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Teaching the philosophical grounding of economics to economists: a 10 years' experience

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Abstract: This brief contribution describes the author's experience with teaching a course on philosophy of economics to students pursuing a master's in economics. The main purpose of the course is to explore the philosophical assumptions underlying economic theories.

I am a Visiting Professor at Universidad de Montevideo (Uruguay), where, every two years since 2011, I deliver a course on Philosophy of Economics in the master's in economics Program (https://um.edu.uy/unidad-de-maestrias-y-postgrados-en-economia-umpe/oferta-academica/master/maestria-en-economia). Most students come from the undergraduate program at Universidad de la República (https://udelar.edu.uy/portal/2021/02/licenciatura-en-economia/) and at Universidad de Montevideo (https://um.edu.uy/facultad-de-ciencias-empresariales-y-economia/oferta-academica/grado/economia).

These programs feature a standard economics approach and have not fully incorporated new economic theory developments as behavioural economics, neuroeconomics, evolutionary economics, happiness economics, the capability approach, new institutional perspectives, among others. Peter Hammond defines the rationale underlying standard economics as preference maximizing by consumers and profit maximizing by firms (1997, p. 31). He adds, 'there seems to be little evidence of rationality in actual behaviour. This is true even for special classes of experimental subjects like economics or business students, who are supposed to understand something of what it means to be rational' (1997, pp. 32-33). I use the term 'standard' economics as Hammond does. The theories of rationality that standard economics adopts are the Rational Choice Theory

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and the Expected Utility Theory, and both use the concept of instrumental rationality. Thus, they have a narrow view of the scope and potentials of economics, which translate into its failure to predict and prescribe. The new approaches mentioned above – especially behavioural economics as well as natural and lab experiments – have challenged the assumptions of standard economics. However, as Kevin Hoover has recently suggestively stated,

> Contemporary economics is *pace* Robbins and Mill favourable to empirical research and to the feedback from empirical results to economic theory. However, the Robbinsian first principles themselves are not the target for any revision within mainstream economics, but are held immutable as something like a Lakatosian hard core. Recalcitrant evidence may result in a revision of the details of the structure of constraints hypothesized in a problem, but is not allowed to weaken the commitment to the framework of constrained optimization (2021, p. S3322).

In the same strain, Catherine Herfeld (2021, p. S3337) notes that '[d]espite recent developments in behavioural economics, either the general variant of the rationality principle or its special status is rarely questioned by economists,' and she illustrates her point with examples from contemporary introductory textbooks of economics.

Looking at the possibilities of the new currents mentioned above – behavioural economics, neuroeconomics, evolutionary economics, happiness economics, civil economy, and the capability approach – proves highly attractive for students. This is an effective way to introduce philosophy because it is easy to understand that these plural economic approaches are supported by philosophical underpinnings, different epistemological perspectives, and views on human nature and the social world. However, a deep analysis of these new fields (which I undertook in my 2017 book) reveals that not all of them 'escape' from the narrow outlook that characterizes current economics. As John Davis points out (2008, p. 365),

> economics, as other sciences, has regularly imported other science contents in the past, and having subsequently "domesticated" them, remade itself still as economics. In the current situation, for example, behavioral

economics – a research program in economics, not in psychology – employs imports from psychology but frames them in terms of economic concerns.

Exploring the attitudes of economics towards these new possibilities – open or 'colonialist' – helps to differentiate them and to discover their philosophical roots. Thus, this analysis shows the influence of underlying philosophical notions on economic theories.

The first part of the course reviews the philosophical positions underlying economic thinking, from Aristotle to nowadays – the ideas that underpin the work of classical economists: from Adam Smith to John Stuart Mill, as well as the Marginal Theory, Austrian economics, the *Methodenstreit*, neoclassical approaches, J. Maynard Keynes' ideas, General Equilibrium theories, and contemporary new developments, like the ones mentioned earlier. This tour helps students realize that there are different takes on economic rationality and on the nature and aims of economics. It also shines a light on the failures of today's standard economics and shows how to overcome them. For example:

– For Aristotle, 'the economic' (*oikonomiké*) is the action of using what is necessary for the good life – a life of virtues, which entails a deep ethical connotation. He links this notion to another concept, *chrematistiké* or the technique used to provide the means required for *oikonomiké*. Aristotle distinguished two forms of chrematistics: a natural one – subordinated to *oikonomiké* and limited in its search of means – and an artificial one – unsubordinated and relentlessly pursuing money. For Aristotle, this second kind of chrematistics is 'justly censured' (*Nicomachean Ethics* 1258a 41). This notion instils deep ethical connotations into Aristotle's economic thinking and separates it from today's economics, which adopts the economic principle – i.e., maxU, a contemporary form of the censured chrematistics.
– As Milonakis and Fine (2009, p 19) assert, Adam Smith's theoretical edifice is 'rich and multifaceted, encompassing philosophical, psychological, social, historical and economic elements.' Both Smith's relationship with David Hume and the closeness of Hume's philosophical insights with Smith's thinking show the influence of philosophy on political economy.

– John Stuart Mill, another philosopher, is aware that his description of political economy (concerned with 'a being who desires to possess wealth, and who is capable of judging the comparative efficacy of means for obtaining that end') involves a simplifying abstraction:

'All these operations, though many of them are really the result of a plurality of motives, are considered by Political Economy as flowing solely from the desire of wealth [...] Not that any political economist was ever so absurd as to suppose that mankind is really thus constituted' ([1844] 2006, p. 322).

Therefore, he finally emphasizes the need to consider additional motives for these 'operations' in order to come to a correct explanation and prediction:

> So far as it is known, or may be presumed, that the conduct of mankind in the pursuit of wealth is under the collateral influence of any other of the properties of our nature than the desire of obtaining the greatest quantity of wealth with the least labour and self-denial, the conclusions of Political Economy will so far fail of being applicable to the explanation or prediction of real events, until they are modified by a correct allowance for the degree of influence exercised by the other causes ([1844] 2006, p. 323, see also pp. 326-327).

– The consideration of a plurality of motives for economic actions constitutes a central characteristic of the German Historical School of Economics. Schumpeter (1954, pp. 177-78) remarks that this school characteristically recognizes that human actions, including economic actions, are not motivated by economic rewards only but are mostly guided by a 'multiplicity of motives,' while stressing the need to concentrate more on individual correlations than on the general nature of events.
– Carl Menger distinguishes a 'technical-economic' (1923, p. 73) from an 'economizing' economy (1923, pp. 74 and 76). The former aims at providing the goods that we need, and the latter, when insufficiency of means prevails, aims at doing so by 'economizing' in the best possible way. We cannot identify, Menger states, the concept of 'economy' (*Wirtschaft*) with the notion of 'economical' (*Wirtschaftlichkeit*, 1923, p. 61). Thus, he argues, it is not paradoxical to speak of an 'economic economy' and of a 'non-economic economy' (1923, p. 61). For Menger, real economic acts are

not only based on purely economic reasons but also on 'error, ignorance, and external compulsion' ([1883] 1985, p. 64). The Aristotelian roots of Menger's thinking suggested by many scholars are analysed.

– Neville Keynes defines 'economic activity' as a human activity directed to the production and appropriation of exchangeable means satisfying human needs ([1890] 1955, pp. 99– 100), while an economic action 'attains its end with the least possible expenditure of money, time and effort' ([1890] 1955: 1). A well-defined epistemological perspective underlies Neville Keynes' ideas in his *Treatise on the Scope and Method of Political Economy*.
– Frank Knight and John Maynard Keynes' ideas on uncertainty are different from the notion of risk. The notion of uncertainty also proves interesting for students, and it can be analysed from a philosophical standpoint.
– Herbert Simon considers economic behaviour as a satisfying rather than a maximizing behaviour, and the latter as a subset of the former. He defines economics as concerned 'with a particular subset of man's behaviour' – the first meaning – and he critically refers to today's view of the economy as reduced to the second meaning (1978, p. 1).

The second part of the course is analytic, encompassing both metaphysical and methodological aspects. A metaphysical investigation of the subject-matter of economics – i.e., the economic stuff or the economy – discloses its contingent nature, bearing an impact on the development of economics as a science, as it reveals the context dependence of economics. This part of the course looks at the metaphysical Aristotelian categories, applying them to the identity of economic agents, the relationship between economic micro and macro entities, and money. The course also covers the ontological ideas set forth by Nancy Cartwright, Tony Lawson, and Uskali Mäki, while highlighting the contingent character of the economy and the consequent limits of economic thinking.

Concerning methodological aspects, the course tackles topics like the role and scope of statistics and measurements, the nature of models, and the presence of abductive inferences in economic theorizing. It also differentiates the disciplines constituting economic sciences, from statistics to 'the art of political economy' as well as from positive economics to normative economics. For example, this part includes:

- Explaining the different kinds of measurement scales.
- Stressing, as Dani Rodrik (2015) has done, that models look for real causes underlying economic events.
- Explaining the idiosyncratic method of the 'art of political economy.'
- Introducing, as noted earlier, new contemporary fields, such as behavioural economics, neuroeconomics, evolutionary economics, happiness economics, the capability approach, and so on.

These kinds of contents broaden the horizons of young economists.

The course discusses papers in a seminar format. The result is mutual enrichment. In fact, I have recognized the contributions provided by these discussions in my recent books (2017 and 2020). Specifically, all the chapters in my latest book have been read and discussed in this course. Students send me emails suggesting that I ask for more hours for future editions. The Program Head wrote to me to express his delight with the course. I add some bibliography used in the course that might prove useful for other courses.

All in all, these kinds of contents help students appreciate the influence of philosophical ideas on economic thinking. Rather unperceptively, philosophy influences science and life. Maynard Keynes had a clear conviction about this, and he unveiled it in the famous last paragraph of his *General Theory* on the influence and power of intellectual ideas for good or evil. He states (1936, pp. 383-384):

> the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. (…) I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas. Not, indeed, immediately, but after a certain interval; for in the field of economic and political philosophy there are not many who are influenced by new theories after they are twenty-five or thirty years of age, so that the ideas which civil servants and politicians and even agitators apply to current events are not likely to be the newest.

> But, soon or late, it is ideas, not vested interests, which are dangerous for good or evil.

Students finally realize how standard economic theories, for example, actually stem from the ideas of past centuries' philosophers, and from the metaphysic physicalist worldview that prevails today. I hope that this experience may be useful for other philosophers/economists interested in instilling the relevance of philosophy in their students of economics.

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