

## ECONOMICS, PSYCHOLOGY AND HAPPINESS: VIRTUE THEORY VS. SLAVERY OF THE PASSIONS

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### Abstract

*The truth of any economic theory ultimately hinges on the truth of its philosophy of man. In this essay I will analyze modern economic thought from two perspectives: firstly, from its criticism and development by experimental psychology; secondly, from the philosophical anthropology and Aristotle and Thomas Aquinas. I will argue that although there is much truth in modern economics, its philosophical underpinnings are flawed in important aspects, and this accounts for its inability to explain and understand human behavior in some significant respects. I will try to pinpoint the essential character of the philosophical error, and argue for a better philosophy of the person that can provide a starting point for building a new economics.*

### Keywords

*Economics and psychology, happiness, virtue theory*

### Introduction

The object of all economic enquiry is the human person under the aspect of behavior within limited resources. Consequently the truth of any economic theory ultimately hinges on the truth of its philosophy of man. In this essay I will analyze modern economic thought from two perspectives: firstly, from its criticism and development by experimental psychology; secondly, from the philosophical anthropology and Aristotle and Thomas Aquinas.

I will argue that although there is much truth in modern economics, its philosophical underpinnings are flawed in important aspects, and this accounts for its inability to explain and understand human behavior in some significant respects. I will further argue that integrating psychology does not provide a solution to the current state of economics, especially insofar as modern psychology itself is influenced by the same philosophical mistakes.

I will try to pinpoint the essential character of the philosophical error, and argue for a better philosophy of the person that can provide a starting point for

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building a new economics. I will not study the matter exhaustively, but will only attempt to underscore some key concepts and assumptions, which I believe have not received enough little critical analysis. I will sketch at some potential avenues that may help to provide a better grounding, but my main hope is to stimulate further discussion and constructive criticism.

### **Economics and psychology: some recent developments**

Economics is both an old and a young discipline. Its early origins as a science can be traced back at least to the Spanish scholastics of the 16<sup>th</sup> century, who enquired into economic phenomena as part of their duties as moral theologians.<sup>1</sup> However, it was only in the 20<sup>th</sup> century that economics acquired the importance and aura it holds in our society today. One is therefore not surprised to find that questions to do with the methodology and philosophy of economics are still 'work in progress'.

The dominance of one paradigm – sometimes called 'neoclassical' economics – conceals the extent to which there is an ongoing debate on the right way of doing economics. However, recent literature in and around economics has witnessed a surge in discussion on the philosophical underpinnings of economic science. The most important challenges have come from experimental psychology, and they focus on two aspects of the human person: (1) the cognitive limits of human choice and (2) the moral character of human action.

#### *Physics, utility machines, and human behavior*

Economics (especially what is known as 'microeconomics') is essentially a behavioral science: it seeks to analyze, understand and predict human behavior, with special reference to the use of scarce material resources. The hard methodological question is how we ought to picture and model human behavior so as to make sense of it. Pure observations are, of course, of little use on their own, as philosophers of science tell us.

Neoclassical models of economic behavior are broadly built on the models that seek to mimic models used in standard physics. The methodology focuses on (1) abstract, mathematical models of behavior and (2) empirical, mostly quantitative studies using statistical techniques (called 'econometrics'), which seeks to assess the validity of the abstract models. The behavioral assumptions that underlie the mathematical models are generally based on a utilitarian vision of man: man is pictured as a 'rational utility maximizer'. In theory, this can mean

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1 See generally Alejandro A. Chafuen, *Faith and Liberty: The Economic Thought of the Late Scholastics* (Lexington Books, 2003), Murray Rothbard, *Economic Thought Before Adam Smith*, (Edward Elgar, Cheltenham, U.K., 1995), and Joseph Schumpeter, *History of Economic Analysis* (Oxford University Press, USA, Revised edition, 1996).

a number of things, but in practice, most economists tend to assume for the sake of simplicity that people seek to maximize their material wealth, at least most of the time.

This methodology has been attacked from various perspectives. The crux of the issue is whether the behavioral assumptions of so-called 'rational choice theory' are justifiable at all. Man is not the kind of 'economic machine' that the theory would have him to be. This is not merely a philosophical statement, but in other empirical sciences of man, especially psychology, it is well known that man is more complex than that.

Experimental psychology raises at least two concerns. One is the cognitive imperfection of man, which means that our capacity for gathering, analyzing and interpreting data is limited. This often leads us to make decisions which mainstream economic theory would call 'irrational'. Many economists now accept this criticism, and the term 'bounded rationality' is often used to refer to this characteristic of real human behavior.<sup>1</sup>

The other issue is our knowledge of human motivation, which challenges the simplistic assumptions of economic theory. If our cognitive limitations reveal that we are in some sense 'worse' than the neoclassical *homo economicus*, then fortunately, the study of motivation and preferences presents a 'brighter' picture of man.

Robert Frank, for example, writes about the challenge of cooperation and altruism.<sup>2</sup> In mainstream economic models, moral sentiments such as sympathy are assumed away, which suggests that men are unlikely to treat each other well unless they have economic incentives to do so. Frank however points out, citing extensive empirical research, that people are in reality far more cooperative and altruistic than neoclassical models would have it. People are not motivated solely by wealth or other selfish concerns, but are often willing to sacrifice material benefits for moral reasons and the good of others.

Another economist in this field is Bruno Frey, who has studied personal motivation in such contexts as the workplace.<sup>3</sup> The 'principal-agent model' of mainstream economics tells us that employees will cheat their employer, shirk their responsibilities and look for purely personal gains, unless they are properly

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1 A whole school of thought, 'behavioral economics' or 'economics and psychology' has developed, especially after Daniel Kahneman's pioneering research was acknowledged with the Nobel Prize in 2002. Numerous references can be found for example in Kahneman's Nobel Prize lecture, 'Maps of Bounded Rationality: A Perspective on Intuitive Judgment and Choice' (Prize Lecture, December 8, 2002), available at [http://nobelprize.org/nobel\\_prizes/economics/laureates/2002/kahnemann-lecture.pdf](http://nobelprize.org/nobel_prizes/economics/laureates/2002/kahnemann-lecture.pdf).

2 Robert H. Frank, *What Price the Moral High Ground? Ethical Dilemmas in Competitive Environments* (Princeton and Oxford: Princeton University Press, 2004), Robert H. Frank, *Passions within Reason: The Strategic Role of the Emotions* (W. W. Norton & Company, 1988).

3 Bruno S. Frey, *Not Just For the Money: An Economic Theory of Personal Motivation* (Cheltenham, UK: Edward Elgar, 1997)

monitored and given material incentives to work well. Frey demonstrates that the reality is more complicated. He marshals extensive research on 'intrinsic motivation' to show that although material incentives play a role, in many contexts people are more dedicated to their work when they feel trusted, respected and valued. In fact, overemphasizing extrinsic incentives (carrots and sticks) will in many cases cause a crowding-out of intrinsic motivation and lead to an overall decline in productivity.

*More money, more pleasure, yet not fulfilled*

In addition to trying to understand, describe and predict human behavior under the economic aspect, many economists are interested in the normative consequences of their research. Economics as a pure science does not tell us what we should do with the information we acquire, and indeed what kind of problems are worthy of study. These are essentially philosophical questions, but they have important and wide-ranging consequences.

Most economists are not philosophers, of course. But their research does relate to philosophical issues and assumptions in various ways. This can be clearly seen in so-called 'welfare economics', which deals with the conditions for maximizing human welfare with given material resources. It tries to look beyond mere description of behavior, toward what kind of economic, social and political arrangements are good for the society.

Not surprisingly, a central concept in welfare economics is *efficiency*. Efficiency can and has been defined in various ways in economics, but most mainstream economists would agree that economic efficiency is achieved when limited resources yield their maximum benefits, which in turn are understood in terms of subjective 'utility' or, for simplicity, 'wealth'.

This line of thinking has more than theoretical relevance. It also justifies the dominant focus in economics on material well-being and economic growth. It influences economic policy in all its aspects, and implicitly many other political questions too, such as education, environmental policy, taxation, company law, labor law, and so on. Economic efficiency is also the defining feature of development policy.

There is undoubtedly some sense in this drive towards the efficient use of limited resources. However, it is far more problematic philosophically than most economists think. The existence of multiple concepts of 'efficiency' within economics itself testifies to the suspect nature of the term.

Research by psychologists has influenced this discussion too. Even a new branch of knowledge called 'happiness research' or has popped up.<sup>1</sup> Researchers

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1 Bruno S. Frey and Alois Stutzer (2002), 'What can economists learn from happiness research?', *Journal of Economic Literature*, XL: 402–35. A comprehensive bibliography is Ruut

of the 'economics of happiness' try to find empirically stable factors that contribute to the subjective well-being of individuals. Some of their more famous arguments are that unemployment causes serious dissatisfaction regardless of material consequences; that greater wealth correlates poorly with greater happiness, and that local decision-making in politics makes citizens happier than centralized political structures.

Happiness research has been widely criticized in turn.<sup>1</sup> Although it may be helpful in identifying flaws in simplistic welfare economics, it depends on methodologically problematic assumptions. Questionnaire data that may be suspect and equating happiness with subjectively estimated well-being is philosophically highly problematic. The empirical stability and universalisability of the research is also in doubt. Thus it is a field of research that may provide helpful hints, but one should be cautious in relying too much on its claims.

### **Key issues and challenges**

#### *Getting under the skin: the need for an inside view*

The developments outlined above represent important steps toward a more realistic vision of man in economics. However, they also raise further questions which, I believe, they are not able to answer. Psychology can tell us only so much about human behavior. It can help us to identify behavioral regularities and tendencies that contradict the assumptions of mainstream economics, but it does not explain the reason for those tendencies. Like empirical economics, behavioral sciences look upon man 'from the outside', and the challenge is to get inside, to understand man 'from within'.

The need to understand human behavior from within is not mere philosophical pedantry. A careful look at the history and methodology of economics reveals that getting an inside perspective to behavior has been a central concern and the key to the success of economics. By creating a model of the internal logic of human behavior with respect to choice in situations with multiple ends and scarce means, economics has built a theoretical basis for interpreting a wide range of social phenomena. Empirical research has played a role, but empirical studies would be practically meaningless without the theoretical basis. Note, moreover, that the argued flaws of mainstream economics can broadly be identified as errors (untruths) in the assumptions on

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Veenhoven, (2007), World Database of Happiness Bibliography, available at <http://www.worlddatabaseofhappiness.eur.nl>.

<sup>1</sup> See for example Helen Johns and Paul Ormerod, Happiness, Economics and Public Policy (London, UK: Institute of Economic Affairs, 2007), available online at <http://www.iea.org.uk/record.jsp?type=book&ID=416>.

which the theoretical models are built; empirical studies are less relevant to this criticism.

Psychology too makes assumptions about the human being. This is necessary for empirical research, and empirical findings in turn influence the assumptions. However, that loop is not perfect, and psychology cannot answer all the questions it poses. Psychology has not as of yet been able to build a competing theoretical basis for doing economics. It may be for this reason that the influence of psychology on economics has so far been modest. Most economists pay little or no attention to what psychologists have to say about behavior. They treat the findings as merely identifying certain 'anomalies' in human behavior (i.e. aspects that do not fit the theoretical models of economics). At most, these anomalies mean that we need to be a bit more cautious in applying our theoretical models into real cases, but nothing more than that. A better theory is needed, one that incorporates what is true in both 'old' and 'new' economics, and integrates them in a single, unified theory. That is yet to be achieved.

*Plunging into the deep: black boxes in utility machines*

Ultimately, questions dealing with the theoretical basis of economics turn on the philosophy of the human person. It is there in the deep waters of philosophy – where, unfortunately, most economists feel themselves utterly at loss<sup>1</sup> – that economics either succeeds or fails. Of course, the philosophy of man implicit in a practical science such as economics or psychology can be true in some respects and erroneous in others.

I will argue that the philosophy of man implicit in mainstream economics is partially (but not entirely) mistaken. I will further submit that the assumptions implicit in most of experimental psychology today are in crucial respects similar to those in mainstream economics. This is why the insights of experimental psychology do not penetrate into, and challenge, the more fundamental issues in mainstream economics.

The key idea is this. The *homo economicus* concept of modern economics was inherited from the thought of the English-speaking classics such as Adam Smith and David Ricardo. Their vision of science was greatly inspired by the success of Newton's physics (just as mid-20<sup>th</sup> century economists were influenced by later physics). This was easily combined with the utilitarian moral philosophy that was gaining ground in those days, a philosophy that presented

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<sup>1</sup> This is because modern training in economics is devoid of any philosophical thought and reflection. PhD economists know a great deal about formal mathematics, statistics and other 'scientific' methods, but they have rarely opened a single book on philosophy.

man as a machine in search of its utility: human choice is merely based on a calculus of pleasure and pain.<sup>1</sup>

The model of man as a utility machine is not entirely erroneous: man is built with a natural instinct for pursuing that which is pleasant and avoiding that which is unpleasant. This partial truthfulness of utilitarian thought may explain much of its success. However, the deep flaw in its vision of man is the way in which it understands *rationality* and the role of *reason*. This is also the key to understanding where modern economics goes astray.

Modern economics understands rationality in a purely *instrumental* sense. Men are taken to be rational when they pursue their chosen ends (or 'utility' or 'preferences') consistently and efficiently, given the resources available to them (modern economists give more precise, mathematical definitions, of course). However, the fundamental basis of choice – what prompted them to *choose those ends* – is left open, and is indeed implicitly assumed to be unknowable. Rationality pertains to the external expressions of choice only, whereas the inner dynamic of the person – his moral core, as it were – remains a mystery, a black box.

The problems flowing from this black-box conception of choice and preferences are actually concealed by the ostensible simplicity of the *homo economicus* picture of man. People just pursue what they feel like, and that's it – nothing mysterious about it. It is not for us to judge the likings of others, it is presumed.

The instrumental view of rationality was put more famous by David Hume: 'Reason is, and ought only to be, the slave of the passions, and can never pretend to any other office than to serve and obey them'.<sup>2</sup> Hume's literally passionate assertion has wide-reaching consequences, and it makes explicit what is implicit in so much of modern thought, particularly economics.

To reiterate, the neoclassical model of economic behavior leaves no room for the imperfections of human reason. This leads many economists to assume (explicitly or implicitly) that all choice necessarily makes the person better off; by their choices, people *reveal* their preference for that choice. True, life is hard and conditions may be difficult, but our failure to be completely satisfied lies *outside* of us, not in our opting for wrong or unhelpful ends. Not surprisingly, there is a tendency among many economists to embrace a certain kind of determinism, a denial of freedom of choice (economists do not necessarily think

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1 Alejo Sison, *La Filosofía de la Economía III: Los Fundamentos Antropológicos de la Actividad Económica* (Pamplona: Cuadernos del Seminario Permanente Empresa y Humanismo 53, 1995). Note that modern utilitarians come in various sizes and shapes, as many realize that the pleasure-pain calculus is an insufficient representation of real human choice.

2 David Hume, *A Treatise of Human Nature*, Book II: "Of the Passions" (first published 1739-40), available online at <http://etext.library.adelaide.edu.au/h/hume/david/h92t/>.

this is true in real life, but it is still *roughly* correct and hence instrumentally useful for creating economic models).

Psychology brings some realism – but only some. Research on our cognitive limitations reveals that the *instrumental* reason of man is not perfect. The imperfectability of instrumental reason can account for many of the 'anomalies' in real behavior. It explains why men often choose suboptimal (or even completely irrational) means in pursuing their chosen ends. However, empirical psychology fails to open the black box. Insofar as it is purely empirical (and not genuinely philosophical), it lacks the conceptual tools and methods for entering into the inner realm of choice. Moreover, it would seem to me that most of modern psychology is just as much influenced by Hume's vision of human rationality as is economics.

### *The dilemma of morality: caught in Hume's cage*

As far as morality and behavior are concerned, the key challenge seems to be, how we can account for freedom in moral choice. In other words, if reason is just a slave of the passions, as Hume said, then it seems that moral choice is determined by our inner impulses alone – appetite, fear, and other emotions and feelings.

The problem can also be seen in Robert Frank's analysis of cooperation and altruism.<sup>1</sup> Frank's main goal is to demonstrate that economic models built on an assumption of narrow self-interest are unrealistic: they simply do not describe real human behavior. Now, some economists object that they can account for altruism and other kinds of seemingly unselfish traits by just including them in the 'utility function' (note here the excesses of the black-box approach to choice). However, Frank points out that this renders the entire method unscientific, because if one tries to explain everything away by calling it a 'taste for something' (e.g. altruism), one is not explaining anything at all.

As a solution, Frank proposes a broader concept of self-interest, which includes the 'strategic value of moral emotions'. The basic idea is this: people can be self-interested in a broader sense, even when they behave unselfishly, because cooperation and altruism are at the end of day beneficial for the actor himself.

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1 Robert Frank, *What Price the Moral High Ground? Ethical Dilemmas in Competitive Environments* (Princeton and Oxford: Princeton University Press, 2004). This is of course not the only book on the subject. However, Frank is probably the best know economist to have raised – and tried to answer – these questions about morality and economic behavior. He is also a prominent economist in other ways; for example, his *Microeconomics and Behavior* (McGraw-Hill/Irwin, 5<sup>th</sup> edition 2002) has probably been the most widely-used microeconomics text in recent years. I will therefore take his views as broadly representative of the state of the art in thinking about economics and morality.



For example, someone who wants to do business must be able to acquire the trust of his partners, and that is difficult for people who are ruthlessly selfish.

Now, that much can be included in the 'rational choice models' of the old economics: people are not selfish, but intelligently self-interested. Frank goes further than that, however. After all, experimental studies demonstrate that many people behave altruistically even in contexts where it is impossible for them to get any material benefit from their choice – for example, when the parties do not know each other, do not have any contact with each other during the experiment, and will not meet each other afterwards. This is a genuine anomaly for models of intelligent self-interest.

This is why emotions matters. We are not perfectly rational, as psychology demonstrates, but our passions – including the moral emotions – direct our choice. An explanation for the moral emotions is offered by evolutionary psychology: we have been wired with emotions that foster cooperation, because that is helpful for our survival. However, the roots of Frank's argument lay beyond evolutionary psychology; they are actually found in the very works of David Hume and Adam Smith.<sup>1</sup>

The concept of moral emotions – such as altruism and sympathy, but also revenge and anger – is important and valuable. Clearly, some people are emotionally better disposed to cooperate than others. The question is, however, whether that is the whole picture of what morality is about. I would suggest that by rooting his analysis in the thought of Smith and Hume, Frank gets trapped in Hume's intellectual cage.

The problem is this: how can we account for *freedom* in moral choice? If man is not truly free to choose between alternative moral options, what is the point of this discussion other than intellectual entertainment?

For example, Frank talks about 'preference for cooperation'. To him that is a key prerequisite for success in social life, including business. However, in order to incorporate his theory into economic models, Frank treats this preference as something stable, even innate. But that implies that people do not have real freedom in moral choice.

Frank does not deny that people can change their attitudes towards others. He notes that businesspeople use various methods for forging and signaling sympathy (which is necessary for cooperation): gift-giving, having a drink together, and using friends and relatives in business. He also points out that the emotional predispositions to cooperate can be altered by education; for example, it has been demonstrated that training in economics tends to make people more egoistic (as it creates rationalizations for selfishness by arguing that 'greed is

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1 Recall that Smith's other famous book is entitled precisely *The Theory of Moral Sentiments* (first published 1759), available online at <http://www.econlib.org/Library/Smith/smMS.html>.

good'). But none of that is real freedom; man is changed purely from without, not by personal choice.

The paradox is that as Frank attempts to incorporate moral emotions into the corpus of mainstream economics, he squeezes real life and ordinary experience out of morality. For example, he discusses at length the problem of commitment to marriage, and points out that emotional bonding is the best way to ensure commitment. But commitment to marriage is in Frank's analysis framed in pure cost-benefit terms, just like in business relationships. That is not only morally problematic in the eyes of those who hold a higher opinion of marriage, but it is also dangerous in practice. As Frank himself notes, studies show that when therapists encourage people to think about their relationships in cost-benefit terms, it tends to backfire. This strikes the root of Frank's approach to morality: when morality is analyzed within the philosophical framework of Smith and Hume, it can be incorporated into mainstream economics, but its true character gets distorted.

### *Pleasure, wealth, and the paradox of systematic sorrow*

The philosophical roots of economics are also reflected in normative issues and the question of happiness. Mainstream economics posits a perfect instrumental reason and a non-existent moral reason. In other words, reason does not guide moral judgment; it simply helps in execution. Ethically, this means that people should be allowed and enabled to pursue their desires to the maximal extent possible (perhaps tempered by J. S. Mill's 'harm principle'). Politically, this leads to an overemphasis of the importance of economic efficiency and growth: the more material means we have at our reach, the higher levels of satisfaction we can attain.

The trouble is that, clearly, the reality is not so simple. Pleasure, money and endless cachets do not make people happy, whereas people are capable of true fulfillment even in the midst of material poverty. That is difficult to explain from the point of view of economic theory. It is particularly difficult to understand how some people can be *systematically unhappy*.

Adding cognitive limits to the picture helps a bit. It explains why people can fail to choose the best means for pursuing their chosen ends – pleasure, wealth, power or any other proxies of human satisfaction. However, it cannot deal with the failure of some to pursue the right goals – those ends that contribute to genuine human fulfillment. It seems that the systematic unhappiness of some persons is a bit of a mystery. The only solution is to blame the surroundings, the difficult circumstances – or, invoking evolutionary psychology, to blame one's genetic errors for unhelpful moral emotions.

## **New foundations: philosophical anthropology of Aristotle and Aquinas**

### *Hume's mistake: passions and reason*

It is surprising that despite the fame of Hume's statement on the relationship between reason and the passions, Hume's original argument for it is so awkward as to hardly merit even discussion. It seems to be equally difficult to find in later authors any real defense for the belief that reason can only be a slave of the passions, and especially that such a state of affairs is morally laudable.

Common sense alone would suggest otherwise. We are, at the very least, capable of experiencing ourselves as being truly free to choose between different moral options. The fact that we experience moral dilemmas and can *repent* of past choices attests to the fact that we are making real choices between mutually exclusive visions of right and wrong. The dynamic of moral choice is not a matter of the intellect alone, but reasoning and intellectual deliberation is certainly an important part of it. That is why we sometimes ask our friends and companions for advice in specifically *moral* matters ('do you think this course of action is okay?' or 'should I be working for this company?'), and we expect guidance that goes beyond the merely technical and consequential.

All of this common experience implies that we are in fact capable of controlling and directing our passions, feelings and emotions. Sometimes we do it better than other times. We can personally sense a real and fundamental difference between times when we allowed ourselves to be swayed by our passions (e.g. eating another piece of cake even though we knew we would feel bad afterwards) and times when we freely chose to pursue that which was truly good.

Those who deny the possibility of a non-instrumental, or moral, capacity in human rationality can merely claim that I am being fooled by my experience, that my sense of freedom is an illusion. Yet just the contrary would seem to be the case, namely that it is they who are being deceived by their distorted reason. The simple question is what kind of explanatory model makes more sense of the data and on this Hume's assertion fails entirely. (Frankly, the only way I can personally account for the reluctance of some persons to acknowledge this is that they do not *want* to believe in the moral powers of the human spirit, perhaps because they are emotionally attached to some fleeting source of pleasure which they erroneously do not want to give up so that they could aim for the higher things.)<sup>1</sup>

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1 This is also suggested by classical virtue theory. The virtue of prudence (the stable ability to think and act in accordance with objective reality) requires all the moral virtues too: justice, fortitude and temperance. The person is a unified whole, and a deficiency in one's ability to control the sensory appetites so as to pursue that which is truly good also weakens and darkens the clarity of the intellect.

## *Virtues, goods and fulfilment*

But if we do acknowledge a greater capacity for the human spirit, then a radically different picture of man is exposed. I will call this picture of man the *philosophical anthropology of Aristotle and Aquinas*, as these two great minds were perhaps the leading figures in fully articulating a complete philosophy of man.<sup>1</sup>

The human person, according to Aristotle and Aquinas, is not endowed with perfect rationality, but a rationality that despite its limitations is capable of controlling the totality of the person. Thus reason need not remain a slave of the passions, and it must not become content with such a state, because the reduction of human reason to the purely instrumental is not only a sign of moral weakness but also a sure cause for personal misery. In contrast, the triumph of the rightly ordered reason within the person is the basis of true fulfillment.

In ancient Greek and Medieval ethics, social relations played only a small part. This was because morality was primarily seen as something personal: it is not what you do to others, but what – through your moral choices – you do to *yourself*. Moral choices ordinarily (but not always) have external manifestations that have a bearing upon others, but that is secondary to how we shape ourselves and hence our own happiness through our choices between right and wrong. It was on the basis of such a vision of morality that Socrates was able to say with full conviction: 'So the unjust man, like every man who possesses bad things, is pitiable in every way'.<sup>2</sup>

In modern times the ethics of Aristotle and Aquinas are also known as *virtue ethics*. More than a moral philosophy, it is a complete philosophical anthropology, a vision of what man is like, how the inner dynamic of human choice operates, and what man needs in order to attain happiness. The key insight of this theory is that man is neither a clever beast nor an angelic non-beast. He is capable of both good and evil. Our passions are neither good nor evil in themselves, but only depending on the ends to which they are directed. For example, the desire for food is good insofar as it directs our attention to the necessary preservation of corporeal life, but bad when it goes over the board to gluttony.

The mere satisfaction of bodily desires is not what makes the person happy, but when then really provides lasting fulfillment is a complex question, as it is not an easy task to make explicit all the aspects of the problem. This article cannot go into details on that. However, let us briefly make reference to some of

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<sup>1</sup> There are several introductory books and deeper studies. Aristotle's *Nicomachean Ethics* is well worth a read; an interesting study of Aquinas is John Finnis, *Aquinas: Moral, Political, and Legal Theory* (Oxford University Press, 1998).

<sup>2</sup> See *Gorg.* at 469b, quoted in Roslyn Weiss, *The Socratic Paradox and Its Enemies* (Chicago University Press, 2006), at 203.

the insights of philosophers such as John Finnis and Germain Grisez, who started what came to be known as the 'new natural law' theory.<sup>1</sup> They built on the thought of Aquinas and other classics, but incorporated insights from more recent literature, including anthropology.

On the basis of their investigations, these authors concluded that there are several 'basic human goods'. These are the basic and fundamental reasons for any human action. They include at least the following (but the list is by no means exhaustive): life, truth, friendship, aesthetic experience, skillful play, religion, and practical reasonableness. None of them alone is the key to human happiness, but instead they are all aspects of integral human fulfillment. We are capable of identifying them as such through personal reflection; moreover, one can find them mirrored in anthropological literature on diverse human cultures. Many goods – food, money, and so on – are ultimately just means for participating in the basic goods. The same is true of the human passions (attitudes toward pleasure and pain): they help man to act so as to participate in the basic goods – although, as mentioned earlier, they do so properly only when controlled by the rightly ordered reason.

In view of this, the fundamental problem with 'happiness research' becomes clear: in the terminology employed by the philosophical tradition of Aristotle and Aquinas, 'happiness' (understood as that which all men aspire to) is never equated with mere 'sense of satisfaction'. Satisfaction can mean a number of things, including the mere attainment of sensual pleasure, as while eating a cake, but that is very different from our integral fulfillment as human persons.

### **Conclusion: Returning to the foundations**

The way we approach economics depends on our understanding of man. Doing economics with the philosophy of Aristotle and Aquinas would have a number of consequences. On the one hand, it would challenge the current foundational concepts of economics, such as *utility*, *preferences*, *efficiency*, *growth* and *development*. This is not just a question of what importance we should give to, say, economic efficiency and growth, but also what we actually mean by them.

Take for example the concept of efficiency. In economics it generally refers to the ability of a process or arrangement to produce the maximum amount of profits (or some other goods). In practice, there have been various attempts to give more precise and practical definitions that could be used in normative analysis. The failure of any specific definition to stand out seems to be reflective

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<sup>1</sup> See for example John Finnis, *Natural Law and Natural Rights* (Oxford: Oxford University Press, 1980).

of the fact that, frankly, it is quite senseless even to try to define efficiency both generally and specifically at the same time.

The same is true of economic development. This is commonly equated with the growth of the Gross Domestic Product (GDP), a figure that estimates the total production of an economy. The obvious problem with that is that the sheer availability of a multitude of products may not be a good estimate of the well-being of the society – nor of the opportunities available to individuals for participating in basic human goods such as friendship, truth and aesthetic experience.

Genuine economic development – and true *economic growth* – means not that the limited resources are used to satisfy the aggregated desires of individuals to the maximum extent, but that those resources are used well and wisely at the service of the real good of all persons. The employment of new technologies, more flexible arrangements and healthy competition may be part of that, but they alone will not necessarily channel the productive efforts of men and women to those purposes that matter most. For that, personal virtues and a sound moral ecology are needed.

The transformation of economics starts with the foundational concepts, but it proceeds towards specific branches of research. This includes, at least, microeconomic theory in most of its aspects. For example, the study of economic cooperation must go beyond the merely emotional side of morality. As we saw earlier, an exclusive attention to the moral emotions is ultimately misleading, because it blinds us from the broader perspective. In light of the new natural law theory, for example, sympathy and altruism are not mere 'strategies' for obtaining benefits from others; they are crucial ingredients for genuine human relationships, for friendship and love – and unlikely purely material gains, these are constitutive aspects of human fulfillment. Morality is cannot be merely 'not irrational after all'; in contrast, an exclusive focus on the egoistic and the material is itself unreasonable.

To finish, let us take note of what Pope John Paul II once said about economic development: 'The moral causes of prosperity [...] reside in a constellation of virtues: industriousness, competence, order, honesty, initiative, frugality, thrift, spirit of service, keeping one's word, daring—in short, love for work well done. No system or social structure can resolve, as if by magic, the problem of poverty outside of these virtues.'<sup>1</sup>

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1 John Paul II, 'Address to the U.N. Economic Commission for Latin America and the Caribbean', *Origins* 16 (April 16, 1987): 775.