

## PHILOSOPHY, HISTORY, AND METHODOLOGY OF ECONOMICS

### A Short History of Ethics and Economics: The Greeks

**James E. Alvey**

Cheltenham, United Kingdom and Northampton, United States:  
Edward Elgar, 2011 (184 pages).

In the beginning chapter of his *Ethics and Economics*, Amartya Sen distinguishes between two historical traditions of economics, the ethics-related and the engineering tradition. The book here reviewed begins with a general introduction in which Alvey states the aim of the book: to argue for a recuperation of the ethical tradition. In this first chapter, Alvey also differentiates between two grand historical narratives of the relationship between economics and ethics: the egalitarian approach of Sen and Nussbaum, and the aristocratic view of Cropsey and others. The second chapter of the book provides a useful description of the historical and social context of ancient Greek political economy, and the positions of the Sophists—the antagonists of the authors considered in the rest of the volume. Then, Alvey thoroughly analyzes the ethical, political, and economic thinking of Socrates, Xenophon, Plato, and Aristotle. The first two thinkers merit a single chapter; Plato's thinking is addressed chronologically in two chapters; and three chapters are dedicated to Aristotle's thought on ethics, politics, and economics respectively.

For Socrates, economics is part of the human “practical sciences,” that is, ethical sciences. This orientation embeds the economic thought of his disciples. Although Xenophon seems to adopt some efficient notions, his concept of economics is also subordinated to ethical goals. Concerning Plato, Alvey begins comprehensively analyzing the relevant Platonic dialogues. By means of his analysis of the dialogue *Laws*, Alvey portrays a Plato who is different from the one to which we are accustomed—the utopian Plato of the

dialogue *Republic*—one who is a great realist. Alvey views a close relationship between the *Laws*' vision and Sen's concept of economics as related to ethical tradition, as well as the capability approach of the latter.

The chapters on Aristotle are equally well developed. The first chapter refers to Aristotle's ethical thought: the notions of practical wisdom and practical science with its specific methodology, of *eudaimonia* and its requirements, of intellectual and moral virtues, and of human action and character are explained. Concerning *eudaimonia*, though Alveys mentions Richard Kraut's book (92), he does not present Kraut's position, unlike the treatment of J. L. Ackrill and others. In effect, there are two main interpretations of the meaning of *eudaimonia* for Aristotle. The first, an "inclusivist view," was promoted by Ackrill. It holds that *eudaimonia* is an inclusive end composed or constituted of second-order ends like capabilities. Second, the interpretation of Kraut (in the book quoted by Alvey) holds that *eudaimonia* is a dominant end different from second order ends, which are sought not only for the sake of themselves but also for the sake of *eudaimonia* to which they are subordinated. Perhaps, this second interpretation could shed light on some of the related topics raised by Alvey.

In the second chapter on Aristotle's political thought, Alvey justly remarks on the scant role of economic motivations for politics according to Aristotle. The third chapter starts by asserting that Aristotle's analysis of the economy is the best of the three (strictly, four) thinkers considered in the book. He stresses its ethical and political embeddedness.

Now, I want to remark on two other merits of Alvey's book. The first is that he avoids the inveterate use of making these ancient authors—especially Aristotle—reason with the categories of the interpreter. Although Alvey tries to conclude some teachings for contemporary economics, he carefully maintains a difficult balance in this respect, resisting the temptation of engaging in anachronic comparisons. For example, he—rightly, I think—corrects Martha Nussbaum's view of an "Aristotelian Social Democracy" (e.g., 143 and 154). He also points to the misunderstanding implied in translating *chreia* as "demand." The close relationship between ethics, politics, and economics and the ethical intentions and frame of all the philosophers analyzed by Alvey remain absolutely clear and constitute the main message for today.

Another merit of Alvey's book is that it is systematic, ordered, and continuously guides the reader—an assistance that is necessary given the great quantity of classifications and precision that the topic requires. I think that this book is helpful and may provoke a healthy reflection on the characteristics of economics.

The book concludes with a useful overall assessment of the ancient Greek economic thought. I think that it is best here to quote its final word (156):

Obviously we cannot return to the ancient world. Hence, we cannot extract economic principles and policies *in toto* from the Socratics. Major advances in technology, a vast increase in the size of political units, global interconnectedness, and many other changes have occurred that make this impossible. Nevertheless, some ancient ethical components may actually need to be dusted off and restored. Sen's Capability approach,

which draws on some aspects of ancient thought, is one attempt to restore the ethical tradition of economics. There are others.

More fundamentally, serious discussion of ethical issues in economics needs to be legitimized. While some discussion and research has commenced along these lines (including aspects of behavioural economics), much more is required before it can be regarded as having entered the mainstream. The positive/normative distinction in economics has been a disaster. If the ethical tradition is to be restored to health, and coexist with engineering, the value-free rhetoric of modern economics must be abandoned. Only then can discussion of ethical motivations, human flourishing, and ethical social achievements begin in earnest.

—Ricardo F. Crespo

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## Models. Behaving. Badly: Why Confusing Illusion with Reality Can Lead to Disaster on Wall Street and in Life Emanuel Derman

New York: Free Press, 2011 (230 pages)

That financial models are metaphors for reality (instead of *being* reality) is quickly gaining acceptance. This does not imply we should eschew their use, but rather that we must use them with a good dose of humility. Columbia University professor Emanuel Derman explains through analogies why, after twenty years as a Wall Street quant, he cannot place his trust in the accuracy of the models he used (and built) throughout his career.

Were this the end of the *Models. Behaving. Badly.* story, it would be little different from any one of Nassim Taleb's ventures to bring realism to financial theory. Derman goes two steps further. On the one hand, he delves into the basics of what a model is and is not and why financial markets do not open themselves to theories necessitated for proper modeling. On the other hand, he draws real implications from this, in the form of the ethical commitments that end users of financial theory should abide by. Both these aspects will interest readers of the *Journal of Markets & Morality*, though it is the specific ethical implications that set this book apart from its peers.

Derman makes heavy use of rationalism, especially that of Baruch Spinoza. This multidisciplinary approach is refreshing, and the fresh vantage points bring the reader to new perspectives.

As an example, consider Spinoza's three primitive sensations: desire, pain, and pleasure. Derman uses this three-pronged framework to look at money, "a topic fraught with a variety of emotions" (88). Once upon a time coinage evoked all three sensations: the pain of mining and creating commodity money balanced the pleasures it could purchase today, as well as the desires it would secure in the future. Fiat money breaks this trinity; the lack of pain associated with its creation reduces the "value and respect" that we afford it. In this way, the book complements Jörg Guido Hülsmann's *The Ethics of Money*