recognized (ibid.: 553). From this quite a lot of propositions follow, which we are well acquainted with from modern institutional theory. Above all there is the idea that state regulation will only be observed as long as the expected cost (pain) of non-observance will be greater than the expected gain (pleasure) of non-observance. The principle of domination of affects lies at the foundation of civil society and state formation. Spinoza's state is a regulative state. State power is needed to suppress evil affects. Together with the general advantage of cooperation, this increases utility.

Spinoza's realism becomes apparent when compared to the ideas, certainly

Cupiditate et potentia: *the political economy of Spinoza*

well known to him, of Franciscus van den Enden (1602–74) at whose Amsterdam Latin School he once was a pupil. Van den Enden also sets out from the self-contained individual: 'By nature, all human beings . . . are born free, with no obligations to others but only to their own well-being, pursuing it without regarding other people's interests' (quoted in van Tijn 1992: 22) and from the fact of interdependence or a higher productivity of cooperation. But he assumes that men are able to implement the corresponding social order spontaneously. This, of course, implies that men are by nature reasonable and their passions are the result of alienation: 'evil passions are caused by the experience of violent domination' (ibid.: 23). The consequence of rationalist optimism is utopian socialism. Van den Enden was perhaps one of the first of them conceiving the 'best government possible of a free people' and trying to get it realized in an American colony (which, however, never came into being).

We may conclude that in his *Ethics* Spinoza establishes the foundations of human valuation and action. He further defines three states of coexistence:

The state of nature in which everybody lives in his own right and in which no private property can exist. In the natural state, there is nothing which could be called just or unjust.

The civil state in which good and evil are determined by common agreement and in which property rights are attributed to individuals (ibid.: 567–8).

The state of reason or the realm of freedom ('I call him free who is led by reason alone') in which there is perfect knowledge and hence good and evil as well as regulations and rights are meaningless (ibid.: 584). The state as regulator has withered away.

It can be doubted whether Spinoza has imagined the natural state as a historical period, as Grotius and Hobbes had done. Explicitly he makes clear that the state of reason is unattainable by its very nature. It can only be seen as a point of convergence of human evolution and as a point of reference for ethical behaviour.

3 Rationality and reason

The ethical foundations may help us now to reconstruct the theory of economic behaviour. Let us start once more from the fundamentals. The basic relation of man towards his material and non-material environment is an unlimited desire to appropriate. The urge for self preservation is assumed axiomatically a law of nature. For this purpose we want to secure the necessities of life and further the resources which can secure the necessities

Hans-Jürgen Wagener

of life. Hobbes had added uncertainty to this argument: other men with similar instincts make sure that the availability of the resources is never certain. So, self preservation and rational calculation result in an unlimited desire to appropriate under conditions of uncertainty.¹⁰

It has been said (by Matheron 1986) that Spinoza differs from Hobbes in that he derives this desire to appropriate not from rationality, but purely from intrinsically irrational affects. We have seen in the last section that this is not quite true. For in Spinoza one has to differentiate between rationality and reason. The desire to appropriate may be unreasonable from an ethical point of view. It is, however, not irrational. As later in Hume and much later in modern micro-economics, rationality is purely instrumental with Spinoza. He was the first, to my knowledge, who formulated the principle of rational choice:

It is a universal law of human nature that no one forgoes anything he thinks good save from hope of a greater good or fear of a greater loss, or tolerates any evil save to avoid a greater, or from hope of a greater good. In other words, of two goods everyone will choose the one which he thinks the greater, and of two evils the one which he thinks lesser. I say expressly 'which he (the chooser) thinks the greater or lesser'; not that his judgement is necessarily correct.

(Spinoza 1958: 129)

Desires together with hope and fear, or preferences, constraints, and expectations in modern parlance, are the elements of the act of choice. Rationality or the maximization principle governs this act at all times and all places. The domain of desires, or preferences, is, in the first instance, unrestricted. So, the propensity to appropriate without limits has three aspects (cf., Matheron 1986).

the desire to have absolute property rights, unrestricted in time and space,
the desire to have these property rights exclusively,
and the desire not only to have absolute and exclusive property rights, but also to have as much as possible in order that competing individuals have as little as possible.

For people have next to their socially unrelated preferences – the normal case in modern micro-economics – also comparative preferences from which 'passions' like envy derive. These are rather disturbing for modern theorizing, as we know.

The result is rivalry, conflict, and, in the worse case, war. There are two ways out of this situation: reason and order. The two should not get mixed up. For where reason governs, there is no need for order, as we have seen already. Reason, or ethical behaviour, implies the voluntary restriction of the domain of preferences by an individual in such a way that they are

non-conflicting or non-antagonistic. The final outcome of spontaneous action, then, is peace. The difference between passionate and reasonable people is twofold: the passionate are myopic, i.e., they have a high time preference, and, secondly, they have imperfect knowledge about the future consequences of their preferences and so they do not care about harmony.¹¹

This is the ethical or normative side of the story. The positive looks quite different. Reason is the result of individual perfection. Men, according to Spinoza, by their very nature are passionate, not reasonable. So, a state of general spontaneous harmony is a utopia. And Spinoza has bitingly criticized the utopian authors, aiming mainly at Plato and More: 'In fact, they conceive men, not as they are, but as they would like them to be' (Spinoza 1958: 261). Any construction of order has to take account of the imperfect, passionate nature of men, in order to be stable.

4 The establishment of order

If reason and spontaneous harmony is not the most likely outcome, the state and order is the only alternative. The necessity of peace and order, spontaneous or imposed, is motivated by an economic argument, namely the higher productivity of cooperation. To show this, Spinoza constructs the hypothetical state of nature which lacks any institutions. The state of nature knows only voluntary cooperation that leads to the well-known prisoners' dilemma problems (cf., Den Uyl 1985). Grotius had already tried to establish proto-property rights in the state of nature and had got into great trouble with his primary and secondary laws of nature (cf., Wagener 1994).

Spinoza offers a radical solution: all rights are based on power, in the state of nature as well as in the civic state.¹² For the state of nature this implies that factual appropriation is the only right there is (see the famous *scholium II* of proposition 37 in *Ethics* IV; Spinoza 1985: 566–8). Property rights in the sense of regulated ownership relations, according to Spinoza, have nothing to do with natural law. Natural law derives from the sphere of reason. It consists of 'laws and sure dictates of our reason, which, as I said, aim at nothing but the true interest of men' (Spinoza 1958: 129). Property rights are the product of collective rationality, or the state. Apart from factual possession, the law of nature does not assign any property rights, as it did with Grotius and later with Locke. In the state of nature there cannot be any absolute and exclusive property rights. They are established and guaranteed only by the state.

In the state of nature, everybody will have to spend valuable time, both to defend himself and for predatory purposes. From a social point of view, this is unproductive. It is also highly improbable that people cooperate in the state of nature over longer periods.¹³ Cooperation, however, is the precondition of

Hans-Jürgen Wagener

the division of labour, and the division of labour and specialization are conducive to welfare (Spinoza 1958: 171). This leads to the conclusion:

In order, therefore, that men may be able to live harmoniously and be of assistance to one another, it is necessary for them to give up their natural right and to make one another confident that they will do nothing which could harm others.

(Spinoza 1985: 567)

Then 'the future is guaranteed. Everybody is reassured about the intentions of his similars and can engage himself in a positive cycle of reciprocity without the risk of its inversion' (Matheron 1988: 327). We see that a kind of Smithonian argument is used here to motivate the set up of institutions. But one should also not miss the hint of confidence and credibility which play such a prominent role in modern game theory.

There are, in fact, two motives for entering the civic state and setting up a society with a central power, the state:

'the maximum safety and security' (Spinoza 1958: 129)

and the promotion of reason.

For 'men are born in complete ignorance' and 'nature has given them nothing else [than passions], and has denied them the effective power to live by sound reason' (ibid.: 127). Institutions and the civil state change both, the opportunity costs of action and preferences (desires).

The first is done by assigning property rights and raising the costs of unlawful behaviour. Here, Spinoza's theory sounds very neo-classical: the individual does what he or she likes and has to pay the price. Institutions influence these prices. The second is the effect of socialization and ideology. The institutions of the state, the church, and education further a conformity of values and tastes. The natural right ('to desire and indeed to appropriate by any means in his power' (ibid.)) has not changed between the natural and the civic state. What has changed is the balance of power and, perhaps, the dispersion of reason. From this follows one of Spinoza's fundamental propositions: 'the causes and natural foundations of the state are not to be sought in the precepts of reason, but must be deduced from the common nature or constitution of men' (ibid.: 265). The state is not based on reason, but on utility. This was new, and it was immediately recognized and criticized as such by Vico (1990: 145) who remarked that 'Spinoza speaks of the state as of a society which consists purely of shopkeepers'. Again, we are reminded of some modern ideas on organizations, namely the contractarian theory of the firm (Alchian and Demsetz 1972). The voluntary submission of the firm's members to the authority of the capitalist is motivated by a productivity

advantage of monitoring in case of team production. Under ideal conditions, no exploitation is possible.

We come to the conclusion that Spinoza has formulated one of the basic starting points of the modern theory of democracy (cf. Buchanan and Tullock 1965; Olson 1965), namely that people in government are utility maximizers as are all other men.¹⁴ For the proposition refers not only to the state in general, but also to any concrete government. The state of Spinoza is a very peculiar principal-agent relation where in the end the agent, the sovereign, has much more power than the principal, the citizens. They have voluntarily transferred their powers, their natural rights, to the sovereign. If they do not take appropriate precaution, the agent may exploit his position. Hence the actual process of establishing the order, the constitution of the state, is of utmost importance.

The constitution of optimal institutions has to take account of the fact of individual utility maximization: 'if a state is capable of lasting, its administration must be so organized that it does not matter whether its rulers are led by reason or passion' (Spinoza 1958: 265). The same principle is valid for interpersonal agreements: 'a contract can have no binding force but utility. . . . Hence it is foolish to require a man to keep faith with you for ever unless you also try to ensure that breach of contract will bring him more loss than gain. Now this precaution must be given pride of place in the formation of the state' (ibid.: 131). It is evident that this principle has many institutional implications. Some of them have been worked out by Spinoza in his theory of the optimal order, to which I will turn in a moment. But before, I will briefly ask about the dynamics of institutions.

5 The dynamics of institutions

The dynamics of institutions must be deduced from the story of how the state and society constitute themselves. Once the state exists, Spinoza has a great preference for stability ('the virtue of a state is stability' (ibid.: 265) which seems quite natural, since stability is its major function). So, he does not discuss *in extenso* questions of institutional change although it is rather clear from his argument that change can enhance stability where the preferences of citizens change. However, Spinoza does not adhere to a once and forever contract theory of the state, like Hobbes. The contract, which is an implicit one with Spinoza, has to be renewed permanently. The citizens, principals, always have the right, if they wish and can, to take away powers from the sovereign, their agent. This, of course, follows tautologically from the definition of right as power.¹⁵

How is the state formed? Certainly not by the community of reasonable

men, since they, if they existed, would not need a state, as we saw already. But when Matheron (1988: 287, my translation) holds that the state is the result 'of the spontaneous and blind interplay of man's passionate interactions', we should remember that this entails rationality. For man always 'consults his utility' (Spinoza 1958: 286). However, being based upon unreasonable preferences, passions, rationality in the state of nature can lead to a prisoners' dilemma. Cooperation is by no means a natural result.¹⁶

Spinoza's is an evolutionary theory. The first solution of the dilemma which Matheron (1988: 310–14) offers, namely a bright moment of reasonableness ('un éclair de lucidité'), is not very convincing at first sight. Yet, chance plays an important role in any evolutionary theory. The second solution is spontaneous one-sided cooperation. This can happen by sheer force, or the emergence of a leader. People subject themselves to a leader, since they prefer the security he offers to the state of nature. It also can happen by horizontal cooperation based on reciprocity. It should be mentioned that also in the case of cooperation on the basis of reciprocity a certain degree of reasonableness is required. For, as Axelrod (1984: 59) has shown, this strategy leads to stable results only if time preference is sufficiently low. A lack of reason, or unmitigated passions, implies myopia, as we saw. And since the necessary reasonableness will not be spread evenly over the potentially society-forming group, leadership in state formation becomes highly probable.

In fact, both solutions are instances of behavioural evolution where institutions are either due to chance or to one-sided submission and tacit agreement (cf., Wagener 1993). The first is the favourite case of Hayek (1969) taking the idea of spontaneous evolution from Menger (1883: 145) who had paraphrased Adam Ferguson's famous proposition (quoted in Hutchison 1988: 333) 'nations stumble upon establishments which are indeed the result of human action but not the result of human design'. The second, as far as horizontal cooperation is concerned, is the Axelrod case elaborated further in Schotter (1986: 118) who also mentions one-sided submission or the spontaneous emergence of a leader. Spinoza could probably have agreed with Axelrod (1984: 174) that 'no central authority is needed' with respect to the establishment of cooperation. But he certainly would not have agreed to the implication for keeping up cooperation: 'cooperation based on reciprocity can be self-policing' (ibid.). For the essence of Spinoza's state is stability on the basis of the transfer of power and the creation of authority (see also Den Uyl 1985: 33).

So, evolution is only one approach to the emergence of institutions. The other is pragmatic construction, as will become even more clear in Spinoza's theory of the optimal order. Organic evolution and pragmatic construction as sources of socio-economic institutions were later taken up again by Menger (1883; cf., Wagener 1992: 18–20). It was only Hayek (1967: 96) who indicted

the 'rationalist constructivism of Descartes' and saw the sole efficient way to form institutions in spontaneous evolution.

6 The optimal order

We, finally, turn to Spinoza's theory of the optimal order or, more precisely, his theory of interdependence between the political and the economic order. Such interdependence plays a central role in Eucken's (1990) neo-liberal theory of economic policy. So, it is rather astonishing that Spinoza's contribution has not attracted much attention, yet. The remarkable exception is Matheron (1986) to whom I owe a lot for the following. The theory starts from certain assumptions which will be treated first.

Spinoza differentiates between ownership of mobile goods and ownership of immobile goods, money and land in short. Land is not reproducible and it is difficult to defend. For the state of nature this is evident. In the civic state, the sovereign can easily expropriate or dilute land property rights. The quest for land property, due to absolute scarcity and exclusiveness, separates men. The interests of land owners are antagonistic.¹⁷ In other words, private property of the means of production of the feudal economic system, land, is the cause of group or class formation.

It is quite different with money. Money is perfectly appropriable and mobile, and it is infinitely reproducible. That is to say, by thrift and productivity everybody can become rich. We see that Spinoza avoids committing the medieval and mercantilist error of considering wealth, like land, as a given sum and economic exchange as a zero sum game. Money is abstract: it gives access to any concrete good. People, having given a sum of money, realize much less that it only gives access to a giver, even if ex-ante undefined, sum of concrete goods and that they are excluded from all others. On top of that, in a commercialized money economy people are necessarily interdependent which need not be the case in a land-based agrarian society.¹⁸

This idea has later been worked out by Mandeville and Smith and has become the fundamental paradigm of liberal economics with only Marx criticizing it heavily. Clearly, land and money stand for different social-economic formations – the old Aristotelian (1977: 49–51) distinction into a needs oriented and a profit oriented behaviour. But consider that Spinoza has reversed the evaluation: he did not, like Aristotle and, following him, Marx, denounce the profit oriented behaviour as unnatural, but has qualified it as progressive. A land based system is static and antagonistic, a money based system is dynamic and cooperative.

The commercial society requires security and freedom of trade and contract. This has to be guaranteed by the state: 'Thus the purpose of the

state is really freedom' (Spinoza 1958: 231). It is interesting to note that in Spinoza's commercial society the natural rivalry of individuals is dominated or tamed by the integrative forces of the market.

The interdependence of the political and the economic order now follows from the stability conditions of the state. Since the rulers as well as the ruled follow only their particular individual interests, a theory of political and economic order, or a stable state, must be a theory of countervailing powers, of checks and balances. The citizens have two options in order to realize their interests as far as political order is concerned: exit and voice. Wholly in the mercantilist tradition¹⁹ Spinoza sees exit as detrimental to the commonwealth. The possibility of voice depends upon the political constitution. Spinoza is quite outspoken in his preference for democracy: 'it seemed to be the most natural form of state and to come nearest to preserving the freedom which nature allows the individual' (Spinoza 1958: 137).²⁰

However, Spinoza's approach is not a normative, but a positive and comparative one. The political order is the leading element which needs, in order to be stable, a certain constitution and a specific economic order. He compares different orders:

in the *Theological-political tract* theocracy or the Hebrew state,

in the *Political tract* monarchy, aristocracy and, unfinished, democracy.

Under theocracy, people have no voice option, since all rules are given once and forever. In case of disagreement, they will tend to make use of the exit option which tendency has to be neutralized. On the other hand there is the danger that one group of the population usurps the interpretation of the given laws which can be counteracted by a maximal integration and unification of the society. The appropriate economic order should bind the people to the land and care for equity. The solution is private property of land, equal distribution of land, and the unsaleability of land.²¹

What Spinoza describes as monarchy is in fact a constitutional monarchy and, hence, will resemble democracy in many respects. The people have a voice option via the council of state. So, the tendency to exit is rather weak. The basic problem is to neutralize the monarch who has a natural desire to dominate and exploit his position, also against the common interest. This could end up in tyranny and violence, hence instability (Spinoza 1958: 135). Again, it is functional that society be integrated and united.²²

In commercial society, private property of land leads, as we saw, to group or class formation which has to be avoided. So, under a monarchy 'no citizen is to have any real estate' (ibid.: 341). All land and, if possible, the houses too, ought to be the property of the sovereign (ibid.: 321). He leases the land and the lease income is the only income of the monarch for personal and military

expenditures.²³ Positively, a harmony of interests will be achieved if the citizens obtain their income from commerce (ibid.: 341).²⁴ The commercial society consists only of entrepreneurs and their clients. For a class conflict between workers and capitalists would imply instability.²⁵ The entrepreneurs have a common interest and so the monarch will face unanimity over political questions in the state council: 'One man defends the cause of another if he believes that by doing so he is strengthening his own position' (ibid.: 343).

Aristocracy, finally, gives the people no voice option. So, this system also lacks one of the most important mechanisms of democratic decision making, bargaining for compensation in the case of a policy change. Bargaining is possible only among the aristocracy. The people live like foreigners in this society. By implication, there are two major destabilizing dangers: a tendency of exit in case of individual disagreement, and the danger of revolt against the sovereign in case of collective disagreement. Stabilization of the system demands that the people be bound and partitioned and that the aristocracy be united. The corresponding system of property rights allows for unrestricted private property of real estate which binds the people to the land and, at the same time, disunites them (ibid.: 377). The members of the aristocracy, on the other hand, should be more or less equal (ibid.: 373).

7 Conclusion

Let me summarize, by way of conclusion, Spinoza's theory of property rights:

- 1 Starting point is the principle of utility maximization and the notion that right equals might: man is allowed to do what he can, subjectively and objectively.
- 2 There is a hypothetical state of nature in which the only constraints are physical and intellectual capacities. This results in enormous uncertainties and instabilities and, hence, in a considerable potential utility. The latter can be activated by stabilization.
- 3 In the state of nature, predatory attack is the prevailing form of economic communication. The exchange of goods, however, is necessary for civilization because of different factor endowments of the individuals and because of productivity advantages of the division of labour. 'Society enables men not only to live in security from enemies, but also to achieve prosperity with a minimum of effort' (ibid.: 93).
- 4 In the civic state, property rights will be assigned by the state and also guaranteed depending on the authority of the state. The individual observes ownership rights of others only insofar as it is in accord with his utility calculus.

- 5 Property rights regulations formally constrain the natural freedom of action. But since they create peace and stability, they enhance materially freedom of individual development. By implication, deregulation may end in less freedom.
- 6 Restrictions of individual ownership rights are dependent upon the state's means and instruments of control. They differ with respect to land and money, i.e., immobile and mobile assets. It is easier, for instance, to implement a city zoning plan than to control illegal capital exports.
- 7 Overregulation will result in shirking. This undermines the authority of the state and, in the end, will destabilize the whole order. 'He who seeks to determine everything by law will aggravate vices rather than correct them. We must necessarily permit what we cannot prevent' (ibid.: 235).

Keynes, as is well known, saw in his *The End of Laissez-Faire* (Keynes 1972: 274) the two main streams of modern social thought rooted in the conservative individualism of Locke, Hume, Johnson, and Burke and in the democratic egalitarianism and socialism of Rousseau, Daley, Bentham, and Godwin. It is evident who shares his sympathies. The 'money-making and money-loving instincts of individuals as the main motive force of the economic machine' are derived from Hume's statement that 'it is not contrary to reason to prefer the destruction of the whole world to the scratching of my finger'. This is contrasted with social consciousness by paraphrasing Bentham. 'There is no rational ground . . . for preferring the happiness of one individual, even oneself, to that of any other. Hence the greatest happiness of the greatest number is the sole rational object of conduct' (ibid.: 293, 272-4). While rationality is purely instrumental for Hume, it seems to be substantial for Bentham.

From our analysis of Spinoza's political-economic thought there follow three conclusions in this respect:

First, Keynes should not have stopped his quest for the history of economic and social thought at the Channel (even if this is common practice among the British, see for instance Hutchison 1988). For Hume, as well as for Bentham, Spinoza's ideas are of greatest importance. The origins of modern social thought can certainly not be described properly without reference to Spinoza.

Secondly, both individualism and socialism can be traced back to Spinoza, the first to his positive theory of human behaviour, the second to his radical theory of ethics (which he, one may assume, thought to be positive in a metaphysical sense).

And finally, Keynes, as Bentham, fell prey to the fallacy, which Spinoza had criticized severely, namely to confound human behaviour as it is with

Cupiditate et potentia: *the political economy of Spinoza*

human behaviour as he would like it to be, or not to distinguish clearly between the world of passion and the world of reason.

Europa-Universität Viadrina, Frankfurt/Oder

Notes

- * Helpful comments and suggestions by participants of seminars at Bologna, Pisa, and Groningen and by two anonymous referees are gratefully acknowledged.
- 1 Spinoza plays a prominent role in the history of political theory (cf., Den Uyl 1983; Malcolm 1991). His social theory of political economy has been admirably analysed and interpreted by Matheron (1988). Some parallels with modern political economy are traced in Den Uyl (1985). Klever (1990) has made the bold attempt to develop a complete Spinozistic theory of human action which, however, lacks any reference to modern economic thought.
 - 2 We do not know exactly who wrote what. For a more extensive treatment see Wagener (1994).
 - 3 Usually, references are to Spinoza (1987). We refer in the text immediately to the most commonly used English translations.
 - 4 Spinoza is certainly not guilty of economic imperialism. This is rather a question of generality, as it seems.
 - 5 Of course, we are strongly reminded of J. Bentham's (1970) *Principles of Morals*. 'Nature has placed mankind under the governance of two sovereign masters, *pain* and *pleasure*. It is for them alone to point out what we ought to do, as well as to determine what we shall do. On the one hand the standard of right and wrong, on the other the chain of causes and effects, are fastened to their throne' (ibid.: 11). This idea could have been taken directly from Spinoza.
Bentham seems to be even more subjectivist than Spinoza, since he does not discuss the possibility of a false consciousness. Neither does he say what happiness is. In his argument, pleasure is a basic concept. However, he is not consequentially individualistic and subjectivist: in the end, his norm of right and wrong is not individual pain and pleasure, but the so-called principle of utility or the greatest happiness of the greatest number which, obviously, cannot be derived from individual pain and pleasure alone. So, he has some difficulty to make his norm acceptable. Spinoza, let it be clear, is not so much interested in right and wrong (although he defines it in a similar way to Bentham in the just quoted sentence). In his *Ethics* he concentrates upon the objective conditions of self preservation.
 - 6 This proposition seems to foreshadow Böhm-Bawerk's (1921: 318- 62) theory of present and future in human action. The quoted argument refers solely to uncertainty as reason for the undervaluation of future goods. But also Böhm-Bawerk's famous second reason for interest or the discount of the future, myopia, can be found in Spinoza. It is linked to specific properties of the affects. Affects are confused, as we saw, and inasmuch as they are false, they are passions. It is exactly a property of the passions that they 'take no account of the future or of anything else' (Spinoza 1958: 93). In other words, imperfect knowledge is the cause of myopia.
 - 7 Since utility is defined as virtue, as we saw already, i.e., as a true improvement of existential power, this proposition cannot be equated with Mandeville's 'private

vices, public benefits'. Things are interdependent, however. So people may benefit from any form of cooperation even if motivated by passions. Yet maximum benefit results from harmony.

- 8 Marx, as a student of philosophy, was well acquainted with Spinoza (see his excerpts from the *Theological-political tract*, Marx 1976). There is an ample literature on Marx's indebtedness to Spinoza (most recently Yovel 1989) which had already been stated by Plechanov and Deborin (Deborin 1928). However, there is, to my knowledge, no direct reference in his work to Spinoza's theory of society. Yet, certain parallels with Marxist thought cannot be overlooked. The idea of true human interests and the possibility of a false consciousness, i.e., the idea of alienation, is one of them. Then communism, the realm of freedom, is characterized by Marx as a non-antagonistic social state: private and public interests are *ex ante* in accord – a result of reason (and planning). He might have quoted Spinoza (1985: 556) 'That all should strive together, as far as they can, to preserve their being; and that all, together, should seek for themselves the common advantage of all.' The difference, let me briefly mention this, may be seen in the fact that Spinoza, although he seems to share a certain optimism of every increasing reason and social evolution, never assumed the realm of freedom to be potentially a historical state. The ethical interpretation of Marx, however, could place his ideas in a Spinozistic tradition.
- 9 A practical illustration of Spinoza's radical ethics may be seen in the economic system of the Kibbutz. There, only those forms of consumption are admitted in which everybody can share. An equal money income would not suffice: differentiated preferences and a hard budget constraint necessarily lead to unfulfilled desires and envy.

This interpretation seems to be in conflict with Spinoza's idea that money is not separating men, which we will come across later. The latter, however, must be seen in relation to immobile assets and not in absolute terms.
- 10 Of course, we are reminded here of Marx's law of capitalism: 'Accumulate, accumulate! This is Moses and the Prophets!' (Marx 1964: 621). It is derived from the desire of the capitalist to survive in a competitive and dynamic environment.
- 11 Evidently, Spinoza's ethics are of greatest importance for the theory of social and environmental policy.
- 12 In fact, Spinoza's theory of property rights has only very recently been taken up again in modern economic property rights theory. 'The fact that thieves have rights over stolen property implies that the current owners of property that might possibly be stolen do not have full rights over "their" property' (Barzel 1989: 110). This reads as an illustration of Spinoza's power based theory of rights. That most people do not steal is a result of institutions and rational choice: they estimate that the evil to forgo with the good they could have taken is lesser than the evil to be punished and to get into social disrepute.
- 13 After the collapse of the socialist order, the economies of Central and Eastern Europe have fallen back into a quasi-state of nature. It is characteristic of this state that economic exchange and engagement is based upon short recuperation periods and quick profits. In order to get back to a stable growth-path, the establishment of a new political and economic order is needed. A stable state is one of the key elements of the new order, as Eucken (1990) has pointed out already some time ago (cf., Wagener 1993).
- 14 The extension of the economic principle of utility maximization to politics is not an act of economic imperialism, as can be seen, but simply reflects the nature of men.

Cupiditate et potentia: *the political economy of Spinoza*

- 15 This is not the place to discuss what is left from power in an absolutist or totalitarian state. However, the collapse of sovereign powers in the former Soviet Union provides a nice example of what is meant and makes evident, as we have seen already, that in the *interregnum* between two stable states, people more or less fall back into the state of nature. The ensuing uncertainty eventually provides sufficient expected gains for establishing a new state.
- 16 Den Uyl (1985) has elaborated the parallel between Spinoza's evolutionary theory of the state and Axelrod's evolutionary theory of cooperation.
- 17 This idea has become one of the fundamental tenets of communist ideology. It may be interesting to note that the last official advocate of orthodoxy in the Soviet Union, Egor Ligachev, has defended the idea still in 1990: 'Private ownership to the means of production in any form leads to the division of people and the differentiation of their interests' (*Pravda*, 18 June 1990, quoted in Aslund 1991: 8). On the relation between Soviet philosophy and Spinoza in general see Yovel (1989: 203–4).
- 18 The socialist preference for autarky and aversion against commerce fits quite well into this framework.
- 19 This tradition can be found even in Hayek's (1982) *Law, Legislation and Liberty*. Successful regimes are indicated by, among others, population growth and immigration.
- 20 The *Political tract* which was meant as a comparative study of political orders remained unfinished. So, we lack a full account of Spinoza's ideas on democracy.
- 21 Only if the object of private property is *res extra commercium* can the formation of classes be avoided. In fact, this results in a form of collective ownership and a periodic remission of debts. Apart from the Hebrew state, the Russian empire could be seen as another historical example of theocracy. The land commune (*obshchina*) had precisely the function of binding the peasants to the land. *Mutatis mutandis* the communist societies had been theocracies as well. There was no voice option for the people. The propensity of exit was not checked by an appropriate arrangement of the economic order, but by sheer force manifesting itself in the Berlin wall. Usurpation of the interpretation of the given laws was institutionalized in the Party leadership. Apart from force, the system relied on ideology as the only stabilizing factor. Predictably, it turned out not to be stable.
- 22 The difference from Hobbes is obvious. Monarchy in Hobbes is absolute. So, it is necessary that the subjects of a king should have no unity except in and through the king (Wernham 1958: 27).
- 23 The idea of a unique tax on land had already been discussed somewhat earlier by the Dutch institutionalist Graswinckel (see Wagener 1994). Neither with him nor with Spinoza is it derived from the exclusive productivity of land, as with Quesnay later. More important seems to be its neutrality.
- 24 The influence of the De la Court brothers is quite evident here: trade as the only source of net income, the merchants as most important citizens who should rule the state, and freedom of trade will lead to prosperity and harmony (see Wagener 1994).
- 25 It is held (by the editor of Spinoza 1958: 343, n. 1) that this has prompted Vico's already mentioned remark. We have, however, every reason to assume that Vico's criticism is more fundamentally directed against a utility based theory of the state.

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Abstract

The article reconstructs the political economy of Spinoza. The argument is divided into two parts: behavioural microfoundations and institutional policy. Spinoza differentiates between reason, objectively optimal behaviour, and rationality, subjective utility maximization. Both do not coincide, hence a need for order to exploit the advantages of cooperation. Institutions develop according to utility considerations. They do not change the power base of property rights, they only change the costs of actual behaviour, i.e., the exertion of power. In his theory of institutional policy Spinoza constructs optimal economic orders for different political systems.