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WHAT CAN ECONOMISTS LEARN FROM PHILOSOPHY?

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Abstract:

After the economic crisis of 2008, the methodology of contemporary economics as it is commonly taught at academic institution, i.e. insisting on mathematical modeling, has been subjected to criticism for failing to predict the crisis. In this paper, we argue that economists may take into consideration a relatively new branch of philosophy – social ontology – as a tool to understand society more profoundly. Social ontology studies the fundamental structure of society and its institutions and analyses not only the mode of being of society and social institutions, but also various social facts, and their interconnectedness. Insights stemming from understanding social ontology can be applied in various economic theories, like general equilibrium theory, game theory, new institutional economics, micro economics etc. Social ontology can thus be a useful tool in refining and meliorating economic theories.

Keywords: Crisis, academic economics training, philosophy of society, social ontology, philosophy of economics

“If a science of societies exists, one must certainly not expect it to consist of a mere paraphrase of traditional prejudices. It should rather cause us to see things in a different way from the ordinary man, for the purpose of any science is to make discoveries, and all such discoveries more or less upset accepted opinions” (Durkheim, 1982, p.31).

1. Some introductory caveats

We should begin with a *caveat* for all those who frown at any scholarly publication that is not entirely descriptive in its nature. This text is only partially descriptive; it is mainly intended to be protreptic. This means two things. First, it aims, not so much to present some ground-breaking discoveries as to offer some food for thought – in line with the title of this journal, some incentives which may be worth considering. Second, it is to a certain degree normative; but still, it aims, not so much to circumvent and compel people as to move and persuade them.

What we want to show is obvious from the title: professional economists – particularly those teaching economy-oriented classes at an institution of a higher education and publishing scholarly articles and/or books on economic topics – may profit from knowing some philosophy. We do not have in mind the profit of knowing “some philosophy” as any knowledge seems profitable for any person, or knowing the skill of critical thinking as a specifically philosophical domain that seems profitable to any person too. We also do not have in mind that, for example, majoring philosophy as undergraduate studies seems to be one of the most lucrative choice and therefore in line with the concept of economically wise choice.¹

¹ According to the official data at the PayScale 2016–2017, philosophy majors have a respectable mid-career median salary of \$84.100, above, for example, marketing and communications specialists (\$79.000), financial accounting specialists (\$82.000), and about the same as real estate agents (\$84.500). More on financial and similar advantages of philosophy see the excellent analysis on Indiana University of Pennsylvania (2017). This whole aspect is succinctly described by Dorfman (2014) in the following way: “That means the much maligned

We also do not have in mind the fact that economics is one of philosophy's numerous offspring so that it may be useful for economists to remind themselves from time to time whence their discipline sprouted. In the previous sentence the main problem lies in the term *useful*. Throughout history, many – especially early – economic theorists referred to economy's origin in philosophy, often with a sense of pride. However, from the 1920ies and the emergence of neopositivism and particularly logical positivism, the demarcation line between philosophy and other sciences, including economy, was clearly and sharply drawn so that independence of various branches of sciences was vehemently stressed. From this perspective, one could claim that referring to their discipline's history is for economists as useful as it may be useful for mathematicians to refer to the history of mathematics when they do calculus – i.e. not at all. Doing philosophy may be the hobby of a leisurely economist but it is completely unrelated to his professional activity like, for example, playing the bassoon.

Our presupposition of utility of philosophy for economics is different. With the decline of the initial enthusiasm with logical positivism, there are ever louder voices advocating opening horizons of economics beyond strictly mathematically oriented methodology. One can notice a growing need for interdisciplinary approach, which, besides other things, caused a convergence between economists and philosophers. A good evidence for this convergence is the following. Beginning from the 1980ies, we can witness appearances of several high-ranked and peer-reviewed scholarly journals that bridge economics and philosophy. There is the highly prestigious and influential *Economics and Philosophy*, published by Cambridge University Press from 1985. There is an even more interdisciplinary journal – *Politics, Philosophy & Economics*, published by the Sage Publications and The Murphy Institute of Political Economy from 2002. More recently, we have the *Erasmus Journal for Philosophy and Economics*, published by Erasmus University Rotterdam from 2008; and in our Croatian neighborhood, we have *The Journal of Philosophical Economics*, published by Bucharest University of Economic Studies. This mutual interest between philosophy and economics has been supported by, on the one hand, naturalistic tendencies within philosophy, and, on the other hand, by stressing the socio-rational aspect of economics. As for the first, naturalistically oriented philosophers of any science have to take into account results of different aspects of the state-of-the-art studies of this particular science in order to verify their theories. On the other hand, economics raises moral questions (welfare, distributive justice, freedom etc.), ontological questions (nature of laws in economics, nature of economic rationality), and epistemological questions (possibility of knowledge of social phenomena) (Hausman & McPherson, 1998). Or, as the Editors of the first issue of the *Economics and Philosophy* spiritedly put: “Economists possess a mysterious capacity to deduce seemingly reliable empirical conclusions from highly simplified and often clearly false premises. Their capacity to extract pungent social recommendations from what seem to be rather bland and innocuous ethical premises passes beyond the mysterious toward the miraculous. Economists have in fact always been called upon to be social philosophers, and the suitability of their theoretical tools for such a demanding role remains an unavoidable philosophical question” (Editors' Introduction, 1985, p. 1).

So, in line with this general vicinity between economics and philosophy, which manifests itself in various fields of common interests, our intention is to argue for a more specific sort of use of philosophical knowledge that may substantially contribute to refining and advancing economic theories. What we have in mind is called “social ontology”.

2. What is social ontology?

Social ontology is a part of a relatively new branch of philosophy that studies society in its most fundamental form. John R. Searle, who is one of the inaugurators of this branch of philosophy, called it “the philosophy of society” (Searle, 2010, p. 5–6). The most fundamental part of the philosophy of society is the one that questions the fundamental structure of society and its institutions. Why would social ontology be an adequate discipline to gain insight into the nature of social processes?

humanities majors are still getting an A in economics because the returns on their investments are quite high (in the 300 to 700 percent range).” This however does not imply that one should be encouraged to study philosophy if one is motivated by the prospect of an economic prosperity.

To answer this question, let's first start from the meaning of the term "ontology." Though the term ontology in secondary literature is quite often referred to in connection with Ancient Greek philosophy (one often writes about, for example, Aristotle's ontology) or Medieval Scholasticism (we have the famous Anselm's "ontological argument"), the term in its Latin form as *ontologia* seems to have been coined relatively late: it first appears on the title page of the book of now almost forgotten German philosopher Jacob Lorhard, *Ogdoas scholastic* from 1606. The word itself is coined from two Ancient Greek words: *on(to-)* and *logia*, the first meaning "being," the second "study, discipline, science," thus literally meaning "the science / study of being." Ontology is a philosophical discipline that studies not only what entities or kinds of entities exist but also what mode of existence things, appearances, events etc. possess. It also sets determining criteria of settling about what there is in general. However simple it may sound, this discipline is not trivial. Classical *crucis* involve questions about the mode of existence of properties, numbers, God etc. For example, what mode of existence does the number 5 possess? Or the color red? We know that there are red dresses and five one-dollar bills, but what about "red" and "five" separated from the dress or the one-dollar bills? Do they possess a separate existence – is there a "redness" without something being red or five without grouping some objects together? Another famous *crux* is distinction between universals and particulars. We know that there is a certain number of animals living on Earth right now, and we speak of each dog, cat, tiger, donkey, worm etc. as being an animal. But, what kind of existence does an "animal" have? Obviously not the same as any dog, cat, tiger, donkey etc. who exist concretely, as "this individual animal, i.e. Rex the dog" or "this individual animal, i.e. Bella the cat." Does it mean that an "animal" does not *really* exist? If not, what are we saying when we predicate being an animal of Rex, Bella etc. in saying "Rex is an animal" or "Bella is an animal," or when we say "animal (without referring to Rex, Bella or any other particular animal) has some rights?" If yes, what kind of existence does such a universal concept entail, different from the concrete existence that we are familiar with when we talk about concretely existing, perceptible entities? Moreover, what is the relation between such abstractly (or universally) existing "animal" and concretely existing dog Rex? Another example of ontological distinctions applied in a more specifically economical realm can be taken from the history of a fundamental analysis of capitalism. Marx famously began his theory by the *universal* (i.e. general) concept of surplus-value – the surplus-labor of workers which is the origin of all the *particular* form of surplus-value: these particular aspects of surplus-value are essentially different from the universal surplus-labor (he called them different "life-forms," "incarnations," or "crystallizations" of surplus-labor). A similar distinction Marx made in distinguishing abstract (i.e. general or universal concept of) labor and concrete (i.e. particular concept of) labor which is considered as one of the most important innovations to the theory of economic value (Moseley, 2014).

The basis of our understanding of the world in this or that way depends on what kind of ontology we endorse. We are all ontologists, consciously or unconsciously, when we "decide" about or "commit" ourselves to claims of something's or somebody's (in)existence. For example, when we read about someone being abducted by aliens and say "This is not true, there are no aliens," we are uttering an ontological claim. Or if we argue with someone whether everything is made of atoms and energy or of consciousness, we are treading on firm ontological ground. Similarly, the basis of our understanding of society is ontology. To explain what it means let us use Searle's distinction between "brute facts" and "institutional / social facts." The "brute facts," the term coined by Anscombe (1958) and further developed by Searle (1969, p. 50–53) need no explanation and are considered independent of human conventions or institutions (such as the temperature of water or the number of protons in a nucleus). On the other hand, "institutional / social facts" need human agreement to exist (marriage, promises, money etc.) and suppose the pre-existence of constitutive rules of the form "A counts as B in context C" (Searle 1995, p. 28). For example, the social fact of property exists only because there are rules constituting its meaning and value. If there were no rules that regulate what property is and enforce property rights, there would be no property. This brings us to one of the most important powers of language – the power to create a reality by declaring it to exist. This is fundamentally an ontological act – in this case the act of social ontology (Searle, 1995, p. 1). For example, at the wedding ceremony, my spouse and I say a performative "I do"; this declaration is not an expression of me and my significant other doing something but me and my significant other becoming spouses – after the "I do" a new social reality was created – a marriage between me and my spouse.

Society as an intentional system is different from other areas of reality: its formation and existence depend on social facts as its building blocks. Social ontology provides an insight into how social reality arises, as well as to basic regularity and relations among its elements.

3. Why is knowledge of social ontology useful – or can be useful – for economists?

Such a discipline as social ontology may seem at first glance unnecessary for those who are engaged with doing economics. However, to use Tony Lawson's words: "In any domain where ontology, whether philosophical or scientific, can be successfully pursued, its value lies in bringing clarity and directionality, thereby facilitating action that is appropriate to context. For in theorising, as in all forms of human endeavour, it is quite obviously helpful to know something of the nature of whatever it is that one is attempting to express, investigate, affect, address, transform or even produce" (Lawson, 2015a, p. 22).

Knowledge of the nature of social relations and the social system, which is beyond economics, as well as the knowledge of the nature of economics as a social phenomenon², can be appropriately and systematically achieved via philosophy, more particularly, via social ontology as a part of philosophy. This knowledge opens the door to a clearer view of social phenomena, their causes and the network of relationships with other phenomena. Applying insights gained from studying social ontology onto economics, we could elaborate the nature of things that exist and are related to one another in various economic theories, like general equilibrium theory, or game theory, new institutional economics, micro economics etc. "The aim might be to elaborate how categories such as equilibrium, coordination, contract, competition, exchange, money, rationality, knowledge, beliefs, networks, society, etc., pan out in such conceptions" (Lawson, 2015a, p. 13).

The need for changing common practices in theorizing about economics has recently become a hot topic: it started with the financial crisis of 2008. Meanwhile there is a plethora of scholarly texts dealing with criticizing economists clinging to standard mathematical models of studying and teaching economy for their failure to predict the crisis, as well as their lack to offer successful models for predicting similar future events. The literature including criticisms is so abundant that we already have a meta-criticism of the literature on crisis (cf. Spiegler, 2015, part III).

An obvious answer may offer itself: there is no need to radically change the existing methods, they just need to be refined. In an anonymously published Editorial of *Financial Times*, under the title "Economics needs to reflect a post crisis world," the author reflects on some of the effects of the financial crisis that started in 2008. The author criticizes the typical economic course that starts "[...] with the study of how rational agents interact in frictionless markets, producing an outcome that is best for everyone" and bemoans the fact that usual courses of economics do not take into account the intricacies and complications of the "ugly real world." The author points out that something has to be done in order to change the typical economics course; however, "Mathematical models ought to keep their place, so long as their results are not taken too literally. But many of those used in central banks have hitherto ignored the financial sector as a source of instability. Remedying this will add even more complexity. The maths will get harder" (Forbes, 2014).

However, though one can hardly object to having better and more refined mathematical models (Medio, 2009), there are still serious doubts if this would be enough. Here we can single out two main problems. First, it is quite questionable whether social reality is of such a nature that formalistic methods, like mathematical modeling, are appropriate to its analysis. The main problem is that mathematical modeling is deductive and as such has limited application on open systems, whereas society seems to be, at least in some of its parts, an open system (Bigo, 2015). "open and structured, constituted by phenomena with emergent powers that are processual in nature, constituted in relation to other phenomena and so forth. Only rarely are real world social conditions likely to approximate those (closed and atomistic) scenarios that would guarantee that formalistic models can provide insight" (Lawson, 2015, p. 350). This does not amount to saying that mathematical modeling is useless or wrong – nothing that radical – but that it may not be enough even in a more refined form. The second objection is broader. As Richard Holt, Barkley Rosser and David Colander showed in their book and afterwards in an influential article (Holt et al., 2011), what they called "complexity era" has replaced the neoclassical era in economics. As Th. Kuhn (1962) proved, such huge paradigm changes require (or even presuppose) deep changes in methodology. Complexity here does not entail pulling everything together, but rather that "the Walrasian neoclassical vision of a set of solvable equations capturing the full interrelationships of the economy that can be

² Here and later the term "phenomenon" is used loosely, and not in the strictly Kantian sense as observable manifestations of "noumenon," i.e. the thing-in-itself (*das Ding an sich*), which cannot be known by man's speculative reason – contrary to "phenomena" which are given to our senses.

used for planning and analysis is not going to work” (Holt et al., 2011, p. 358). The cry for using whatever additional analytic tools we have available has been shouted.

As it has been shown by Lawson (2013, 2015), Pratten (2015) and other members and sympathizers of the Cambridge Social Ontology Group³, mathematical modeling, typical of the so-called “neoclassical” economic paradigm, simply won’t suffice any longer. Mathematical modeling is in its core deductivist and starts from the hypothesis that social systems are closed (Lawson, 2013 – interestingly, Lawson himself is a trained mathematician). Economy presupposes participation in decision-making on certain social issues, because economy itself is a social phenomenon. By “social phenomena” we mean all that was created by human activities and that acquired a certain independence of a particular person and has become an objective fact that influences lives, thoughts, feelings, activities etc. of the members of society. The decision-making process involves discussion with other members of society, i.e. with other stakeholders in decision-making. In decision-making processes and related discussions, as well as in problem-solving processes, points under scrutiny are often simplified. Such a process of reducing various dimensions of the phenomenon to those directly given and immediate could be justified from the position of facilitating communication and of easier manipulations with the facts. Simplification and creation of models can be justified from many perspectives, but at the same time, many elements needed for a complete picture of a certain complex phenomenon become lost and thus finding an appropriate prediction or a solution can be questionable.

As we have seen before, this simplification of academic economists has recently been criticized as one (if not the sole) responsible factor for their failure to predict the crisis of 2008. As the so-called “Dahlem report” claims, this failure is due to “a misallocation of research efforts in economics. We trace the deeper roots of this failure to the profession’s insistence on constructing models that, by design, disregard the key elements driving outcomes in real world markets” (Colander et al., 2009, p. 1). Disregarding the issues of social institutions and disconnectedness from the real world, the authors claim, resulted in failure to see the crisis forming.

If we acknowledge the importance of insights from other branches of science, such as psychology and sociology, and a truly interdisciplinary approach for a more complete grasp of how society works we suggest the process of education of economists should also include philosophical education as an integral part. Not just in the sense of offering some basic logic training in the form of critical thinking classes, but also in a more profound education which would introduce future economists into ontological analyses of foundations of society, social facts, social agents, their interconnectedness etc. Just retaining the superficial understanding of a social phenomenon without entering into the very essence of the phenomenon may prove detrimental for grasping the full importance of the correlation of this phenomenon with other aspects of social reality, as well as the misinterpretation of the way the phenomenon itself emerges and how it changes. In other words, for a more complete and more precise understanding of an economic system it is useful to understand the fundamental nature of that system as well as the underlying nature of what is at the heart of that system. As Richard Samans, member of the Managing Board of the World Economic Forum, warned in the Preface of *The Inclusive Growth and Development Report 2017*: “Over the past several years, a worldwide consensus has emerged on the need for a more socially-inclusive approach to generating economic growth. However, inclusive growth and development remain primarily an aspiration. No systemic framework has emerged to guide policy and practice” (Samans, 2017, p. 1). Our suggestion is just that: study the ontological foundations of society in order to build a more socially-inclusive economics!

4. Conclusion

We started from a premise that seems widely accepted in academic literature: the dominant state-of-the-art method of academic economics, mathematical modeling as a main tool of economic analyses and predictions, failed in predicting the economic crisis of 2008. Failing to predict such a major economic event certainly points to a systematic methodological problem. In this text, we sketched a sort of a methodical *addendum*. We argued that economists may profit from studying a specifically philosophical discipline of social ontology. Insights from

³ Searle's writing inspired the foundation of the influential Cambridge Social Ontology Group (CSOG) and Tony Lawson is the most important representative of this group that regularly meets from 1990s. The group publishes a book series (so far, there are ten books published) and articles that originate from monthly and semi-annual workshops. CSOG’s web page is: <http://www.csog.econ.cam.ac.uk/>.

social ontology may shed light on the very nature of society, its components and the causal interrelatedness of the components which may prove beneficiary for opting for an appropriate methodical approach in analysing and predicting economic events. The importance of including social data into overall analyses of economic states-of-affairs and future directions has been already recognized in *The Inclusive Growth and Development Report 2017* published by the World Economic Forum (Samans et al., 2017). In the report, the authors propose a new composite index (the Inclusive Development Index, IDI) to convey “a more integrated sense of the relative state of economic development – and recent performance – than conventional rankings based on GDP per capita alone” (Samans et al., 2017, p. x). “A more integrated sense” includes, as it is ubiquitously mentioned in the report, taking into account various social indicators to give a more comprehensive and refined picture of a country’s overall state and progress. Similarly, the “Progress on ‘GDP and Beyond’ Actions,” issued in 2013 by the European Commission, indicates that GDP should be complemented with environmental and social summary indicators (“Progress on ‘GDP and Beyond’ Actions,” 2013, p. 14...). Thus, it is safe to conclude that more socially-aware economic theories will have to seriously consider social states-of-affairs and data, and in this realm the fundamental philosophical understanding of the ontic status of social institutions, relations etc. will be indispensable.

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