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Ricardo F. Crespo

Philosophy of the Economy

An Aristotelian Approach



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Philosophy of the Economy

An Aristotelian Approach

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Ricardo F. Crespo
Universidad Nacional de Cuyo
Department of Philosophy, and Consejo
Nacional de Investigaciones Científicas
y Técnicas
Mendoza
Argentina

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Abstract

Chapter 1: *Introduction: Why a Philosophy of the Economy and Why an Aristotelian Approach?*

This first chapter answers the questions in its heading and describes the outline of the book. It also introduces its central ideas: (1) the economy is essentially a human reality; (2) as such, its study should be approached primarily from the perspective of practical reason; (3) economics should recover its practical stance, drawing away from its recent shift to a more technical realm, and, finally, (4) economic activity is human action in society. This is the lens that should enlighten its analysis and practice.

Part I: *“The Economic” and its Science: A Philosophical Approach*

Chapter 2: *“The Economic”*

This chapter discusses the deep meaning of economic matters, or “the economy,” from a philosophical standpoint, exploring (1) a metaphoric or improper meaning: human beings are “economic” insofar as they have needs that they can satisfy using material means; (2) a proper, broad meaning: all decisions and actions geared to the acquisition and use of the goods that satisfy human needs are economic; (3) a proper, precise meaning: the maximizing character of the use of means in order to achieve ends with those decisions and actions is specifically economic. Some other characteristics of “the economic” are pointed out: its free, uncertain, and temporal nature; its subjective character, and its social immersion.

Chapter 3: *Economic Science*

This chapter posits a classification of two complementary notions of economics, also associated with different forms of rationality. First, “economic theory” focuses on ‘the economic’ in its precise proper meaning. Its “material subject-matter” (the field of reality it deals with) is economic reality, and its formal subject (the perspective of analysis of the material subject-matter) is the intention to maximize instrumental rationality. Second, “political economy,” whose material subject-matter is ‘the economic,’ has a broad formal subject, including instrumental and practical rationalities used to approach its material subject. It

is a practical science in the classical sense of the expression. These two notions of economics are complementary.

Chapter 4: *Characteristics and Methods of Economics*

This chapter deals with economic method, highlighting the relevance of striking a reasonable balance between theory and empirical observations. While data without theory is useless, theory without data leads to an imaginary construct detached from reality, especially in a contingent, free, and culture-dependent matter as the economy. The difficulties stemming from this contingency have partially overcome with probabilistic generalizations based on natural and social regularities and trends. As a result, the predictive power of economics is always limited.

Chapter 5: *Economics and Ethics*

This chapter explores the links between economics and ethics, which depend on the notion of economics considered. Political economy is a science of ends—a practical and moral, science, while economic theory is a technique that should be subordinated to the former. Economic theory cannot be specifically applied to reality without a commitment to values. In the twentieth century, economics tried to push values aside, but it is drawing closer to them today, following the lead of other social sciences.

Chapter 6: *Models and Measurements*

Two key economic tools, models and measurements, are analyzed from a philosophical point of view, stressing their realism. Models should portray real causal relations, while it should be noted that measurements entail a simplification of reality, surveying quantitative dimensions, and trying to quantify strictly qualitative dimensions.

Chapter 7: *Ideas on Economic Science and its Method over the Past 60 Years*

This chapter reviews the epistemological positions and new economic currents that emerged over the past 60 years, distinguishing the two phases of “economic imperialism” and “reverse imperialism.” The description of the first phase starts with Milton Friedman’s position, moving on to discuss the influence of twentieth century epistemological conceptions on economics. The limits of Gary Becker’s research project are noted, while some precisions on maximization shed some light on the confusions that it often creates. Methodological individualism and the program of “micro-foundations” are then introduced. A shorter account of the second phase includes a special reference to behavioral and experimental economics.

Part II: *Economic Activity*

Chapter 8: *Economic Activities*

This chapter analyzes economic activities from a consumer standpoint. Human needs award value to the goods that can satisfy them. Markets make it possible to price goods, facilitating exchange. Money serves as a means for exchange, a unit of measurement, and a value reserve; it also has a value in itself. The market system's appropriate workings require a set of virtues that are introduced. Additionally, the chapter describes reciprocity as another exchange form.

Chapter 9: *Human Labor*

This chapter intends to show the essential nature of human activity, which turns labor into more than a mere commodity. Human beings' fulfillment is more relevant than the external product of work.

Chapter 10: *Capital and the Entrepreneurship*

While capital stems from the accumulation of the work on nature, entrepreneurship embodies a form of work. Therefore, the criteria for labor analyzed in the previous chapter apply to them. Just as salaries are not the ultimate objective of work, profits are not the ultimate goal of businesses—they are both conditions, not ends. This chapter finally elaborates on business ethics and corporate social responsibility.

Chapter 11: *Global Crises and Globalization*

To look at some international implications of the economy, this chapter discusses financial and economic crises before analyzing the complex phenomenon of globalization. Both topics are set against a backdrop that goes beyond strict economic considerations, as an adequate management of these social events requires an ample vision.

Chapter 12: *Concluding Remarks*

The aim of this chapter is to recapitulate the content of the book. The main message intended here is that in our times, we need a philosophical reflection on economics. This reflection will lead to a reinsertion of theoretical and practical reason in economics. This is the way to build an economic rationale centered in the human being.

Chapter 1

Introduction: Why a Philosophy of the Economy and Why an Aristotelian Approach?

Philosophy and economics seem to explore antagonistic realities. The term *philosophy* sounds profound and ethereal, overly spiritual, out of this world, abstract or even speculative. *Economy*, on the other hand, sounds worldly, material, and concrete. Interestingly, however, Shiller and Shiller (2011) recently wrote a paper entitled “Economists as Worldly Philosophers.” This is also the title of a classic book written by Robert Heilbroner: it sold over four million copies and dealt with economics from a philosophical perspective based on the work of some great economist-philosophers. Indeed, Adam Smith was a professor of moral philosophy at the University of Glasgow, and his close friend and colleague, philosopher David Hume, also wrote interesting essays on economics. The list of other outstanding “economist-philosophers” includes names like John Stuart Mill, Karl Marx, Carl Menger, Ludwig von Mises, John Maynard Keynes, Alfred Marshall, Frank Knight, Friedrich von Hayek, Joseph Schumpeter, Herbert Simon, Albert Hirschman, and Amartya Sen. These economists were remarkable because they were humanists first and foremost. This is a reasonable assessment because the economy is a typically human reality with a great moral impact, and, as such, it deserves deep reflection and requires a philosophical approach. As a human and social reality and science, it has underlying philosophical conceptions of human nature and society. The objective of the Shillers’ paper (and of a final chapter of the seventh edition of Heilbroner’s book) is to argue for a revival of this philosophical stance in economics, specifically a reminder that it is a “moral science”, as economist Kenneth Boulding (1969) called it at the 1968 American Economic Association’s Presidential Address.

Economic reality, from its most arcane origins, has always been present in human life. Cave paintings depict hunting scenes and other livelihood-oriented activities. Without a doubt, the economy now holds enormous relevance, powerfully influencing people’s lives, and philosophy—more specifically, practical philosophy—cannot escape reflecting on this human activity. Besides, economists need this kind of reflection. As Robin Collinwood wrote in 1945, “a man who has never reflected on the principles of his work has not achieved a grown-up man’s attitude towards it; a scientist who has never philosophized about his science can never be more than a second-hand, imitative, journeyman scientist” (1945, p. 2).

Material conditions frame human subsistence needs, but, human nature demands more than mere subsistence. The economy is a reality comprising the human actions that simultaneously manifest people's material conditions, intelligence, social status, and freedom, thus calling for interdisciplinary attention and analysis. Unfortunately, social sciences have become increasingly scattered since the nineteenth century. Today, Aristotle would argue that we need to restore the unity of social sciences under the empire of politics, in its classical moral (Aristotelian) sense. Twentieth-century economics almost systematically excluded the input of other social sciences like psychology and sociology, contributing progressively to this separation. At the same time, economics embarked on an "imperialist" quest, trying to impose its logic on the rest of the social sciences—more than integration, economics attempted to take over its counterparts.

Some years ago, Nobel Prize-winning economist Coase (1978) put forth an opposing view: he insisted that economics, governed by multiple, value-driven logics, could and should benefit from the rationales of psychology and sociology. Today, a "reverse imperialism" (Davis 2008, p. 350) is surfacing at last. As Frey and Benz (2004, p. 68) put it, the time has come for a change of direction, with new emphasis placed on *importing* insights from other social sciences rather than *exporting* the logic of economics to them. How is it possible to ensure that this exchange will be correctly undertaken? Aristotle, in his *Metaphysics* (IV, 3, 1005b 5–10), may provide a useful insight in this regard: "It is clear that the philosopher, who examines the most general features of primary being, must investigate also the principles of reasoning [...]. So that he who gets the best grasp of beings must be able to discuss the basic principles of all being; and he is the philosopher."¹ Indeed, philosophy is meant to know the principles of other disciplines, to look for the meaning of their subjects, to analyze their assumptions and methods. Thus, it makes sense to look for the criteria for a fruitful interchange among disciplines in philosophy. In a nutshell, the key lies in philosophy.² Successive global financial and economic crises confirm this urgent need. The time has come to heed Friedrich Hayek's (1937, p. 54) recommendation: "from time to time it is probably necessary to detach oneself from the technicalities of the argument and to ask quite naively what it is all about." This is the answer to the first "why" in the title of this Introduction and also the reason for this book to reach out to an audience of philosophically interested economists and of philosophers who are aware of the current relevance of economics.

¹ I will quote Aristotle in the usual way: making reference to the page, column and line of the Bekker's edition. Collections of the works of Aristotle widely used are the edited by Barnes (*The Complete Works of Aristotle* 1984) and by McKeon (*The Basic Works of Aristotle* 1941): I took quotations from these and from other editions of Aristotle's books. I preferred to count on various editions to have the freedom to quote the best—in my opinion—translation in each case.

² The Russian philosopher Sergei Bulgakov asserted more than a century ago: "social science is undoubtedly in need of a productive tie with philosophy, in order to cope, with its help, with the inner disintegration that threatens it" (2000, p. 37).

I have mentioned Aristotle twice already, but the second title question remains: why does it make sense to turn to Aristotle? When I refer to him while discussing economics, people often ask: “but what does Aristotle have to do with the economy? Wasn’t the economy of his time primitive and completely different from our twenty first century economy?” My reply is typically indirect at first. Today’s intellectual atmosphere, with its plethora of partially overlapping and partially contradictory currents and positions, has become murky and downright confusing. As a result, it is helpful to search for simpler, “less contaminated” explanations. In my experience, these are found in ancient philosophers, especially in Aristotle. In fact, this seems to be also the experience of other authors. For example, de Koninck (1964, p. 3) asserts that “in pondering the simplest things and searching in them for the basis of whatever needs to be explained, they showed themselves to be possessors of true wisdom.” According to Alfred North Whitehead (1911, p. 128), the Greeks had an “almost infallible instinct for hitting upon things worth thinking about” (see also his 1967, Chap. 1 and *passim*). Aristotelian scholar Richard Sorabji starts his classic book *Necessity, Cause, and Blame. Perspectives on Aristotle’s Theory* (1980, p. ix) by stating: “I believe and shall argue, we can benefit from going back to the views of another period, views which are sometimes refreshingly different from our own.” Explicitly, Aristotle is returning today to all philosophy fields—Metaphysics, Logics, Epistemology, Philosophy of Science, Political and Social Philosophy, Ethics, and Philosophical Anthropology—and Philosophy of Economics is no exception.

In the field of Aristotelian philosophy of economics, the first contribution that must be mentioned is Scott Meikle’s book *Aristotle’s Economic Thought* (1997), a thorough analysis of the Greek philosopher’s economic thinking. James E. Alvey’s recent work, *A Short History of Ethics and Economics. The Greeks* (2011), features three chapters on Aristotle’s ethics, politics and economics respectively. My book, *A Re-Assessment of Aristotle’s Economic Thought* (2014) also concentrates on Aristotle’s economic developments. Spencer Pack published *Aristotle, Adam Smith and Karl Marx: On Some Fundamental Issues in twenty first Century Political Economy* (2010), comparing these three authors’ economic thinking. Also noteworthy are the papers by Barry Gordon, Stephen Worland, Odd Langholm, S. Todd Lowry, and Moses Finley, but this list is by no means exhaustive.

There are also other books that deal with the relation between economics and ethics from an Aristotelian point of view. Irene van Staveren’s *The Values of Economics: An Aristotelian Perspective* (2001) stresses the need to introduce the values of justice, freedom and care into economics. Andrew Yuengert’s *The Boundaries of Technique. Ordering Positive and Normative Concerns in Economic Research* (2004) claims, based on Aristotle’s and Aquinas’ notions on human action, that the conflation between the value/fact and positive/normative distinctions is erroneous. For Yuengert, the former is not possible, while the latter is possible and sometimes desirable. Yuengert has also recently published *Approximating Prudence: Aristotelian Practical Wisdom and Economic Models of Choice* (2012). In this new book, he looks for a comprehensive view of human action and finds it in the Aristotelian tradition of practical wisdom. Analyzed from

this later perspective, the logic of economics is insufficient. Yuengert argues that “any quantitative optimization model of human decision making cannot hope to be comprehensive. Some aspects of the decision problem will always be left out of an optimization model; the Aristotelian account is too rich for the optimization account to span fully” (2012, p. 158). Yuengert is not searching for an alternative “Aristotelian economics” but trying to point out the limits of current economic modeling. James Halteman and Edd Noell have also recently published a commendable book on the relevance of ethics for economics, *Reckoning with Markets. Moral reflection in Economics* (2012). Chapter 2 almost entirely deals with Aristotle’s economic thought. The proposal of a new book by Robert and Edward Skidelsky, *How Much is Enough?* (2012), is also largely based on Aristotle’s notion of the good life. Postmodern-inspired authors like Arjo Klamer and Deirdre McCloskey also make references to Aristotelian values.

Many current papers refer to the possible influence of Aristotle on Menger, Marx and Amartya Sen. Additionally, some authors from the Catholic Social Thought arena also make reference to Aristotle—for instance, Mary Hirschfeld, Samuel Gregg, Albino Barrera, John Coleman, and Daniel Finn. Moreover, we can find Aristotelian approaches in business books, like those written by Robert C. Solomon, Tom Morris, Edwin Hartman, Robert Audi or Alejo Sison.

There have been also many good books on the philosophy of economics.³ This book intends to add a study about economics and the economic reality from an Aristotelian point of view. All the aforementioned Aristotelian books deal with specific aspects of the philosophy of economics—Aristotle’s thinking, ethics, historical influences—with most comprehensive being van Staveren’s and Yuengert’s. However, the purpose of this book is to be even more comprehensive

³ In 1984, Daniel Hausman edited and published an anthology (*The Philosophy of Economics. An Anthology*, Cambridge University Press) that was subsequently expanded into a Second (1994) and a Third (2008) editions. Sheila C. Dow’s *Economic Methodology: An Inquiry* (Oxford University Press 2002), published ten years ago, has not lost its relevance, as it tackles some perennial topics. John Davis and Marcel Boumans’s *Economic Methodology. Understanding Economics as a Science*, (Palgrave MacMillan 2010), includes contributions from Mark Blaug, Harro Maas and Andrej Svorencik. There are many contributions by Larry Boland, for example, *The Foundations of Economic Method*, Allen & Unwin, 1982. Also noteworthy are John Davis, D. Wade Hands, and Uskali Mäki, eds. (1998) *The Handbook of Economic Methodology*, Cheltenham: Edward Elgar; D. Wade Hands (2001) *Reflection without Rules: Economic Methodology and Contemporary Science Theory*, Cambridge: Cambridge University Press; John Davis, Alain Marciano and Jochen Runde, eds. (2004), *The Elgar Companion to Economics and Philosophy* (Elgar); Harold Kincaid and Don Ross, eds. (2009), *The Oxford Handbook of Philosophy of Economics*, Oxford University Press; Uskali Mäki, Dov M. Gabbay, Paul Thagard and John Woods (eds.), *Philosophy of Economics* (Elsevier 2009). One last book to mention is Julian Reiss’ *The Philosophy of Economics: A Contemporary Introduction* (Routledge 2013), as it is the most updated, taking into account recent profound changes around notions such as explanation, theories, models, rationality, and causal mechanisms. It takes a current approach to the relation between economics and other disciplines, appraising the role, scope and limitations of deductive and inductive reasoning, of measurement and experiments. Finally, the topic of value judgments in economics, the meaning and different visions on economic justice, and global issues are dealt with. Once again, this list of books is far from complete.