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**The Impact of the Financial Crisis on the
European Value System**

Diploma thesis

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Declaration

I declare that I carried out this master thesis independently, and only with the cited sources, literature and other professional sources.

In Prague 5.1. 2015

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Bibliography

In my thesis, I use only secondary sources. In the first Part I consider the humanist inheritance of Jean Jacques Rousseau, by taking into consideration the work of Joshua Cohen and Robert Wolker, whereas books by Phillip Rossi, Richard Dean provide ground for treatise on Immanuel Kant. In addition, I use text of Ronald A. Shearer, when dealing with the notion of economic growth.

For my hypotheses; the point of departure are the works of the following authors: David Orrell, mathematician dealing with predictability of complex systems; David Graber, an economist; Dan Ariely, behavioural economist, Robert Nelson, economist; Slavoj Zizek, political thinker; and Amartya Sen, moral philosopher. In addition, the arguments of Joseph Persky Deidre McCloskey are used in case of second hypothesis.

Abstract:

The thesis elaborates on the potential impact of the financial crisis on the European value system. At root of this work lies the debate on the prospectively changed perception of human nature, freedom and economic progress, taking into consideration European humanist inheritance and contribution of contemporary economic and political thinkers.

Key words:

Economic crisis, behavioral economics, values, freedom, human nature, economic growth, Europe, Adam Smith, Immanuel Kant, Jean Jacques Rousseau

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Introduction & Hypotheses

As a consequence of the financial crisis, the debate on Economics got to the foreground of public interest since even though ‘it sees itself as a objective, detached, impartial science it influences the world it seeks to describe’¹ through the defence of a value set. Deidre McCloskey points out that *“the values communicated by economic writings are often more important than the research results themselves.”*²

The value set defended by orthodox economic view has embodied the belief in the economic progress almost in a religious way, reminiscent of: *“the true path to a salvation in this world—to a new heaven on earth”*.³ Consequently, the demand for a new model of a successful society has touched off new counter wave of ‘religious zeal’⁴ with the aim to find a ‘third way’.

Since the notion of ‘economic growth’ is to be found in the Preamble of the Lisbon Treaty, the debate I consider relevant refers to the aspects of modern economies that are either instruments or by-products of economic growth and deteriorate well-being of European citizens with the subsequent proposal of alternative measure to GDP per capita. Therefore, my first hypothesis is: Economic growth doesn’t make us happy.

Robert Bellah emphasizes that: *“We can say that in contemporary society social science has usurped the traditional position of theology. It is now social science that tells us what kind of creatures we are and what we are about on this planet.”*⁵ Like other social sciences, economics works with certain framework of thoughts, in particular the construct of economic man – homo economicus to whose features, according to David Orrell, are we confronted to fit ourselves. Economic crisis has revealed the insufficiency of motivational narrowness of economic man and for the reasons listed above, I would

¹ ORRELL, David (2012). *Economyths – How the Science of Complex Systems is Transforming Economic Thought*. London. Icon. Pg. 214

² NELSON, Robert H (2001). *Economics as Religion: From Samuelson to Chicago and beyond*. The Pennsylvania State University Press. Pg. 22

³ Ibid.,pg.20.

⁴ Ibid.,pg.51.

⁵ Ibid.,pg.22.

like to juxtapose the “*ethically conscious human being*”⁶ in Adam Smith’s *Theory of Moral Sentiments* and perception of human nature by Jean Jacque Rousseau and Immanuel Kant, the proponents of European humanist inheritance. Therefore, my second hypothesis is: Motivation of self-interest is not sufficient.

In the last part of my thesis I will elaborate on the exogeneity of preferences and its implication on the perception of freedom in the EU tracing back to the inheritance of Immanuel Kant and Jean Jacque Rousseau. Therefore, my last hypothesis is: We don’t know what our preferences are

To sum up, I will consider the impact of the economic crisis on the fundamental values of EU i.e. perception of human person, freedom and economic growth mentioned in the introductory part of the Treaty of Lisbon: First, the Article 1) (a) states “*DRAWING INSPIRATION from the cultural and humanist inheritance of Europe, from which have developed the universal values of the inviolable and inalienable rights of the human person, freedom, democracy, equality and the rule of law*”⁷; Second the Article 2)3. “*The Union shall establish an internal market. It shall work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment. It shall promote scientific and technological advance.*”⁸

⁶ WITZTUM, Amos (1998). A study into Smith’s conception of the human character - Das Adam Smith Problem revisited. *History of Political Economy*. Vol. 30, No. 3. Pages 489-513. Quoted in WILSON, David; DIXON, William (2006). *Das Adam Smith Problem – A critical realist perspective*. Leiden. Brill NV. Pg. 256

⁷ The Treaty Establishing a Constitution for Europe [on-line]. [accessed 12-10-14] Available at WWW: <http://www.proyectos.cchs.csic.es/euroconstitution/Treaties/Treaty_Const.htm>

⁸ The Treaty Establishing a Constitution for Europe [on-line]. [accessed 12-10-14] Available at WWW: <http://www.proyectos.cchs.csic.es/euroconstitution/Treaties/Treaty_Const.htm>

1. EU Values

In this part, I will deal with the notion of human nature and freedom in Jean Jacques Rousseau and Immanuel Kant, the key proponents of European humanist inheritance. At the end of this chapter, I will briefly elaborate on the perception of economic growth.

1.1.Human Nature

In general sense, “*Human nature refers to the essential and immutable character of all human beings.*”⁹ that emphasizes genetic and biological aspects of human persons. For the purpose of my thesis, I will deal with the natural goodness of humanity and with the role of reason in human lives that during the Enlightenment reached the top point.¹⁰

Immanuel Kant was impressed by the French Enlightenment and especially by the ideas on human nature of Jean Jacques Rousseau. Therefore, first, I will analyze the Rousseau’s perception of human nature and his belief in natural goodness of humanity; second I will focus on Kant’s notion of humanity.

1.1.1. Jean Jacques Rousseau

What lies at the heart of the Rousseau’s conception of human nature is: “*that man is naturally good, and that it is solely by our institutions that men become wicked.*”¹¹

Furthermore “*that we are originally innocent, in that all the vices can all be explained without attributing them to ‘the human heart’.*”¹²

In Rousseau, human beings are endowed with the following potentialities; self-love, compassion and a range of cognitive powers.

According to Cohen, his theory holds that humans are concerned about their own wellbeing, they love themselves. Self-love is not intrinsically comparative meaning that

⁹ HEYWOOD, Andrew (2004). Political anthropology: An introduction. Palgrave Macmillan. Pg. 50

¹⁰ HEYWOOD, Andrew (2004). Political anthropology: An introduction. Palgrave Macmillan. Pg. 21

¹¹ Letter to M. de Malesherbes, in Jean-Jacques Rousseau, OEuvres complètes, vol. 1 (Paris:Gallimard, 1959)Pg.1135. Quoted in COHEN, Joshua (2010). Rousseau – A Free Community of Equals. New York. Oxford University Press. Pg.97

¹² Emile, trans. Allan Bloom (New York: Basic Books, 1979) Ibid.,99.pg.92. Quoted in COHEN, Joshua (2010). Rousseau – A Free Community of Equals. New York. Oxford University Press. Pg.99

loving myself does not imply that I love myself more than others.¹³ Since human persons develop the relations with others, the self-worth is extended to the concern for the affirmation and recognition of the self-perceived worth – ‘amour-propre’¹⁴. There are two forms of ‘amour-propre’; egalitarian and inegalitarian.

In Rousseau, in the egalitarian form, a person finds the self-perceived worth equal to others. This form is considered to be ‘instrumentally reasonable’¹⁵ because it can be approved by other human persons as “*true relations*”¹⁶ and does not provoke interpersonal conflicts, anxiety etc. which referring Joshua Cohen implies another psychological premise: “: that it is “*impossible that each person should prefer us to all else and to himself*”¹⁷ In contrast to the egalitarian form of ‘amour-propre’, the inegalitarian form assumes that that a person ranks the self-perceived worth higher than anyone else. Cohen emphasizes that this form naturalizes status inequalities: “*it treats them as outward expressions of inner differences of nature and natural worth*”.¹⁸

Therefore, unlike the egalitarian form, it produces discontent and misery, since it requires the abjection of others. To sum up, the expression of self-love endowment is determined by “*rank ordering*”.¹⁹

Furthermore, Rousseau’s theory of human nature holds that: “*Each person is moved by compassion, a non-derivative predisposition to respond with aversion to the suffering of others*”²⁰ Cohen presupposes that compared to self-regard, the expression of compassion

¹³ Ibid.,101.

¹⁴ Ibid.,103.

¹⁵ COHEN, Joshua (2010). *Rousseau – A Free Community of Equals*. New York. Oxford University Press. Pg.102

¹⁶ Ibid.,102.

¹⁷ *Rousseau, Judge of Jean-Jacques, in Collected Writings of Rousseau*, vol. 1, trans. Christopher Kelly, Judith Bush, and Roger Masters (Hanover,NH: University Press of New England, 1990). Pg.113. quoted in COHEN, Joshua (2010). *Rousseau – A Free Community of Equals*. Pg.102

¹⁸ Emile, trans. Allan Bloom (New York: Basic Books, 1979).Pg. 245.quoted in COHEN, Joshua (2010). *Rousseau – A Free Community of Equals*. Pg.103

¹⁹ COHEN, Joshua (2010). *Rousseau – A Free Community of Equals*. New York. Oxford University Press. Pg.105

²⁰ Second Discourse (Discourse on the Origin of Inequality), in Rousseau, The Discourses and Other Early Political Writings, ed. and trans. Victor Gourevitch (Cambridge: Cambridge University Press, 1997) Pg.

depends on the scope of concern determined by the exposure to the suffering of others. Moreover, he emphasizes the relation between compassion and virtue referring to Rousseau: “....., *compassion provides the foundation for a concern for the welfare of human beings quite generally, and so provides the affective soil for genuine virtue*”.²¹

Except for the affective potentialities (self-regard and compassion), human beings are endowed with cognitive powers; ‘memory, imagination, abstraction, conceptualization, self-reflection and reason.’²² Cohen, referring to Rousseau holds that these faculties are triggered and developed by the pressure of external circumstances. To understand Rousseau’s belief in Natural goodness, the relation between these powers and motivation must be considered.

Cohen associating development of the cognitive powers (including the ‘ability to have complex thoughts, deliberation and reasoning’) with Enlightenment assumes that combination of these powers and affective aspects of humans i.e. self-love and compassion produces an extended scope of passions, which generates more complicated forms of motivation.

Referring to Cohen, Rousseau distinguishes between natural desires as a part of self-love reflecting:”*the simple impulsion of Nature*’²³ and belief-dependent desires, requiring the development of cognitive powers, ‘dependent on opinions and judgments and therefore on the ability to conceptualize’.²⁴ To illustrate, Cohen mentions that extended forms of compassions as generosity, clemency, humanity, since these require the

152-54. Quoted in COHEN, Joshua (2010). *Rousseau – A Free Community of Equals*. New York. Oxford University Press. Pg.104

²¹ Emile, trans. Allan Bloom (New York: Basic Books, 1979).Pg. 253.quoted in COHEN, Joshua (2010). *Rousseau – A Free Community of Equals*. New York. Oxford University Press. Pg.105

²² COHEN, Joshua (2010). *Rousseau – A Free Community of Equals*. New York. Oxford University Press. Pg.105

²³ Second Discourse (Discourse on the Origin of Inequality), in Rousseau, The Discourses and Other Early Political Writings, ed. and trans. Victor Gourevitch (Cambridge: Cambridge University Press, 1997). Pg.42.quoted in COHEN, Joshua (2010). *Rousseau – A Free Community of Equals*. New York. Oxford University Press.

²⁴ COHEN, Joshua (2010). *Rousseau – A Free Community of Equals*. New York. Oxford University Press. Pg.107

conceptualization of the weak, guilty etc; or love with its moral and physical aspects as an: *"ardent, impetuous...terrible passion that braves all dangers, overcomes all obstacles, and in its frenzy seems liable to destroy Mankind"*²⁵. He assumes that a person without developed cognitive powers is not able of emotions such as *"jealousy, despondency following rejection, heartbreak."*²⁶

According to Cohen, 'socially shared beliefs'²⁷ resp. Rousseau's *"public opinion"*²⁸ is what determines motivation. Neglecting the mechanism of belief's formation, he assumes that institutions like social practices or political institutions play key role in explaining shared beliefs. He concludes that motivations have social roots. As already indicated, belief-dependent desires are conditioned on Enlightenment, which is according to Cohen the outcome of social interdependence;"*Outside of social interdependence, abstracting from the self-conceptions it engenders, we experience neither pride, nor hatred, nor a desire for vengeance."*²⁹

Therefore, the discussion about the natural goodness of humanity departs from what humans are before the development of these potentialities. Cohen distinguishes between three schemes. First, prior to the development of cognitive potentialities, humans are vicious, but the development can make them virtuous. Second, prior to realization of cognitive powers, humans are innocent, but the way potentialities are realized is brutish. Third, humans are originally innocent, and unlike the second rendering potentialities might be realized in a virtuous way. Since Rousseau rejected that institutions could rectify tendencies to human brutality, I will emphasize the second and third rendering.

²⁵ Second Discourse (Discourse on the Origin of Inequality), in Rousseau, The Discourses and Other Early Political Writings, ed. and trans. Victor Gourevitch (Cambridge: Cambridge University Press, 1997). Pg.154-5.quoted in COHEN, Joshua (2010). *Rousseau – A Free Community of Equals*. New York. Oxford University Press. Pg. 107

²⁶ COHEN, Joshua (2010). *Rousseau – A Free Community of Equals*. New York. Oxford University Press. Pg.107

²⁷ Ibid., Pg.107

²⁸ Ibid.,pg.107

²⁹ Ibid.,pg.107

Referring to Rousseau, Cohen highlights the relation between enlightenment and vice as a starting point of the natural goodness doctrine adding that the expression of cognitive powers does not have to lead to vice. Considering the second scheme, it holds that: “*the tendency to evil does lie in latent human powers themselves*”.³⁰ Therefore, the third rendering lies at the heart of the Natural Goodness doctrine since it presupposes that not society but the inappropriate ‘social arrangements’³¹ are explanatory to vice-driven expression of the human potentialities. Nevertheless this scheme presupposes that human powers can be realized in a virtuous way; “*But such realization requires, inter alia, that we develop a sense of duty and motivational supports for it, thus enabling us to resist the temptations to vice ingredient in social interdependence.*”³²

The permanency of painful experience suggesting wickedness of human nature brings Cohen to another question: What particular reasons lurk behind the vice-driven expression of human potentialities? As already indicated, Rousseau rejected Hobbe’s view or choice of evil as outcome of original sin.

In Rousseau, the vice arises from the belief that acknowledgment of someone’s worth is conditioned on confirming her as a better and is therefore outcome of desire and demand for advantage over others or to be treated as a better. This is associated with the inegalitarian notion of ‘amour-propre’. Cohen emphasizes that demand and desire for advantage over others are uprooted in inequality, since it makes people to: “*value the things they enjoy only to the extent that the others are deprived of them.*”³³, and therefore be involved in zero-sum games. Understanding of the relation between inequality and inegalitarian ‘amour-propre’ requires different forms of inequalities to be introduced. To

³⁰ Ibid.,pg.112

³¹ Ibid.,pg.112

³² Ibid.,pg.113

³³ Second Discourse (Discourse on the Origin of Inequality), in Rousseau, The Discourses and Other Early Political Writings, ed. and trans. Victor Gourevitch (Cambridge: Cambridge University Press, 1997). Pg.184.quoted in COHEN, Joshua (2010). Rousseau – A Free Community of Equals. New York. Oxford University Press.Pg.116

do so, Cohen assumes the following dichotomy of world; in the first, the political institutions acknowledge the equality of citizens i.e. public equality, which is therefore not undermined by socio-economic inequalities. In the second, there is socio-economic inequality accompanied by non-affirmed public equality and the natural way to be recognized is to win advantage over others, nicely illustrated in Rousseau: *“In Europe, the government, the laws, the customs, self-interest, everything places individuals under the necessity of deceiving one another, and of doing so incessantly; everything conspires to make vice a duty for them; they must be wicked if they are to be wise, since there is no greater folly than to provide for the happiness of scoundrels at the expense of one’s own. Among savages, self-interest speaks as insistently as it does among us, but it does not say the same things . . . ; nothing leads them to deceive one another”*³⁴

However, Robert Wolker introduces different perception of Rousseau’s notion of inequality referring to the Discourse on Inequality. The dichotomy is elaborated in a following way; on one hand physical resp. natural is out of control, whereas on the other hand political or moral is dependent on our choice, with no obvious link between them. Therefore, any moral division cannot be conditioned on the physical traits as explained in the Social Contract concluding that *“the inequalities produced by Nature must have been transformed into such inequalities as were enjoined by man”*.³⁵ I will develop this idea in chapterdealing with the Rousseau’s notion of freedom.

1.1.2. Immanuel Kant

For the purpose of my thesis, Kantian analysis of human nature lies at the heart of the debate concerning the extent to which humans are driven by rationality or emotionality.

³⁴ Narcissus, preface, in Rousseau, The Discourses and Other Early Political Writings, ed. and trans. Victor Gourevitch (Cambridge: Cambridge University Press, 1997).Pg.101. quoted in COHEN, Joshua (2010). Rousseau – A Free Community of Equals. New York. Oxford University Press. Pg. 118

³⁵ Considerations on the Government of Poland, in Rousseau, The Social Contract and Other Later Political Writings, ed. and trans. Victor Gourevitch (Cambridge: Cambridge University Press, 1997).Pg.160-161.quoted in WOLKER, Robert (1995). Rousseau – A very Short Introduction. New York. Oxford University Press. Pg.46

His theory holds that human beings are of mixed nature having tensions between duties and inclinations, compared, first, to animals that are not able to conceptualize duty or reason for action, but have desires and therefore are free of conflicts between moral and self-interested reasons or second, to pure rational man, who is not tempted by desires and therefore always acts according to moral duty. Moreover, Kant emphasizes the necessity of tradeoffs between immediate and delayed gratification that are human beings facing, claiming that the inability to postpone short-term satisfaction reduces human beings to animals.³⁶

However, the central problem to Kantian theory of human nature questions human motivation to moral obligations in case they are in conflict with self-interested desires. An intuitive answer refers to the system of punishments and rewards concerning the ‘realm of law’³⁷ but it does not explain how a person can be motivated by moral reasons and does not create inner virtue, i.e. the good will to do the right for its own sake since unlike Utilitarian approach: “*No ethical duties can be enforced through rewards and punishments of any sort without violating the rights of free beings*”.³⁸

Richard Dean claims that contemporary readers are increasingly emphasizing humanity formulation at the centre of Kantian ethics, since Categorical Imperative’s universalizability formulation as a fundamental moral is problematic. According to them, Kant identifies rational nature with humanity as an inner property of a person, which is considered to be a fundamental principle of morality; therefore, morality is required from all rational beings. However, Dean claims that humanity is not a feature of all rational beings since: “.... ‘humanity’ is Kant’s name for the more fully rational nature that is only possessed by a being who actually accepts moral principles as

³⁶ STEVENSON, Leslie; HABERMAN, David (1998). Ten Theories of Human Nature. New York. Oxford University Press. Pg. 122

³⁷ Ibid.,pg.122

³⁸ Ibid.,pg.122

providing sufficient reasons for action.”³⁹ According to him, humanity refers to the good will that prioritizes moral obligations to self-interest.

But what is good will? Dean refers to Lewis White Beck’s commentary on Kant’s Critique of Practical Reason: “*An action having this motive (the motive of duty) is moral, and a being who acts from this motive has a good will.*”⁴⁰ Therefore, good will refers to actions required by duty. However, the very basic definition could be found in Kant’s Groundwork: “*...a good will is the will of an agent who acts on moral principles.*”⁴¹ In Metaphysics of Morals Kant considers other aspects of the good will assuming that it refers to the power of choice i.e. Willkür. However, since humans are not perfectly rational, they can use Willkür in a way that is not morally acceptable, only hypothetical ‘holy will’ of perfect rational man guided only by reason is free of inclinations, Kant does not assume that human beings dispose of this kind of will.⁴²

As already indicated Kant presupposes that human beings are of mixed nature since they are not perfectly rational. Notwithstanding their inclinations motivated by self-love humans are predisposed to respect moral laws. Therefore, in Kant, the good will refers to a situation when an agent is committed to act morally even though it implies the subordination of her inclinations prioritizing morality.⁴³

³⁹ DEAN, Richard (2006). *The Value of Humanity in Kant’s Moral Theory*. New York. Oxford University Press. pg.6

⁴⁰ Lewis White Beck, *A Commentary on Kant’s Critique of Practical Reason* (Chicago: University of Chicago Press, 1960).Pg. 41. Quoted in DEAN, Richard (2006). *The Value of Humanity in Kant’s Moral Theory*. New York. Oxford University Press. Pg. 19

⁴¹ Groundwork for the Metaphysics of Morals, ed. Thomas E. Hill, Jr., and Arnulf Zweig (Oxford: Oxford University Press, 2002). Translated from *Grundlegung zur Metaphysik der Sitten*, in volume iv of Kant’s *gesammelte Schriften*, pg. 401. Quoted in DEAN, Richard (2006). *The Value of Humanity in Kant’s Moral Theory*. New York. Oxford University Press. Pg.19

⁴² DEAN, Richard (2006). *The Value of Humanity in Kant’s Moral Theory*. New York. Oxford University Press. Pg.19-20

⁴³ DEAN, Richard (2006). *The Value of Humanity in Kant’s Moral Theory*. New York. Oxford University Press. Pg.20

However, this commitment is not robust, since according to Kant there is “*natural propensity of the human being to evil*”⁴⁴, which can imply prioritizing of the principle of self-love over the moral law. According to Dean, Kant distinguishes between ‘depravity’⁴⁵ as a full subordination of morality to self-love and ‘impurity’⁴⁶ as recognition of morality only if it is in accordance with self-love. Furthermore, as indicated, notwithstanding human beings have Willkür to act in accordance with morality; there is “*weakness of the human heart ... or in other words, the frailty of human nature*”⁴⁷, whose consequence is that human beings with good will act morally wrong. Therefore, Dean claims that the good will cannot be associated solely with choice of actions that are morally worthy.

However, the other commentators do not define humanity as a good will; they claim it is a possession of “*all minimally rational agents*”.⁴⁸ Dean distinguishes between three categories of ‘minimal readings of humanity’⁴⁹. In the first one, humanity interchangeably used as Willkür, receives support e.g. from Christine Korsgaard’s seeing the main feature of humanity as a ability to set ends.

In the second one, apart from Willkür and Wille i.e. “*the power to legislate moral principles to oneself*”⁵⁰, humanity is defined as the ability to act in accordance with Hypothetical imperative, „*the ability to compare one’s various contingent ends and organize them into a systemic whole and the ability to employ theoretical reason to*

⁴⁴ Religion within the Boundaries of Mere Reason, ed. Allen Wood and George di Giovanni (Cambridge: Cambridge University Press, 1998). Pg. 21. Quoted in DEAN, Richard (2006). The Value of Humanity in Kant’s Moral Theory. New York. Oxford University Press. Pg.21

⁴⁵ DEAN, Richard (2006). The Value of Humanity in Kant’s Moral Theory. New York. Oxford University Press. Pg.21

⁴⁶ Ibid.,pg. 21

⁴⁷ Religion within the Boundaries of Mere Reason, ed. Allen Wood and George di Giovanni (Cambridge: Cambridge University Press, 1998). Pg.29. Quoted in DEAN, Richard (2006). The Value of Humanity in Kant’s Moral Theory. New York. Oxford University Press. Pg.21

⁴⁸ DEAN, Richard (2006). The Value of Humanity in Kant’s Moral Theory. New York. Oxford University Press. Pg.24

⁴⁹ Ibid.,Pg. 25

⁵⁰ Ibid.,Pg.25

understand the world."⁵¹, therefore in the context of the second category, Dean assumes that humanity is identified with abilities possessed by minimally rational human beings. According to Dean, this category receives support e.g. from Allen Wood, who assumes that rational abilities without relation to morality. Same as Kosgaard, Wood emphasizes the ability to set ends as a central feature of humanity.

In the third category, Dean interprets humanity as the ability to act in accordance with morality, which refers to Willkür and Wille. However, since there are tensions between inclinations and duties, Willkür and Wille are accompanied by what Kant calls 'Reverence'⁵² (Achtung). According to Dean, considering Groundwork and Second Critique, 'Reverence' is defined as a: "*a feeling that arises when we apprehend the reason-giving force of the moral law, and how our inclinations pale in importance compared to moral requirements*"⁵³ and therefore explains why people are motivated to act in accordance with duty. This category is represented e.g. by Thomas E. Hill, who conforms the approach that humanity is defined as the ability to act in accordance with morality. In 'Humanity as an End in Itself'⁵⁴ he assumes basic notion of humanity associated with powers such as: "*to act for reasons in general; to follow principles of prudence (hypothetical imperatives); to set ends; to understand the world by using theoretical reason; and to legislate moral principles to oneself*"⁵⁵. According to him, the self-legislation and acceptance of principles of morality are equal and therefore anyone having humanity has the ability to act in accordance with morality

1.2.Freedom

Terms freedom and liberty are used as synonyms by social and political thinkers. According to Isaiah Berlin, there are two basic notions of liberty; negative and positive. The former

⁵¹ Ibid.,Pg.25

⁵² Ibid.,Pg.26

⁵³ Ibid.,pg.26

⁵⁴ Ibid.,Pg.26

⁵⁵ Ibid.,Pg.30

consists in ‘no barriers, obstacles or interference of others’⁵⁶ to individual’s acting and therefore in the availability of action, whereas the latter refers to the possibility of actions “*in such a way as to take control of one's life and realize one's fundamental purposes*”.⁵⁷ In general, liberal philosophers assume a negative perception of liberty given to individuals, therefore are in favor of limitation of the state, whereas their critiques’ arguments are embodied in their perception of freedom as ‘self-realization or self-determination’⁵⁸ ascribed rather to individuals as members of collectives or to collectives, therefore demanding relatively extended intervention of the state. For the purpose of my thesis I find it necessary to deal with the positive notion of liberty more in depth.

As already suggested, unlike negative liberty positive refers to the presence of ‘, self-mastery, self-determination or self-realization’⁵⁹ as conditions enabling recognition of individuals’ true interests. Therefore according to Isaiah Berlin, the following question lies at the heart of the positive notion of liberty: “*What, or who, is the source of control or interference that can determine someone to do, or be, this rather than that.*”⁶⁰, whereas the negative notion of liberty refers to: “*What is the area within which the subject — a person or group of persons — is or should be left to do or be what he is able to do or be, without interference by other persons?*”⁶¹

⁵⁶ Stanford Online Dictionary [on-line]. Available at WWW: <http://plato.stanford.edu/entries/liberty-positive-negative/>

⁵⁷ Ibid.

⁵⁸ Ibid.

⁵⁹ Ibid.

⁶⁰ Berlin, I., 1969, ‘Two Concepts of Liberty’, in I. Berlin, *Four Essays on Liberty*, London: Oxford University Press. New ed. in Berlin 2002.Pg. 121-122. Quoted in Stanford Online Dictionary [on-line]. Available at WWW: <http://plato.stanford.edu/entries/liberty-positive-negative/>

⁶¹ Berlin, I., 1969, ‘Two Concepts of Liberty’, in I. Berlin, *Four Essays on Liberty*, London: Oxford University Press. New ed. in Berlin 2002.Pg. 121-122. Quoted in Stanford Online Dictionary [on-line]. Available at WWW: <http://plato.stanford.edu/entries/liberty-positive-negative/>

1.2.1. Jean Jacque Rousseau

For the purpose of my thesis, I will deal with the following notions of freedom elaborated in Rousseau; natural, civil and moral. As already suggested in Chapter 1.1.1 according to Wolker, Rousseau concludes that humans are born with reputed unequal traits of intelligence and strength being driven by impulses of appetites. Therefore, in the Social Contract, the natural liberty is defined as an absence of constraints: “*unlimited right to anything which tempts him and which he is able to attain*”⁶², whereas in the Discourse on Inequality: “*in terms of free will and the absence of control over us by our animal promptings*”⁶³ To sum up, for the unlimited natural liberty jeopardizes the safety of other humans and accepting that security is valued over freedom, Rousseau claims that the natural liberty has to be transferred to the authority to keep peace among them. In Emile, Rousseau emphasizes that: “*what is forbidden to us by conscience is not temptations but rather letting ourselves be conquered by temptations.*”⁶⁴ However, according to Wolker, this process depicted in the Social Contract as a metamorphosis of men subjecting its physical independence is what is in the Discourse on Inequality described as “*a fatal step towards vice*”.⁶⁵ In the Social Contract, Rousseau claims that: “*Anyone who dares to institute a people must feel capable of, so to speak, changing human nature...the more these natural forces are dead and destroyed, the greater and more lasting are the acquired ones, and the more solid and lasting also is the institution.*”⁶⁶

⁶² Social Contract, in Rousseau, The Social Contract and Other Later Political Writings, ed. and trans. Victor Gourevitch (Cambridge: Cambridge University Press, 1997),pg. 427

⁶³ WOLKER, Robert (1995). Rousseau – A very Short Introduction. New York. Oxford University Press. Pg. 78

⁶⁴ Emile, trans. Allan Bloom (New York: Basic Books, 1979).Pg.445.Quoted in WOLKER, Robert (1995). Rousseau – A very Short Introduction. New York. Oxford University Press

⁶⁵ WOLKER, Robert (1995). Rousseau – A very Short Introduction. New York. Oxford University Press. Pg. 78

⁶⁶ Social Contract, in Rousseau, The Social Contract and Other Later Political Writings, ed.and trans. Victor Gourevitch (Cambridge: Cambridge University Press, 1997). Quoted in COHEN, Joshua (2010). Rousseau – A Free Community of Equals. New York. Oxford University Press. Pg.35

According to Wolker, Rousseau believed that by subjection of the natural liberty to the authority (i.e. entering into the Social Contract) and the ‘engagement in self-rule’⁶⁷ the men’s freedom could be increased. “*beyond that of the mere physical independence of savages in their original state*”⁶⁸, for in return for natural liberty, men win civil and moral liberty and therefore, men’s natural in is substituted by moral and legitimate equality. Furthermore, Wolker claims that unlike the other Social Contract philosophers prior to Rousseau, he assumes that joining Social Contract enables “*fulfilment of ambitions they could not even have entertained without it*”⁶⁹ because men compared to the state of natural liberty obtain ‘cooperative interests and moral personalities’.⁷⁰

As far as civil liberty is concerned, unlike natural liberty it is characterized by the possibility of acting that is limited by general will. There is a discourse about the possible definitions of general will; Wolker emphasizes that in the Discourse on Political Economy, Rousseau introduces general will as a body ‘serving as a source of laws and standards of justice’⁷¹, whereas in the Social Contract, it is defined in relation to ‘public interest, common good and to individual will of citizens to achieve that good, which is often contradictory to citizen’s interest’.⁷² Therefore, according to him, the general will should not be interchangeably used as the will of all i.e. sum of interests being in conflict.

Cohen referring to the Social Contract presupposes the limitation of the civil liberty by general will as well. He assumes that subjection of the natural rights to the authority establishes a society in which individual “*puts his person and his full power in common*

⁶⁷ WOLKER, Robert (1995). Rousseau – A very Short Introduction. New York. Oxford University Press. Pg.79

⁶⁸ Ibid., pg.79

⁶⁹ Ibid., pg.79

⁷⁰ Ibid., pg 79

⁷¹ Ibid., pg. 86

⁷² Ibid., pg. 86

*under the supreme direction of the general will*⁷³. In such a society limited by the general will, the authority reposes in the shared perception of the common good that is shared among citizens. Furthermore, he elaborates the conditions under which an association of persons could be regulated by general will.

The first condition refers to the following question: How an association of persons with different interests can be regulated by general will? In the Social Contract, Rousseau presupposes the overlap of particular interests *“What these different interests have in common is what forms the social bond, and if there were not some point on which all interests agree, no society could exist”*⁷⁴ pointing to peace and security.

According to Cohen, the second condition concerns the shared perception of the common good. Even though Rousseau did not specify its definition, Cohen referring to Rousseau suggests common good’s limitations in the following way; first, Rousseau denied classical utilitarianism, in the Social Contract, he states that to *“sacrifice an innocent man for the sake of the multitude is one of the most execrable maxims that tyranny ever invented”*⁷⁵; second, he emphasizes that all aspects of ‘general will should oblige or favor Citizens equally’ and that: *“The first and greatest public interest is always justice. All wish the conditions to be equal for all, and justice is nothing but this equality.”*⁷⁶

According to Cohen, the third condition presupposes that citizens *“have reasonable confidence that the institutions conform to their shared conception of the common*

⁷³Social Contract, in Rousseau, The Social Contract and Other Later Political Writings, ed. and trans. Victor Gourevitch (Cambridge: Cambridge University Press, 1997). Quoted in COHEN, Joshua (2010). Rousseau – A Free Community of Equals. New York. Oxford University Press. Pg.33

⁷⁴ Social Contract, in Rousseau, The Social Contract and Other Later Political Writings, ed. and trans. Victor Gourevitch (Cambridge: Cambridge University Press, 1997). Quoted in COHEN, Joshua (2010). Rousseau – A Free Community of Equals. New York. Oxford University Press. Pg.39

⁷⁵ Political Economy, in Rousseau, The Social Contract and Other Later Political Writings, ed. and trans. Victor Gourevitch (Cambridge: Cambridge University Press, 1997).Quoted in COHEN, Joshua (2010). Rousseau – A Free Community of Equals. New York. Oxford University Press. Pg.41

⁷⁶ Letters Written from the Mountain, in Collected Writings of Rousseau, vol. 9, trans. Christopher Kelly and Judith Bush (Hanover, NH: University Press of New England, 2001). Quoted in Cohen: Joshua (2010). Rousseau – A Free Community of Equals. New York. Oxford University Press. Pg.58

good...”⁷⁷ give priority to reasons supporting these institutions over those that reflect private will of individuals or groups.

Notwithstanding Rousseau’s liberal critics find his perception of general will rather collectivists, according to Wolker, Rousseau seems to divert indoctrination of men notwithstanding his famous statement: “*whoever refuses to obey the general will... shall be forced to be free.*”⁷⁸

Considering the moral liberty, Rousseau assumes in the Social Contract that under condition laws are prescribed by men who are subjected to them, laws and liberty progress simultaneously.

Isiah Berlin along with other liberal thinkers emphasized the danger of authoritarianism accompanying the positive notion of liberty. At the heart of his critique lies the divided self; higher moral and rational self and lower self driven by irrational impulses. Taking into account that some of the individuals are allegedly more rational than others and therefore have better knowledge about what their and other’s interests are, they are allowed to force allegedly less rational individuals to “*realize their true selves*”⁷⁹. According to Berlin, some positive liberty thinkers even admit that the satisfied slave is free since her desires are removed, which may be an outcome of external forces such as brainwashing thus far away from the exercising of freedom. Moreover, considering that defenders of positive liberty tend to identify the interest of the whole with the interests of the individuals, the individuals can be coerced to promote these common interests, because the coercion would not be necessary in case they are as rational as coercers.⁸⁰

Berlin claims that: “*Once I take this view, I am in a position to ignore the actual wishes*

⁷⁷ Cohen: Joshua (2010). Rousseau – A Free Community of Equals. New York. Oxford University Press. Pg.58

⁷⁸ Social Contract, in Rousseau, The Social Contract and Other Later Political Writings, ed. and trans. Victor Gourevitch (Cambridge: Cambridge University Press, 1997). Quoted in WOLKER, Robert (1995). Rousseau – A very Short Introduction. New York. Oxford University Press. Pg.85

⁷⁹ Stanford Online Dictionary [on-line]. Available at WWW: <http://plato.stanford.edu/entries/liberty-positive-negative/>

⁸⁰ Ibid.

of men or societies, to bully, oppress torture in the name, and on behalf, of their 'real' selves... »⁸¹

1.2.2. Immanuel Kant

Since Kant was inspired by Rousseau, his idea of freedom goes beyond Berlin's negative conception of liberty as well. At root of his perception of liberty lies the autonomy of rational human wills, the practical freedom and causal spontaneity. However, for the purpose of my thesis I would like to deal with causal spontaneity and practical freedom only.

At the heart of the Kant's notion of Practical freedom is the solution to the inner conflict between inclinations and duties. However, it should be mentioned that this "*natural propensity of the human being to Evil*"⁸² is not ascribed to animal or rational nature but to the social arrangements. Kant claims that a moral agent is considered to be practically free in case her "proper self"⁸³ is not coerced by external forces, therefore her actions are voluntary and self-determined as stated in the Critique of Pure Reason: "*Freedom, in its practical sense, is the independence of our will from coercion through impulses of sensibility*".⁸⁴ Kant distinguishes between animal and human will; concluding that unlike the former, the latter is "*is affected pathologically (by impulses of sensibility)*",⁸⁵ which implies that compared to animals, men dispose of faculty of self-determination meaning that impulses of sensibility can be potentially refused by their will determined not by necessity but by affection. There is a connection between this faculty and theory of

⁸¹ Berlin, I., 1969, 'Two Concepts of Liberty', in I. Berlin, *Four Essays on Liberty*, London: Oxford University Press. New ed. in Berlin 2002. Pg. 132-33. Quoted in Stanford Online Dictionary [on-line]. Available at WWW: <http://plato.stanford.edu/entries/liberty-positive-negative/>

⁸² Religion within the Boundaries of Mere Reason, ed. Allen Wood and George di Giovanni (Cambridge: Cambridge University Press, 1998). Pg. 21. Quoted in DEAN, Richard (2006). *The Value of Humanity in Kant's Moral Theory*. New York. Oxford University Press. Pg.21

⁸³ PP, Groundwork of the Metaphysics of Moral, pg. 104. Quoted in KNAPP, Trevor. *Kant's Trinity of Freedom: An exposition of Practical Freedom, Causal Spontaneity, Autonomy*. St. Olaf College, 2013.91 pages. Pg. 11

⁸⁴ Critique of Pure Reason, pg 464, B562/A534. Quoted in KNAPP, Trevor. *Kant's Trinity of Freedom: An exposition of Practical Freedom, Causal Spontaneity, Autonomy*. St. Olaf College, 2013.91 pages. Pg. 11

⁸⁵ Quoted in KNAPP, Trevor. *Kant's Trinity of Freedom: An exposition of Practical Freedom, Causal Spontaneity, Autonomy*. St. Olaf College, 2013.91 pages. Pg. 14

voluntary action in Aristotle, which is nicely illustrated in the Nicomachean ethics by a man being taken away by the wind making his acting involuntary.⁸⁶

According to Rossi, before the concept of autonomy was introduced in Groundwork, causal spontaneity took precedence in Kant's discussions relating to freedom.⁸⁷ At root of his notion of causal spontaneity and lies concern about freedom being endangered by phenomenal determinism expressed in the following questions: "*If I am caused, how can I have control over myself?*"⁸⁸ and therefore "*How can I avoid being caused externally?*"⁸⁹ Kant's response lies in spontaneity. He distinguishes between the absolute spontaneity with no cause prior to action that is non-existent and causal spontaneity that is self-caused referring to any action, whose "*causality... does not depend, according to a law of nature, on another cause, by which it is determined in time*".⁹⁰ In general, we can see a 'similarity to Aristotle's concept of unmoved mover, "*that which moves without being moved*".⁹¹

Notwithstanding our tendency explain the world around us by means of cause-effect relations, possibility of causal spontaneity not completely neglected. Yet Kant neglects that humans cannot experience causal spontaneity, its impossibility is not approved.

1.3.Economic growth

Even though there is a long debate on the concept of economic growth, according to Ronald A. Shearer, 'the term growth acquired a connotation of quantitative increase'⁹².

⁸⁶ Kant's Trinity of Freedom: An exposition of Practical Freedom, Causal Spontaneity, Autonomy. St. Olaf College, 2013.91 pages. Pg. 23

⁸⁷ ROSSI, Phillip (2005). The Social Authority of Reason – Kant's Critique, Radical Evil, and the Destiny of Humankind. Albany. State University of New York

⁸⁸ KNAPP, Trevor. Kant's Trinity of Freedom: An exposition of Practical Freedom, Causal Spontaneity, Autonomy. St. Olaf College, 2013.91 pages. Pg. 27

⁸⁹ KNAPP, Trevor. Kant's Trinity of Freedom: An exposition of Practical Freedom, Causal Spontaneity, Autonomy. St. Olaf College, 2013.91 pages. Pg. 28

⁹⁰ Critique of Pure Reason, pg. 463, B561/A533. Quoted in KNAPP, Trevor. Kant's Trinity of Freedom: An exposition of Practical Freedom, Causal Spontaneity, Autonomy. St. Olaf College, 2013.91 pages. Pg. 40

⁹¹ Kant's Trinity of Freedom: An exposition of Practical Freedom, Causal Spontaneity, Autonomy. St. Olaf College, 2013.91 pages. Pg.39

⁹² SHEARER, Ronald A. The Concept of Economic Growth. Pg. 506

Analogically, there is a widespread disagreement about the relevant measure of growth and ‘the only unifying element is that economic growth should be measured by the contribution of economic activity to the human welfare’⁹³. Nowadays, according to Shearer, taking the form of the satisfaction of wants of individuals that reflects the utilitarian traditions: “*The world proceeds very much on the assumption that the flow of goods is an accurate indicator of economic welfare’s*”.⁹⁴ Therefore, per capita national income is the measure most widely used. According to Orrell, nowadays, GDP reports are expected almost with religious respect.

2. Hypotheses

2.1.Hypothesis 1: Economic growth doesn’t make us happy

2.1.1. Introduction

In this chapter I will deal with the first hypothesis: ‘Economic growth doesn’t make us happy’ and its possible impact on European Value System, in particular on Article 2)3 of the Preamble of the Lisbon Treaty emphasizing “*sustainable development of Europe based on balanced economic growth and price stability*”⁹⁵ by considering the following question posed by Slavoj Zizek in his book *First as Tragedy then as Farce*: “*How is it, however, that in our era of spiritualized hedonism, when the goal of life is directly defined as happiness, the number of people suffering from anxiety and depression is exploding?*”⁹⁶ Therefore, in this chapter, I will focus on the paradox of the abundance of material wealth unparallel in modern history in rich countries on the one hand and declining measures of happiness compared to those in the poorer countries on the other.

⁹³ Ibid.,pg.506

⁹⁴ Ibid.,pg.507

⁹⁵ The Treaty Establishing a Constitution for Europe [on-line]. [accessed 12-10-14] Available at WWW: <http://www.proyectos.cchs.csic.es/euroconstitution/Treaties/Treaty_Const.htm>

⁹⁶ ZIZEK, Slavoj. *First as Tragedy, Then as Farce*. London: Verso, 2009. Pg.55

To do so, first, I would like to consider the relationship between income and happiness. Second, I will focus on the role of debts in the growth/ happiness relation referring to the question: “*What does it mean when we reduce moral obligations to debts?*”⁹⁷ Third, I will assess limits of our ability to transform income into pleasure, in particular, the sense of discontent. Fourth, our vulnerability to succumb to the sense of discontent will be introduced. Fifth, I will deal with the family decline as an obverse side of economic growth. Sixth, the primary role of happiness will be questioned.

2.1.2. ‘Can we really put a price tag on happiness?’⁹⁸

Before considering the relation between money and happiness, it should not be omitted that the ‘quantities’ of income (money) and happiness are completely different; Orrell puts emphasis on the dissipation of happiness compared to lasting nature of money, whose unspent proportion is accumulated and results in global wealth inequalities. Moreover, happiness is considered to be more democratic and stable, supported by Jevons’: “*I have a lurking suspicion that the sum total of a person's enjoyment is generally equal to what we should call in mathematics a 'constant quantity.'*”⁹⁹ This approach is represented by set-point theories of happiness that presuppose that level of happiness we experience is stable and dependent on genetic disposition, personality trait, culture etc.

There is a long debate concerning the correlation between income and well-being. Easterlin Paradox ‘postulates that increase in average income does not raise average well-being’,¹⁰⁰ whereas its modified versions assume that there is a certain threshold beyond which the correlation between two variables disappears; Di Tella and

⁹⁷ GREABER, David (2011). *Debt - The First 5,000 Years*. Melville House, New York. Pg.13

⁹⁸ ORRELL, David (2012). *Economyths – How the Science of Complex Systems is Transforming Economic Thought*. London. Icon. Pg.205

⁹⁹Jevons, William Stanley (1 886), *Letters and Journal of W. Stanley Jevons* (London: Macmillan). Quoted in ORRELL, David (2012). *Economyths – How the Science of Complex Systems is Transforming Economic Thought*. London. Icon. Pg.205

¹⁰⁰ STEVENSON, Betsey; WOLFERS, Justin (2013). *Subjective Well-Being and Income: Is There Any Evidence of Satiation*. *American Economic Review: Papers & Proceedings*. Pg,598

MacCulloch claim that: *“once basic needs have been satisfied, there is full adaptation to further economic growth.”*¹⁰¹

There is a long debate concerning the ‘threshold’ as well; e.g. according to Layard the threshold is at 20000 USD GDP per capita, whereas Frey and Stutzer argue for 10000 USD GDP per capita.¹⁰²

However, what ‘statistical data in general show are diminishing marginal gains in subjective well-being’¹⁰³; as the income increases the correlation at some point becomes lower. *“It seems that we are working harder and longer, without becoming noticeably cheerier.”*¹⁰⁴

What are the reasons for this tendency? Orrell concludes that *“Some aspects of our economic system seem designed to make us unhappy.”*¹⁰⁵ I will deal with these determinants in the following subchapters.

2.1.3. Debts

Happiness is dependent on many factors and even though the relationship between money and pleasure is often vague, according to a survey made by American Psychology Association in 2007 ‘for 73 percent of respondents, money was quoted as the significant source of stress’¹⁰⁶. Economic growth in modern economies is undoubtedly conditioned on deficit spending; *“Consumer debt is the lifeblood of our economy”*¹⁰⁷ David Greaber asserts in his book Debt that for hundreds of years majority of humans were told they were debtors, that was often source of resistance and humiliation; *“Tell people that they*

¹⁰¹ Di Tella, Rafael, and Robert MacCulloch. 2008. “Happiness Adaptation to Income beyond ‘Basic Needs.’” National Bureau of Economic Research Working Paper 14539. Quoted in STEVENSON, Betsey; WOLFERS, Justin (2013). Subjective Well-Being and Income: Is There Any Evidence of Satiation. American Economic Review: Papers & Proceedings. Pg. 598

¹⁰² STEVENSON, Betsey; WOLFERS, Justin (2013). Subjective Well-Being and Income: Is There Any Evidence of Satiation. American Economic Review: Papers & Proceedings. Pg.598

¹⁰³ ORRELL, David (2012). Economyths – How the Science of Complex Systems is Transforming Economic Thought. London. Icon. Pg.207

¹⁰⁴ Ibid.,Pg.199

¹⁰⁵ Ibid.,Pg.209

¹⁰⁶ Ibid.,pg.210

¹⁰⁷ GREABER, David (2011). Debt - The First 5,000 Years. New York. Melville House. Pg.4

are potential equals who have failed, and that therefore, even what they do have they do not deserve, that it isn't rightly theirs, and you are much more likely to inspire rage."¹⁰⁸

One of the key questions in David Graeber's book *Debt* is: *"What does it mean when we reduce moral obligations to debts?"*¹⁰⁹ According to him, the parallel struggle between rich and poor, creditors and debtors formed our perception of what is right and wrong. He alleges that in the secular world, morality encompasses to great extent complying with the obligations to others. However, according to Graeber, the problem is that we tend to identify obligations with debts resp. with quantifiable sum of money.

Dan Ariely emphasizes in his book *Predictably Irrational* that we live in two worlds. The first one is 'warm and fuzzy'¹¹⁰ world of social exchanges that includes exchange of gifts with no instant payback required, giving pleasure to all participants. The second one is of 'sharp-edged'¹¹¹ market exchanges encompassing calculations about 'prices, interests, cost-and-benefits etc.'¹¹² Ariely's experiments show that first: *"for market norms to emerge, it is sufficient to mention money"*¹¹³ and second: *"when a social norm collides with a market norm, the social norm goes away for a long time."*¹¹⁴

Therefore *"Our ability to slip easily into market norms is perhaps because they have become so established throughout our society that they are now the default mode."*¹¹⁵

Unfortunately, being in the market norms is not what makes us happy.

¹⁰⁸ Ibid..pg 8

¹⁰⁹ Ibid..pg 13

¹¹⁰ ARIELLY, Dan (2008). *Predictably Irrational: The Hidden Forces that Shape Our Decisions*. New York. HarperCollins. Pg.88

¹¹¹ Ibid., Pg. 88

¹¹² Ibid., pg.88

¹¹³ Ibid., pg.74

¹¹⁴ Ibid., pg.74

¹¹⁵ ORRELL, David (2012). *Economyths – How the Science of Complex Systems is Transforming Economic Thought*. London. Icon.Pg.209

2.1.4. 'Non-repressive hedonism'¹¹⁶

In Orrell's words, neoclassical economics perceives income as a reservoir of utility "a kind of potential energy that can be transformed into pleasure just by spending it".¹¹⁷ Furthermore, he asserts that neoclassical perception of working day is reminiscent of Joule's experiment: "You lift up a heavy weight (perform labour in exchange for money), then release the weight (drop some cash), thus stirring and warming the bucket of water (your soul)."¹¹⁸ But are we able to transform income into pleasure resp. does it really warm our soul or are we left only agitated?

Sedlacek points out that nowadays economies do not have finite goal letting people repose in; one task finished implies start of another one, since as Orrell claims we are offered 'eternal happiness'¹¹⁹, "if we can just work harder and upgrade our lifestyles".¹²⁰ The term rest acquired negative connotation and is only for those weak unable to cope with the tempo of the present time.¹²¹ According to Sedlacek, it seems as if we are not able to appreciate stationary affluence. Therefore my answer to the question listed above is 'yes', we are rather left agitated. In the following paragraph, I would like to justify my answer.

'Imperative of our time is the economic growth'¹²² and we are convinced "that material success equates to happiness".¹²³ 'Sense of discontent became the driver of economic performance'¹²⁴. But how is this feeling developed and nourished?

¹¹⁶ ZIZEK, Slavoj. *First as Tragedy, Then as Farce*. London: Verso, 2009. Pg.58

¹¹⁷ ORRELL, David (2012). *Economyths – How the Science of Complex Systems is Transforming Economic Thought*. London. Icon.Pg.205

¹¹⁸ *Ibid.*, Pg.209

¹¹⁹ *Ibid.*, Pg.214

¹²⁰ *Ibid.*, Pg.214

¹²¹ SEDLACEK, Tomas (2011). *Economics of Good and Evil, The Quest for Economic Meaning from Gilgamesh to Wall Street*, Oxford University Press

¹²² *Ibid.*,

¹²³ ORRELL, David (2012). *Economyths – How the Science of Complex Systems is Transforming Economic Thought*. London. Icon. Pg.209

¹²⁴ SEDLACEK, Tomas (2011). *Economics of Good and Evil, The Quest for Economic Meaning from Gilgamesh to Wall Street*, Oxford University Press

According to Frank Knight and George Stigler, the sense of discontent seems to be a rather innate feature of individuals; the former asserts that: *“It is human nature to be more dissatisfied the better of one is”*¹²⁵, the latter similarly concludes that: *“The chief thing which the common-sense individual wants is not satisfactions for the wants he had, but more and, and better wants.”*¹²⁶. Nelson elaborates on Campbell’s term *“inexhaustible wants”*¹²⁷. Sedlacek referring to Patinkin: alleges that our desires can’t be satisfied and claims that it looks like as if: *“history has shown that Western society created new wants just as fast as (if not faster than)! it expanded the means of satisfying them”*¹²⁸.

Another cause can be seen in the concept introduced by Slavoj Žižek ‘non-repressive hedonism’¹²⁹ defined as *“the constant provocation we are exposed to, enjoining us to go right to the end and explore all modes of jouissance”*,¹³⁰ product of reversal of Kant’s *“Du kannst, denn du sollst”*¹³¹. He claims that enjoyment has acquired the status of an obligation and duty; *“the only functioning ideology is consumerism”*.¹³² But why do we succumb so easily?

2.1.5. ‘Unnaturally natural’¹³³

The most intuitive cause can be seen in our tendency to identify material success with happiness, amplified by our inability to evaluate wealth in absolute terms, *“...rather, we*

¹²⁵ NELSON, Robert H. The New Holy Wars. Pg.293.Quoted in SEDLACEK, Tomas (2011).Economics of Good and Evil, The Quest for Economic Meaning from Gilgamesh to Wall Street, Oxford University Press 2011

¹²⁶ STIGLER, George. J. Frank Hyneman Knight. Pg.294-95SEDLACEK, Tomas (2011).Economics of Good and Evil, The Quest for Economic Meaning from Gilgamesh to Wall Street, Oxford University Press 2011

¹²⁷Colin Campbell, “Consuming Goods and the Good of Consuming,” in Crocker and Linden, eds., Ethics of Consumption, 144, 147, 145. Quoted in NELSON, Robert H (2001). Economics as Religion: From Samuelson to Chicago and beyond. University Park, PA: Pennsylvania State UP

¹²⁸ PATINKIN, Don. Essays on and in the Chicago Tradition. SEDLACEK, Tomas (2011),Economics of Good and Evil, The Quest for Economic Meaning from Gilgamesh to Wall Street, Oxford University Press

¹²⁹ ŽIŽEK, Slavoj. First as Tragedy, Then as Farce. London: Verso, 2009. Pg.58

¹³⁰ ŽIŽEK, Slavoj (2009). First as Tragedy, Then as Farce. London: Verso. Pg.58

¹³¹ Ibid.,pg.58

¹³² ŽIŽEK, Slavoj (2006). The Pervert’s guide to Ideology

¹³³ SEDLACEK, Tomas (2011), Economics of Good and Evil, The Quest for Economic Meaning from Gilgamesh to Wall Street, Oxford University Press

focus on the relative advantage of one thing over another, and estimate value accordingly."¹³⁴ But this conclusion assuming that money and happiness are similar quantities is too simplistic. David Orrell recognizes both Sen's and Ariely's approach and adds that we rather compare ourselves with those who are richer, through media. However, referring to the survey made in the US from 1983 to 2003, happiness tends to spill-over; *"The pursuit of happiness is not a solitary goal. We are connected, and so is our joy."*¹³⁵

David Orrell's answer to the question: "What is economic machine maximizing?"¹³⁶ is 'nothing'. My answer is 'human effort'. Rousseau believed that subjection (i.e. entering into a social contract) of our natural liberty enables: *"fulfilment of ambitions they could not even have entertained without it"*¹³⁷. Furthermore, again in the Social contract, he alleges that: *"Anyone who dares to institute a people must feel capable of, so to speak, changing human nature...the more these natural forces are dead and destroyed, the greater and more lasting are the acquired ones...."*¹³⁸ But what does imply entering into a social contract nowadays?

Apparently the snappiest characterization lurks behind Isiah Berlin's question regarding positive liberty: *"What, or who, is the source of control or interference that can determine someone to do, or be, this rather than that?"*¹³⁹ 'The unprecedented

¹³⁴ ARIELLY, Dan (2008). Predictably Irrational: The Hidden Forces that Shape Our Decisions. New York. HarperCollins. Pg.2

¹³⁵ Anonymous (2008), "Joy to the world is contagious: study;" CBC News, 4.December 2008. Quoted in ORRELL, David (2011), Economyths – How the Science of Complex Systems is Transforming Economic Thought. London.Icon. Pg.206

¹³⁶ ORRELL, David (2011), Economyths – How the Science of Complex Systems is Transforming Economic Thought. London. Icon. Pg.212

¹³⁷ WOLKER, Robert (1995). Rousseau – A very Short Introduction. New York. Oxford University Press. Pg.78

¹³⁸ COHEN, Joshua (2010). Rousseau – A Free Community of Equals. New York. Oxford University Press. Pg. 35

¹³⁹ Stanford Online Dictionary [on-line]. Available at WWW: <http://plato.stanford.edu/entries/liberty-positive-negative/>

development of technologies including the ‘control of human biology’ and reproduction made the creation of a New Man (with changed human nature) a realistic prospect.’¹⁴⁰

Sedlacek points out that the fact that we lost harmony with nature and became ‘unnaturally natural’ and ‘naturally unnatural’ is the principal cause of the sense of discontent we face nowadays. Consequent generation of ‘existential unrest, externalization of feelings of insufficiency and substitution of ‘be’ for ‘have’ lies in the core of modern economies.¹⁴¹

Therefore, there is another Berlin’s question that acquired a new dimension: “*What is the area within which the subject — a person or group of persons — is or should be left to do or be what he is able to do or be, without interference by other persons?*”¹⁴²

Even though there are many interpretations of Rousseau’s “*whoever refuses to obey the general will... shall be forced to be free.*”¹⁴³ he believed that men are naturally good and that ‘their metamorphosis, subjection of physical independence is “*a fatal step towards vice*”’.¹⁴⁴

However, Rousseau emphasized that by a subjection of the natural liberty to the authority, the men’s freedom (positive notion of liberty) could be increased; since it enables: “*fulfilment of ambitions they could not even have entertained without it*”.¹⁴⁵

Isiah Berlin warned against the danger of authoritarianism that could accompany positive notion of liberty, emphasizing that allegedly some individuals are more rational than others and therefore have better knowledge about what their and other’s interests are,

¹⁴⁰ ZIZEK, Slavoj (2009). *First as Tragedy, Then as Farce*. London: Verso. Pg.91

¹⁴¹ SEDLACEK, Tomas (2011), *Economics of Good and Evil, The Quest for Economic Meaning from Gilgamesh to Wall Street*, Oxford University Press

¹⁴² Stanford Online Dictionary [on-line]. Available at WWW: <http://plato.stanford.edu/entries/liberty-positive-negative/>

¹⁴³ Rousseau, *The Social Contract and Other Later Political Writings*, ed., trans., and annotated by Victor Gourevitch (Cambridge: Cambridge University Press, 1997). Quoted in WOLKER, Robert (1995).

Rousseau – A very Short Introduction. New York. Oxford University Press. Pg. 85

¹⁴⁴ WOLKER, Robert (1995). *Rousseau – A very Short Introduction*. New York. Oxford University Press. Pg.78

¹⁴⁵ WOLKER, Robert (1995). *Rousseau – A very Short Introduction*. New York. Oxford University Press. Pg.79

they are allowed to force allegedly less rational individuals to “*realize their true selves*”.¹⁴⁶ But what does it mean to ‘realize true selves’ at present time? Sedlacek claims that: “*according to Zizek, it seems that us, humans need to be shown, for what we should be looking for.*”¹⁴⁷

2.1.6. Family decline

According to Bruce Headey’s study non-zero sum goals such as commitment to family are important determinants of life satisfaction and happiness.¹⁴⁸ The decline of family as an ‘*obverse side*’¹⁴⁹ of growth falls within negative aspects of modern economies. Undoubtedly, there are many causes of this tendency but the point of departure of this subchapter will be the following; even though ‘it (economics) itself as a objective, detached, impartial science it influences the world it seeks to describe’¹⁵⁰ through the defense of a value set. Deidre McCloskey points out that “*the values communicated by economic writings are often more important than the research results themselves.*”¹⁵¹ Sedlacek alleges that nowadays, we tend consider the fuzzy world of social exchanges including love and friendly relations unproductive. I think there are two different problems; first, we tend to evaluate productivity of the social exchanges from the utilitarian perspective and therefore second, market norms take precedence in domains of social exchange. I will try to justify the former statement by using concepts introduced by Gary Becker, a pioneer of economic analysis of family decision making.

¹⁴⁶ Stanford Online Dictionary [on-line]. <http://plato.stanford.edu/entries/liberty-positive-negative/>

¹⁴⁷ SEDLACEK, Tomas (2011). Economics of Good and Evil, The Quest for Economic Meaning from Gilgamesh to Wall Street, Oxford University Press

¹⁴⁸ ORRELL, David (2011). Economyths – How the Science of Complex Systems is Transforming Economic Thought. London. Icon. Pg.206

¹⁴⁹ NELSON, Robert H (2001). Economics as Religion: From Samuelson to Chicago and beyond. University Park, PA: Pennsylvania State. Pg. 315

¹⁵⁰ ORRELL, David (2011). Economyths – How the Science of Complex Systems is Transforming Economic Thought. London. Icon. Pg.214

¹⁵¹ NELSON, Robert H (2001). Economics as Religion: From Samuelson to Chicago and beyond. University Park, PA: Pennsylvania State. Pg.22

Similarly to Orrell, Sedlacek indicates the tendency to reduce humanity to units of consumption and production. Becker restricting the decisions about marriage and relations made in families to the “*acts of consumer choice*”¹⁵² is very far from disproving Sedlacek’s suggestion. For the purpose of my thesis, I will put emphasis only on considerations about marriage and sex.

According to Nelson, Becker assumed that people decide about getting married after juxtaposing utility of being married and single. Furthermore, he perceived marriage as social institution and introduces the term ‘gain from marriage’ as “*the difference between married output and the sum of single outputs*”¹⁵³. For Becker, mutual dedication in marriage is a way of maximizing yields of investments.

Orrell emphasizes that love among other qualities can’t be expressed in terms of short-term utility. However, Becker defines love as “*deriving of utility from the utility of another.*”¹⁵⁴ Notwithstanding its secondary importance on the marriage market, Becker assumes that marriages involving love are relatively more efficient and productive.

Unlike Posner, Becker’s analysis did not take into consideration the role of sex in marriage. In the *Sex and Reason*, Posner concluded that one of the most important way spouses tend to compensate each other is by means of provision of sexual services. Furthermore, he emphasizes that marriage in fact is reminiscent of prostitution.

It seems as if even robots in Karel Capek’s *RUR* at the end become more humane than agents presented in Becker’s and Posner’s analysis;

“Helena: I will go.

Alquist: Where will you go?

Helena: You can dissect me.

Alquist: You? You’re beautiful, Helena. That would be such a shame.

¹⁵² Ibid., pg.177

¹⁵³ Ibid., pg.177

¹⁵⁴ bid., pg.178

Helena: I am going in there. (Primus stand in her way). Let me go, Primus! Let me go in there.

Primus: Now you can't go in there, Helena. Please get away from here, you shouldn't be here at all.

Helena: Primus, if you go in there I'll jump out of the window, I'll jump out the window!

Primus: (holding on to her) I won't let go of you (to Alquist) You're not going to kill anyone, old man!

Alquist: Why not?

Primus: Because....because...we belong to each other.

Alquist: You're quite right (opens door, center) It's alright. Go, now.

Primus: Go where?

Alquist: (whisper) Whenever you like. Helena, take him away (pushes her out) go on your way, Adam. Go on your way, Eve. You will be his wife. You, Primus, will be her husband.”¹⁵⁵

2.1.7. Happiness as the ultimate goal?

At the beginning of this chapter, I refer to Zizek's quote: “...when the goal of life is directly defined as happiness...”¹⁵⁶ But why should happiness be considered as the ultimate goal? Same as in the previous chapter my point of departure of this subchapter will be the following Orrell's statement: “It is as if we are contorting ourselves to fit the model of rational economic man.”¹⁵⁷

Welfare economic places happiness at the center of evaluation, “seeing it as a sole guide to human well-being”.¹⁵⁸ This discipline has been long driven by the by utilitarianism

¹⁵⁵ CAPEK, Karel (1920). R.U.R., translated by David Willye

¹⁵⁶ ZIZEK, Slavoj (2009). First as Tragedy, Then as Farce. London: Verso. Pg.35

¹⁵⁷ ORRELL, David (2011). Economyths – How the Science of Complex Systems is Transforming Economic Thought. London. Icon. Pg.211

¹⁵⁸ SEN, Amartya. (2009) The Idea of Justice, The Belknap Press of Harvard University Press, Cambridge, Massachusetts. Pg.272

identifying utility with individual happiness that was defined as: “*the sum of pleasures and pains*”¹⁵⁹

At this point, to understand the origins of welfare economics, the circumstances accompanying the invention of neoclassical economics should be elaborated. According to Orrell, neoclassical economics with its main aim to make people happy was invented in the time of most exciting scientific period in history. Hermann Helmholtz studying the movement of muscles converting food into labor concluded in 1845 that “*mechanics, heat, electricity, magnetism, and light were all different aspects of a single type of energy that was at all times conserved.*”¹⁶⁰ Orrell suggests that economists applied Helmholtz’s notion of muscle movement to humans converting labor into utility, therefore substituting physical with economic quantities, completely neglected that humans are not machines. At this time, utilitarianism of Jeremy Bentham with its greatest happiness principle was already invented and utility was perceived as a ‘single type of energy’¹⁶¹. The economy was “*nothing other than a mechanism for maximizing (a word invented by Bentham) utility-a kind of giant pleasure machine.*”¹⁶²

According to Amartya Sen, happiness is not the only thing we appraise, but the capability to be happy is the important part of our life. He claims that our sense of happiness is influenced by the successes and failures to achieve objectives that we value, no matter what they are. Therefore, freedom is considered valuable for the following reasons: first, it give us opportunity to achieve what we value. Second, it enables us to choose freely what we value, as we want to be sure that our decision making process is not restrained by limits imposed by others. He distinguishes between opportunity aspect of freedom and process aspect of freedom. The opportunity aspect of freedom is linked

¹⁵⁹ VEENHOVEN, Ruut (2006). HOW DO WE ASSESS HOW HAPPY WE ARE? Tenets, implications and tenability of three theories. The Netherlands. Erasmus University Rotterdam. Pg.5

¹⁶⁰ ORRELL, David (2011). Economyths – How the Science of Complex Systems is Transforming Economic Thought. London .Icon. Pg.200

¹⁶¹ Ibid., Pg.200

¹⁶² Ibid., Pg.203

with capability based thinking. According to him, capability approach is concerned with our ability to achieve combinations of functionings that we have reason to value. Sen claims that wealth is not valuable for its sake since capability approach emphasizes the ability to do what we have reason to value and it focuses on the opportunities rather than on means. Sen highlights the importance of good health and overall wellness by assuming that handicaps and illnesses limits our capability to do what we have reason to value.

Aleksandr Solzhenitsyn states in his book *Cancer Ward* that: *"One should never direct people towards happiness, because happiness too is an idol of the market-place. One should direct them towards mutual affection."*¹⁶³

2.1.8. Black Swans

Orrell emphasizes the negative emotional impacts of shock events such as financial crises. But what makes these events unpredictable? To answer the question, I will introduce the concept invented by Nassim Taleb, Black Swan. According to him, an event with three following attributes can be called a Black Swan: *"First, it is an outlier, as it lies outside the realm of regular expectations, because nothing in the past can convincingly point to its possibility. Second, it carries an extreme impact. Third, in spite of its outlier status, human nature makes us concoct explanations for its occurrence after the fact, making it explainable and predictable."*¹⁶⁴

To answer the question of general unpredictability of Black Swans such as Financial crisis, I will deal with the third part of the triplet of opacity referring to: *"the overvaluation of factual information"*.¹⁶⁵

Taleb introduces two states of our world, Mediocristan and Extremistan. In former, inequalities are generated by zero-sum games, whereas in the later the distribution is

¹⁶³ Ibid., pg.199

¹⁶⁴ Taleb, Nassim. *The Black Swan: The Impact of the Highly Improbable*. New York: Random House, 2007. Pg.17

¹⁶⁵ Ibid.,pg.8

more equal. In Extremistan, small number of extreme events determining the total outcome means that the economies are vulnerable to AD-AS shocks, whereas in Mediocristan, single instance could hardly affect total output. Therefore, we can learn from what we have measured and knowledge derived from the data increases with the information supplied, because it is not possible to have Black Swan randomness, whereas in the Extremistan, what we can know from the data is increased ‘at an unknown rate’¹⁶⁶. To sum up: *”Mediocristan is where we must endure the tyranny of the collective, the routine, the obvious, and the predicted; Extremistan is where we are subjected to the tyranny of the singular, the accidental, the unseen, and the unpredicted.”*¹⁶⁷

According to Taleb, this approximation shouldn’t be platonified but his claim ‘modern world being Extremistan’¹⁶⁸ seems to be contradictory. He maintains that almost everything in the world including elements of our existence can be explained by small number of extreme events (e.g. rise of Hitler, demise of Soviet bloc, spread of Internet, Russian financial default in 1998 all followed dynamics of Black Swan).

But why do we fail to predict events such as Financial crisis? In general, considering that our predictions are based on projections of the past events to the future, then: *“How we can figure out properties of the (infinite) unknown based on the (finite) known?”*¹⁶⁹ But is there really a known resp. finite known? According to Taleb, there are two ailments of human minds related to our forecasting ability. First, when deriving future from the past, our minds are limited by the ‘deterministic extension of the perception of the past’¹⁷⁰ neglecting the role of chance and at the same time ignoring what we thought about the day before yesterday, tomorrow is just another yesterday. This is nicely illustrated in the book *This time is different*, in which authors analyze the history of financial defaults

¹⁶⁶ Ibid., pg.34

¹⁶⁷ Ibid., pg.35

¹⁶⁸ Ibid., pg.61

¹⁶⁹ Ibid., pg.40

¹⁷⁰ Ibid., Pg.193

from the beginning of 13th century. It can be concluded that that subprime crises was everything but unique. Second, much of the past is unknown. Suppose the following operations: ‘1) Imagine an ice cube melting and envision the shape of the puddle then 2) consider the puddle of the water and reconstruct the shape of the ice cube’¹⁷¹. Operation one being a forward process seems to be relatively easy compared to backward process of operation two, which is nonrepeatable and nonexperimental. Taleb finds a parallel in the Iliad, where ‘Helenus, unlike other prophets predicted backwards without being given many details’¹⁷² However, our world being extremistan, nonlinearity increases the complexity of the backward processes e.g. by taking into account the ‘butterfly in India paradigm’¹⁷³ and therefore accepting that the number of causes explaining what has been seen can be infinite (Bishop Huets problem of induction). Similar notion could be found in Kant’s Critique of Pure Reason: *“If you suppose that everything that happens in the world is nothing but a result according to the laws of nature, then the causality of the cause will always in turn be something that happens; and this causality thus necessitates a regress to a still higher cause, and therefore necessitates a continuation of the series of conditions a parte priori without end. Mere causally active nature, therefore, is too large for any concept in the synthesis of events in the world. If you admit, in certain cases, spontaneously caused events, therefore generation from freedom, then by an unavoidable law of nature the question, Why?, still pursues you, and you are forced by the empirical law of causality to go beyond this point; and thus you find that any such totality of connection is too small for your necessary empirical concept.”*¹⁷⁴ Then if the

¹⁷¹ Ibid., Pg.196

¹⁷² Ibid., Pg.196

¹⁷³ Ibid., Pg.196

¹⁷⁴ Critique of Pure Reason, trans. Norman Kemp Smith (New York: St Martin’s Press, 1965). Translated from Kritik der reinen Vernunft, Quoted in KNAPP, Trevor. Kant’s Trinity of Freedom: An exposition of Practical Freedom, Causal Spontaneity, Autonomy. St. Olaf College, 2013.91 pages. Pg. 30

interpretation of past can be misleading, how can we ‘reconstruct the shape of the ice cube?’¹⁷⁵ Given that; how can a fiat dare to predict future?

2.1.9. Conclusion

To sum up, I have elaborated on the most obvious negative aspects accompanying economic growth of modern economies. First, I have elaborated on approaches dealing with the relationship between income and happiness concluding that as the income increases the correlation between to variables becomes lower. Second, considering the debt, I have dealt with our tendency to identify moral obligation with quantifiable sum of money and the consequent tendency to slip easily into sharp-edged market exchanges, that encompassing zero-sum games and competition for happiness are not what make us happy. Third, I have examined the causes of sense of discontent as the driver of economic performance and therefore the obstacle for us to repose in stationary affluence, finding both internal reasons (by proponents of the Chicago School) on the one hand and external triggers such as ‘non-repressive hedonism’¹⁷⁶ on the other. Fourth, I have examined our vulnerability to succumb to the sense of discontent; in particular the lack of capability to asses wealth in absolute terms and the loss of the harmony with nature, followed by questioning of the present-day nature of Rousseau’s Social Contract in the context of development of new technologies taking into account the risk of positive notion of liberty. Fifth, for the analysis of the family decline as an adverse side of the economic growth, the perspective represented by Deidre McCloskey: “*the values communicated by economic writings are often more important that the research results themselves.*”¹⁷⁷ was considered to be the point of departure for examination of Becker’s imposition of economic analysis on the decision making in marriage and family. Sixth, I

¹⁷⁵ Taleb, Nassim. *The Black Swan: The Impact of the Highly Improbable*. New York: Random House, 2007. Pg.196

¹⁷⁶ ZIZEK, Slavoj (2009). *First as Tragedy, Then as Farce*. London. Verso . Pg.58

¹⁷⁷ NELSON, Robert H (2001). *Economics as Religion: From Samuelson to Chicago and beyond*. University Park, PA: Pennsylvania State. Pg.22

have elaborated on Sen's capability approach emphasizing the role increasing our capabilities to be happy i.e. freedom. Sixth, I emphasized the role of unpredictable events.

2.2.Hypothesis 2: Motivation of self-interest is not sufficient

2.2.1. Introduction

According to Amartya Sen, economic crisis has revealed the insufficiency of motivational narrowness of unrestrained self-interest based behaviour. Therefore, as an outcome, there is an increased demand for a new model of a successful society that embodies wider scope of motivations. As already mentioned, social sciences and economics in particular are 'shaping the world they seek to describe'¹⁷⁸, as Robert Bellah points out: "*We can say that in contemporary society social science has usurped the traditional position of theology. It is now social science that tells us what kind of creatures we are and what we are about on this planet.*"¹⁷⁹, therefore forming social expectations. With Adam Smith, being considered as a father of modern economics, Amartya Sen alleges, that Smith's thoughts does not provide only a relevant explanan of economic crisis but suggests the ways of its overcoming and building a new model of a decent society.

Therefore, in this part of my thesis; first, I will analyze the concept of homo economicus as postulated by John Stuart Mill. Second, I will elaborate on thoughts of Bernard Mandeville. Third, Das Adam Smith Problem will be considered with emphasis on the motive of sympathy. Fourth, I will answer the following question: Can we really reckon the notion of self-interest as perceived by Adam Smith to be a virtue? by means of statements of Amartya Sen. Fifth, I will elaborate on Smithian motive of courage in the

¹⁷⁸ ORRELL, David (2012). Economyths – How the Science of Complex Systems is Transforming Economic Thought. London. Icon. Pg.214

¹⁷⁹ Robert Bellah, "The Power of Religion in the Contemporary Society" (1981)

.Quoted in NELSON, Robert H (2001). Economics as Religion: From Samuelson to Chicago and beyond. The Pennsylvania State University Press. Pg.22

context of debate on overcoming the economic crisis. Sixth, I will deal with Smithian approach of reasoning with regard to the institutional arrangements.

2.2.2. John Stuart Mill

The creation of the concept homo economicus or economic man as we know it today is usually ascribed to the writings of John Stuart Mill, even though such a denomination can't be found in his texts.

According to Joseph Persky, the designation of economic man was established rather as a reaction to Mill's work acquiring negative connotation by proponents of historical school and Victorian moralist for *'reductionists and amoral character of assumed model of human nature'*¹⁸⁰ since Mill's political economy: *"does not treat at of the whole of man's nature as modified by the social state, nor of the whole conduct of man in society. It is concerned with him solely as a being who desires to possess wealth, and who is capable of judging of the comparative efficacy of means for obtaining that end."*¹⁸¹; e.g. According to Persky, John Kells Ingram belittled Mill's political economy that *"dealt not with real but with imaginary men—'economic men' ... conceived as simply 'money-making animals'"*¹⁸². In a similar way, according to Persky, John Neville Keynes delimited himself against Mill's: *„'economic man,' whose activities are determined solely by the desire for wealth..."*¹⁸³

¹⁸⁰ PERSKY, J (1995). Retrospectives - The Ethology of Homo Economicus. Journal of Economic Perspectives. Vol. 9, No. 2. Pg. 221–231

¹⁸¹ MILL, John Stuart (1836). On the definition of political economy, and on the Method of investigation proper to it. London and Westminster Review. Quoted in PERSKY, J (1995). Retrospectives - The Ethology of Homo Economicus. Journal of Economic Perspectives. Vol. 9, No. 2. Pg. 223

¹⁸² INGRAM, John Kells (1888). A History of Political Economy. New York. Augustus M. Kelley. 1967. Quoted in PERSKY, J (1995). Retrospectives - The Ethology of Homo Economicus. Journal of Economic Perspectives. Vol. 9, No. 2. Pg. 222

¹⁸³ KEYNES, John Neville (1890). The Scope and Method of Political Economy. New York. Augustus M. Kelley, 1963. Quoted in PERSKY, J (1995). Retrospectives - The Ethology of Homo Economicus. Journal of Economic Perspectives. Vol. 9, No. 2. Pg. 222.

Therefore, according to Carlos Rodrigues-Sickert, such an abstraction from human nature epitomizes devotion to: ‘material self-interest and instrumental rationality’¹⁸⁴. The assumption of material-self interest can be found in particular in Bernard Mandville, who is sometimes considered to be the antecedent of Adam Smith and ‘on whose treatise Mill situates his work’¹⁸⁵. Before elaborating on Mandeville’s and Smith’s thoughts, I would like to reconsider Kell’s and Ingram’s quotes.

Even though according to Persky, Mill considered the introduction of a model covering the whole range of human motivations to be indeterminant, he alleges that reducing Mill’s economic man to “*money-hungry monomaniac*”¹⁸⁶ seem to be too simplistic since: “*It [political economy] makes entire abstraction of every other human passion or motive; except those which may be regarded as perpetually antagonizing to the desire of wealth, namely, aversion to labour, and desire of the present enjoyment of costly indulgences.*”¹⁸⁷ Therefore, Persky concluded that besides desire to accumulate, Mill’s economic man desires leisure and luxury. In addition, he mentions the interest in procreation in accordance with the “*principle of population*”¹⁸⁸

2.2.3. Bernard Mandeville

Sedlacek claims that Mandeville with his Fable of the Bees could be regarded as the first who elaborated on ties among economics, well-being and morality. Therefore, the moral side of homo economicus could be ascribed to his social philosophy.

¹⁸⁴ RODRIGUEZ-SICKERT, Carlos (2009). Homo economicus. Pontificia Universidad Catolica de Chile FACEA. Escuela de Administracion. Pg.3

¹⁸⁵ RODRIGUEZ-SICKERT, Carlos (2009). *Homo economicus*. Pontificia Universidad Catolica de Chile FACEA. Escuela de Administracion. Pg.3

¹⁸⁶ INGRAM, John Kells (1888). A History of Political Economy. New York. Augustus M. Kelley. 1967. Quoted in PERSKY, J (1995). Retrospectives - The Ethology of Homo Economicus. Journal of Economic Perspectives. Vol. 9, No. 2. Pg. 223

¹⁸⁷ MILL, John Stuart (1836). On the definition of political economy, and on the Method of investigation proper to it. London and Westminster Review. Quoted in PERSKY, J (1995). Retrospectives - The Ethology of Homo Economicus. Journal of Economic Perspectives. Vol. 9, No. 2. Pg. 224.

¹⁸⁸ PERSKY, Joseph (1995). Retrospectives - The Ethology of Homo Economicus. Journal of Economic Perspectives. Vol. 9, No. 2. Pages 223

Mandeville postulated that societal well-being is derived from vice defined as the combination of egoism (self-interest) and emotions, which according to him deserves to be scorned. Therefore, in economic language, Mandeville assumed that: “*vice is a multiplier of effective demand, which becomes a driver for the economy*”.¹⁸⁹ Sedlacek alleges that Mandeville’s approach implies trade-off between morality and prosperity, conditioned on greed and ‘ever-growing demand’¹⁹⁰: “*Would you render a society of men strong and powerful, you must touch their passions ...pride will set them to work in earnest... But would you have a frugal and honest Society, the best Policy is to preserve Men in their Native Simplicity,remove and keep from them everything that might raise their Desires, or improve their understanding...*”¹⁹¹

2.2.4. Adam Smith’s self-interest as a virtue?

According to Sedlacek Adam Smith is sometimes wrongly considered to be the successor of the Mandeville’s thoughts. Nevertheless, in the Smith’s first book; *The Theory of Moral Sentiments*, Mandeville’s social philosophy acquired negative connotation: “*There is however, another system which seems to take away altogether the distinction between vice and virtue, and of which the tendency is, upon that account, wholly pernicious: I mean the system of Dr. Mandeville*”.¹⁹² In particular, Smith condemns Mandeville’s impossibility to ascribe virtue to self-interest: “*Man, he observes (Mandeville), is naturally much more interested in his own happiness than in that of others and it is impossible that in his heart he can ever really prefer their prosperity to his own.*”¹⁹³, whereas in his second work, the *Wealth of Nations*, there are no references to Mandeville at all. However, according to Butler, in *Theory of Moral Sentiments*, self-interest does

¹⁸⁹ SEDLACEK, Tomas (2011). Economics of Good and Evil, The Quest for Economic Meaning from Gilgamesh to Wall Street. Oxford University Press

¹⁹⁰ SEDLACEK, Tomas (2011). Economics of Good and Evil, The Quest for Economic Meaning from Gilgamesh to Wall Street. Oxford University Press

¹⁹¹ Mandeville, Bernard. The Fable of Bees. Quoted in SEDLACEK, Tomas (2011). Economics of Good and Evil, The Quest for Economic Meaning from Gilgamesh to Wall Street. Oxford University Press

¹⁹² SMITH,Adam (1790). The Theory of Moral Sentiments. Sao Paulo. Metalibri. 2006. Pg. 281

¹⁹³ SMITH,Adam (1790). The Theory of Moral Sentiments. Sao Paulo. Metalibri. 2006. Pg.281

not refer to greed or selfishness, but rather the fact that we are concerned for our welfare, which is called prudence.¹⁹⁴ It can be therefore concluded that in the *Theory of Moral Sentiments*, self-interest acquired virtuous connotation and unlike Mandeville, Smith highlights that not vice but virtue is benefiting society. Nevertheless, according to Sen, it is not accurate to identify these two terms since Smith perceived prudence as a ‘union of the two qualities of reason and understanding and self-command’.¹⁹⁵ Therefore prudence represents broader motivation than self-love or self-interest.

But can we really reckon the notion of self-interest as perceived by Adam Smith to be a virtue? For the purpose of this thesis at roots of the consideration of this vexed question will be the statements by Amartya Sen, from whose point of view the consequentialist reasoning for answering the following questions is deemed too simplifying: ‘Was Smith recommending self-interested conduct to the extent it was successful in generating economic prosperity? Does good action imply good consequences; is a good person the one who takes good action?’¹⁹⁶

He alleges that a person can’t be judged only by his usefulness i.e. in so far it achieves economic or other results, whereby he emphasizes that Smith’s conception of ‘the natural selfishness and rapacity’¹⁹⁷ despite being accompanied by achievement of good results does not make men virtuous or admirable as mentioned in the *Theory of Moral Sentiments*: “it seems impossible that the approbation of virtue should be a sentiment of the same kind with that by which we approve of a convenient or well-contrived building; or that we should have no other reason for praising a man than that for which we

¹⁹⁴ BUTLER, Eamonn (2011), *The Condensed Wealth of Nations and The Incredibly Condensed Theory of Moral Sentiments*. England. Adam Smith Research Trust. Pg.11

¹⁹⁵ SEN, Amartya. Adam Smith’s Prudence. Available at WWW:
<http://edwardmcphail.com/dismal_science/Smiths_Prudence.pdf>

¹⁹⁶ SEN, Amartya. Adam Smith’s Prudence. Available at WWW:
<http://edwardmcphail.com/dismal_science/Smiths_Prudence.pdf>

¹⁹⁷ SEN, Amartya. Adam Smith’s Prudence. Available at WWW:
<http://edwardmcphail.com/dismal_science/Smiths_Prudence.pdf>

commend a chest of drawers.”¹⁹⁸ According to Sen, the role of motives should be emphasized referring again to the *Theory of Moral Sentiments* “*The man of the most perfect virtue, the man whom we naturally love and revere the most, is he who joins, to the most perfect command of his own original and selfish feeling, the most exquisite sensibility both to the original and sympathetic feelings of others.*”¹⁹⁹

2.2.5. Das Adam Smith Problem

According to Willson and Dixon, it was rather the *Theory of Moral Sentiments* that made Smith famous. However, the eminence of *the Wealth of Nations* degraded his first book to a afterword. There is an alleged conflict in Smith’s two texts; between “*ethically conscious human being*”²⁰⁰ in the *Theory of Moral Sentiments* and “*self-interested character*”²⁰¹ in the *Wealth of Nations* as assumed by Witztum. The discourse related to the inconsistency of the two texts is called ‘Das Adam Smith Problem’ yet according to Wilson and Dixon, only few thinkers are convinced that his patterns of human behavior are contradictory.

According to Wilson and Dixon, there is no rupture concerning the pattern of human behavior since both in the *Wealth of Nations* and *Theories of Moral Sentiments*, the guiding principle of the human behavior is sympathy. They insist in that sympathy is considered to be an enabler of acting either out benevolence or self-interest. But what does Smith mean by sympathy and what is its relation to self-interest?

¹⁹⁸ SMITH, Adam (1790). *The Theory of Moral Sentiments*. Sao Paulo. Metalibri. 2006. Quoted in SEN, Amartya. *Adam Smith’s Prudence*. Available at WWW: http://edwardmcphail.com/dismal_science/Smiths_Prudence.pdf

¹⁹⁹ SMITH, Adam (1790). *The Theory of Moral Sentiments*. Sao Paulo. Metalibri. 2006. Quoted in SEN, Amartya. *Adam Smith’s Prudence*. Available at WWW: http://edwardmcphail.com/dismal_science/Smiths_Prudence.pdf

²⁰⁰ WITZTUM, Amos (1998). A study into Smith’s conception of the human character - Das Adam Smith Problem revisited. *History of Political Economy*. Vol. 30, No. 3. Pages 489-513. Quoted in WILSON, David; DIXON, William (2006). *Das Adam Smith Problem – A critical realist perspective*. Leiden. Brill NV. Pg.259

²⁰¹ WITZTUM, Amos (1998). A study into Smith’s conception of the human character - Das Adam Smith Problem revisited. *History of Political Economy*. Vol. 30, No. 3. Pages 489-513. Quoted in WILSON, David; DIXON, William (2006). *Das Adam Smith Problem – A critical realist perspective*. Leiden. Brill NV. Pg.259

In the *Theory of Moral Sentiments*, Smith assumes that: “How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it, except the pleasure of seeing it.”²⁰² Wilson and Dixon distinguish between broad (Smithian) and narrow definition of sympathy referred to as compassion. They emphasize that the former as a ‘capacity inherent in human nature’²⁰³ is not motivational, whereas the latter is. However, there are thinkers proposing their synthesis, making them both motivational. Who rejects such a ‘collapse’ is Amos Witztum.

As already suggested the points of departure of Witztum’s discourse are two allegedly inconsistent representation of human nature: ‘ethically conscious human beings and apparently selfish character’²⁰⁴. For him, it is not a problem since he concludes that depending on circumstances we are able to display both the ‘capacity to feel for others’ and ‘pursue our own affairs’: “*Theory of Moral Sentiments is not about a single character. It is a book about how diverse tendencies and dispositions generate a system where ethical judgments and behavior interact.*”²⁰⁵

Therefore, Willson and Dixon concluded that there is no inconsistency between the two texts. The fact that discourse in *The Wealth of Nations* is conditioned on the self-interested behavior on one hand, where as in *The Theory of Moral Sentiments* on sympathy based behavior on the other, does only imply that in *The Theory of Moral Sentiments*, the sympathy as a ‘core capacity’²⁰⁶ is expected. According to them, there is no reason to think that in *The Wealth of Nations* he changed his mind; as already

²⁰² SMITH, Adam (1790). *The Theory of Moral Sentiments*. Sao Paulo. Metalibri. 2006. Pg.4

²⁰³ WILSON, David; DIXON, William (2006). *Das Adam Smith Problem – A critical realist perspective*. Leiden. Brill NV. Pg.256

²⁰⁴ WITZTUM, Amos (1998). A study into Smith’s conception of the human character - *Das Adam Smith Problem revisited*. History of Political Economy. Vol. 30, No. 3. Pages 489-513. Quoted in WILSON, David; DIXON, William (2006). *Das Adam Smith Problem – A critical realist perspective*. Leiden. Brill NV. Pg 259

²⁰⁵ *Ibid.*, pg.257

²⁰⁶ WILSON, David; DIXON, William (2006). *Das Adam Smith Problem – A critical realist perspective*. Leiden. Brill NV. Pg.270

mentioned, no matter whether we act in the self-interest or interest of others, “*we are only able to act as we do because we are sympathizers*”.²⁰⁷

However, being a sympathizer does not imply inherent altruism rather than egoism; “*It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love.*”²⁰⁸ According to Wilson and Dixon we are capable of both ‘dispositions; it would be a surprise, if a child of baker or butcher could not expect a dinner from their benevolence’²⁰⁹ since according to Smith: “*How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it, except the pleasure of seeing it*”²¹⁰

2.2.6. Adam Smith’s Courage

Amarty Sen emphasizes the importance of considering other motives than Smith’s pursuit of self-interest, as delineated *in the Theory of Moral Sentiments* that are often missing in the debates on the current economic crisis.

Before elaborating on one of these motives of ‘*ethically conscious human being*’²¹¹ as outlined in the *Theory of Moral Sentiments*, I would like to introduce Seven primary virtues by Thomas Aquinas, being a combination of ‘four pagan virtues including

²⁰⁷ WILSON, David; DIXON, William (2006). *Das Adam Smith Problem – A critical realist perspective*. Leiden. Brill NV. Pg.269

²⁰⁸ *The Wealth of Nations*, Book I, Chapter II, pp. 26–7, para. 12. Quoted in BUTLER, Eamonn (2011), *The Condensed Wealth of Nations and The Incredibly Condensed Theory of Moral Sentiments*. England. Adam Smith Research Trust. Pg.11

²⁰⁹ *Ibid.*, Pg.270

²¹⁰ SMITH, Adam (1790). *The Theory of Moral Sentiments*. Sao Paulo. Metalibri. 2006

²¹¹ WITZTUM, Amos (1998). A study into Smith’s conception of the human character - *Das Adam Smith Problem revisited*. *History of Political Economy*. Vol. 30, No. 3. Pages 489-513. Quoted in WILSON, David; DIXON, William (2006). *Das Adam Smith Problem – A critical realist perspective*. Leiden. Brill NV. Pg.259

‘cardinal’ virtues (courage, temperance, justice, and prudence) and three Christian virtues (faith, hope and love)’.²¹²

McCloskey alleges that out of the Seven primary virtues, Smith chose all the cardinal and virtue of love to appraise. For the purpose of my thesis I would like to elaborate on the virtue of courage. Referring to Aristotle, Smith in the *Theory of Moral Sentiments* emphasizes that virtue in general “lies in a kind of middle between two opposite vices”.²¹³ Therefore, as stated in Smith text, the notion of courage or fortitude could be found in-between vice of cowardice and rashness.

According to McCloskey, Smith’s notion of courage combined with prudence yielding entrepreneurship acquired in *Theory of Moral Sentiments* rather negative connotation. As I see it, courage (not entrepreneurship) as a virtue is what is missing in the debates on overcoming of current economic crisis and building a new decent society. However, before elaborating on the particular reasons, I would like to clarify my point of departure for the following paragraphs, which might seem to be illogical at first sight; I hold the opinion that economic crisis can be seen as an externalization of the shortage of natural courage.

From my point of view, the lack of courage closely related to what I have already elaborated on in chapter 2.1.5 i.e. the loss of harmony with nature and the subsequent ‘never-ending inner tension and the feeling of insufficiency’²¹⁴ is peculiar for our present-time form of social contract. In my opinion, the general cowardice relates to our unwillingness to realize that ‘material success does not equate happiness’²¹⁵ with panic and return to our ideology when this quasi-religious belief is challenged.

²¹² MCCLOSKEY, Deidre. Adam Smith, the Last of the Former Virtue Ethicists. Deventer. The Netherlands.pg.5

²¹³ SMITH, Adam (1790). The Theory of Moral Sentiments. Sao Paulo. Metalibri. 2006. Pg.247

²¹⁴ SEDLACEK, Tomas (2011). Economics of Good and Evil, The Quest for Economic Meaning from Gilgamesh to Wall Street. Oxford University Press

²¹⁵ ORRELL, David (2012). Economyths – How the Science of Complex Systems is Transforming Economic Thought. London. Icon. Pg.209

As already mentioned in chapter, Slavoj Zizek claims that “*the only functioning ideology is consumerism*”²¹⁶.

Another consequence of joining the present form of social contract and the loss of harmony with nature can be seen in the loss of capability to do what we have reason to value, which in my opinion implies the quasi-religious belief already mentioned, wealth became valuable for its sake.

2.2.7. Adam Smith’s Institutions

As already mentioned in chapter 1.1.1., in Rousseau, the wickedness of human nature is ascribable to the institutional designs. Therefore, the necessity to deal with new social arrangements preventing instability, inequality and poverty as elaborated in Smith’s text should get according to Sen to the foreground in the debate on the current economic crisis.²¹⁷

According to Sen, there are two different approaches of reasoning with regard to the institutional arrangements; First, transcendental institutionalism, related to ‘contractarian method of reasoning’²¹⁸ pursued by Jean Jacque Rousseau, Immanuel Kant and John Rawls, embodying attention on ‘identification of perfect justice rather than comparing of justice and injustice’²¹⁹, therefore not focused on the nature of emerging societies; second, comparative approaches, with concern for ‘realization focused comparisons’²²⁰ represented among others by Adam Smith. To sum up, in the former, the primary question to be concentrated on is: “*How could we identify perfectly just institutions?*”²²¹, whereas in the latter: “*How could justice be advanced?*”²²²

²¹⁶ ZIZEK, Slavoj (2006). *The Pervert’s guide to Ideology – Movie*

²¹⁷ SEN, Amartya (2010). *Adam Smith and the contemporary world*. Erasmus Journal for Philosophy and Economics. Vol. 3, Issue 1, pg. 54

²¹⁸ Ibid., pg. 58

²¹⁹ Ibid., pg. 58

²²⁰ Ibid., pg. 59

²²¹ Ibid., pg.59

²²² Ibid., Pg.59

According to Sen, taking into consideration that today's theory of justice of the mainstream rests on the contractarian tradition; Smithian approach stipulates fundamental change in the formulation of the theory of justice.

Before elaborating on Smith's approach it should be mentioned that even though as Sen assumes Kant was familiar with the *Theory of Moral Sentiments*, he emphasized that: *"Though reason is undoubtedly the source of the general rules of morality it is altogether absurd and unintelligible to suppose that the first perceptions of right and wrong can be derived from reason."*²²³

At the heart of the Smith's approach of reasoning lies the device of impartial spectator since it allows options not possible in the contractarian approach, including; comparative assessments, social realizations and removal of particular causes of injustice. The impartial spectator is a device referred to as: *"reason, principle, conscience, the inhabitant of the breast, the man within, the great judge and arbiter of our conduct."*²²⁴ or *"the knower of the real motives and reasons for our actions and therefore of their merit or demerit"*²²⁵

2.2.8. Conclusion

To sum up, I have elaborated on the moral side of homo economicus with the main aim to reconsider its limited motivational scope; first, I pointed out, tracing back to the subject of economic man as designed by John Stuart Mill, according to whom the introduction of wider range of motives would be unnecessary, that besides drive for accumulation, Mills economic men has other three interests: 'leisure, luxury and procreation'²²⁶Second, I elaborated on the assumption of material self-interest that can be found in Bernard Mandeville, who presupposed vice-expressed self-interest to be "a

²²³ SMITH, Adam (1790). *The Theory of Moral Sentiments*. Sao Paulo. Metalibri. 2006. Pg. 320. Quoted in MCCLOSKEY, Deidre. *Adam Smith, the Last of the Former Virtue Ethicists*. Deventer. The Netherlands. Pg.28

²²⁴ *Ibid.*, Pg.28

²²⁵ SUAREZ-VILLEGAS, Juan-Carlos. *It is impossible to base morality on sympathy?* University of Seville-Spain. Florianópolis v. 10, n. 1. Pg. 89

²²⁶ PERSKY, Joseph (1995). *Retrospectives - The Ethology of Homo Economicus*. *Journal of Economic Perspectives*. Vol. 9, No. 2. Pg. 224

multiplier of effective demand, which becomes a driver for the economy".²²⁷ Third, since 'Mill situated its treatise on Adam Smith'²²⁸ work, who is sometimes regarded wrongly as successor of Mandeville thoughts with only one of his principle works taken into account I found it necessary to emphasize that unlike Mandeville, Smith points out that self-interest does not refer to greed or selfishness but rather to the fact that we have concern for our welfare and therefore acquires positive connotation. However, Amartya Sen concludes that the consequentalist reasoning is not sufficient and referring to Smith emphasizes the role of other motives such as sympathy. Fourth, I considered the alleged incoherence between two Smith' texts: *The Wealth of Nations and Theory of Moral Sentiments* with the following conclusion: even though the former represents "apparently selfish character"²²⁹, whereas the latter "ethically conscious human being"²³⁰, the guiding motive of the human behavior in both texts is sympathy. Fifth, I have elaborated on the neglect of one particular motive of the Seven Primary Virtues by Aquinas outlined in the *Theory of Moral Sentiments* – courage and its implications. I concluded that lack of courage as a consequence of the present form of Social Contract i.e. loss of harmony with nature is externalized in the quasi religious belief of identifying material success with happiness, furthermore I elaborated on the capability approach with emphasizing opportunities such as good health rather than means. Sixth, I have juxtaposed transcendental institutionalism related to contractarian method of reasoning, and comparative approach with emphasis on Smith's concept of impartial spectator.

²²⁷ SEDLACEK, Tomas (2011). *Economics of Good and Evil, The Quest for Economic Meaning from Gilgamesh to Wall Street*. Oxford University Press

²²⁸ RODRIGUEZ-SICKERT, Carlos (2009). *Homo economicus*. Pontificia Universidad Catolica de Chile FACEA. Escuela de Administracion, Pg.3

²²⁹ WITZTUM, Amos (1998). A study into Smith's conception of the human character - *Das Adam Smith Problem revisited*. *History of Political Economy*. Vol. 30, No. 3. Pages 489-513. Quoted in WILSON, David; DIXON, William (2006). *Das Adam Smith Problem – A critical realist perspective*. Leiden. Brill NV. pg.256

²³⁰ *Ibid.*, pg.256

2.3.Hypothesis 3: We don't know what our preferences are

2.3.1. Introduction

Instrumental rationality of economic man as mentioned in the previous chapter presupposes given set of preferences with the following hypothesis; 'stability over time and exogeneity.'²³¹ Since economic crisis got to the foreground of the debate behavioral economics, for the purpose of my thesis, I will elaborate on the hypothesis of exogeneity by considering the arguments of Dan Ariely given the following question: 'Do we systematically repeat certain mistakes?'²³²

As I see it, given that "*consumer debt is the lifeblood of our economy*"²³³, Ariely's concepts could provide a relevant explanan of economic crisis and suggest the way of its overcoming and building a new model of decent society.

Therefore, in this chapter, first, I will deal with our inability to 'choose things in absolute terms'.²³⁴ Second, the concepts of anchoring, arbitrary coherence, herding, self-herding and affective forecasting will be mentioned. Third, I will elaborate on the implications of concepts listed above on the market decision making.

2.3.2. 'Decoy-effect'

Dan Ariely, as I already mentioned, touches the axiom of transitivity by emphasizing that men seldom make decisions in absolute terms; "*We don't have an internal value meter that tells us how much things are worth. Rather, we focus on the relative advantage of one thing over another, and estimate value accordingly.*"²³⁵ In addition there is an

²³¹ RODRIGUEZ-SICKERT, Carlos (2009). Homo economicus. Pontificia Universidad Catolica de Chile FACEA. Escuela de Administracion. Pg.5

²³² ARIELLY, Dan (2008). Predictably Irrational: The Hidden Forces that Shape Our Decisions. New York. Harper Collins. Pg. 8

²³³ GREABER, David (2011). Debt - The First 5,000 Years. New York. Melville House. Pg.4

²³⁴ ARIELLY, Dan (2008). Predictably Irrational: The Hidden Forces that Shape Our Decisions. New York. Harper Collins. Pg. 2

²³⁵ Ibid., Pg. 2

aspect of relativity that makes us juxtapose rather things that are locally available and easily comparable, which Ariely refers to the ‘decoy-effect’²³⁶:

We have two options A-B, each better equally on different attribute making the choice difficult’. Introducing of a new option A-, the decoy that is an inferior version of A makes option A look better not only to itself but in overall.

From my point of view, besides having a triplet of options with a decoy, rather the sequence of their introduction plays a decisive role. Therefore, in the following few paragraphs I would like to deal with the following question: How does our first decision translate into long-term habits?

2.3.3. Imprinting & Arbitrary Coherence

Ariely applies the natural phenomenon of imprinting i.e. ‘sticking to initial decisions based on what’s available in the environment’²³⁷ to human behavior, in particular when accepting first price when we confront ourselves to a new product i.e. anchoring. Therefore, according to him, ‘our first decision over the price is imprinted in a long sequence of further decisions.’²³⁸

With reference to anchoring, Ariely introduces the term ‘arbitrary coherence’²³⁹, comprehending that initial prices that we become anchored to (by buying a product) are to great extent arbitrary and influences the present and future prices we are ready to pay for similar products, making them coherent.

But what processes transpose our first decision into a long sequence of future decisions? According to Ariely, an explanan is the general pattern of human conduct referred to as herding implying that we follow the example of other people’s behavior and its particular form – self-herding pointing out to the situation when our present decisions follow the

²³⁶ Ibid., Pg. 2

²³⁷ Ibid. Pg. 25

²³⁸ Ibid., pg. 36

²³⁹ Ibid., pg. 26

suit of our past conduct without the latter being questioned. In my opinion, self-herding relates closely to the concepts of ‘anticipated utility and affective forecasting’²⁴⁰ invented by Danny Kahneman and Daniel Gilbert implying that that we don’t learn recursively from past events, in other words, we are not able to consider our past errors in predicting future affective states.²⁴¹

2.3.4. *Cogito ergo sum*

In this subchapter I would like to elaborate briefly on the implications of arbitrary coherence and anchoring on market decision making.

First, Ariely points out to oversimplification of economic models: orthodox economic view holds that supply and demand are independent forces whose interactions generate prices of goods. His experiments demonstrate that relationships between market forces are not conditioned on preferences but on our memory and “*the desire for coherence with our past decisions*”²⁴² Therefore, according to him, it could not be concluded that market forces are independent since anchoring comes from supply side.

Second, Ariely undermines the efficiency of free exchange in the following way; since our choices are affected by random anchors and arbitrary coherence, they can’t be an accurate reflection of real pleasure we gain from the goods.

2.3.5. Conclusion

Taking into account the statements listed above, we don’t necessarily have a sense of what a product or service is worth for the following reasons; first, our ‘ability to choose things in absolute terms’²⁴³ is limited since we rather ‘estimate value accordingly’²⁴⁴ and condition our decisions on comparisons with ‘decoys’²⁴⁵, i.e. inferior versions of one of the two options. Second, referring to the concept arbitrary coherence, we tend to

²⁴⁰ Ibid., pg.195

²⁴¹ Ibid., pg. 195

²⁴² Ibid., pg. 46

²⁴³ Ibid., pg. 2

²⁴⁴ Ibid., pg.2

²⁴⁵ Ibid., pg. 8

transpose first arbitrary decisions into long-term habits, making them coherent. But how does our first mistake translate into sequence of further decisions? Ariely emphasizes that we follow the suit of other people's conduct referred to as herding and its particular version self-herding i.e. following our own past behavior. Moreover, we 'are not able to consider our past errors in predicting future affective states'.

To sum up, Ariely's experiments demonstrate that in the 'framework of arbitrary coherence'²⁴⁶ the market relations are conditioned not on our preferences but rather on our memory and self-herding behavior. Therefore; since our choices are affected by random anchors, they can't be an accurate reflection of real pleasure we gain from the goods. Moreover, I wouldn't say that the concepts listed above neglect the hypothesis of exogeneity, rather emphasizes that our behavior is the implication of our first arbitrary decisions that is determined by supply side.

3. Conclusion

3.1.Economic growth

Since the perception of success is mirrored in the value system of individuals and societies, I have elaborated on the ills accompanying and conditioning economic growth with the main aim to contribute to the debate on the alternative measure to GDP.

The point of departure for the proposed measures of the index is the alleged misbalance in the Ariely's dichotomy of the sharp market and fuzzy social norms with the former being in the default mode.

Therefore, taking into account the negative aspects of economic growth, the following measures should be in my opinion considered in creating new model for a successful society: Income/debt ratio, sense of content and feeling of sufficiency, access to 'wilderness', leisure time, connectedness of joy and unhappiness, commoditization of

²⁴⁶ Ibid., Pg. 46

family, capability to do what we have reason to value (health and fitness), opportunity to do what we have reason to value and attitude towards future.

3.2.Human nature

Considering the impact of the crisis on our perception of human nature, the point of departure is the statement that social science and economics especially ‘shapes the world it seeks to describe’.²⁴⁷ Furthermore, I took into consideration Amartya Sen’s statement emphasizing that economic crisis revealed the insufficiency of motivational narrowness of unrestrained self-interested behaviour with the subsequent increased demand for a new model of a successful society that embodies wider range of motivations.

Orthodox economic view presupposes reductionist model of economic men that epitomizes devotion to: ‘material self-interest and instrumental rationality’²⁴⁸ with the former assumption traced back to Bernard Mandeville and Adam Smith. In Mandeville self-interest acquired the connotation of greed and selfishness, in my opinion peculiar for present time.

Adam Smith wrote two books: *Theory of Moral Sentiments and Wealth of Nations*. The former (degraded to the status of afterword) represents “*ethically conscious human being*”²⁴⁹ whereas the latter „*apparently selfish character*”.²⁵⁰ Nevertheless, the guiding principle of behavior in both texts is natural feeling for others i.e. sympathy. Similarly, in Rousseau, the endowment of compassion is presupposed.

Moreover, besides prudence, Smith emphasized four other virtues including courage. I hold opinion that economic crisis a product of herding can be seen as an externalization of the shortage of courage, an outcome of loss harmony with nature. Therefore, taking

²⁴⁷ ORRELL, David (2012). *Economyths – How the Science of Complex Systems is Transforming Economic Thought*. London. Icon. Pg.214

²⁴⁸ RODRIGUEZ-SICKERT, Carlos (2009). Homo economicus. Pontificia Universidad Catolica de Chile FACEA. Escuela de Administracion. Pg.2

²⁴⁹ WITZTUM, Amos (1998). A study into Smith’s conception of the human character - Das Adam Smith Problem revisited. *History of Political Economy*. Vol. 30, No. 3. Pages 489-513. Quoted in WILSON, David; DIXON, William (2006). *Das Adam Smith Problem – A critical realist perspective*. Leiden. Brill NV. pg.256

²⁵⁰ Ibid., pg.256

into account the humanist inheritance of Rousseau, the prospective debate concerning motivational narrowness of self-interest given the virtue set in Adam Smith's might cause the revival Rousseau's humanist legacy, including his affective potentiality of compassion and his call 'back to nature' avoiding the present-day subjection of physical independence. In addition to that, considering Kant, in *Theory of Moral Sentiments* we can find the following statement: "*Though reason is undoubtedly the source of the general rules of morality it is altogether absurd and unintelligible to suppose that the first perceptions of right and wrong can be derived from reason.*"²⁵¹

Furthermore, Rousseau assumed that "*man is naturally good, and that it is solely by our institutions that men become wicked.*"²⁵² Similarly, in Kant, the "*natural propensity towards Evil*"²⁵³ is not ascribed to animal or rational nature but to the social arrangements. Nowadays, the theory of justice is dominated by 'contractarian method of reasoning'²⁵⁴ that embodies attention on design of perfectly just institutions. The alternative, comparative approach whose proponent was Adam Smith rather focused on social realizations with the device of impartial spectator might stipulate fundamental change in the formulation in the theory of justice.

3.3.Freedom

As I see it, economic crisis can be perceived as the externalization of the lack of Kantian perception of freedom that is in my opinion epitomized in the hypothesis of exogeneity of the preference set of economic man.

²⁵¹ SMITH, Adam (1790). *The Theory of Moral Sentiments*. Sao Paulo. Metalibri. 2006. Pg. 320. Quoted in MCCLOSKEY, Deidre. *Adam Smith, the Last of the Former Virtue Ethicists*. Deventer. The Netherlands.

²⁵² Letter to M. de Malesherbes, in Jean-Jacques Rousseau, *Oeuvres complètes*, vol. 1 (Paris:Gallimard, 1959)Pg.1135. Quoted in COHEN, Joshua (2010). *Rousseau – A Free Community of Equals*. New York. Oxford University Press. Pg.97.

²⁵³ *Religion within the Boundaries of Mere Reason*, ed. Allen Wood and George di Giovanni (Cambridge: Cambridge University Press, 1998). Pg. 21. Quoted in DEAN, Richard (2006). *The Value of Humanity in Kant's Moral Theory*. New York. Oxford University Press. Pg.21

²⁵⁴ SEN, Amartya (2010). *Adam Smith and the contemporary world*. *Erasmus Journal for Philosophy and Economics*.Vol. 3, Issue 1.Pg.58

Therefore, Ariely's comment on Descartes' Cogito ergo sum: "*suppose we are nothing more than the sum of our first, naive, random behaviors*"²⁵⁵ and its implication on the notion of freedom shouldn't be missing in the debate on overcoming economic crisis.

Ariely, behavioral economist, presupposes that our initial random decisions, determined by supply side are transposed into long-term habits by means of herding i.e. following the suit of other peoples' behavior. However, in Kant, moral agent is considered to be practically free in case her "*proper self*"²⁵⁶ is not coerced by external forces. Similar attitude can be found in Nicomachean ethics by a man being taken away by the wind making his acting involuntary.²⁵⁷

Besides herding, Ariely elaborates on self-herding pointing out to the situation when our present decisions follow the suit of our past conduct without the latter being questioned. In Kant, the response to the question: "*How can I avoid being caused externally?*"²⁵⁸ lies in causal spontaneity as a notion of freedom reminiscent of Aristotle's unmoved mover "*that which moves without being moved*".²⁵⁹

Therefore, the effort to overcome economic crisis and build a new model of a dense society might imply the revival of Kantian humanist legacy of freedom by questioning the hypothesis of exogenous set of preferences since in the framework of arbitrary coherence, only first decision matters.

²⁵⁵ ARIELLY, Dan (2008). *Predictably Irrational: The Hidden Forces that Shape Our Decisions*. New York. Harper Collins. Pg. 43

²⁵⁶ PP, Groundwork of the Metaphysics of Moral, pg. 104. Quoted in KNAPP, Trevor. Kant's Trinity of Freedom: An exposition of Practical Freedom, Causal Spontaneity, Autonomy. St. Olaf College, 2013.91 pages. Pg. 11

²⁵⁷ KNAPP, Trevor. Kant's Trinity of Freedom: An exposition of Practical Freedom, Causal Spontaneity, Autonomy. St. Olaf College, 2013.91 pages. Pg. 11

²⁵⁸ KNAPP, Trevor. Kant's Trinity of Freedom: An exposition of Practical Freedom, Causal Spontaneity, Autonomy. St. Olaf College, 2013.91 pages. Pg. 28

²⁵⁹ Kant's Trinity of Freedom: An exposition of Practical Freedom, Causal Spontaneity, Autonomy. St. Olaf College, 2013.91 pages. Pg.39

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