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WHY IS ECONOMIC PHILOSOPHY?

5/99

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Q: What is economic philosophy?

A: Economics deals with the efficient creation of material wealth. Philosophy poses questions about knowledge. So, economic philosophy poses questions about efficient wealth creation.

Q: What kinds of questions?

A: Questions about an individual's motivations and behaviour, and all the institutional and organisational structures that are relevant to wealth creation. In addition, since the most fundamental aspects of economics are interlinked with ethics, politics, and law, economic philosophy is concerned with all of those interdependencies.

Q: A formidable subject.

A: Indeed.

Q: Which are the most important issues?

A: A major concern is with the kind of conduct that promotes harmony and peaceful socio-economic co-existence; and a host of related matters.

Q: Such as?

A: Such as the characteristics of rational economic behaviour; how individual property rights are assigned; just and unjust acts; practical options for organising economic activity; economic implications which derive from politics; political implications which derive from economics; the nature of individual choice and free-will; the...

Q: OK, I see your drift. Tell me about rational economic behaviour.

A: Rationality is a matter of consistency, or correct deduction from given premises. So rational behaviour involves choosing the means that are most conducive to reaching an objective.

Q: Can you give a simple example?

A: It is raining (premise), I wish to stay dry (goal), so I take an umbrella (rational behaviour).

Q: And most people behave like that?

A: Few actual situations lend themselves to rational behaviour.

Q: Why?

A: Because few situations are that simple. More usually the framework for a decision is open-ended. In other words, the full circumstances (premises) are not known and, in principle, may be unknowable.

Q: Can you give a simple example?

A: Consider placing a bet in a horse race. Even if all that is knowable were known to you, no *logical* deduction would be possible, so there is no basis for a rational decision.

Q: What if every horse except one had a broken leg?

A: Then no rational book-maker would take your bet!

Q: *Touché.*

A: Thank you. Let me guide you little. In principle, rationality is *not* a characteristic of an individual, but the property of the problem-situation in which an individual must reach a decision. It is the horse race that lacks rationality, not the individual.

Q: But discussion is usually about the rational behaviour of an individual, not about the situation in which he is placed.

A: That is because it is difficult to avoid setting rationality in a psychological context. It is this difficulty which has led to a presumed connection (the 'rationality postulate') between the logic of an individual's situation and his behaviour.

Q: Sorry, you've lost me.

A: OK. The rationality postulate assumes that an individual has the ability to obtain knowledge about a situation, the ability to deduce logically the action that is necessary and the ability to undertake that action.

Q: That seems rather far-fetched.

A: Indeed it is. In economics, the rationality postulate applies to very few situations. Most situations are open-ended. Even when they are not, it is rare for an individual to have the ability to gain definitive knowledge of that (closed) situation. So action is usually taken upon the basis of a subjective interpretation of (incomplete and inexact) evidence.

Q: What then defines sensible - I realise it cannot be 'rational' - economic behaviour?

A: I think 'reasonable' might be an appropriate adjective. Reasonable behaviour is based upon an individual's motives and his subjective perceptions of a situation.

Q: Does 'reasonable' relate to the individual or the situation in which the individual is placed?

A: What an astute question. In principle, 'reasonable' (like 'rational') applies to the (perceived) situation rather than to the individual; but perception and knowledge formation bring psychological and behavioural elements into consideration.

Q: So, we must first understand the psychology of an individual - his perception of a situation - before we can decide if his behaviour is reasonable within that perceived situation?

A: Yes, and it is here that a theory of knowledge formation (epistemology) becomes relevant. This brings us back to philosophy.

Q: Philosophy is about understanding our knowledge; and epistemology is about the manner in which the details of our knowledge are formed?

A: Exactly. Philosophy seeks a fundamental framework within which a coherent structure of consistent knowledge can be articulated; it examines the relevance of reason (rationalism) and experience (empiricism) to the formation of knowledge.

Q: Isn't it obvious that our ability to reason is closely connected with our experiences? Isn't this confirmed by the association of wisdom with age?

A: Maybe it *is* obvious to you; if that *is* your perception. In fact, you are suggesting a midway position between two philosophical extremes.

Q: Which are .. ?

A: The 'classical rationalists' hold that knowledge lies within ourselves, but requires hard intellectual endeavour (mathematics and logic) to draw it forth. On the other extreme, 'empiricists' regard the five senses as our only means to obtain knowledge of the world. A synthesis of these two is that reason alone offers no access to reality, but that reason is a prerequisite to gaining that access. In short, we strive to achieve a rational interpretation of sensory experience.

Q: 'Rational' or 'reasonable' interpretation of sensory experience?

A: Well spotted! Yes, the terminology can be loose at times. The conscious interpretation of sensory experience might be 'rational' where mathematics and logic are relevant, but 'reasonable' where the premises are inappropriate for mathematics and logic.

Q: You say the 'conscious' interpretation of sensory experience so, by implication, there is also sub-conscious interpretation.

A: Yes, of course. Many of our interpretations are purely instinctive (*i.e.* genetically determined). Even interpretations which have been learned (for example, that there is no need to duck to avoid a shooting star) may find themselves consigned to the sub-conscious.

Q: This is all very well, but is any of this relevant to the practice of economics as a science?

A: Most certainly; it is crucial.

Q: I cannot see how it is relevant at all!

A: Epistemology is the branch of philosophy that deals with the processes by which our knowledge is formulated. So our practical world is defined by our philosophy. The world of our knowledge is the only world there is.

Q: Go on.

A: Without ontology (presumptions about reality) we would not know what our science (knowledge) is about. Without philosophy, we could not scrutinise the scientific methods that are used and the conclusions that are reached.

Q: My head is spinning.

A: Scientific research methods must be open to criticism; that criticism must be based upon philosophy. There is no alternative. This applies no less to economics than to any other scientific discipline. Even though none of this may be explicit, all of this is implicit in every scientific proposition.

Q: Is that it?

A: In order to bring our discussion to a conclusion, perhaps you would allow me to quote four philosophical observations (all of which can be applied to economics) made by Albert Einstein:

Science searches for relations which are thought to exist independently of the searching individual;

Science attempts to make the chaotic diversity of our sense-experience correspond to a logically uniform system of thought;

It is a theory which decides what we can observe;

Truth is what stands the test of experience.

Q: That's a lot to think about.

A: Perhaps we stop there.

Q: I think we should.