# On Exchange and Its Gains[1]

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*"I want …economists … to concentrate on exchange rather than on choice."*
[Buchanan (1964) emphasis in original]

## I Introduction

Over the history of Economics, there have been a small number of influential voices insisting on the primacy of the idea of "exchange" within a proper account of the Economics discipline. Sometimes this view has been expressed in terms of recommendations for a change in the discipline's name – away from oeconomia (with its connotation of household management) and towards "catallactics" or "catallaxy" – the science of exchange. Richard Whateley – the second[2] incumbent of the Drummond Chair at Oxford (1829-1831) – was a notable exponent of this view. So too was Hayek (1976 ch 10) following von Mises (1949). But, in recent times, perhaps the most persistent proponent of the exchange focus has been James Buchanan; and perhaps the most extended and explicit plea for this view is contained in his 1964 Presidential Address to the Southern Economics Association, subsequently published as "What Should Economists Do?". The central message of that address/paper is nicely captured by the quotation from it, offered here as the epigraph. Economists should focus -- not on choice, not on rationality, not on relative prices, not on scarcity – but on exchange![3]

I shall shortly lay out what I believe Buchanan's reasons were for this preference; but before doing so, it might be as well to say a little about what is at stake in any claims about a discipline's "concentration" or primary focus. After all, one might think that the basic elements in the "economic way of thinking" are properly construed as complementary rather than rival[4]. So ideas of scarcity, and

[1] An earlier version of this paper was given as the 2016 Brian Barry Memorial Lecture at the LSE in June 2016.

[2] He had earlier tutored the first incumbent, Nassau Senior.

[3] I can attest, from personal conversations on many occasions, to Buchanan's judgment that the real test of the quality of an Economics Principles course was how soon it got to exchange. He had in mind something like the first five minutes of the first lecture!

[4] I have long thought that Paul Heyne (1973) was right to insist that economics is better understood as a "way of thinking" than as a subject matter. The major journals are full of papers with titles like "the economics of …" where the object can range across: crime and punishment; time; suicide; politics; the courts; self-confidence; esteem; climate change; corruption – indeed, it would be an interesting challenge to devise a topic which would reduce the economists to silence! All these papers are recognized by the boundary-riders of the discipline (the journal editors and referees) as being "economics" in some meaningful (and publishable) sense.

rational choice, and the role of relative prices, or for that matter methodological individualism, and the idea of equilibrium[5], all play a role in Economics – and arguably an indispensable role. And it is certainly not Buchanan's ambition to dispense with rational choice or scarcity as central elements in the structure of the discipline.

I take it that by emphasizing exchange as *the* appropriate concentration, Buchanan is suggesting something like a guiding idea – a gestalt, or to use one of his own favourite metaphors, a "lens"[6] -- through which economic enquiry is best pursued. Effectively, he is borrowing an insight from 'behavioural economics' about the importance of *framing;* and applying that insight to the discipline of economics itself[7]. If this is a correct interpretation, then one natural question to ask is: what is at stake in framing economics through an "exchange" focus? And what might we see the exchange focus as delivering? Put another way, what are the chief rivals to an exchange focus; and what are Buchanan's criticisms of these alternatives?

The two primary alternatives Buchanan canvasses in his 1964 paper are 'scarcity' and 'rational choice'; and I shall briefly summarize his views on these.

> *Scarcity:*
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> Perhaps the most familiar 'definition' of economics – and probably the most influential within the profession -- is laid out by Robbins (1932). As Buchanan sees it, Robbins thinks of economics as a response to a *problem*. That problem is scarcity – the confrontation of limited means with necessarily "competing ends". "*The economic problem … is one of* allocation *made necessary by the fact of* scarcity, *the necessity to* choose." [Buchanan p30, emphasis in original]. But as Buchanan puts it: "*I propose to take on Lord Robbins as an adversary and to state categorically that his all-too-persuasive delineation of our subject field has served to retard rather than to advance scientific progress.*" As I read Buchanan, his chief objection to this Robbinsian conception of economics is that it is hospitable to an inappropriate level of aggregation. The approach too readily invites a conception of "society at large" facing a problem of how to allocate "its resources". It fails to emphasize that any society is composed of individuals, all of whom face their individual problems based on their own resources in a setting where "success" is to be rated in terms of the realization of the goals and purposes of each. "Society" is properly understood as a habitat for problem-solvers; not as a 'problem-solver' in itself!
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> *Rational Choice:*

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[5] Either as a state of affairs or (as the Austrians tend to think) as a magnet to which states of affairs are drawn before there is some (inevitable) exogenous change in prevailing circumstances.

[6] Buchanan's use of this Nietzschian metaphor is nicely illustrated in the Introduction to Buchanan (1967).

[7] Buchanan was not as it happens especially interested in behavioural economics; and would probably not have used the 'framing' metaphor himself, even if it had then been current.

Buchanan's objection to thinking of Economics as a study of 'rational choice' is, in one sense, almost the opposite of his objection to a scarcity focus – namely, that it is *too* individuated. After all, rational choice is something that can be practiced by Crusoe on his island. Crusoe can make decisions as to whether to fish or gather coconuts or swim out to the ship, making the marginal calculations as to which is best for him given his ends and the time and energy used up in each activity. "*The uniquely symbiotic aspects of behaviour, of human choice, arise only when Friday steps onto the island, and Crusoe is forced into association with another human being. The fact of* association *requires that a wholly different and wholly new sort of behaviour takes place – that of 'exchange'…*" [Buchanan (1964) p 35].

Or as Buchanan was to make the point some years later[8]:

"*Economics is, or should be, about individual behaviour in society*"

Brennan and Buchanan (1985) p 1

However, insistence that Economics is a social science, and therefore deals with individuals *in society,* where the structures of interdependence and patterns of association are a central issue, is I think only one piece of Buchanan's case. The other piece connects to the specifically "*symbiotic aspects*" of social behaviour. For Buchanan, one thing that the exchange gestalt serves to makes plain is the *positive-sum possibilities* in human interactions. Clearly, in the more familiar biological setting, symbiosis refers to a structure of interdependence where each (species) has its survival prospects increased by the activities of the other. And when he appeals to that term Buchanan surely means to signal a focus on the mutual gains that association makes possible. Possible, but of course not inevitable. When Friday arrives on the island, there is the prospect of warfare, of theft, of interactions that have a characteristically negative valence. And though Buchanan might include, within the domain of possible 'exchanges', an agreement between Crusoe and Friday to divide the island and leave one another in peace, that is not the emphasis he sees the exchange focus as delivering: he has in mind positive sum interactions, rather than the avoidance of negative sum ones.[9]

When economists (and certainly Buchanan) talk of "exchange", the idea of "gains from exchange" follow almost immediately in the wake. If you ask the typical economist the question: "what does 'exchange' involve?" the most likely answer is: "mutual gains". Indeed, as Heath (2006) perceptively observes, Buchanan effectively uses "gains from exchange" as coterminous with "mutual advantage". So in particular, Buchanan's constitutional contractarianism (and his 'economic

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[8] Admittedly in a rather dubious collaboration.

[9] The distinction seems to be an important one in the 'framing' sense. For example, in understanding the functions of 'rights', economists are likely to emphasize their role in facilitating exchange – and thereby in creating positive benefits [Coase (1961) exemplifies]; whereas political philosophers are likely to emphasize the role of rights as protections against losses, reflecting I suspect a broadly Hobbesian picture of the state of nature where rights are absent. See Brennan (2016) for an extended treatment of this thought in the context of how 'liberty' tends to be understood in the different disciplinary settings.

theory of politics') is developed as an application of the "exchange focus" broadly interpreted.

> "*In the most general sense (perhaps too general for most … to accept), the approach to economics that I am advancing extends to cover the emergence of a political constitution*." Buchanan (1964) p39

Relatedly, the "*synthesis of the theories of political and economic decision making (Public Choice*)"[10] for which Buchanan was awarded the Nobel Prize, he would often describe in terms of the study of "politics as exchange".[11]

One interesting fact in this connection is Buchanan's stated preference for "symbiosis" over "catallaxy". Symbiosis might be understood to include all cases of mutual benefit; catallaxy focuses on exchange as such. For Heath, this predilection to wrap up all "mutual advantage" (to use Rawls' phrase[12]) in the "gains from exchange" terminology fails to distinguish the *fact* of mutual benefit from the "*mechanism*" (Heath's term) by which such mutual gain is realized. Exchange may be one means of securing mutual advantage; but at least in principle, mutual advantage might be secured in other ways. Heath thinks that there *are* such other ways; and considers that the 'exchange' focus lends a "catallactic bias" to the normative analysis of social interactions.[13]

Buchanan clearly thought that *market* exchange was not the only arena in which mutual gains could be secured, because, as noted, he explicitly sought to conceptualize politics through the exchange lens; but there is some evidence that he thought of market exchange as the natural point of departure. As he put it in later life:

> '*The simple exchange of apples and oranges between two traders – this institutional model is the starting point for all that I have done… the ideas that capture my attention are those that directly or indirectly explain how freely choosing individuals can secure jointly desired*[14] *goals."* Buchanan (1986/99) p 26

In what follows, I shall, like Heath, be concerned with the relation between exchange and mutual gains or mutual advantage. I shall be concerned with mutual advantage that arises other than via exchange. And I shall be concerned to investigate whether voluntary exchange always yields mutual advantage – or at least to uncover cases which put pressure on that connection. And I shall be concerned to explore cases where, not only is it the case that mutual advantage can arise without exchange but where exchange (at least in the folk

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10 Nobel Prize press release (1986)

11 To be sure, Buchanan referred often to public choice analysis also as "politics without romance". For an extended treatment of the "politics as exchange" theme, see Brennan (2012).

12 Rawls famously referred to "society" as a "cooperative venture for mutual advantage".

13 Heath thinks that that catallactic bias extends far beyond Buchanan – to almost all contractarian social theorists.

14 The reference to "jointly desired" goals is liable to misinterpretation. Exchange does not require or normally depend on any prior agreement about the desirability of particular states of affairs. There need be no consciousness of the other in which a "joint desire" might be grounded. Much of economics is concerned with what economists refer to as "impersonal exchange" in which each trader simply responds to the market circumstances in which she finds herself.

understanding of what exchange involves) would actually destroy the benefits on offer. I take it that these examples are sufficient to undermine any strictly logical connection between exchange and gains. Of course, that claim does not deny that, in most cases of significance, exchange is the most significant source of general gain.[15]

Before I attend to these propositions, I need to say a little about how I shall understand exchange; and why Buchanan might think the gains that it gives rise to are significant. This will occupy section II of this paper. I need also to expose what I think of as a somewhat hidden disagreement within the economics profession as to where the so-called "gains from exchange" in markets originates. That will occupy section III. I shall then in section IV discuss the case of exchange without mutual gains. Section V will be concerned with cases of mutual advantage without exchange. In section VI, I shall want to put some pressure on the idea of mutuality. And in section VII, focus on cases where mutual benefit can arise only if exchange is ruled out. Section VIII offers a brief conclusion.

## II Exchange Defined

I do not intend to attempt anything especially elaborate by way of definitions here. But it will help to be clear what I mean when I refer to exchange. And for this purpose it will be sufficient to go back to Adam Smith.

In the second chapter of the Wealth of Nations, Smith contrasts two ways of getting what we want from others – by appealing to their benevolence, on the one hand; and by quid pro quo, on the other. He thinks quid pro quo is much the more significant – and I shall take it that this latter case is the archetypical example of exchange.

> "*Give me that which I want and you shall have that which you want…"* is the "*manner in which we obtain from one another the far greater part of those good offices which we stand in need of*" [WN.I.ii.2]

The activities that Smith has in mind are intentional; in both cases, each actor is taken to be motivated by a desire for that which the other might provide. Distinctively, in the exchange case, I secure what I want by offering a quid-pro-quo that the other accepts. That exchange is made possible by the fact that I have a greater desire for that which the other has (and I want) than for that which I have (and take the other to want). Consistent desires (in this sense) are not of course sufficient; the exchange must actually be consummated for the mutual advantage to be produced. But I take it that the idea of exchange involves an identifiable *quid* and an identifiable *quo*; and a relevant divergence (either actual or potential[16]) in the effective desires of the two parties. And I am taking it that a

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[15] In that sense, I do not see myself weighing into the question of whether there is a 'catallactic bias' in contractarian political philosophy. Logic in itself cannot establish or refute 'bias' claims.

[16] The relevance of potential difference is obscure here. But the issue will be taken up briefly in section III.

characteristic feature of exchange is the presence of desire specifically for the relevant *quo*.

In that sense, there is a significant distinction between exchange (the central notion in catallax/catallactics) and "symbiosis" – where at least in the standard biological interpretations there is no intentionality. There may be analogues to symbiosis in the human context[17] – cases in which the flourishing of two (or more) persons are mutually and positively interdependent. But such cases are not instances of exchange, as I shall understand it (following Smith, as I read him.) Buchanan may be disposed to want to include within the scope of economics all cases of positive interdependence – but there is a distinction between symbiotic and exchange processes and it is one that Buchanan must recognize (otherwise he could not have a preference). I shall mean by exchange the mutual forgoing of something less desired for something more desired on the part of the exchanging parties.

In order to set the stage, it will also be helpful to say a little about the scale of the gains from exchange, as most economists see them. Accordingly, I set out in Table 1 a historical picture of the world since 1700, showing GDP/head (measured in 1990 international dollars) for both the world and some notable subsets; and world population. Over this period, the data are such as to command reasonable confidence. And I think they tell a spectacular story. Over those three centuries, world GPD per head has increased by a factor of around 10; at the same time as world population increased by a factor of about the same proportion. In total, the productive capacity of the world increased roughly 100-fold. So, whatever else we can conclude we can certainly declare that there have turned out to be vast "general gains" on offer. And if we take Adam Smith at face value, these vast gains have been delivered in large measure by market exchange and the increased division of labour associated with it.

Table 1
GDP/head (at 1990 international dollars) and World Population

| year | USA gdp/head | UK gdp/head | W. Europe gdp/head | World gdp/head | World Popn in m.s |
|---|---|---|---|---|---|
| 1700 | 527 | 1250 | 997 | 616 | 600/680 |
| 1820 | 1257 | 1706 | 1202 | 667 | 900/1200 |
| 1870 | 2445 | 3190 | 1960 | 873 | 1300/1500 |
| 1913 | 5301 | 4921 | 3457 | 1526 | 1800 |
| 1950 | 9561 | 6939 | 4578 | 2113 | 2557 |
| 1973 | 16689 | 12025 | 11417 | 4091 | 4000 |
| 2003 | 29037 | 21310 | 19912 | 6516 | 6200 |

[17] It is worth noting that the biological cases differ from the social in terms of the evaluand. In the biological setting, the object of concern is survival; in the economic, it is flourishing in more individualized senses (either preference satisfaction or the individuals' objective well-being).

[The increase in per capita GDP in the West has been greater than for the world as a whole – a factor of about 60 for the US; of around 17 in the UK; and about 20 in Western Europe.]

Assessing such changes in terms of their normative significance raises, of course, lots of interesting questions most of which I do not intend to engage in any detail here. But of course, I concede that per capita gdp is not an unquestionable measure of material well-being, partly because it leaves out of account lots of relevant elements and partly because it may include some elements that do not track well-being at all[18].

It should also be conceded that population increases in themselves have a somewhat contested normative status. But some aspects of increased population are perfectly uncontroversial. For example, one (significant) source of increased population over the last three centuries has been increased life expectancy[19] and most would regard that element positively, because it can be seen as improving the lives of persons that already exist. Whether an increased birth rate is desirable – as simple utilitarianism would claim – is a much more contentious issue. But the relevance of increased population for the point I wish to make is simply this: that if the world social order had been roughly zero sum, an increase in population could only have the effect of reducing the well-being of the average person. That that has not happened – the fact that gdp/head across the world has increased very substantially – shows that human society does actually exhibit positive sum possibilities, or at least that it has done for the last 300 years!

That this has been the result of exchange processes specifically may not be entirely obvious; but that is what Adam Smith claimed and it is what economists ever since have been inclined to believe.[20]

## III Market Exchange and its Gains

If, as in the spirit of Heath (2006), we are to be careful to specify the various mechanisms by which general gains can come about, it seems desirable to distinguish gains from exchange *as such* from the gains arising from the division

[18] Increased expenditure on protection against crime associated with increased crime rates would be an example.

[19] For example, life expectancy in most Western countries has increased by around two years for every decade through the twentieth century.

[20] A political theory colleague remarked to me that ideas like justice and liberty could get her excited; but she had no similar frisson in relation to the idea of exchange. An economist might respond that that simply reveals ignorance on her part – that in any assessment of the developments over the last three hundred years, exchange and its upshots have probably been considerably more significant than any changes in liberty or justice. That fact does not establish any current priorities: indeed, one might think that the fact (which I take it to be) that there has been so much progress in material well-being suggests that we now ought to assign higher priority to other things. But to the extent that her attitudes can be generalized across political theorists/philosophers, it is worth emphasizing that exchange and its upshots are by no means normatively negligible!

of labour[21]. Although Smith's discussion in the *Wealth of Nations* involves a close connection between exchange and the division of labour (specialisation) these are distinct phenomena – as I believe a little reflection will show. In Smith's own discussion, for example, chapter one of Book I of the *Wealth of Nations* focuses exclusively on the division of labour (ie 'specialization'), leaving it to chapter 2 to discuss exchange. To be sure, Smith thinks that as a matter of history, the division of labour arose from the "*propensity to truck, barter and exchange*". Indeed, he claims that "*it is the* necessary… *consequence*" (my emphasis) of that propensity. But we can show that Smith was in error here; for, as we shall see, there can be cases in which there can be exchange without any possibility of specialization.

An example will make the point. In a paper sometimes prescribed in principles-of-economics courses, R. A. Radford (1945) describes how a primitive market emerged among the inmates of the various prisoner-of-war camps where he himself had been held in the second-world-war. The trade he describes is of the various goods that periodically came in Red Cross "packages" to all inmates -- and occasionally in dedicated packages to specific inmates from family "at home". Radford describes how cigarettes rapidly became the currency of exchange and how the cigarette-price for chocolate and bully beef and soap and tinned milk and certain articles of clothing became reasonably well-established -- though subject to fluctuation, depending on the time lapse between the arrival of Red Cross (and other) parcels[22]. The main potential for exchange depended on differences in individuals' tastes for the different commodities. However, other differences were relevant as well: the relatively risk-averse could exchange with the risk-loving[23]; individuals with a high rate of discount could exchange with the natural hoarders; and so on.

However, Radford's is an essentially "manna" economy: there is no production, no division of labour, no specialization[24]. There is no increase in the number of cigarettes or bars of chocolate. Given that agents are broadly rational, there is a presumption that all parties to all exchanges will have higher preference satisfaction after exchange than they would have had if such exchanges had been precluded. But there will be no *objective* measures of the increase in well-being. Radford's is in that sense an essentially subjectivist exercise.

[21] Interestingly, Heath himself is rather unclear about that distinction. He says (p314): "*the best known instance of…. the benefits cooperation can produce…is the gains from trade achieved through market exchange (or the division of labour)*". So, is the "or" here to be interpreted as an equivalence; or is Heath drawing a distinction between two different mechanisms that might be subsumed under "gains from trade"? I want to insist on the latter.

[22] For example, the cigarette prices tended to fall as the time between package arrival increased, as smokers tended to use up their currency for pure consumption purposes.

[23] The main sources of risk lay in the stochastic nature of package arrival – but there were also occasional bombing raids and other uncertainties relating to changes in camp management.

[24] Actually, there is some minor specialization. Radford reports the activities of a particular padre who operated as a middleman exploiting knowledge about differences in relative prices across different huts and differences in tastes as between different individuals. This padre might have been said to 'specialize' in brokerage.

Now, one might think that there is a natural extrapolation of Radford's logic to the production side of the economy. Just as, in the Radford case, gains from exchange arise from differences in *preferences*, so on the production side, gains arise from difference in natural *talents*. This is in fact an old idea. It is evident in Plato's and Aristotle's account of the division of labour[25] and in St Paul's description of the functioning of a well-ordered church[26]. And this same notion is in play in Ricardo's account of the benefits of international trade and country-wide specialization. The basis of exchange in Ricardo's account lies in the natural climatic differences between Portugal and England – the former being relatively conducive to wine production and the latter relatively conducive to wool production. Note though that in these accounts, the possibility of gains from exchange depends crucially on such differences arising 'naturally': without differences in climate or in natural resources or in individual talents, there would be no basis for specialization and no gains from exchange on offer.

Adam Smith's picture of the gains from exchange is distinctive in this respect. On the Smithian picture, the differences that are relevant for exchange are "artificial" rather than natural – they are endogenous to the exchange process rather than exogenous facts relating to human or genetic or climatic differences. Smith recognizes well enough that one's relationship with one's butcher is such that both parties realize gains from the exchange: the buyer is made better off by getting her meat and the butcher better off by having the buyer's money. But this is not what Smith identifies as the main benefit arising within commercial society. The more major source of benefit arises from features that are intrinsic to specialization as such. Smith's story is one of "learning by doing", of quasi-Fordist efficiency, and of the development of machines. The magnitude of the mutual benefits derived from these sources, he reckons, are vast: they amount to increases in per capita aggregate output perhaps 240-fold and maybe even 4800-fold (to take the "trifling" example of pin manufacture that Smith specifically cites). Such specialization arises in the market more or less spontaneously, without any necessary *natural* differences in persons' tastes or talents: the necessary differences emerge from specialization itself, not from differences in talents. Indeed, Smith himself evinces scepticism as to whether individuals do differ that much in terms of their natural talents. In that sense, he identifies himself explicitly on the "nurture" rather than the "nature" side of a well-known (and long-standing) debate.[27] In any event, it seems quite clear from Smith's discussion that, in his view, the gains from exchange as such are small beer compared with the gains that accrue from specialization. Nothing in the Radford account would lead one to conclude that the benefits are equivalent to a 4800-fold increase in output!

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[25] For Plato and Aristotle, such natural differences constituted the grounds for the formation of human society.

[26] In the First Epistle to the Corinthians ch 12.

[27] It was this view – and the corresponding failure of the 'economists' to discriminate between whites and blacks – that earned economics the famous soubriquet of "the dismal science" in Carlisle's (1849) essay on the "nigger question". John Stuart Mill, in response to Carlisle, identified the standard 19th century economist's line: Carlisle had made the "*vulgar error of imputing every difference which he finds among human beings to an original difference of nature.*" Mill (1850). See Levy (2002) for an entertaining analysis of that history.

There is another notable feature of Smith's account – namely, that the extent of the division of labour is positively related to the size of the trading nexus. That aspect is the subject of chapter 3 of Book 1. Smith's focus in this chapter seems to be directed mainly at geography – and specifically the association between the superiority of water transport and the location of production activities. But there is a more general message – that the level of development tends to increase as the population increases. This is the so-called "increasing returns" aspect of Smith's analysis.[28]

This relevance of this element in Smith's account can be indicated by considering a simple case of two identical national economies – exhibiting the same climate, the same individual talents, the same population size, and hence the same pre-trade relative prices between all goods. The Ricardian approach would seem to deny that there could be any basis at all for trade between these two countries: there are no relative price differences pre-trade and no comparative advantage on which profitable specialization might be based. But if trade between the two economies is permitted, the size of the trading nexus will double: and that doubling permits a more refined division of labour, which will in turn more than double total real output: real per capita gdp will increase. Interestingly, this "increasing returns" aspect of Smith's discussion is not a feature of contemporary general equilibrium theory[29], which tends -- like Ricardo's account of country specialization -- to be lodged within a constant returns to scale model.

Now we have said that the market 'makes possible' the division of labour. But it seems self-evident that it would be possible to have a division of labour without a market. A platoon-commander may allocate different tasks to different soldiers – and if the allocation of individuals to tasks is constant over time, then the benefits of specialization can be expected to accrue. To take another example, there is disciplinary specialization within the organization of enquiry – a fact that Smith himself mentions:
"*…philosophy or speculation … like every other employment… is subdivided into a great number of different branches, each of which affords occupation to a peculiar tribe or class of philosophers; and this subdivision of employment in philosophy… improves dexterity and saves time. Each individual becomes more expert in his own peculiar branch… and the quantity of science is considerably increased by it.*" WN.I.i.9]

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[28] In Heath's account, he distinguishes 'scale' from 'exchange' as different mechanisms for mutual advantage. And he might plausibly draw that distinction in relation to gains from exchange as such and gains from specialization. For it is certainly true that on Smith's account, the gains from specialization include an important scale element. But specialization is a matter of the organization of production and the organization in question might be substantially independent of the number of agents to be so organized. Smith sees specialization as an upshot of exchange; but as I say, we could imagine exchange without specialization and specialization without exchange. And increases in scale are only valuable if those increases give rise to a more refined division of labour – something that does not seem to be a logical necessity.

[29] See for example Paul Romer (1987) and Yang (2001) for a more detailed discussion.

But there is no necessary presumption that the relations between the various disciplines/"branches" are governed by market relations.

Equally, in a strictly planned economy, individuals might be assigned to different tasks on a random basis, but provided they stick to the tasks they are assigned, benefits will arise (provided those tasks are conscientiously performed). To be sure, the increased production that issues from any such division of labour will normally involve transfers of goods from specialized producers to non-specialized consumers: no man, as we might put it, lives by pins alone! But there is no *logical* requirement that such producer/consumer relations need be mediated by markets. In a similar manner, bureaucrats might be assigned the task of detecting talent and directing individuals to employments where their productive capacities are likely to be greater[30]. Such an economy will predictably produce more *goods* than in an under-specialized one. Of course, there is a problem in any such planned economy as to how to determine what exactly is to be produced; and how many individuals are to be assigned to different tasks[31]. Markets determine the required transfers in the light of the preferences of consumers – and economists are inclined to believe that such market processes are a means for maximizing consumer satisfaction. My object here is not to entertain a debate about the virtues or otherwise of markets. It is simply to insist that there is a logical distinction between free exchange on the one hand and specialization on the other. One can have exchange without specialization – as in a pure "manna" economy; and one can have specialization without exchange (as in the contemporary university).

Of course, in the kind of commercial society that Smith describes, there is both specialization and market exchange; and within commercial society these features are mutually supportive. But they are surely not the *same* activity. And it seems to be Smith's view that the primary element in producing the "*general plenty*" (or "*universal opulence*") which he identifies with a "*well-governed* (commercial) *society"* is the division of labour, not market exchange as such. Smith refers to increases in productivity from the division of labour as being of the order of 4800-fold (or perhaps 240-fold) in the case of "very trifling" example of the pin factory. We might take it that nothing in the Radford 'manna economy' offers gains of anything like this magnitude!

Let me attempt to summarize this brief discussion by underlining what I take to be the central conclusions:

1. There are gains for exchange as such – but these ought to be distinguished from the gains from the division of labour with which they are associated in a market order;
2. On Smith's view, the gains from the division of labour are huge relative to the gains from exchange as such;
3. The gains from the division of labour, because they arise on the production side of the market, are 'objective' – they can be measured in terms of increased output;

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[30] Recruits for the Bolshoi Ballet were determined by such a process

[31] That is the central theme in the 'socialist calculation debate'

4. The gains from exchange as such are essentially *subjective.* Their realization depends both on there being differences in preferences/desires among different individuals (in the pre-exchange situation) and on individuals being broadly 'rational' in their exchange behaviour.
5. There is a distinction between those analysts of the 'division of labour' who attribute gains to pre-existing 'natural phenomena' (differences in preferences, or climate, or natural resources or natural talents) and Smith who sees specialization as an endogenous process arising in commercial society.
6. Relatedly, all benefits arising in commercial society issue from relevant differences between individuals. But such differences can be 'potential differences': 'comparative advantage' can be a pre-cursor of exchange, but it can also be a result of it.

In the foregoing treatment of the "gains from exchange", I have followed Smith rather than the kind of treatment one might derive from a basic Economics textbook. There are three reasons for this. One is that Smith's account is the one that Buchanan himself endorsed. A second is that Smith's discussion is richer and more inclusive than the standard 'constant returns to scale' account. And a third is that Smith's treatment offers a straightforward explanation of the world growth data described in the previous section: the orthodox textbook treatment does not.

## IV Exchange without Mutual Gains

If part of the motive for a concern with exchange is normative and if the normative status of exchange hangs on the property that benefits from exchange accrue to both parties to a transaction, then it is as well to begin by distinguishing those exchanges for which mutuality of benefit applies from those where such mutuality is absent – the case of positive-sum exchanges from (necessarily) zero-sum ones.

Within the rational choice tradition, the fact that an agent wishes to enter into an exchange is evidence of a belief that that agent holds to the effect that the exchange will make her better off. But of course, the agent may be mistaken. She may hold false beliefs about the qualities of the object she acquires. And she may hold false beliefs even if she has acquired the optimal amount of evidence[32] concerning relevant facts. And though markets may themselves go some way to providing information about product quality[33], at least some parties to exchange, at least some of the time, may have their expectations about future benefits disappointed.

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[32] The very notion of the "optimal amount of evidence" may not be well-defined, since in many cases the agent cannot know the value of new evidence until she has acquired it. This is a point emphasized by Elster (

[33] Choice magazine and the Michelin restaurant guide are two examples of a phenomenon that is quite widespread.

One might think though that such outcomes occur only by accident. Of course, one might say, agents can make mistakes and be rendered worse off by an exchange that they expected to be beneficial – but the general case is one where parties expect to benefit and their expectations are broadly realized.

There is however one familiar setting in which the basis of exchange is itself constituted essentially by mutually exclusive expectations – namely, the exchange of assets on the stock exchange. Clearly, every transaction on the stock exchange involves both a seller and a buyer – and in virtually every such transaction, the basis of the exchange lies in the fact of divergent expectations. The buyer believes the price of the stock purchased is going to go up vis-à-vis other tradeable assets; and the seller believes that the price of the stock is going to go down. Of course, there can be cases where the seller's and buyer's time-profiles of consumption differ, or where both seller and buyer are seeking a "more balanced" portfolio to hedge against risk (so that the exchange is consistent with zero price change expectations). But the presence of such motives seems incidental – not necessary. It seems clear that most trades in listed shares reflect differing beliefs about the same future event. If the buyer is right the seller loses; if the seller is right the buyer loses. Both cannot be right! And both parties must know this prior to exchange: this is a case where *it is common knowledge that there can be no mutual gains from exchange.*

Now it is clear that whatever the economists have in mind when they talk of the gains from exchange, these kinds of share trades are *not* it! Such share trades are essentially zero-sum. And we should concede that many transactions have an element of divergent expectations in them. So A decides to sell his house in location L and purchase a house in location M when he shifts his place of employment to from L to M. But he is likely to be influenced in this respect by what he expects house-price movements to be in L and M over the next little while. In that respect, his decisions about timing of sale and perhaps the fact of sale itself will be determined by his expectations – as will those of any potential buyer of his property. The aggregate of such effects will incorporate inconsistent beliefs among sellers in L and M to some extent. There is a "winner's curse" aspect to any such transactions.[34]

Framed in the light of the "divergent expectations" view of exchange relevant for stock market transactions, the onus of proof would seem to lie with those who (like the economists) believe that most market exchange is "basically" a positive sum activity. And such proof needs to be careful in specifying where the gains

[34] Consider an auction among n-contenders for a given object (a given house in a given location say). The highest bidder must acknowledge that his own estimate of the house's value exceeds that of all other evaluators in the auction. To the extent that the evaluations of others affect the resale price of the property and that resale price is an object of concern to the buyer, the buyer is said to suffer from the "winner's curse". Note that the 'winner's curse' presupposes that an element in evaluation is estimating the values of others. In a market for objects acquired for pure consumption purposes, the idea that each buyer gets an object for which no-one else would be prepared to pay as much is a feature not just of equilibrium but also of maximal preference satisfaction: the so-called 'winner's curse' here is a 'winner's blessing'!

from exchange arise and why such gains are mutual. If many important purchases have an asset-value element, then the extent of mutual gain must be diminished.

## V Mutuality?

It is an interesting feature of the vocabulary of 'advantage' that it almost always appears in association with 'mutuality'. That usage tends to give 'advantage' a catallactic gloss – as if whenever we talk of advantage in the social setting, we are thinking of markets[35]. So when Rawls describes society as a "cooperative venture for *mutual* advantage", it is not entirely clear what work the term "mutual" is supposed to do. Is it to direct attention specifically to the benefits from market transactions that the laws defining basic property rights and rules of exchange support (and on certain views are indispensible for)? Or is it to suggest that, in a contractarian spirit, each citizen is involved in an exchange with the rest of society from which she expects to benefit – or perhaps is even guaranteed to benefit? In what way would the spirit of Rawls' description be altered if we were to refer to "*general* advantage" – or "*expected* advantage" or "*aggregate* advantage" rather than "*mutual*"?

After all, we can imagine exchanges in which there is aggregate advantage – and in that sense expected advantage – where it is common knowledge that the advantage cannot be mutual. Both parties know that one of them will lose. Consider the case where A and B are both dying of different diseases – one of the lungs and the other of the heart. Each might plausibly enter a bargain in which each agrees to a 50/50 chance of getting the organ he needs from the other in exchange for an equal chance of having to give up his healthy organ. Since each is going to die anyway, this is a good deal for them both – in expected terms. There is a positive net advantage on the table. But both know that as a result of this deal, one of them will die – presumably somewhat earlier than otherwise. So there cannot be *mutual* benefit – just positive expected benefit for each.

The point here is that, although in most exchanges both parties can know that each will be better off in her own lights as a result of the exchange, that is not a necessary feature. Reference to "mutual advantage" suggests that it *is* a necessary feature. If the social contract may conceivably leave some persons worse off to some extent, then the terminology of general advantage or aggregate advantage would be more apt. The term "mutual" carries the implication of no losers..

Adam Smith explicitly states his belief that the "*opulence*" associated with commercial society is "*universal*" and "*extends itself to the lowest ranks of the people.*" The division of labour within the trading nexus produces a "*general plenty* [that] *diffuses itself through all the different ranks of the society*." [WN I.1.10] Reference to the idea of <u>mutual</u> advantage in association with the gains

[35] Joe Heath (2006) complains precisely of this catallactic bias in his analysis of the "benefits of (social) cooperation".

from exchange might lead one to think that Smith's claim is an analytic truth. It is not.

Part of the confusion here arises, I believe, from a tendency to think that all the gains from typical market exchange are absorbed without remainder by the parties to the exchange. That is an impression perhaps lent to discussion of the distributional effects of exchange by Nozick (who I believe somewhere refers to market exchange as "commercial transactions between consenting adults"). The implication of Nozick's remark is that the market is an institution of entirely voluntary activity (and perhaps for that reason a "morally free zone" as David Gauthier puts it). But any market transaction is likely to have effects on persons other than those who are party to it. There are residual gains and losses that reflect the fact that the market is a vast network of interdependencies, in which each is connected in multiple ways to each other. Perhaps in many cases the interdependencies are so small as to be undetectable. Nevertheless, in some cases the effects of particular market exchanges are large and negative for some people – even though gains may exceed losses across the board. That is, some specific exchanges are rather like the lung/heart case, though without the property that losers consented to the deal. And on some readings, these cases are central to the market's capacity to deliver general advantage.

Schumpeter is famous for describing the market process as an exercise in "creative destruction". What he had in mind was that new inventions and new technologies served both to create new opportunities – better general consumption prospects or cheaper means of doing things or both – and in the process destroy the value of assets associated with older ways of doing things. Such prospects for innovation are just one aspect of the division of labour, as Smith explains. But when such innovations occur they often render obsolete (or significantly reduce the value of) the human capital that is associated with current technologies. And of course such human capital is also one significant aspect of the advantages of the division of labour. Specialisation involves the acquisition of skills that are to some extent job-specific. And innovation will typically leave some skills redundant (or at least greatly reduce their value). The Luddites were almost certainly correct to think that the introduction of new textile-making technology would reduce their incomes. To the extent that they believed labour-saving technologies in a specific industry reduced the real returns to labour *tout court* they were probably wrong. But that is not necessary to admit the point that many voluntary transactions (eg between the inventors of new machines and mill-owner/managers) impose entirely involuntary losses on specific individuals. The suggestion that the market is an arena of generalized voluntarism is to make the mistake that only parties to an exchange are affected by it. Lots of transactions involve significant losses for some individuals. That is the way markets work.

I occasionally remind my Duke students that when Buck Duke acquired the right to use James Bonsack's machine for making ready-rolled cigarettes, he very substantially diminished the value of the human capital that had been acquired by those who hand-rolled cigarettes. The workers in question sustained that loss entirely *in*voluntary.

One way of putting the point is to recognize that rights in the marketplace – rights to property and rights to exchange – are not just protections from certain kinds of losses (those losses that might be described as rights violations). They are also permissions to *impose* losses. That such a rights structure involves general benefits (as economists have long argued – in my view totally convincingly) does not establish the *universality* of their advantages in any particular case. And we cannot perhaps even rule out the prospect that some individuals might lose overall – as compared with some plausible benchmark.

The upshot of these observations is that, whatever it is that references to "mutuality" of advantage are meant to convey should not be taken at face value.

## VI Mutual Advantage Without Exchange

In "The Problem of Social Cost", Ronald Coase offers an example of a road intersection. It would be possible to imagine, he notes, an auctioneer at every such intersection taking bids as to who should proceed first when progress is contested. That would be an exchange process in a fairly standard sense. Each road-user would pay a price for proceeding; and the traffic flow would be determined by the rank ordering of bids.[36] Whatever the institutional details, Coase points out that this is precisely *not* what we observe. We have traffic lights or give way signs or "give way to the right" rules or some other procedure for determining order of proceeding – but none of these involves a direct exchange process. The reason is, Coase tells us, that the transactions costs associated with the auctioneer system (and any analogous direct exchange process) are just too large. Other institutional arrangements substitute for the market.

For Coase, the traffic analogy applies more generally – and specifically, to cases where property rights are contested. So smoky factories and nearby laundries have their disagreements settled by the courts. To be sure, in the judicial determinations, the judge is supposed to work out the outcome that an idealized market in the contested resource would produce(in the factory/laundry case, clean air) and allocate rights accordingly -- so as to "minimize social cost" as Coase puts it. But by hypothesis, the market itself cannot handle such situations "efficiently": the court determination process is taken to be more efficient.

The same general thought lies behind Coase's (1937) theory of the firm. It would, Coase observes, be possible to imagine a market order in which all relations between all individuals were mediated by exchanges. So instead of a pin *factory*, we would observe the multiple tasks in pin manufacture all being conducted by individual entrepreneur-craftsmen. The man who "draws out the wire" would purchase the inputs to his process and sell on the drawn out wire to the next craftsman (the "straightener" in Smith's account) in the chain, who in turn sells the straightened and extended wire on to the cutter, who sells to the pointer,

[36] There would have to be charges made in order to ensure that bids reflected genuine preparedness to pay.

who sells to the head grinder and so on. But that is not the process we tend to observe. Rather we see "firms" in which the relations between different tasks are coordinated and supervised by a specialist manager who operates not via purchase but by issuing instructions and monitoring effort. The transactions costs imposed by the market arrangement are too high (at least relative to the administrative alternative). Hence *firms* operate in a sea of market relations; but relations within each firm are not themselves market relations. Nor are they exchange relations in any direct sense.

But are they exchange relations in some *indirect* sense? Buchanan clearly thought so. He thought that these non-market institutions could (and should) be analysed through an exchange lens. So, though the law operates via directives and though politics operates via apparently coercive fiscal and regulatory procedures, they can both be thought of as exchange processes in a broader sense. But is this any more than observing that such processes can be to the general advantage of participants in them? In other words, is Buchanan simply riding rough-shod over any possible distinction between exchange and general advantage? After all, it is a characteristic feature of court determinations that one party wins and the other loses in any case. Equally, in politics it will often be the case that specific groups lose out (and sometimes lose out consistently) even when they possess franchise and voice. So whereas it is a necessary feature of ordinary[37] market exchange that two people benefit, it seems that in politics and in law one person (or group) benefits and others lose. This is not to deny that over the aggregate of many such transactions there may be net benefits to almost all participants: the claim is simply that such transactions are not themselves instances of 'exchange' relations.

## VII Mutual Advantage Necessarily without Exchange

In the previous section, I laid out some cases where general advantage could be thought of as arising without exchange as such. The claim at stake there was: exchange is not *necessary* for general advantage. And we established in section III that exchange is not sufficient for the mutual advantage of exchanging parties – even where there is no force or fraud. In this section I want to make a stronger claim – namely that there are some cases of general advantage in which exchange is necessarily *not* involved.

I want to cite two examples. The first is a case in which the term "exchange" is often used – and where economists sometimes misread the fact of contingent reciprocity to induce a case of standard quid-pro-quo thinking. I have in mind "gift exchange" – and will begin with the simple case of Christmas cards.

Some broad facts. People send Christmas cards and recipients like to get them. Interestingly, the people who you send Christmas cards to are pretty much the same people who send them to you. Moreover, if someone ceases to send you a card for a few years, then you tend to allow those people to fall off your own list.

[37] I am treating the organ exchange example outlined earlier as an 'extraordinary' exchange.

So as a rough empirical generalization, we can describe Christmas card "exchange" as a contingently reciprocal activity: it looks like a quid-pro-quo, much like market exchanges are. And I have been present in seminars when economists have tried to analyse the Christmas card case in exactly these terms. With the obvious Rohan Atkinson interpretation that, if what you want is to get lots of Christmas cards, the best thing to do is to send them to yourself.

It seems to me self-evident that the exchange of Christmas cards is a signal that the parties stand in a certain kind of relationship. The signal is of course internal to the parties involved in such exchange. But it is hardly surprising that, if one of the parties decides that she doesn't share that relationship, then the other will soon feel that it is inappropriate to signal that the relationship is intact. It takes two to tango!

Of course it may be that people are self-deceptive. They may like to feel that they have lots of friends. And two such self-deceptive persons might continue to exchange Christmas cards not because they share the relationship but because they like to think they do. And equally, people who visit your house and view your extensive array of cards may be impressed by how many friends you have! So two parties may continue to exchange cards even though the relationship they attest to is not present. But doing this is, in its own little way, deceptive – it free rides on and eventually corrupts an institution that is otherwise meaningful.

In this sense to view Christmas card receipt in *quid pro quo* terms seems to get something deeply wrong. I cannot say to you: "Send me a card which I want, and you shall get from a card which you want": that would be just to mistake what the card is supposed to signify.

Or take a related practice of the dinner-party culture. We (my wife and I, in this case) accept your invitation for dinner; and so we feel an obligation subsequently to invite you to dinner. But this is because the dinner-party culture is reciprocal. I like to have dinner conversation and enjoy good food and wine with you; but on the assumption that you enjoy to do this with me. If providing good food and wine were viewed as a means of securing your company, without any ongoing presumptions of reciprocity, it is doubtful whether the practice will continue. Certainly, if at the end of the evening I got out my check book and paid you for the food and wine (including proper allowance for the labour involved in preparation) you would think I had done something outrageous -- that I had misunderstood the nature of a prevailing norm and done something seriously insulting[38].

But why should it be thought "insulting"? Because in general payments in cash of the kind that operate in markets – and market exchanges more generally – are obligation-*obliterating*. Once you have what you want and I what I want, each can contentedly walk away. There is, as they say, "closure". But I take it that, in the gift exchange case, although reciprocal obligations can be created, they are not

[38] An interesting feature of such gift relationships is that the currency of exchange seems to play a critical role. Under normal circumstances, giving cash for Christmas gifts is decidedly 'tacky'.

totally obliterated when the reciprocal action is undertaken. Rather fulfilment of the obligation simply recreates a reciprocal obligation. "We must have the X's over: I'm pretty sure it's our turn and it's been quite a while since we last ate at their place."

Of course, there are cultures where gift relationships do double duty: they both signify a relationship and they substitute for more formal market-like mechanisms of exchange. In such cases, the distinction between signifying a relationship and the desire for *quid pro quo* in the making of gifts may simply be unclear. But in at least some cases, the distinction *is* clear – even though objective properties like the fact of reciprocity is present in both cases. And in such cases, characterizing the 'gift exchange' as just a rather clunky form of 'market exchange' gets something seriously wrong.

The second example is drawn from the 'economy of esteem'. In many situations (though not all[39]), the desire for esteem (and to avoid disesteem) operates as an incentive that induces individuals to behave in ways that are generally advantageous – for example: to be professionally conscientious; to be honest; to be generous; to be of "good character". To some extent, the incentive is strictly to *appear* to be these things. But in some cases, acting so as to evince the good feature is almost as desirable as actually possessing that good feature[40]. And arguably, the best strategy for reliably evincing the good behaviour is to internalize the relevant disposition (so esteem considerations create incentives at the level of disposition acquisition as well as action).

Take a case where the effects are positive overall, so that esteem incentives promote action that is generally advantageous. Esteem (or disesteem) is an attitude; and moreover an attitude that is not entirely under the 'supplier's control. As such it cannot be bought or sold. I cannot say to you: "think well of me and I will give you something you want". Esteem can of course be *earned* – by performing the actions that people generally approve of. Indeed esteem can *only* be earned in this way[41]. However, different audiences place different values on different activities and different individuals may have rather different judgments as to how your performance ranks. So different people will esteem you more rather than less; and equally you will esteem different people differently. So one of the effects of the desire for esteem is that individuals will tend to locate among audiences that think relatively highly of them. And since this is true of each, then there will be a tendency for any group of individuals to self-organize into "mutual admiration societies". I am a member of (say) your philosophy department because you are inclined to think well of my work; and you are a member of mine because I tend to think well of yours. Such a pattern of self-organization is mutually advantageous: if esteem is an object of desire, each is

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[39] Peer pressure seems to be in play in explaining behavior in street gangs and terrorist groups where the express purpose is anti-social action.

[40] Though to be motivated internally to act as virtue requires is presumably more robust: it remains operative when the self is the only observer.

[41] A caveat: esteem can also be earned if people come to believe that you behaved in an estimable way – and that belief could conceivably be false.

better off in the pond where others esteem her relatively highly. There will be greater desire satisfaction in such a world than in one where individuals are distributed across social locations randomly. And it may seem as if, within the mutual admiration society, each esteems other members *because* they esteem her.

But the general advantage that arises from such self-organization cannot come about by explicit *quid pro quo*. The motive for my esteeming you cannot lie in the fact that if I do so, you will esteem me. There is no exchange of esteem in that *quid pro quo* sense. The very idea of my esteeming you only if you esteem me in return is ludicrous Each must esteem the other for independent reasons. Here then is a case where there is mutual advantage – but the presence of that mutual advantage depends on the absence of exchange.[42]

## VIII Summary and Conclusions

Among the motives for an "exchange focus" in economics, one important one, I believe, is the desire to emphasize the positive sum possibilities in social interactions. That is, at least, a major motivation for Buchanan – who has been one of the more explicit defenders of the exchange paradigm within economics.

On this basis, the aim in the current paper has been to explore the relation between exchange and the so-called "gains from exchange". As a preliminary, I have defined exchange in Smithian terms by reference to the presence of a quid pro quo in bilateral relations. And I have attempted to indicate the scale of the general "gains" in question – whatever their precise source – by a gesture at the fate of the human species over the last three hundred years.

Like Heath (2006) I have been inclined to distinguish between the gains from exchange as such and generalized gains that arise from other processes. But unlike Heath and unlike most economists, I have in this connection drawn a distinction between the gains from exchange as such and gains from specialization (the division of labour). In the process, I have tried to emphasize two aspects of Smith's account of the division of labour which distinguishes it from other accounts familiar in the literature – most particularly Aristotle's and Ricardo's. Specifically, Smith's account emphasizes the 'increasing returns' aspects of specialization and the fact that over a substantial range specialization emerges from the exchange process rather than from 'natural differences' in individual talents.

Part of my agenda here has been to establish the logical connections between exchange and the general gains typically associated with the exchange process. To that end, I emphasize that exchange that arises from differences in beliefs about the future course of relevant prices is quite unlike Buchanan's "*simple exchange of apples and oranges between two traders*" in that in the former case, one or other of the parties will lose from the exchange. There are no mutual

[42] An extended treatment of esteem is offered in Brennan and Pettit (2004).

gains on offer here and this fact can be recognized by both parties. Indeed, the gains and losses from such transactions exactly cancel. So, exchange (entirely voluntary and non-fraudulent) does not logically entail *gains* from exchange.

I then turn to the issue of "mutuality" of gains. I argue that the idea of "mutual advantage" that is often deployed in relation to the benefits of social interaction (following Rawls perhaps) is misleading: it suggests, on the one hand, that *market* exchange is the main exemplar of those benefits, and on the other that market exchange affects only the parties to the exchange and is therefore a fully voluntary process. My object is to put pressure on the second of those claims. I think it is patently false – as a little simple reflection shows. I conclude from this that, while it may be legitimate to refer to *general* advantage, it is misleading to refer to *mutual* advantage as if everyone were a beneficiary from each instance of 'exchange'; or as if exchange processes as such ensure that over a sequence of instances of exchange all will benefit.

In section VI, I offer a number of examples – familiar in the economics literature – of general gains that do not depend on exchange in the sense most economists use that term. But I think a stronger claim can be made than these examples suggest. I think there are cases in which 'exchange' of the standard kind would obliterate the gains the parties might stand to make (in this case 'mutual gains'). One such example is the case of reciprocal gift-giving where the giving is a signal of the relationship that the reciprocators stand in. Another involves the giving and receiving of esteem – and in particular the possibility of 'mutual admiration' relations, where esteem happens to be reciprocal but where any esteem given has to be independent of esteem received.

The conclusion I come to is that there is no logically necessary connection between exchange on the one hand and the general benefits that Buchanan characteristically refers to as "gains from exchange" on the other. To say this is of course not to deny that exchange and the division of labour with which it is associated are the most significant sources of general advantage -- as an *empirical* matter. In that sense, my argument here remains agnostic on the question as to whether the emphasis on "gains from trade/exchange" involves a "catallactic bias" (as Heath claims). But an empirical claim requires empirical evidence; and the upshot of the arguments here is that the need for such empirics cannot be finessed by appeals to logic alone.

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