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POLITICAL ECONOMY

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Political economy describes how human societies are organized by exchange. The critical issue for political economists is the interaction between self-directed decision making and the incentives that turn decisions into approved outcomes. In this interaction, political economists see a key role for leadership, a role that depends upon our common concern for others (Robbins, 1981). There are three roles, then, for leadership in the political economist's model: self-directed decision making, incentive making, and establishing the criteria for approved outcomes.

Adam Smith, the first modern political economist, held that all people share the ability to theorize, make decisions, and lead. Differences in observed abilities are the result of education, training, and incentives. This doctrine of political economy, which downplays distinctions between a leader and follower, is called analytical egalitarianism. This view was dominant in political economy until late in the 19th century and then again after World War II. By contrast, the oppositional view, common during the intervening period, held that a leader is different from a follower. Since "difference" implied "superiority" during this period, the doctrine is called analytical hierarchicalism (Peart & Levy, 2005). We begin this chapter with an in-depth examination of analytical egalitarianism, the political economists' view that a leader is inherently the same as everyone else. We sketch how that view was attacked by those outside political economy, in biology, anthropology, and mathematical statistics.

The substantial question that arises for an egalitarian theory of leadership is about how people can choose the leadership when there are no differences that signify who the leaders ***should*** be? We survey in the second section of this chapter how political economists answered this hard question, as well as how the leadership commands respect in an egalitarian framework. Smith's argument, sketched in his 1776 ***Wealth of Nations***, was that ordinary people will acknowledge a person's success in a fair gamble to impute desert. So, in a leadership context, those who lead are presumed to deserve to lead.[1] Smith's reasoning, by which random events are given a normative interpretation, offers a foundation for an egalitarian theory of leadership.

Political economy was, however, more than a body of theory about human motivation and leadership. From Smith through John Stuart Mill, political economists were steeped in various reform movements concerned with doing or practicing leadership. In the third section of this chapter, then, we turn to some of their attempts to bring about social reform, surveying the political economy of reform as it was connected to debates over hierarchy and equality. Here it will become evident that political economy is itself a means by which leadership and reform are put into place.

Finally, we turn to a body of recent technical evidence in experimental economics and consider the political economy

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of cooperation and leadership in random grouping experiments. Not surprisingly for leadership scholars, political economists have recognized that group identification is important for cooperative outcomes.

As we traverse the nuances of debates about human flourishing in the past two centuries of political economy, we must bear in mind that political economy also encompasses institutions and institutional frameworks. In particular, although the debate in the 19th century was largely over human capacity to make economic and political choices, it was, as we shall see, but a small step from there to eugenics—state-controlled population policy. In addition, as is well known, Mill's enthusiasm for social reform led him to endorse experimentation in socialist arrangements as well as steep inheritance taxes. And in the 20th century, debates in political economy spilled into debates over social welfare and how best to achieve improved human flourishing either by central planning or markets. The twin themes of human capability and institutional arrangements underscored the socialist calculation debate of the mid-20th century (Levy & Peart, 2008b).

Political Economy and Analytical Egalitarianism

Are people naturally the same, in which case, incentives, training, and education explain observed differences in behavior? How does that sameness (or difference) affect their willingness to work and their ability to lead? As a frame of reference for these issues, we focus on the most sustained and significant modern debate in moral philosophy and social science, the 19th-century debate over hierarchy versus equality of various "types"—slaves, former slaves, women, Irish, immigrants—all relative to the English. On one side of this debate, political economists held out for natural equality and argued that various institutional arrangements, incentives, luck, and history explained the different social and economic attainments of such groups. They were opposed by those who held that postindustrial outcomes were best explained by natural inequality. The debates over the capacity for self-government and the ability to lead transpired in scientific journals (in biology, anthropology, and political economy), among the literary community, in Parliament, and in the popular press (the ***Times*** and ***Punch***) (see Peart & Levy, 2003, 2005).

The cast of characters involved was extraordinary, and it is worthwhile to review how the various figures lined up on the side of analytical equality versus hierarchy. Perhaps the most single dramatic episode in 19th-century Britain was what historians call the Governor Eyre Controversy, which arose as a result of the Jamaican government's response to a rebellion by former slaves (Peart & Levy, 2005; Semmel, 1962). At issue was whether the free slaves of Jamaica were protected by British law in their attempts to lead themselves. On the side of analytical egalitarianism, John Stuart Mill, Henry Fawcett, John Bright, J. E. Cairnes, Herbert Spencer, and T. H. Huxley all held that institutional arrangements, rather than nature, resulted in poverty among various groups such as the Irish and the Jamaicans.[2] On the side of hierarchy (not always conceived of as a racially determined hierarchy)[3] were many poets and artists—Thomas Carlyle, John Ruskin, Alfred Lord Tennyson, Charles Dickens, and Charles Kingsley—who held that human nature can be divided into those capable of self-governance and those who must be led.[4]

So, for classical political economists such as Smith or J. S. Mill, all subjects—whether in a leader or follower role—possess equal moral standing, as well as the ability to reason and make political and economic choices. All subjects possess an equal ability to lead, and they share the same motivational structure: They are all interested in fame and fortune and are equally able to sacrifice wants and desires for a common good.[5] For J. S. Mill, institutional arrangements that restrict choice—that force followers—is morally wrong. In Mill's mind, there is no justification for such leader-follower relationships. Specifically, output or welfare gains that *might* result from institutional arrangements but that force followers to act in prescribed ways (slavery, marriage, etc.) are never sufficient to outweigh the moral costs of such enforced leader-follower relationships.

The question of who is fit to be a leader came up dramatically in Charles Dickens's 1852 novel *Bleak House* in which his character, Mrs. Jelleby, has attained by nothing more than effort and intensity a leadership position in the antislavery movement. Dickens makes it clear that her role is a perversion of the natural order, that her other-regarding preferences ought to be limited to those close to her, and that her "telescopic philanthropy" is leadership run amok. Distant people—those outside the family or race—ought to be of lesser concern. This episode in a work of fiction helps frame the prolonged debate during which political economists and their opponents grappled with two issues—the common good and the human capacity for happiness. Lionel Robbins had clarified that people who act in groups routinely make ethical judgments about the well-being of others (Robbins, 1981). A much-neglected theory of leadership was articulated at about the same time by the political economist Frank Knight. Knight (1935) held that leadership is a matter of discussion and that effective leadership depends upon group members sharing ethical judgments about the common good and the capacity of all for happiness.

Those who opposed the political economists' presumption of homogeneity argued that some (often, but not always, including a leader) have a greater capacity for happiness than do others. They focused on two purported heterogeneities. First, a leader was presumed to be public-spirited, untainted by considerations of self-interest, whereas the follower was motivated by self-interest only.[6] Second, perhaps because of motivational heterogeneity or possibly because of superior self-control, a leader was supposed to be "superior" to the follower.

It is precisely this supposition of superiority that Smith opposed as the "vanity of the philosopher": Such vanity implies that the follower is in need of guidance from a leader. It also implies that a leader will be predisposed to disapprove of (and even disallow) the follower making unfettered choices in a marketplace or in the direction of his or her affections in the household. And here the tendency for ethical failure enters into the theory of leadership. As long as leaders maintain that they possess insight into the sorts of preferences people "should" possess—if they only knew better—they must also accept, and may perhaps even demand, responsibility for directing those preferences until the subjects gain the sort of sophistication they enjoy. The "science" of eugenics emerged from such thinking (Peart & Levy, 2005).

Egalitarian political economy is thus at odds with the idea of "transformational leadership," as it is sometimes understood. If transformational leadership implies a transformation that is largely self-directed on the part of the subjects—a sort of mutual realization by a leader and follower that change x is in order (Burns, 1978)—then political economy has no objection to it.[7] If transformational leadership means, instead, that a leader possesses better information about what actions the follower "should" take or better ability to induce the follower to take such actions (Dubinsky, Yammarino, & Jolson, 1995), then political economists have opposed such a theory of leadership on ethical grounds.

But there is more to the political economists' egalitarianism than this. Smith's "sympathetic principle," by which leaders and followers are said to imaginatively exchange positions, is the foundation of the capacity to lead and the constraining device that ensures that leaders will act ethically toward followers.[8] The attack on sympathy late in the 19th century is a long-neglected example of the intellectual leader's attack on the capacity of ordinary people to theorize, make decisions, and lead. In one dramatic example, the capacity of poor women to use contraceptive information without expert guidance was questioned by Charles Darwin on the basis that ordinary people choose happiness for their families and not for the perfection of the race (Peart & Levy, 2008b).

In fact, those who held out for differences in competence in the great debate over hierarchy and race relied on what we call "transformation" theories, the claim that incompetent followers required re-making and directions for improvement. Until transformation occurred at the direction of the leaders, any appeal to changing conditions, incentives, or institutions was said to be unfeasible. And as groups such as the Irish, women, or former slaves dared to place their own preferences on the same plane as those who led them and attempted to step outside the established institutional hierarchy, they were said to be incapable of economic or political self-rule, incapable of leading.

In the 18th and 19th centuries, political economists vehemently opposed this argument of hierarchy and transformation by one's betters and presupposed homogeneity instead. It is no coincidence that, later in the period, when eugenics acquired its name as well as the statistical machinery purporting to locate "the unfit," its first target was classical political economics. The early eugenicists (W. R. Greg and Francis Galton) knew they were contending with the egalitarian doctrine of that discipline. When Darwin wrote in opposition to free dissemination of contraceptive information, he included a passage from Galton's work (Peart & Levy, 2008b).

If we bring a leader and a follower into the same plane of existence in terms of motivation and ability, we also need to consider ***how*** the ordinary person makes choices. How can followers compete with a leader, and why would they ever willingly submit to, obey, or help a leader whose attributes are the same as their own? This problem, to which we now turn, has been the historical challenge to democratic politics for millennia.

Political Economy and the Leadership of Merit

Why would ordinary people agree to be led by randomly assigned leaders or egalitarian leadership, leadership in which a leader has no natural superiority over a follower? As mentioned earlier, in his *Wealth of Nations*, Smith made the case that ordinary people accept a successful gamble as imputing desert: Those who succeed are presumed to deserve success. Smith's example occurs in his account of how the labor market operates under competitive conditions. Labor is rewarded partly in money and partly in approbation. Approbation follows from the interpretation of the outcome of a contest. Smith holds that those who win a contest, who excel at their profession, or who lead come to be judged by spectators as those who deserve to win, to lead.[9] The relationship between choosing leaders and contests is subtle.[10] It is perhaps instructive that what political theorists see as elections in which we collectively "choose" our leaders result in "wins" rather than "choices." You do not so much "choose" your president, senator, or congressional representative, but the president, senator, or congressional representative "wins" the election.[11] This is Smith's argument: People link approbation, a mark of esteem and desert, to the outcome of a contest. Hence, people suppose that, when someone wins a contest, he or she evidently deserved to win it. The probability of winning α given that a person deserved to win, which we write as $(D(\alpha) = 1)$, is at least as great as the probability of winning α:

$$P(\alpha | D(\alpha) = 1) \geq P(\alpha)$$

This is one way to capture the belief that the process of selecting a leader is itself fair.

What induces a leader to act in accordance with the group interest and not in his or her narrowly defined interest? In the classical period, political economists focused on sympathetic motivation and the desire for approbation as motivational forces. More than this, though, political economists throughout the 19th century believed that a leader desires not only approbation and approval but also wishes to deserve approbation. As Smith put it, the desire for praise is complemented by a desire to be "praiseworthy." And both desires carry motivational weight. While it cannot constrain acts of bad judgment and is insufficient to overcome all acts of selfishness, the desire to be praiseworthy serves as a check to a leader's pure self-interest, providing a leader with a conscience. Compared to economic analysis in the 20th century, this political economy approach offered a wider set of incentives connecting the actions of a leader and the goals of the followers.[12]

The political economy approach to leadership is rich enough to provide a framework for the analysis of family relationships and gifts. Leadership scholars often discuss "servant leadership" to bring out the paradox that leadership is in part a gift. That concept fits well with the view in political economy that gifts are at the center of market exchange. For political economists such as Philip Wicksteed, Robbins, and Knight, the family is at the center of an exchange economy. In Robbins's teaching, political economy differs from scientific economics precisely because the former allows interpersonal comparisons of well-being that the latter does not. Robbins developed the ideas expressed earlier by Wicksteed, who put the female of a household in the leadership role for the allocation of household resources. Her allocation is made on the basis of her judgment about the well-being of those in the household. Hence, women figure significantly in the political economy of leadership. This idea also speaks to one of the great triumphs of Mill's political career, the Married Women's Property Act, a key reform to which we now turn.

Political Economy and the Leadership of Social Reform

Motivational weight is all well and good, but when unbridled self-interest overcomes conscience, how is a leader to be held in check? Classical political economy does not neglect this darker side of leadership. Political economists recognized that, in addition to a theory of human nature, a theory of leadership must also include an investigation of the institutional framework within which leaders and followers act. So, classical political economists—notably T. R. Malthus, W. N. Senior, Harriet Martineau, J. S. Mill, and Harriet Taylor—were much concerned with the rules and institutional arrangements of their day. They held that, with similar opportunities, women and men were equally capable. The great disparities in the social, economic, and political attainments of men and women were attributable to the rules that constrained each group. Political economists came to similar conclusions regarding the Irish, West African slaves, former slaves, and the working poor in England (at least to the extent that educational opportunities were made available to each group). Using their framework of analytical egalitarianism, 19th-century political economists argued for wide-scale institutional change: first and foremost the abolition of slavery, a new poor law to encourage "prudential behavior" and delay of marriage, well-defined property rights for Irish and women, and voting rights for Irish and women.

Political economists were attacked by those who said that women were unable to make these decisions "rationally," thus institutions should not be reformed and women should not be allowed to vote or own property. Left to their own devices, the anti-political economy argument ran, women would make the wrong marriage choice. They would systematically marry the wrong person or marry at too young an age and have too many children. In 1882, W. S. Jevons extended this argument to say that, if child-bearing women were free to enter the labor force, they would respond to the changed incentives by systematically marrying louts (who would not support them) and working too much (Jevons, 1882, p. 172).

Agitation for institutional change in Ireland garnered increasing attention by the mid-1860s, and here again the political economists played a key role. Many, like John Bright[13] and John Stuart Mill, took the position that Ireland was the way it was because of the severe institutional failings there. John Stuart Mill wrote the following in his *Principles of Political Economy*, a now-famous passage:

> Is it not, then, a bitter satire on the mode in which opinions are formed on the most important problems of human nature and life, to find public instructors of the greatest pretensions, imputing the backwardness of Irish industry, and the want of energy of the Irish people in improving their condition, to a peculiar indolence and insouciance in the Celtic race? Of all vulgar modes of escaping from the consideration of the effect of social and moral influences on the human mind, the most vulgar is that of attributing the diversities of conduct and character to inherent natural differences. (Mill, 1848/1965, p. 319)

He was mocked for this position when W. R. Greg reminded him that the Irish would always sink into poverty and debt ***because*** they are Irish:

> But Mr. Mill forgets that, till you change the character of the Irish cottier, peasant-proprietorship would work no miracles. He would fall behind the instalments [*sic*] of his purchase-money, and would be called upon to surrender his farm. He would often neglect it in idleness, ignorance, jollity and drink, get into debt, and have to sell his property to the newest owner of a great estate. In two generations Ireland would again be England's difficulty, come back upon her in an aggravated form. Mr. Mill never deigns to consider that an Irishman is an Irishman, and not an average human being—an idiomatic and idiosyncratic, not an abstract, man. (Greg, 1869, p. 78)

Since the Irish were inherently inferior to the English, Greg held that social or economic reform in Ireland would simply fail. By contrast, Mill argued that institutional arrangements explained the observed poverty in Ireland, and he pointed to the success of Irish immigrants in America as evidence that the Irish were not inherently inferior.

A second major reform that concerned Mill was the economic and political plight of women. There has been a good deal of speculation as to Harriet Taylor's influence on the political economy of John Stuart Mill (see Forget, 2003). The Mill-Taylor correspondence reveals that Mill's views on the institution of marriage, at least, were fully formed before he spent a great deal of time with Taylor. Sometime around 1832 or 1833, Mill sent an early essay on marriage to Taylor (long before the 1869 *Subjection of Women*). In that essay, his analytical egalitarianism is crystal clear. The institution of marriage, he stated, could not be considered apart from the question of whether men and women were to be treated—institutionally—as if they were the same. Since they were presently ***not*** treated as if they were the same, institutional change to level that playing field was in order. Women needed access to property. For his position on women, in particular the role of women in the Reform Act, Mill was vilified in the humor magazine *Punch*. Mill was given an even less respectful treatment in the younger and less-polished popular magazine of the time, *Judy*, where his gender was challenged. Indeed, Mill is frequently portrayed as a woman; descriptions of Mill from that time hence often carry the hint that he was feminine, weak, and unoriginal.

Mill paid dearly for his positions regarding social reform. In fact, holding positions at great cost to the proponent became a serious concern in the mid-20th century, in particular for the political economy of Knight. Until experimental economics revived the ideas of classical political economy late in the 20th century, Knight was the last major political economist to take the problem of leadership seriously. He influenced his students, who became the central figures of the Chicago School of Economics, and his teaching was congruent with that of John Rawls's (Peart & Levy 2008a). In particular, Knight held that people are capable of making interpersonal comparisons of well-being, and he believed that the social cement in a liberal order was the shared values articulated by a leader. "The problem of social action," he wrote in 1935, "is almost wholly a problem of leadership" (p. 349).

In Rawls's work we find a continuation of Knight's emphasis on the values shared between leader and follower, summarized in the norm of fairness. We find this same emphasis in Knight's students who would later cofound the modern Chicago School of Economics (George Stigler and Milton Friedman).

However, the triumph of "new welfare economics," with its denial of the meaningfulness of interpersonal comparisons of well-being and its challenge to the scientific status of fairness and shared values, brought about the abandonment of Knight's emphasis in favor of the supposedly ethically neutral concept of efficiency (Levy & Peart, 2008a). Interpersonal comparisons of well-being became a subject of controversy even before World War II. Economists who rejected interpersonal utility comparisons pointed to the positions offered by candidates for political leadership, in a setting in which voters can rank only options. In the 1950s, Kenneth Arrow (1951) and Duncan Black (1958) showed that the stability of a political order was compromised by the preferences of voters for positions distant from their ideal. The candidate who articulates a position strategically may lose the support of voters who value candor. Thus, a candid candidate who is more distant from the voters' views might well be preferred to the strategic candidate who is suspected of articulating positions in which he does not believe.

There are, however, alternative explanations for voting against such candidates—for example, if the candidate lied in the past, he or she may do so in the future (Potthoff & Munger, 2005)—and Knight's analysis still provides a fruitful way to view leadership. His emphasis on the ideal leader as someone who articulates the shared law without regard for personal considerations provides insight into the requirements of effective leadership (Knight, 1939).

As political economy developed into economics and focused more narrowly on pure self-interest and individual (as opposed to group) behavior, Knight's influence was obscured. Not until economists began to develop experiments to revive and test insights from an earlier time did leadership studies return to the toolkit of contemporary political economy.

Experimental Economics and the Return to Political Economy

In recent years, political economists have returned to their historical roots to examine the foundational assumptions of economic behavior (other- and self-regarding interests), as well as the institutional contexts within which decision making occurs. They have done so largely within the framework of experimental economics, which allows researchers to observe and test whether subjects act as Dickens's Mrs. Jelleby acted, that is, whether they share with others who are socially and economically distant. Experiments now also enable researchers to vary the institutional framework within which people interact, and then to observe how this variation influences human decision making.

Knight's "problem of social action" has thus returned to uncovering interpersonal comparisons of well-being within a group. As noted above, both Knight and Robbins insisted that group members routinely make interpersonal comparisons of well-being. Robbins made the case that, whether political economists can scientifically test such comparisons or not, people routinely compare well-being and, more importantly, act on the basis of such comparisons. People within affectionate groups such as families possess a textured understanding of capacities and desires among group members. If political economists confirm that people within a group do make interpersonal comparisons of well-being, they then have a richer scope for a theory of leadership. Moreover, political economists can devise experiments to test hypotheses about behavior in group settings. It is no surprise, then, that the political economy of leadership has been the purview of experimental economics in recent decades.

In his 2002 lecture for the Nobel Prize in Economic Science, experimentalist Vernon Smith referred to "the simultaneous existence of two rational orders," which "are distinguishing characteristics of what we are as social creatures" (Smith, 2003, p. 466). For Smith, who invoked political economists David Hume, Adam Smith, and F. A. Hayek, both orders "are essential to understanding and unifying a large body of experience from socioeconomic life and the experimental laboratory, and in charting relevant new directions for economic theory as well as experimental-empirical programs" (Smith, 2003, p. 466).[14] Vernon Smith rightly argued that Hayek's concept of human agency is grounded in the two worlds of human conduct, that Hayek renounced the use of an explicit model of pure self-interest in favor of returning to the classical political economy model of sympathetic agency. For Hayek, behavior within the small group—the "small band or troop" or "microcosmos"—is correlated because agents are sympathetic one with another. With such correlated agency as the default in small-group situations, Hayek attempted to explain the transition from small groups to a larger civilization (cited in Smith, 2003).

Vernon Smith and the experimentalists did much more, however, than return economic science to its political economy roots. In addition, they began a program of experimental design and implementation that tested whether subjects are routinely self-interested or generous, and why. Such experiments lend themselves to tests of hypotheses about leadership as well.

The experiment that lent itself best to considerations of leadership and self-interest was that of the ultimatum game. This game is known for its simplicity and its "anomalous" experimental properties, that is, properties in conflict with the economic postulate of pure self-interest. It has yielded evidence confirming the political economy notion of human nature as motivated by a mix of self- and other-regarding motives.

The ultimatum game has two players. The first mover proposes a division of an amount X into two possibly unequal parts, that is, of the form $\{\alpha X, (1-\alpha)X\}$, $0 \leq \alpha \leq 1$, and a second mover accepts the proposed division or the alternative $\{0,0\}$. The simple game can be played anonymously, in which case players do not know the other mover in the game. To test for reputational effects, which might induce generosity, the game can consist of more than one round.

There are two additional variations of the game involving how the first player is selected. In one variation, the first mover is selected by the experimentalist without the participation of the players. In the other variation, the first mover is selected as the result of a contest. Here again, there are two main possibilities. In one, a contest is held that is regarded by the participants as "fair," and in the second, a contest is held regarded by at least one of the participants as "unfair." The importance of fairness was, as we pointed out above, stressed by Adam Smith as the foundation of exchange. We argued there that a fair contest is one in which the observers (followers) have reason to believe that winning was deserved. The third option, in which winning is perceived by players to be unfair, has been used only recently.[15]

Narrow economics, which supposes agents without concern for others, suggests that there is no motive for sharing in a one-shot game of this sort, whether the game is played anonymously or not. As long as the second mover receives some positive amount, he or she is better off than if nothing is received. Considerations of fairness, desert, and approbation would thus not enter into the economic calculations. The first mover should keep all of the endowment except for the smallest increment required by the experimentalist. The economic prediction would be that the small amount is passed to player two, who accepts it, and player one keeps the rest. Alternatively, if (as Adam Smith through Mill and then Robbins argued) people care not only about praise but praiseworthiness, they will in fact be motivated by fairness, by interpersonal comparisons of well-being, and by desert. The political economy prediction would be that a good deal of sharing will in fact be observed, even in anonymous situations and even when the game is played as a one-shot deal. In fact, the outcomes of these experiments are closer to the predictions of the political economists than they are to the more narrow analysis of the economists. One achievement of experimental economics late in the century, therefore, has been that it has returned economics to its political economy roots, at least insofar as to the specification of human motivations.

Strict economic optimization theory also holds that the past is irrelevant, hence the history by which an individual acquires the first-mover position will be irrelevant to the second mover. If this theory is correct, the proposed division by the first mover and the probability of acceptance by the second mover will not depend on how the first mover was chosen and on whether a leader was chosen in a way that participants regard as fair. The alternative, explicated by Smith, is that the winner of a "fair" game will be entitled to a reward. So if the first mover is chosen fairly, Smith would suggest that the first mover deserves more than half of the experimental proceeds, and the equilibrium α will be larger. Knowing this, for a constant probability of acceptance, the proposed division by the first mover will be less generous. The experimental evidence is quite clear. The outcomes in the lab replicate the predictions of the political economists, explained by Adam Smith, as opposed to the predictions of strict neoclassical economics. Fairness matters, and players do impute desert on the basis of a fair trial (Camerer & Thayler, 1995).

Is there experimental evidence more directly related to leadership? An additional body of laboratory experimental evidence relates to the political economy of group versus individual behavior. This data emerges from random grouping experiments in experimental psychology. Here, the question asked was about the basis of cooperation in random groupings. The hypothesis was that group identification is important. Experimental subjects were randomly assigned identifying markers, for example, red or blue hats. Remarkably enough, in-group cooperation was more pronounced than out-group cooperation, even when group assignments were not made on the basis of observed similarities but instead were simply random (Billig & Tajfel, 1973; Tajfel, Billig, Bundy, & Flament, 1971; Tajfel & Turner, 1986). This result suggests that Hayek was correct in his argument that even a randomly selected group can form enhanced cooperation. Egalitarian leadership might then be viewed as cooperation with a randomly selected leader.[16]

Although early experimentation focused on the package of human motivations as well as the nature of group dynamics, experimentalists have more recently tackled the problem of leader/follower relationships head on. These experiments have taken the form of a simple public goods game. Players are placed in randomly assigned groups, and each player in the game can invest in a private account and a public account, the proceeds of which are shared among the group. Players can then behave cooperatively (invest in the public account) or competitively (invest in the private account). The game is played iteratively, and the key question for the leadership scholar is how and whether or not the presence of a leader influences the level of cooperation. The rewards to investing privately and for the group can, of course, be manipulated; generally, there is a clear indication that cooperation is unambiguously good, that is, that output is larger when all players invest in the public account than when some or all invest privately. In the context of public goods games, a leader can be assigned the role of moving first or of signaling a choice (making a suggestion for contributions) to other players. Here, experimental evidence suggests that leaders promote cooperation in nonfamily groups (see Güth, Levati, Sutter, & van der Heijden, 2007; List & Reiley, 2002).

A question remains, however, about how human leadership functions. In line with Knight's thinking, experimentalists have designed experiments to compare the effectiveness of signaling a choice when a leader's talk is "cheap." In recent experiments, cheap talk consists of recommendations by a leader that do not actually constrain a leader or a promise that is nonbinding, such as "no new taxes." As the political economy of Knight and Robbins predicts, these experiments have now confirmed that talk is more conducive to cooperation when it is not cheap, when a leader is bound to follow the actions he or she recommends. Another key question relating to leadership has thus been answered experimentally.

But questions about the nature and effectiveness of leadership remain, and experimentalists have begun to design increasingly complex experiments to test hypotheses about it. One example asked this question: Is a leader effective in obtaining cooperation simply because of the message sent to participants, or does leadership consist of something more than the message itself? To answer that question, a series of new experiments was designed to locate the effectiveness of leadership in the human ability to communicate something of value. Put simply, if a leader's talk is "cheap," that is, valueless, the group will not function effectively. While cheap talk has been studied experimentally, this new experiment compares the incentive to cooperate given what is generally considered cheap (nonbinding) talk and given ***really*** cheap talk where the message actually comes from a nonhuman (Houser, Levy, Padgitt, Peart, & Xiao, in press).

As noted above, 19th-century attacks on the political economy of leadership sought to explain group effectiveness by appealing to a leader's innate superiority. Political economists such as Smith and Mill located effective leadership in random events—luck itself as well as superior knowledge or education. Along these lines, technical economic models have presumed that a leader possesses asymmetric information or a first-mover advantage. In such cases, a leader's contributions to the public account are said to create an upper boundary to the contributions by individual members (Andreoni, 1998, 2006; Güth et al., 2007; Hermalin, 1998). The question for new experimental research is whether or not leadership can induce cooperation among group members when a leader is not presumed to possess superior information or advantages of any sort. Experimentally, this question might be tested by designing a public goods game in which a leader is first elected by vote on the basis of his or her statement of intended policy. Second, a leader is randomly selected. In both variations, all information is common, and no one is the first mover. If a leader's actions induce cooperation in both instances, then we have evidence that leadership need not be the result of informational asymmetry.

The experiment has also been designed to test human against nonhuman communication in the elected leader variation of the experiment. An elected leader sends nonbinding contribution suggestions to each member of his or her group. In another game, a group is given identical nonbinding contribution suggestions that do not originate with a human leader. Participants in each game know the source of the suggestion they receive.

The key finding is that group members' decisions are affected by nonbinding contribution suggestions made by elected human leaders. Significantly for any theory of effective leadership, this is the case both when a leader encourages cooperation as well as when he or she does not. On the other hand, the experimental evidence suggests that those same contribution suggestions have no impact on the group members' decisions when they do not originate with a human leader. People follow leaders' suggestions, but when the same suggestion does not emanate from a human leader, it is not followed. These results confirm that communication is *really* cheap, without consequence, when it comes from a machine but not when it comes from another human. Elected leaders who give good advice can obtain high levels of cooperation and achieve nearly efficient outcomes in groups. The experimental evidence also confirms that bad leaders can create group outcomes that are inferior to having no leader at all (Houser et al., in press).

Summary

A survey of the relationships between political economy and leadership reveals a rich literature that presents ongoing questions for experimental research going forward. Since the beginning of modern political economy with Adam Smith's analysis, political economy has been steeped in debates that focused on two key questions. The first of these, whether humans are equally capable of making economic and political choices, was the subject of a long and bitter series of debates in the late 19th century. The second and related question was whether human nature is purely self-interested or motivated by a more complex set of impulses that derive from the desire to obtain praise and be praiseworthy. If the latter is the case, then we have a basis for presuming that people are generous. The discussion led political economists in the 19th century to a set of recommendations for reform. Political economists such as John Stuart Mill spent much effort, often at great personal cost, agitating in favor of major political and economic reforms.

For the most part, a fairly robust faith in the institutional framework of democratic capitalism underscored those recommendations. This is not to say that Mill—or Smith before him—favored markets pure and simple. But both political economists, and many who came in the period between Smith and Mill, saw the potential for social reform within a capitalist framework, perhaps because so much progress occurred in the short span of time between their careers. So, working within a framework of democratic politics, slavery was ended in the British Empire, and women obtained the right to own property.

In the 20th century, political economists such as Robbins and philosophers such as Rawls extended this theory to make the explicit point that, because people are generous, they calculate how others will benefit from acts of generosity. These interpersonal comparisons of well-being serve to motivate economic and social choices. Leaders, like others, are motivated by self-interest and generosity. But even as Rawls and Robbins held out for generosity, other economists narrowed their conception of human decision making to encompass only the purely self-interested—the claim being that the nonscientific should be moved outside the scope of pure economics. Then, too, and perhaps as a result of this argument, the debates over context and institutions moved and focused on planning versus markets.

More recently, experimental economists have revived the rich set of motivational hypotheses outlined by political economists, confirming Smith's insights and extending them into hypotheses about leadership. Perhaps as a consequence of this revival, the institutional debate has once again become more nuanced.

Notes

1. Smith's explanation for trade of any sort requires a common sense of fairness and reciprocity: "It is common to all men, and to be found in no other race of animals, which seem to know neither this nor any other species of contracts. Two greyhounds, in running down the same hare, have sometimes the appearance of acting in some sort of concert. Each turns her towards his companion, or endeavors to intercept her when his companion turns her towards himself. This, however, is not the effect of any contract, but of the accidental concurrence of their passions in the same object at that particular time. Nobody ever saw a dog make a fair and deliberate exchange of one bone for another with another dog" (Smith, 1776, I,ii,§2).

2. Though these groups formed coalitions sufficient for unity on the Eyre question, views on other matters varied. Dickens, for instance, was by no means proslavery (whereas Carlyle *was* proslavery) but opposed the antislavery movement. In his *Descent of Man*, Charles Darwin proposed a normative theory of racial perfection to challenge Mill's Utilitarianism (see Peart & Levy, 2005).

3. It is important to keep in mind that notions of *race* were vague and malleable at this time. Sometimes the Irish were said to constitute an inferior race; others who opposed the political economists held that the Jews were an inferior race. By the mid-20th century, the inferior became the *unfit*, a category that also changed over time.

4. Marx presents a special case, perhaps, because he came down on the side of natural difference (Hollander, 2008) but at the same time favored reforms similar to those propounded by J. S. Mill.

5. For Mill, principles of economics and morality apply equally well to men and women (see Mill, 1869/1970) so that "Abstract Economic Man" is a misnomer. We retain the phrase as it is the one most readily recognized by economists and noneconomists alike. The degendering of Mill's language over his life was carefully studied by J. M. Robson in his collation of editions of *Logic* (Mill, 1843/1973, xcii–xciii): "The fourth type of variant, that which is verbal, or gives semantic clarity, or reflects changing word usage, is the most common, and is not without importance, especially in cumulative effect. A few, of varying kinds, may be cited in illustration. A frequent change . . . is of men to people or mankind (and a man or he to a person) in 1851, a change also found in the third edition of the *Principles* in the next year. One should remember, in this context, Mill's proposed amendment to the Second Reform Bill in 1867, to replace man with person."

6. The argument may be stretched to include a leader as intellectual or as scientist, as well; we have argued that the scientist who studies human nature and development has the same motivations as the subjects under study (Peart & Levy, 2005).

7. We have argued that this transformation is entirely the sort that Mill foresaw with the removal of institutional

impediments to the development of self-governance (see Peart & Levy, 2005).

8. Burns (1978, p. 4) writes that transforming leadership is a process that results "in a relationship of mutual stimulation and elevation that converts followers into leaders and may convert leaders into moral agents."

9. They are rewarded in approbation despite Smith's now-unfamiliar position that they are no more talented than the next person.

10. Knight (1935) argued that the economists' notion of competition neglected the contest, or, as he expressed it paradoxically, the competitive aspect.

11. There is a parallel relationship between markets and auctions: People "win" an eBay auction rather than "buy" a good. The classical notion of competition, as George Stigler rightly notes, is more akin to that of eBay: "It will be noticed that 'competition' is here (and usually) used in the sense of rivalry in a race—a race to get limited supplies or a race to be rid of excess supplies" (Stigler, 1957, p. 1).

12. For further reading on this distinction between the motivational package of political economy and the more narrowly defined self-interest presumption of economics, see Robbins (1981).

13. This is not to suggest that all treatments of Ireland among liberals were identical. Bright favored an end to the law of primogeniture in Ireland, compensation for evicted tenants and loans for those who wished to buy land, and land purchase from English owners at discounts to Irish buyers. But Bright left the Liberal Party in 1886, objecting to the increasing militancy of the Irish agitation.

14. Smith's paper opens with a quotation from David Hume, and then from Hayek, on the two worlds in which people function. "We must constantly adjust our lives, our thoughts and our emotions, in order to live simultaneously within different kinds of orders according to different rules. If we were to apply the unmodified, uncurbed rules [of caring intervention to do visible 'good'] of the . . . small band or troop, or . . . our families, . . . to the [extended order of cooperation through markets] as our instincts and sentimental yearnings often make us wish to do, *we would destroy it*. Yet if we were to always apply the [competitive] rules of the extended order to our more intimate groupings, we would *crush them*" (Friedrich A. Hayek cited in Smith, 2003, p. 465 [italics in original]).

15. The experimental economics program at a George Mason University summer workshop ran ultimatum games with quizzes to establish entitlements for the first-mover position, a method intended to replicate the entitlement-ultimatum game. Afterward, it was uncovered that the quiz was seen as unfair by the international students, since it focused on American trivia.

16. Additional evidence on randomized leadership could be found from one of the last surviving random institutions in North America: the jury. Since the jury leader, the foreman, is picked at random, there is a body of experience to consider.

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