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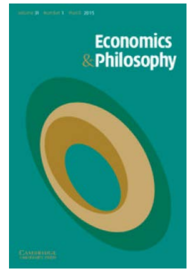
IDENTIFICATION AND ECONOMIC BEHAVIOR
SYMPATHY AND EMPATHY IN HISTORICAL PERSPECTIVE



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1. INTRODUCTION

In modern economics, the use of *sympathy* and *empathy* shows significant ambiguity. *Sympathy* has been used in two different senses. First, it refers to cases where the concern for others directly affects an individual's own welfare (Sen, 1977). Second, the term has served the purposes of welfare economics, where it is associated with interpersonal comparisons of the extended sympathy type, that is, comparisons between one's own situation in a social state and someone else's in a different social state (Arrow, 1963 [1951]). On the other hand, *empathy* has been used interchangeably with *sympathy* either to render the idea of interdependent utility functions (Leibenstein, 1976), or to convey the imaginative process of imagining oneself in someone else's place (Harsanyi, 1977).

Given the ambiguity surrounding the definitions of *sympathy* and *empathy* in economics, it may be useful to turn to dictionaries to see whether they allow for any clear-cut distinction between the two terms. According to the second edition of the *Oxford English Dictionary* (1989), the word *sympathy* refers to conformity of feelings, inclinations, or

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temperament, which makes persons agreeable to each other. Another definition stresses the quality or state of being affected by the condition of another with a feeling similar or corresponding to that of the other; the fact or capacity of entering into or sharing the feelings of another; fellow-feeling. Still another definition puts forward the quality or state of being thus affected by the suffering or sorrow of another; a feeling of compassion or commiseration. Definitions borrowed from standard usage would stress the concern for the welfare of others. As for *empathy*, there is no entry in the first edition of the *Oxford English Dictionary* (1933), but the definition in the Supplement reads: 'The power of entering into the experience of or understanding objects or emotions outside ourselves'.[1] It is interesting to note, however, that the 1972 Supplement to the same edition provides a slightly different definition: 'The power of projecting one's personality into (and so fully comprehending) the object of contemplation' – the very definition which appears in the second edition. In standard usage *empathy* would be associated with putting oneself in the shoes of someone else.

From these definitions it may be inferred that although both terms refer to sharing the feelings of another, they do not stand on the same footing. Empathy, unlike sympathy, is not necessarily other-oriented: it merely applies to the understanding of others. When one needs to form expectations about another's possible purposes and plans before making one's own decision, one may have interest in understanding his or her feelings, thoughts and experience. Putting oneself in someone else's shoes can be the best way to achieve such a goal. Yet empathy may also be instrumental in activating sympathy since, before showing concern for the welfare of others, one needs first to have some idea of what would make them happier or sadder. Moreover, empathy seems to involve a more radical form of identification in the sense that the empathizer has to project themselves into the other's place so as to experience vicariously his or her feelings, thoughts and experience. Sympathy, by contrast, presupposes a relation of similarity between the sympathizer and sympathizee, which allows the former to share the feelings of the latter more easily. In sympathy one feels with another, while in empathy one feels into another. Finally, whereas empathy appears as both a power and a process, sympathy is more often associated with a capacity and a state.

In view of the above, it appears that when economists speak of 'sympathy' as imagining oneself in someone else's shoes they should use *empathy* instead, and when they associate 'empathy' with the idea of interdependent utility functions, they should rather resort to the term

[1] The term was 'coined by Titchener (1909) as a translation of the German word *Einfühlung*, which had its origins in German aesthetics' (Wispé, 1987, p. 18).

sympathy. This suggests, in turn, that in differentiating sympathetic identification and empathetic identification, economists should make it clear that the former refers to the community of feelings, thoughts and experience associated with a relation of similarity between individuals; whereas the latter consists in the process of imaginatively putting oneself in the shoes of another so as to understand his or her feelings, thoughts and experience.[2]

For the purposes of this paper, 'empathy' refers to the process whereby one imaginatively puts oneself in the shoes of someone else. However we would like to distinguish between two forms of empathy: 'empathetic identification', which implies an imaginary change of circumstances and personhood with another, and 'partial empathetic identification', which implies only a change of circumstances. Likewise, we would like to differentiate 'sympathy', as concern for the welfare of others, from 'sympathetic identification', as acknowledgment of a community of feelings, thoughts and experience between individuals. That being said, it is worth recalling that it was not so long ago that the *homo economicus* paradigm did not pay much attention to the concern for the welfare of others (sympathy) and the capacity for putting oneself in the shoes of someone else (empathy). Likewise, it is not without reservation that economists recognize that market participants may belong to groups where they share common feelings, thoughts and experience (sympathetic identification). This explains in turn why market participants can sometimes dispense themselves with imaginatively changing objective circumstances and subjective features with others (empathetic identification), and content themselves instead with imaginatively taking on the circumstances of others (partial empathetic identification).

In this paper we are not so much concerned with the relationships between moral philosophy and economic analysis as with the hermeneutic dimension of economic analysis. If we define hermeneutics as a 'philosophy of understanding, which elucidates how it is that one person comes to understand the actions or words, or any other meaningful product, of another' (Lavoie 1990, p. 1), the hermeneutic character of the above notions becomes obvious. Indeed, the notions of sympathetic identification, empathetic identification and partial empathetic identification give structure to the view that economic action requires some understanding of others. Moreover, it seems difficult to account for sympathy without resorting to some form of identification. By following the development of the above notions from the eighteenth century to the

[2] A recent attempt to distinguish between 'sympathetic identification' and 'empathetic identification' appears in Binmore (1994). As it turns out, it is not so much two modes of identification which are distinguished, as two uses of an unspecified mode of identification (see pp. 28, 54–61, 285–9).

end of the following century, focusing on the different ways they have served the purposes of economic analysis, we are in a position to illustrate the process whereby economics and hermeneutics have gradually become strangers to each other.

In what follows, we shall first concern ourselves with the way Hume and Smith regarded the relationship between sympathetic identification and empathetic identification on the one hand and sympathy on the other (Section 2). In Section 3 we show that Smith distinguished between empathetic identification and partial empathetic identification, and that although the former is viewed as having no place in economic relationships, the latter may be seen as playing some role. Section 4 examines the role of mind reading in Jevons's theory of exchange and the place of sympathy in Edgeworth's bargaining theory from the viewpoint of arbitration. Finally, the last section points to the relevance of the different notions envisaged in the paper for modern economic theory.

2. HUME AND SMITH ON IDENTIFICATION AND SYMPATHY

It is well known that sympathy plays a significant role in the moral philosophy of Hume and Smith. However, we do not intend to discuss in any detail the question of the relationship between this concept and the nature of moral judgment. Confining ourselves as far as possible to the economic aspects of the notion of sympathy, we would like instead to address the question of its relationships with two distinct processes of identification. Both Hume and Smith recognized that individuals show concern for each other's welfare; more importantly, they argued that the latter is related in some way with sharing feelings with others. However, they had different conceptions of the process through which feelings pass from one individual to another. Whereas Hume equated it with contagion or infection, which are merely passive, Smith depicted it as a cognitive process, where individuals need to change circumstances and personhood with another.

In Hume's view, sympathy is primarily the conversion of an idea into an impression by the force of imagination (1888 [1739], p. 320). The strength of sympathy varies with the closeness of its objects to the sympathizer. Indeed, Hume insisted that sympathy is fostered by sympathetic identification, namely, resemblance and contiguity: not only do 'we find, that where, beside the general resemblance of our natures, there is any peculiar similarity in our manners, or character, or country, or language, it facilitates the sympathy' (p. 318); but also that 'we sympathize more with persons contiguous to us, than with persons remote from us: With our acquaintances, than with strangers: With our countrymen, than with foreigners' (p. 581). As long as the relations of resemblance and contiguity facilitate sympathy, it goes without saying that the latter is more likely to reach its full extent in close-knit groups than in impersonal gatherings. However, the difference is in degree, not in essence, since, as Hume acknowledged in several places in the *Treatise of Human Nature*, one may 'sympathize' with strangers as well as with relatives.

While imagination is central to sympathy, Hume never contemplated the possibility of founding sympathy on a kind of imaginary change of persons. He was indeed very skeptical as to the feasibility of empathetic identification:

> No force of imagination can convert us into another person, and make us fancy, that we, being that person, reap benefit from those valuable qualities, which belong to him. Or, if it did, no celerity of imagination could immediately transport us back, into ourselves, and make us love and esteem the person, as different from us. (Hume, 1983 [1751], p. 51)

As Mercer (1972, pp. 21, 43) has observed, Hume's conception of the communication of feelings and opinions between individuals precludes the projection of the self into the subjectivity of the other, which could have given solid foundations for concern for the other's welfare. The fact is that in restricting sympathy to the mere transference of feelings and opinions, Hume was unable to give imagination an active content, and hence to spell out the details of how the individual can develop some knowledge of the other's state of mind. Sympathy remains a passive process whereby feelings and opinions literally spread within a community of individuals.

Doubtless Smith was more willing than Hume to stress the active nature of the act of sharing the feelings of others. The emergence of this new view can best be appreciated by recalling Smith's own definition:

> By the imagination we place ourselves in his [the one who is on the rack] situation, we conceive ourselves enduring all the same torments, we enter as it were into his body, and become in some measure the same person with him, and thence form some idea of his sensations, and even feel something which, though weaker in degree, is not altogether unlike them. His agonies, when they are thus brought to ourselves, when we have thus adopted and made them our own, begin at last to affect us . . . (Smith, 1976 [1759], p. 9)

Thus, sharing another's feelings cannot be regarded as mere contagion or infection, but rather as the outcome of an act of imagination, whereby the spectator tries to figure out what it is like to be the other person in his or her circumstances (empathetic identification). Another point worth noting in this connection is that Smith's 'imaginary change of situation . . . is but momentary' (p. 21); accordingly, Smith could stress the difference between the feelings of the spectator and those of the other person more clearly than Hume had done.

Still, Smith's account has often been characterized as ambiguous. As Mercer has observed, 'Perhaps Smith's most serious confusion stems from his failure to clarify whether sympathy involves imagining what one would feel if one were in the other's situation or whether it involves imagining oneself as the other person' (1972, p. 86). Although there is no question that Smith distinguished between imaginatively changing circumstances and personhood with another (empathetic identification) and changing only circumstances with another (partial empathetic identification), and that he did not use a specific term to denote the latter, it is doubtful whether this distinction gives rise to any ambiguity. In *The Theory of Moral Sentiments* (*TMS*), Smith made it clear that

> When I sympathize with your sorrow or your indignation, it may be pretended, indeed, that my emotion is founded in self-love, *because it arises from bringing your case home to myself, from putting myself in your situation, and thence conceiving what I should feel in the like circumstances.* But though sympathy is very properly said to arise from an imaginary change of situations with the person principally concerned, yet this imaginary change is not supposed to happen to me in my own person and character, but in that of the person with whom I sympathize. When I condole with you for the loss of your only son, in order to enter into your grief I do not consider what I, a person of such a character and profession should suffer, if I had a son, and if that son was unfortunately to die: but *I consider what I should suffer if I was really you, and I not only change circumstances with you, but I change persons and characters.* (Smith, 1976 [1759], p. 317; emphasis added)

This passage helps us understand why commentators have sometimes depicted Smith's characterization of the imaginary change of positions as equivocal. According to Smith himself, 'it may be pretended', indeed, that 'sympathetic' emotions are in one way or another connected to self-love since they arise from 'bringing someone else's case home to oneself'. The fact is that Smith used the latter phrase in numerous passages of *TMS* to describe the imaginary change of positions. Yet Smith was quite unequivocal on the fact that sympathy arises from imaginatively changing circumstances *and* persons with others. For Smith, the concern for the welfare of others can be said to be selfish only if in bringing someone else's case home to oneself, one has imaginatively taken on only his or her circumstances. In using the expression 'bringing someone else's case home to oneself' in *TMS* as a shortcut for characterizing the change of positions, Smith had in mind not so much the process of empathy itself as its outcome. In other words, he was assuming that the temporary change of circumstances and persons had already taken place. The real problem with Smith's reading of sympathy is therefore in his extending the pronouncements about the selfless nature of the foundations of sympathy to the use of the imaginary change of positions itself, not in his characterization of the latter.

Smith closely followed Hume in considering sympathy to be more likely among friends or acquaintances than among strangers. However, Smith elaborated on Hume's discussion by indicating that knowing the state of mind of others is a precondition of sympathy. That sympathy derives from empathetic identification is clear from Smith's account of family relationships:

> After himself [every man], the members of his own family, those who usually live in the same house with him, his parents, his children, his brothers and sisters, are naturally the objects of his warmest affections. They are naturally and usually the persons upon whose happiness or misery his conduct must have the greatest influence. He is more habituated to sympathize with them. He knows better how every thing is likely to affect them, and his sympathy with them is more precise and determinate, than it can be with the greater part of other people. It approaches nearer, in short, to what he feels for himself. (Smith, 1976 [1759], p. 219)

Using a 'spheres of intimacy' argument, Coase (1976) and Nieli (1986) have suggested that Smith distinguished between the relationships within small communities and the interactions involving people who belong to different groups. Accordingly, they argue that while sympathy plays a significant role within families and close-knit groups, self-interest prevails in market transactions provided that they do not gather people from the same intimate group. One important implication of this line of argument is that nothing prevents us from considering the butcher, the brewer, and the baker as members of a small group or community, and that it should accordingly be possible to ascribe sympathetic preferences to these partners in trade (see Dimand and Dimand 1991, p. 65), who, according to Smith himself, 'feel towards one another as if they really were so [brothers]' (1776 [1759], p. 224).

The 'spheres of intimacy' argument is merely concerned with sympathy as such. It is not clear, indeed, what role to ascribe to the imaginary change of circumstances and persons in this chain of reasoning. In fact, the similarities between families and other close-knit groups, on the one hand, and small communities of exchangers, on the other, are not so much based on the sympathetic preferences of their members, as on the knowledge the latter can develop about each other through frequent interactions. There is no reason, indeed, for the closeness encountered within family, not to develop in the exchange relation as long as it gives rise to repeated interactions. This does not mean, however, that the exchangers, who have been habituated to 'sympathize' with their partners in a specific marketplace, would care for their welfare in the same way as the head of the family does for his or her close relatives. Here, it is of the utmost importance to differentiate *empathetic identification*, as a cognitive process whereby one gets acquainted with the preference patterns of others, and *sympathy*, as concern for the welfare of others. If it seems an exaggeration to suggest, as Nieli does, that Smithian economic agents would be willing to sacrifice their own interests to contribute personally to the welfare of those who belong to the same intimate group, it is altogether reasonable to argue that economic agents gain some knowledge about each other's preference patterns thanks to the frequent transactions characteristic of small communities of exchangers.

3. SMITH'S MODES OF IDENTIFICATION AND THE EXCHANGE RELATION

In explaining why sympathy cannot be regarded as a selfish principle, we have seen that Smith alluded to another mode of identification, which involves changing only circumstances with others. Unlike empathetic identification, this mode of identification is a self-centered process: it merely involves putting oneself in someone else's situation and conceiving what one should feel in like circumstances or, to be more precise, introspecting one's own experience of someone else's objective circumstances (partial empathetic identification).

From our perspective, the question may be raised whether Smith's two modes of identification are of any significance in the analysis of economic relationships. With regard to empathetic identification, commentators have made clear that the change of personhood and circumstances characteristic of *TMS* is absent from the *Wealth of Nations* (*WN*). Commenting upon the well-known passage in *WN*, which emphasizes the role of self-love in the exchange relation, Brown aptly observes:

> In this symmetric exchange, there is no need for an imaginary change of places or for sympathy, because everyone knows that the other is in the same position as themselves: being a symmetrical relation, the exchange relation provides its own mirror and has no need of spectator mechanisms to achieve reflection. (Brown, 1994, p. 53)

However, had Smith given more weight in *WN* to the case where 'people seldom deal with one another' and 'are somewhat disposed to cheat, because they can gain more by a smart trick than they can lose by the injury which it does their character' (1978 [1766], pp. 538–39), he could have thought of the relevance of empathetic identification for the analysis of economic relationships.

Take, for example, a brewer and a butcher who do not know each other. Suppose that the brewer is honest, whereas the butcher is not. In this case, it would be ill-considered for the brewer to assess the interests of the butcher by thinking what she, an honest brewer ('a person of such a character and profession'), would do, were she, as an *honest* butcher, to enter into a transaction with an honest brewer. She would better assess the interests of the butcher by imaginatively changing circumstances and persons with him, that is, by imagining what she, as a *dishonest* butcher, would do had she to trade with an honest brewer. Similarly, the butcher would be truly inspired if, when assessing the interests of the honest brewer, he trusted empathetic identification. Empathetically identifying with the brewer, the butcher imagines what he, as an *honest* brewer, would do had he to enter into a transaction with a dishonest butcher. Were the butcher to rely on partial empathetic identification only, he would assess the interests of the brewer by imagining what he, as a *dishonest* brewer, would do had he to enter into a transaction with a dishonest butcher. By changing only circumstances, the butcher does not gain relevant information about the brewer's possible purposes and plans.

Yet this is not the story we are being told in *WN*. In the latter, Smith took for granted that justice rules the exchange relation; hence, he believed that economic agents restrain themselves from hurting each other's interests.[3] As long as agents are assumed to abide by the rules of justice, there is no need for an imaginary change of personhood in the exchange relation. This is not to say, however, that partial empathetic identification is of no significance in Smith's analysis of the exchange relation. Both the change of circumstances and the exchange relation are indeed based on self-love. In the *Lectures on Jurisprudence*, Smith (1978 [1766], p. 493; cf. Smith, 1976 [1776], pp. 26–7) made it clear indeed that the exchange relation is founded on one's appeal to others' self-love. He further maintained that persuasion plays a significant role in the exchange relation (1978 [1766], p. 493). For the one who is to make an offer, has to do it in such a way as to make it a 'sufficient temptation'; otherwise, it would not appeal to the self-love of others. From this perspective, the imaginary change of circumstances, alluded to in *TMS*, seems of some relevance to the understanding of the way individuals may persuade one another of the benefit of a transaction. Provided that economic agents are equally subject to the rules of justice, it may be argued that the butcher who is to make an offer to the brewer only needs to put himself in her situation and then conceive what he would do in like circumstances. In other words, the butcher would have to imagine

[3] As Smith observes in *WN*, 'every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way' (1976 [1776], p. 687).

how he would react if, confronted with the circumstances of the brewer, he had to enter into a transaction with a butcher.

Smith did not give explicit indications as to the use of the imaginary change of circumstances with others in market transactions. Partial empathetic identification is assumed in *WN*, as is self-love, which Smith mentioned only in passing at the outset of his work (see Macfie, 1967 [1959], p. 79). It may be submitted, however, that in order for one to make one's offers attractive, one needs to have enough information about someone else's preferences. Without this preliminary information, it would be very difficult for one to make one's offer appealing and very risky for one to put oneself in the situation of someone else. The way Smith described the appeal to others' self-love in the exchange relation suggests that he often thought of exchangers as having some idea about each other's preference patterns, which amounts to saying that a certain number of transactions described in *WN* involve people who know each other.[4] The reason for this is that individuals are often regarded as members of small groups or communities.

This is particularly obvious from Smith's discussion of pre-commercial societies. In referring to the trucking disposition of individuals as cause of the division of labor, Smith gave the example of tribes of hunters and shepherds, that is, of close-knit groups. In such societies, the individual is likely to be acquainted with the preferences of others. Likewise, when dealing with the component parts of the price commodities in Chapter VI of Book I of *WN*, Smith pointed to the common knowledge concerning the circumstances of economic agents in a 'nation of hunters'. He wrote: 'If among a nation of hunters, for example, it usually costs twice the labour to kill a beaver which it does to kill a deer, one beaver should naturally exchange for or be worth two deer' ([1976] 1776, p. 65). Provided that the above information is common knowledge, it is clear that exchangers can have a pretty clear idea of the 'advantages' of each other and that they can therefore appeal to each other's self-love, making their offers tempting enough.

More importantly, the whole discussion of Book I of *WN* suggests that, in expounding the economic features of commercial society, Smith often had in mind small communities of exchangers. The sporadic use of the phrase 'in the same neighbourhood' – which also appears in *TMS* when Smith referred to the fact that close-knit groups can give rise to friendly relationships which are not so different from those observed within families[5] – shows that he sometimes placed his account of

[4] As a result, it should be made clear that wherever Smith describes impersonal transactions, there is no room for a change of circumstances with others, since the latter presupposes that agents have some knowledge of each other's characteristics.

[5] As Smith notes, 'Even the trifling circumstance of living *in the same neighbourhood*, has some effect of the same kind [as that associated with working or doing business with

economic phenomena in the context of markets where agents know each other and are familiar with the habits of the marketplace. It remains that Smith did not bother much with clarifying the psychological process which makes it possible for agents to appeal to each other's self-love; he merely assumed it. The fact that Smith did not elaborate on the prerequisites of the exchange relation, notably the change of circumstances that makes the appeal to others' self-love effective, should not, however, be interpreted as a claim that market transactions are always impersonal in *WN*.[6]

4. THE ROLE OF MIND READING AND SYMPATHY IN ARBITRATION

In expounding their theories of exchange, both Jevons and Edgeworth agreed that self-interested behavior is the first principle of economics. Yet they explained that in certain circumstances self-interest alone does not suffice for agreement to be reached between the parties to a transaction. Hence, they pointed to the role of arbitration in solving the indeterminacy problem (Morgan, 1994, p. 243). From our perspective, the works of Jevons and Edgeworth are important in that they mark a break with Smith's notion of empathy and thus overlook a direction of research whose development could have been fruitful in economics. In other words, both authors downplayed the role of active identification in the analysis of economic behavior. On the one hand, Jevons suggested that mind reading is crucial in dealings over indivisible commodities, but he severed its connection with any imaginary change of positions, thus forgoing empathy as a possible foundation for mind reading in the context of imperfect markets. On the other hand, Edgeworth acknowledged the role of sympathy in placing the contract curve between narrower limits, but he connected it with sympathetic identification, thus resuscitating Hume's contiguity argument as a foundation for sympathy.

A. Jevons on Mind Reading and Bargaining

For those who have in mind Jevons's observation that 'every mind is . . . inscrutable to every other mind' (1931 [1871], p. 14) and who likewise remember the insistence of Wicksteed, one of Jevons's most obvious disciples, that economic transactions are characterized by non-tuism –

others]. We respect the face of a man whom we see every day, provided he has never offended us . . . There are certain small good offices, accordingly, which are universally allowed to be due to a neighbour in preference to any other person who has no such connection' (1976 [1759], p. 224; emphasis added).

[6] By contrast, Viner remarks that 'he [Smith] took it for granted that the participants in a large number of the transactions which occur in the market are (in the metaphorical sense) at an extreme distance from each other; they are, in relation to each other, anonymous, or strangers, so that there is limited occasion for any moral sentiments other than justice to come into operation' (1968, p. 325).

meaning that the identity of the other is of no relevance in the exchange relation – the claim that Jevons recognized the role of mind reading in economic transactions may appear somewhat out of place. However, if we go on reading the passage on 'Measurement of Feeling and Motives', where Jevons's above remark appears, we find that 'every event in the outward world is represented in the mind by a corresponding motive' and that, each person being to others part of this outward world, 'motives in the mind of A may give rise to phenomena which may be represented by motives in the mind of B' (p. 14). This suggests in turn that one can acquire some knowledge of someone else's mind by introspecting the motives inherited from one's understanding of the phenomena initiated by someone else's motives. Consequently, there is some need to distinguish between the claim that mind reading is dispensable in the context of perfect markets and the claim that Jevons had no perception of it. Although Jevons restricted the role of mind reading to special cases of his theory of exchange, he did recognize its usefulness in economic dealings.

Jevons's theory of exchange is certainly the most important chapter of *The Theory of Political Economy*, for, as Jevons himself remarked, 'It is impossible to have a correct idea of the science of Economics without a perfect comprehension of the Theory of Exchange' (1931 [1871], pp. 75–6). Central to this theory is Jevons's definition of market. After reminding the reader of what used to be regarded as a market and the evolution that led the latter term 'to mean any body of persons who are in intimate business relations and carry on extensive transactions in any commodity' (Jevons, 1931 [1871], p. 84), Jevons goes on to describe the attributes of the market. Emphasizing the market's informational foundations, he related its limits to the existence of a 'community of knowledge'. Two conditions appear to be essential to the definition of market. First, all transactors must be acquainted with the available stocks of commodities exposed for sale (and incidentally with the intentions of exchangers to dispose of their products); second, the ratio of exchange prevailing between any two persons must be common knowledge (pp. 85–6). Therefore, 'any persons who are not acquainted at the moment with the prevailing ratio of exchange, or whose stocks are not available for want of communication, must not be considered part of the market' (p. 86). In addition, Jevons posited that market transactors pursue their own self-interest and that 'there must be no conspiracies for absorbing and holding supplies to produce unnatural ratios of exchange' (p. 86). The above conditions are supposed to define a perfect market, a definition from which Jevons deduced his 'law of indifference':

> It is of the very essence of trade to have wide and constant information. A market, then, is theoretically perfect only when all traders have perfect

knowledge of the conditions of supply and demand, and the consequent ratio of exchange; and in such a market . . . there can only be one ratio of exchange of one uniform commodity at any moment. (Jevons, 1931 [1871], p. 87)

From the above it is clear that in a perfect market, transactors need not have knowledge of each other's subjective features to make their decisions: the hypotheses on information concern the objective characteristics of the market, namely, prices and quantities. Provided that economic agents satisfy the informational requirements laid down by Jevons, they are viewed as part of the market; and, as market transactors, they can rely exclusively on the current market price. As a result, the behavior of transactors can be equated with the behavior of the market, and the latter with the equations of exchange characteristic of the conditions for market equilibrium.

While he recognized that the 'theoretical conception of a perfect market is more or less completely carried out in practice' (p. 86), Jevons did not overlook the fact that imperfections occur in markets. He briefly addressed this problem under the heading 'Failure of the Equations of Exchange', where it is remarked that 'cases constantly occur in which equations of the kind set forth in the preceding pages fail to hold true, or lead to impossible results' (pp. 118–19). For instance, dealing with the case of indivisibilities in commodities, Jevons observed that the bargaining of two agents over the price of a house may well come to nothing:

But supposing . . . that A is really willing to sell at £900, and B is prepared to buy at £1100, in what manner can we theoretically determine the price? I see no mode of solving the question . . . I conceive that such a transaction must be settled upon other than strictly economic grounds. (Jevons, 1931 [1871], p. 124)

The indeterminacy of the outcome on strictly economic grounds suggests that other factors may influence the outcome of the negotiation:

The result of the bargain will greatly depend upon the comparative amount of knowledge of each other's position and needs which either bargainer may possess or manage to obtain in the course of the transaction. *Thus the power of reading another man's thought is of high importance in business*, and the art of bargaining mainly consists in the buyer ascertaining the lowest price at which the seller is willing to part with his object, without disclosing, if possible, the highest price which he, the buyer, is willing to give. The disposition and force of character of the parties, their comparative persistency, their adroitness and experience in business, or it may be feelings of justice or of kindliness, will also influence the decision.

> These are motives more or less extraneous to a theory of Economics, and yet they appear necessary considerations in this problem. It may be that indeterminate bargains of this kind are best arranged by an arbitrator or third party. (Jevons, 1931 [1871], pp. 124–5; emphasis added)

The passage above clearly indicates Jevons's awareness of the usefulness of mind reading in economic exchange. It is, indeed, of the utmost importance to read someone else's thoughts, the moment it becomes obvious that equilibrium cannot be achieved through market forces only. For, then, knowledge of the objective characteristics of the market is not enough to reach agreement. More important is the knowledge of others' intentions. No wonder, then, that Jevons stressed the subjective features of agents as the main determinants of the outcome of bargaining in such situations.[7] Likewise, it is clear that in such situations the relevant information does not pertain to the 'community of knowledge' referred to by Jevons in the case of perfect markets, but rather to the way in which the bargain is conducted by the two bargainers. In other words, information is not given to market transactors prior to the transaction: it is acquired 'in the course of the transaction'.

We should bear in mind, however, that Jevons deemed the above motives as 'more or less extraneous to a theory of Economics', although he provided no substantial explanation for such a contention. As a result, Jevons's conclusion that in case of indeterminate bargains the solution may be to turn to an arbitrator, reveals his intention to rule out the solution that might emerge on the basis of an empathetic understanding between agents, and, more generally, that he had difficulty explaining how equilibrium is achieved and what role the subjective characteristics of agents may play in such a process.

B. Edgeworth on Sympathy and Bargaining

In describing 'Economical Calculus', Edgeworth (1967 [1881], p. 16) posited that 'the first principle of Economics is that every agent is actuated only by self-interest'. To this principle he added the following characterization of contracts:

> A *settlement* is a contract which cannot be varied with the consent of all the parties to it. A *final settlement* is a settlement which cannot be varied by recontract within the field of competition. Contract is *indeterminate* when there are an indefinite number of *final settlements*. (Edgeworth, 1967 [1881], p. 19)

[7] It is interesting to note that Jevons mentioned the 'feelings of justice or of kindliness' among the subjective features of agents that are susceptible to influence the outcome of the negotiation. As we shall see, Edgeworth expanded on Jevons's idea by assigning sympathetic preferences to agents.

With this framework in mind, Edgeworth set out to answer the question as to 'how far a contract is indeterminate' (p. 20). He provided the following answer: contract is indeterminate the cases of bilateral monopoly and imperfect competition. However rigorous it may be, this description of the conditions of the exchange relation should not be simplified, for Edgeworth was well aware that the self-interest principle is only an imperfect characterization of the behavior of *homo economicus*, and that indeterminacy and imperfect competition are to be taken seriously. Thus, not only did he make clear that 'the Pure Utilitarian might think it most beneficent to sink his benevolence towards competitors; and the *Deductive Egoist* might have need of a Utilitarian Calculus' (p. 16), he also admitted that there were several obstacles to perfect competition.

In discussing indeterminate contract, Edgeworth followed Jevons's rather derogatory assessment of higgling. More precisely, he mentioned 'the tendency, greater than in a full market, towards dissimulation and objectionable arts of higgling' (pp. 29–30), and he even cited Jevons's passage to the effect that such transactions 'must be settled upon other than strictly economic grounds' (p. 30). However, unlike Jevons, Edgeworth did not put stress on the ability of market transactors to read each other's thoughts while bargaining. Instead, he emphasized the role of sympathy as a possible foundation for arbitration when contract is indeterminate.

In *Mathematical Psychics*, the first serious reference to sympathy, as concern for the welfare of others, appears in the context of the search for the origins of the principle of arbitration.[8] Although he recognized Henry Sidgwick's valuable distinction between egoism and utilitarianism, Edgeworth was actually concerned with finding a principle that might account for the transition 'from the principle of self-interest to the principle, or at least the practice, of utilitarianism' (p. 53) – a principle that would be more convincing than religion in that it would be compatible with the 'lower elements of human nature'. In the process of identifying this principle with the utilitarian arrangement, that is, 'the contract tending to the greatest possible total utility of the contractors' (p. 53), Edgeworth 'showed that the utilitarian optimum is one of the (infinite number of) efficient exchange positions along the contract curve' (Creedy, 1984, p. 615); moreover, he put forward the principle of sympathy as a possible foundation for the utilitarian solution:

[8] In fact, the term sympathy appears in the 'Introductory description of contents', where Edgeworth (1967 [1881], p. vii) denied the assumption that utilitarianism implies a univocal relation between one's objective circumstances and one's degree of satisfaction. In this passage, Edgeworth seemed to suggest that sympathy with others may increase an individual's satisfaction.

> Here may be the place to observe that if we suppose our contractors to be in a sensible degree *not* 'economic' agents, but actuated in effective moments by a sympathy with each other's interests (as even now in *domestic*, and one day perhaps in political, contracts), we might suppose that the object which X (whose own utility is P), tends – in a calm, effective moment – to maximise, is not P, but $P+\lambda\Pi$; where λ is a *coefficient of effective sympathy*. And similarly Y – not of course while rushing to self-gratification, but in those regnant moments which characterise an ethical 'method' – may propose to himself as an end $\Pi+\mu P$. What, then, will be the contract-curve of these modified contractors? *The old contract curve between narrower limits* . . . As the coefficients of sympathy increase, utilitarianism becomes more *pure* . . . *the contract-curve narrows down to the utilitarian point.* (Edgeworth, 1967 [1881], p. 53, note 1)

Commenting upon Edgeworth's propositions, Collard (1975) has shown that the presence of λ and μ does not change the locus of the contract curve and that the range of outcomes shrinks as both coefficients of sympathy increase. He calls these two conclusions the non-twisting theorem and the shrinking theorem respectively, and claims that they are compatible with Edgeworth's hypotheses. Of particular interest in this respect is the fact that Edgeworth, who regarded self-interest as the main motive of economic agents, did admit the significance of sympathy as far as the solution of indeterminacy is concerned. This suggests that the analysis of competitive markets, which involves impersonal economic relations, differs significantly from that of arbitration, which assumes some form of closeness among agents. It is no accident, then, that in describing the sympathetic preferences of agents, Edgeworth referred to 'domestic contracts' as opposed to market contracts. In order for agents to be something more than mere economic agents, some familiarity must exist between them that creates a sense of community. Likewise, it is noteworthy that in his discussion 'On Mixed Motives of Utilitarianism', Edgeworth resuscitated Hume's contiguity argument to the effect that the greater the closeness of agents, the stronger their sympathy with each other's interests:

> But it has not been observed that . . . between the frozen pole of egoism and the tropical expanse of utilitarianism, there has been granted to imperfectly-evolved mortals an intermediate temperate region; the position of one for whom in a calm moment his neighbour's happiness as compared with his own neither counts for nothing, nor yet 'counts for one,' but counts for a fraction. We must modify the utilitarian integral as defined above . . . by multiplying each pleasure, except the pleasures of the agent himself, by a fraction – a factor doubtless diminishing with what may be called the social distance between the individual agent and those of whose pleasures he takes account. (Edgeworth, 1967 [1881], pp. 102–3)

Seen from the perspective of the coefficients of sympathy, this passage shows that three cases can be distinguished as far as the behavior of contractors is concerned:

1. $\lambda=\mu=0$, where the transaction involves only pure egoists who do not pay attention to each other's welfare, which corresponds to Edgeworth's case where the happiness of our neighbor counts for nothing;
2. $0<\lambda<1$ and $0<\mu<1$, where the transaction involves agents who have sympathetic personal preferences, which corresponds to Edgeworth's case where the happiness of our neighbor counts for a fraction of ours;
3. $\lambda=\mu=1$, where the transaction involves only pure utilitarians who care for each other's welfare as much as they care for their own, which corresponds to Edgeworth's case where the happiness of our neighbor counts for one.

It is worth remarking that Edgeworth's propositions on sympathy do not involve any reference to an imaginary change of positions. This may be explained by the fact that Edgeworth was not so much interested in finding proper foundations for sympathy as in assessing the impact of different degrees of sympathy on the contract curve. For that purpose, the reference to the evasive 'social distance' sufficed, as it provided a quantitative expression of the individual's variable concern for others' welfare. The only case that could support an interpretation of the principle of sympathy in terms of an imaginary change of circumstances and personhood with another would be that of pure utilitarians. However, in such a case, the imaginary change of positions, as a means for getting acquainted with the preferences of the other, loses its interest since the two individuals maximize the same utility function.

5. CONCLUSION

Looking at the development of the concepts of sympathy and empathy from the eighteenth century to the end of the following century enables us to single out the main steps in the use of identification in economic thought. By the end of the eighteenth century, both notions were already in use in moral philosophy and political economy. Sympathy was supposed to arise from two distinct forms of identification: contiguity and resemblance (sympathetic identification), on the one hand; the imaginative change of personhood and circumstances (empathetic identification), on the other. As Smith concentrated on fair dealing in *WN*, empathetic identification was viewed as useless in an economic context. Yet there is some evidence to suggest that his analysis of the exchange relation was founded on partial empathetic identification, since he focused on economic agents who belong to communities and hence have some knowledge of each other's characteristics.

One century later, with the development of neo-classical economics, little progress has been accomplished in the understanding of the role of identification in economic analysis. Jevons and Edgeworth respectively emphasized the role of mind reading and sympathy in solving the indeterminacy problem. Yet, Jevons, overlooking Smith's insights, did not explore the possible connection between mind reading and empathy, and Edgeworth contented himself with resuscitating Hume's contiguity argument as a foundation for sympathy. As a result, active identification may be said to have almost completely disappeared from economics at a time when the *homo economicus* paradigm acquired its modern guise.

From this perspective, it is worth recalling that in the last three decades or so, the self-interest model has undergone significant modifications, notably the acknowledgment of the sympathetic as well as opportunistic predispositions of individuals. Such change unravels new directions for the use of the notion of sympathy and empathy and their derivatives in modern economics. In the first place, as the vast literature on interdependence in utility functions within family and small communities clearly demonstrates, sympathy is mainly associated with a form of sympathetic identification, where closeness and resemblance justify concern for the welfare of others. Yet, one can also show sympathy for strangers, which suggests that another form of identification may motivate sympathetic predispositions. Here empathetic identification may be of some help as changing circumstances and persons with another may prompt sympathy with him or her. By focusing their attention upon the relationship between sympathetic identification and sympathy, modern economists confine themselves to explaining the obvious, when they should account for more puzzling forms of sympathy.

In the second place, even though the virtues of the notion of empathy for the understanding of another's actions and intentions remain largely unexplored in modern economics, it would be an exaggeration to suggest that today's economists altogether ignore this direction of research. Although the notion of empathy has mainly been used for the purposes of welfare economics, where it is equated with a mere device that facilitates interpersonal comparisons of utility, some game theorists have suggested a different use for empathy in economics. Binmore (1994), for instance, writes:

> A loan shark is unlikely to sympathize with the plight of his victims, but he will be very much more effective as a loan shark if he is able to put himself into the shoes of those whom he exploits, so as to see their difficulties as

> his victims see them, with a view to predicting how they will respond to his overtures. (p. 288)

This has nothing to do with welfare economics. It is, indeed, one thing to put oneself in someone else's shoes to make comparisons between different social states; it is another to look at the world from the other's perspective in order to predict his or her behavior and hence swindle him or her. Considering the controversial virtues of empathetic identification for the study of interpersonal comparisons of utility (see Hausman, 1995), it comes as a surprise that economists do not use this notion more frequently for the analysis of strategic behavior, where its applications seem much more promising. Clearly, empathetic identification is helpful when economic agents need to form expectations about the actions and intentions of others. It is, as Binmore observes, of great help to those who intend to deceive others; yet it may also serve to deter opportunistic behavior. For example, upon entering a transaction, one may realize through empathetic identification that another's intentions are dubious.

Finally, partial empathetic identification may also be useful in an economic context when economic agents have common experiences. Consider Ebeling:

> The probability judgments upon which the agents will be guided in their choices are ultimately grounded upon images in their minds concerning the behavioral characteristics of the others pertinent to the decision problem at hand. But these behavioral characteristics are not reducible to quantities. They comprise qualitative attributes from which composite pictures are created on the basis of some form of experiences and interactions with those others in the past. (1986, pp. 48–9)

Provided that such ideal typifications are available to the economic agent in the marketplace, it is clear that changing circumstances with others can provide enough information for understanding their intentions. Clearly, communities of knowledge based on shared experiences rid individuals of having to systematically inquire about each other's personal characteristics. More generally, the idea of partial empathetic identification illustrates the fact that economic agents belong to groups and that the latter play an important role in shaping their behavior.

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