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Edited by Uskali Maki

Excerpt

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Part I

The what, why, and how of economic ontology

1 Economic ontology: what? why? how?

USKALI MÄKI

So you're an economist? You study everything that can be gauged by the measuring rod of money? You view human interaction in terms of supply and demand in the market? You depict human action as seeking self-interest in a calculative manner? Is this indeed your view of the world? If you are an economist and somebody has attempted, or might attempt, to embarrass you with such questions, you should read this book. If you are a non-economist inclined to raise such questions, you too should study the essays collected in this volume. If you are a philosopher interested in the peculiar characteristics of the 'dismal science', this is a book to read. The book examines aspects of the economic world view from a variety of perspectives by raising shamelessly deep questions. This is a book in the ontology of economics.

1 What?

What is the economy made of? What are its constituents and how do they hang together? What kind of general principles govern its functioning, and its change? Are they causal principles and, if so, what is the nature of economic causation? What drives economic actors, and what mental capacities do they possess? What is utility, or well-being? What is uncertainty, or risk? Do aggregates exist? Do individual preferences and social institutions exist, and in what sense? Are (any of) these things historically and culturally invariant universals, or are they relative to context? These are some questions about the economy. The answers that an economist will provide in response to such questions will include concepts such as scarcity, rationality, preference, well-being, expectation, choice, information, probability, strategy, convention, contract, wealth, division of labour, market, exchange, money, equilibrium, coordination,

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mechanism, and so on. These answers are seldom sufficiently detailed and refined to give us a precise idea of what exactly is presupposed about the world in posing and answering the questions. The ontology of economics takes as its task to offer detailed analyses and refinements of such basic concepts.

The study of economic ontology is concerned with what may be called 'the economic realm': the economic realm consists of those parts or aspects of the universe which are set apart as constituting the subject matter of economics. We may think of the economic realm as being distinguished from other realms (the physical realm, the biotic realm, the realm of aesthetics) by virtue of being composed of certain types of entities or properties – such as 'that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of wellbeing' (Marshall 1920, p. 1) or 'human behaviour as a relationship between ends and scarce means which have alternative uses' (Robbins 1935, p. 16). This suggests that the economic realm has definite boundaries which separate it from other realms. On the other hand, the history of the discipline suggests that such boundaries are not completely sharp and fixed and that there are rival and evolving perceptions of how to draw them. The contents and confines of the economic realm are 'essentially contestable' as a popular phrase has it, and they change along with the rest of the discipline of economics (see Kirzner 1976). The question then arises whether the varying circumscriptions of the economic realm are endeavours to discover something about the objective constitution of the world, or whether they are subjective impositions of structure on the social world.

The economic realm is connected to other realms in various ways. The possibility of the existence of the economic realm presupposes the existence of the physical, the biotic, and the psychic realms. How exactly this dependence is to be characterized is itself an ontological issue; is it a matter of reduction, or supervenience, or is some sort of emergence involved? The functioning of the economic realm is shaped by the realms of morality and politics. The exact character of this dependence – and the question whether the realms of morality and politics are made of stuff that is different from that of the economic realm – are likewise among some of the major ontological issues related to economics. We may say that the justification of the discipline of economics requires a claim to relative autonomy, but this does not yet give us a precise idea of what such autonomy amounts to.

The contents and confines of the economic realm are suggested by the ontological commitments that economists hold. A set of such commitments has the nature of a *Weltanschauung*, a fundamental world view

with a focus on a selection of economically relevant aspects of the world. Joseph Schumpeter (1954) used the word ‘vision’ to capture very much the same idea. There is a sense in which those commitments have a foundational status: they are more fundamental than other elements in one’s belief system in that they are not as easily corrigible and that they are presupposed rather than derived by the reasoning within the belief system. The ontological commitments have the character of *absolute presuppositions* as R. G. Collingwood called them. He viewed them as the ultimate and unquestioned presuppositions in terms of which all the relative suppositions are to be justified (Collingwood 1940). Ludwig Wittgenstein called them *hinges* on which our ordinary thoughts and judgements turn, and the *riverbed* within which our thought flows (Wittgenstein 1969, §§97–9, 341–3). Adopting a metaphor from constitutional economics, we may also view the ontological commitments as providing part of the *constitutional framework* of a belief system. In this spirit, James Buchanan refers to elements of a research programme which are ‘rarely, if ever, challenged by those scholars who work inside the intellectual tradition . . . These central elements are taken as presuppositions, as relatively absolute absolutes, and, as such, they become, themselves, the constraints (the constitution) within which the scientific discourse is conducted’ (Buchanan 1991, pp. 13–14). Thus there is something basic or fundamental about the ontological presuppositions in our belief systems.

It is in the nature of such a constitutional framework that it determines the boundaries of a discipline or a line of research. Among the ontological or metaphysical core principles of economics, including constitutional economics, Buchanan lists individual autonomy, rationality of choice, and spontaneous market coordination. ‘Unless those who would be participants in the scientific dialogue are willing to locate the exercise in the choice calculus of individuals, there can be no departure from the starting gate . . . The principle of spontaneous coordination of the market is *the* principle of our discipline’ (Buchanan 1991, pp. 14, 22). Buchanan thus takes such principles as defining the boundaries of a research field or programme. Such ontological principles have social consequences: they effectively help identify the genuine participants in a programme and exclude others as non-participants. ‘There is simply no common basis for scientific argument, and ultimately agreement, with those who choose to perceive social interaction either in purely conflictual or purely idealistic visions. These visions are, indeed, alternative “windows” on the world’ (p. 18). Legitimate membership in the conversations of the economics profession thus requires that the world is being viewed through shared ontological ‘windows’.

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Another feature characteristically ascribed to the fundamental commitments is implicitness. The constitutional world view they work with or the ontological windows through which they view the world are articulated by practising economists themselves only seldom and incompletely, if at all; such explicit articulation is characteristically not regarded as one their preoccupations *qua* economists. In contrast, making explicit what tends to be implicit is exactly the preoccupation of this book. Buchanan says that ‘the process through which individuals choose among such windows remains mysterious’ (p. 18). It is one purpose of this book to start demystifying the process of choosing such ontological windows. It is a prerequisite of this demystification that we understand what those windows are like. One has to start *looking at* the ontological windows instead of merely *looking through* them. This is also acknowledged by Buchanan in his remark about the insiders and outsiders: ‘External intellectual challenges to the whole enterprise tend to be directed at these elements in the core of the program. The ongoing research within the constraints can, of course, proceed without concern for these external criticisms, but practitioners need to be aware of the core-imposed limits on the persuasive potential of the internalized analytical exercise’ (p. 14). It is a purpose of this volume to help practitioners in economics be ‘aware of the core-imposed limits’ of what they can successfully do as such practitioners. A more ambitious goal would be to try to help economists to make well-argued constitutional choices, that is, reasoned choices of the constitutional framework within which they do their work, or of the windows through which they view the world – or at least help them to be aware of that larger framework and to design arguments for the constitution they have ended up working with, whether as a matter of choice or perhaps as a matter of some path-dependent academic process. The possibility of constitutional choice implies that ontological constitutions are not fixed, that in principle they can be changed at will. Constitutional change may also – and often does – occur without much reflection; as Wittgenstein puts it, the riverbed within which our thought flows can itself change in response to the flow of thought (Wittgenstein 1969, §97).

In some cases and for some purposes, we had better distinguish between two aspects of the ontology of economics: the ontological convictions of an economist and the ontological presuppositions of an economic theory. Questions about the economic world view can often be transformed into questions about economic theories, taking on the general form, ‘What does theory T presuppose concerning P?’ For example, ‘What exactly does theory T presuppose about the capacities and dispositions of economic agents, or of the market mechanism?’ A

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refined account of the presuppositions of theory T does not necessarily serve as an adequate account of the ontological convictions of an economist using T: deep in her heart, the economist may not fully believe in the world view presupposed by T. This means that the two are contingently related: they may or may not coincide. In cases where they do not coincide, there is a tension between them that may function as a dynamic force driving theory development: the economist may be motivated by an urge to resolve the tension by attempting to modify the theory. Chapter 17 by Esther-Mirjam Sent and chapter 19 by Uskali Mäki contain discussions of the role that the ontological convictions of economists play in their attitudes towards theories. Alex Rosenberg's chapter 10 and Jack Vromen's chapter 11 stress the importance of distinguishing between economic theories and economists' convictions.

The ambition of articulating and making explicit the ontological underworld of economic beliefs tends to run counter to a strong reading of Collingwood's belief that the absolute presuppositions of a belief system are not and cannot be transparent to those whose thoughts are based on them. He believed that it is only with hindsight that we can clearly see what the basic commitments were, in other words that it is only after the period in intellectual history building upon those elements is over that we can make those building blocks fully explicit. I admit that the task of explicating the presuppositions may be easier with hindsight, but it is one of the (explicit) presuppositions of the endeavour exemplified by the present volume itself that the explication of contemporary commitments is not impossible. I should perhaps add that the explication of the presuppositions of theories may be an easier task than the explication of the ontological convictions of economists.

The attempt to understand economics as a scientific discipline requires the examination of its ontology. Such an examination is also legitimate from a more general point of view. Ontology is a branch of philosophy that is once again enjoying a respectable status. It is generally understood as the study of being as being, of the most general characteristics of all things, whether actual, possible, or even impossible, whether physical, mental, or social. The concerns of this book for the most part are not this abstract or global. The focus is on ontological issues that are characteristic of economics, whether or not they are shared by other disciplines and other realms. This is a book devoted to studies in local or regional ontology. Yet, it is obvious that ontological categories of various levels of generality are relevant to understanding economics. The articulation of the world view of economics involves various kinds of categories: those which are predominantly and specifically economical; those that are more general in their applicability but not universally applicable; and

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those that apply to virtually all domains. This division is somewhat artificial as the fact is that there is a continuum of categories rather than sharply distinct sets. Thus we get a continuum of sets of categories in an ascending order of generality, such as the following: money, market, firm, price; preference, belief, rationality, choice, rule, welfare; evolution, aggregate, equilibrium; quality and quantity, probability, essence, causal power, mechanism, existence, objectivity. The contributions to this volume characteristically combine such levels. Kevin Hoover's chapter 12 examines the existence of aggregates; chapter 9 by John O'Neill discusses the essence of markets; Russell Hardin's chapter 4 examines the normative values at the core of rational choice theory; Jochen Runde analyses probability and belief in chapter 8; Scott Meikle's chapter 3 sets out to characterize the economic realm in terms of quality and quantity; and chapter 13 by Don Ross and Fred Bennett argues for the objectivity of both micro and macro economics in terms of real patterns.

A final remark on the sense of 'ontology' relevant to this book is in order. 'Ontology' and 'metaphysics' are often used synonymously, but the relevant concept of ontology is not given by the familiar pejorative usages of 'metaphysics'. This book is about local or special metaphysics of an honourable and prestigious kind, of the kind that has recently enjoyed a resurgence and rehabilitation both in philosophy and in the special sciences. The present book is not about metaphysics in the logical positivists' sense of unverifiable nonsense nor in Karl Popper's sense of unfalsifiable non-science. In economic ontology, the relevant questions are neither, 'Is it meaningful?' nor, 'Is it scientific?' Using the verifiability and falsifiability criteria, most if not all of science would turn out to be meaningless and non-scientific. The relevant questions in economic ontology are, 'What are the underlying presuppositions?' and, 'How do the presuppositions constrain and determine belief?' as well as, 'How does and can one justify or criticize the presuppositions?' There is no absolute break between ontological presuppositions and other claims of science; there is rather a continuum of claims of various degrees of generality and corrigibility.

2 Why?

There are several interrelated reasons for why the study of economic ontology is desirable. One has to do with the boundaries of the discipline of economics and of the economic realm. Another has to do with the grounds of the beliefs that economists hold; their ontological

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commitments are among these grounds, along with conventional empirical evidence. Yet another has to do with the reliability and appropriateness of the methods economists use; as a general rule, methods should match the nature of the reality they are used to investigate. Let me briefly elaborate on these three reasons.

Consider first the issue of boundaries. Supposing one holds that the economic realm is constituted by categories such as money, the market, and calculative self-interest, or something weaker, such as instrumental rationality, the question arises as to the boundaries of the realm so circumscribed. For example, one may ask, as Shaun Hargreaves Heap does in chapter 6, whether phenomena related to self-worth (or trust, care, and esteem) belong to the economic realm by way of reduction to preferences and self-seeking calculation. Likewise, does the notion of market apply to science, or religion, and to which aspects of them? And what exactly does one presuppose about the ultimate nature of the constituents of certain regions of social life when proposing an economics of politics and marriage, of crime and church-attendance? Are those presuppositions defensible as some economists believe, or not, as many non-economists suspect? How do ontological arguments about the way the world is constituted bear on the ongoing dispute around 'economics imperialism' – the expansionistic tendencies of economics in the social sciences?

The second set of reasons is related to the idea that ontology plays a role in justifying economists' beliefs and the lines of research they pursue. The famous Duhem–Quine thesis suggests that empirical tests are unable to fully determine the merits and demerits of any particular hypothesis or theory so as to reliably discriminate it from its rivals. All theories or theory-choices are underdetermined by evidence: there is slack between theory and empirical evidence. This implies that there must be other determinants to fill in the gap, so to speak. Various social factors have been proposed to serve as such determinants of beliefs or theory choices, such as the pursuit of fame and fortune by scientists, or the social interests of the scientific community. The suggestion here, in no way a novel one, is that ontological commitments are one determinant of theory choice and theory development in science, economics included. The general world views held serve as constraints that any successful theory-candidate has to meet as a minimum condition of acceptability. If economists view the world through metaphysical windows, this suggests that there are limits to the power of conventional empirical testing. Buchanan puts it rather strongly: 'How can empirical evidence be made convincing when such evidence must, itself, be perceived from only one vantage point at a time? The naïveté of modern empirical economists in

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this respect verges on absurdity' (1991, p. 18). If modern economists are naïve in not recognizing the role of ontological windows and riverbeds in theory choice, the study of economic ontology may help them in growing up. The role of ontology in shaping the fate of theories is addressed in chapters 17 and 19 by Sent and Mäki as well as in Rosenberg's chapter 10.

There is a related thought that is worth exploring. It is a major task of economic ontology to uncover the ontological presuppositions of *economic theories*. The fact that *economists* hold those theories may then be at least partly explained by the fact that they hold exactly those presuppositional commitments. However, as suggested in the previous section, the situation is not always that simple. It may often be the case that the ultimate ontological convictions of an economist and the ontological presuppositions of the theories he holds are not perfectly tuned with one another. In a situation of such a mismatch between the ontologies of an economist and of a theory, one way to rectify ontological harmony in one's beliefs is to treat the theory instrumentally. The very fact that economists are attracted by an instrumentalist interpretation of theory may in some cases provide partial evidence for the existence of such a mismatch. According to the instrumentalist view, a theory is not really to be believed to give us a truthful picture of what the world is like, it is rather to be used as a useful tool for whatever purposes there may be. Thus the study of economic ontology may help explain why economists hold certain views of the nature of economic theory – and perhaps help them drop those views. Philip Pettit's chapter 5 seeks to show how economists might try to avoid an instrumentalist view of the notion of *homo economicus*.

The third reason for examining economic ontology is that theories and methods need justification and that one way of attempting to justify them is to argue that they somehow conform to the structure of the world. The issue around a given method can often be phrased as one concerning its appropriateness for addressing certain parts or aspects of reality. Social scientists inspired by hermeneutics argue that quantitative, formal, and causal modelling is not appropriate for studying the human realm; some method of understanding the meaningfulness of human behaviour is required to accommodate the specific nature of the human realm. A weaker line of reasoning would be to admit that there are causes out there and social phenomena are causally determined, but that the method adopted by economists from mechanics, namely that of the decomposition and composition of causes, employing idealizing assumptions and their relaxations, is not appropriate in social sciences. This is because the interactions between the causes are significant enough to

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undermine the model of vector addition which underlies the method. This is a venerable issue which is often discussed in terms of metaphors such as those of mechanism, machine, and organism. Such metaphors can be expressions of major ontological convictions, or, more weakly, signals of entertaining a way of looking at the social world. Chapters 14, 15, 16, and 18 by Nancy Cartwright, Daniel Hausman, John Dupré, and Alan Nelson address these fundamental issues.

3 How?

One can pursue economic ontology in a variety of ways. They differ from one another in regard to the aims pursued, the theoretical resources employed, and the relationships envisaged between the substance of economics and general ontological doctrines. chapter 2 by Harold Kincaid deals with some of these issues.

Economic ontology may be practised as an exercise in direct description of what is believed to be the fundamental nature of the economy, or it may be viewed as an exercise in describing or prescribing the ontological presuppositions underlying theoretical accounts of economic phenomena or the ontological convictions held by economists. In the first guise, it is an attempt to directly represent economic realities, while in the second mode, it is directly about economics and only indirectly about the economy.

Another distinction is that between descriptive and revisionary ontology (Strawson 1959). We may pursue a description of the ontological categories and presuppositions that we, or some others, work with. Given that much of the ontological underworld in our belief systems is implicit and hidden, the task of articulating it in explicit and systematic form may not be easy. Descriptive ontology in this sense is a challenging project. Revisionary ontology, on the other hand, is an attempt to change, rather than just describe, the prevailing ontological categories and presuppositions of a belief system: it is a matter of constitutional revision. Examples of the latter include John Dupré's criticism of the ontology of mechanism in chapter 16; the suggestions to revise the ontology of economic agency in chapter 7 by John Davis; and Philip Pettit's re-articulation of the self-seeking economic man in terms of virtual reality in chapter 5.

Most of the contributions to the present volume belong to descriptive rather than revisionary ontology. It is to be noted that these two endeavours do not exclude one another. In particular, if one wants to do