

Philosophy of Money: Part 2

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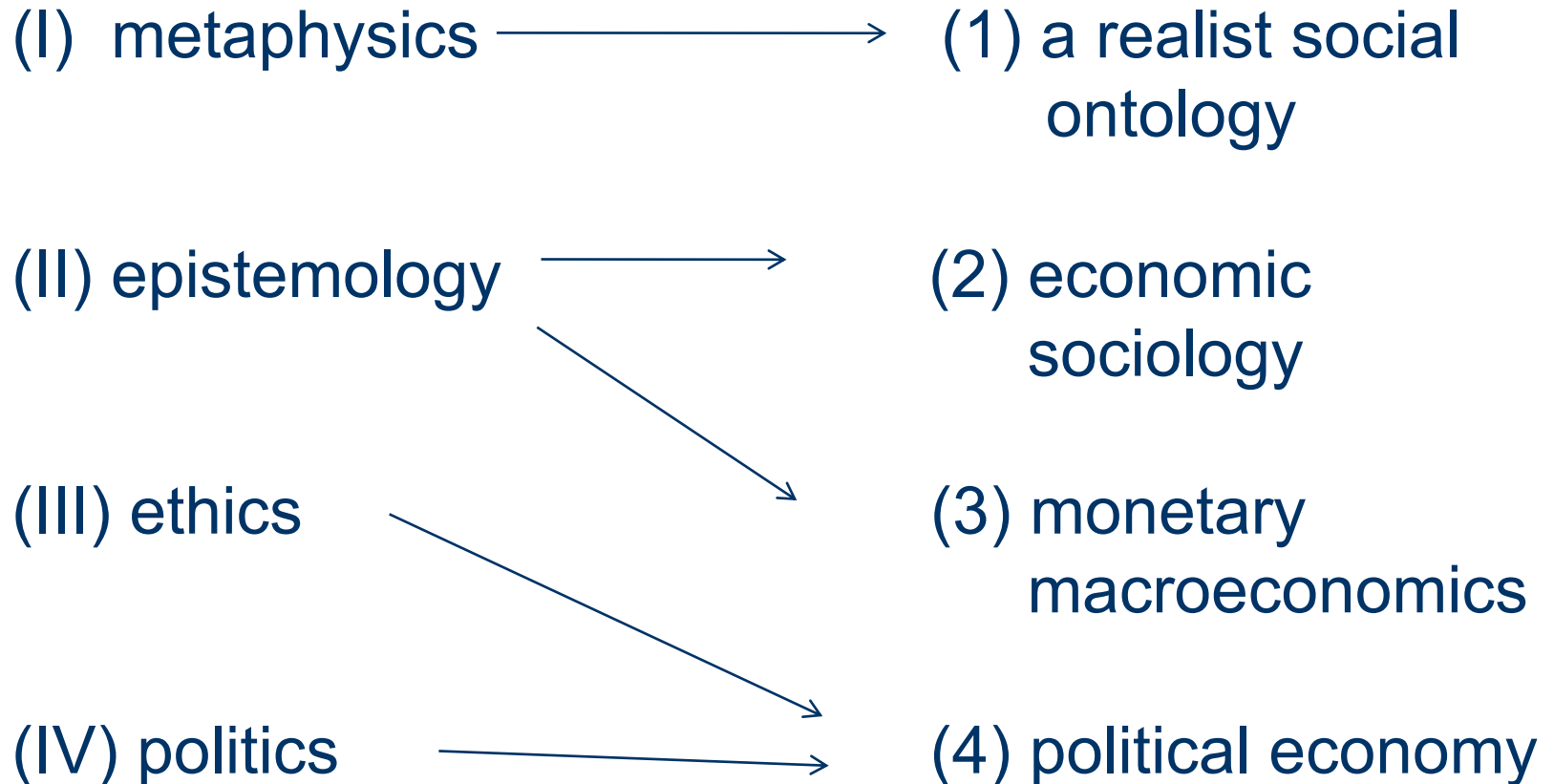
The Main Branches of Philosophy

- (I) **Metaphysics**
- (II) **Epistemology**
- (III) **Ethics**
- (IV) **Politics**

Requirements of a Philosophy of Money and Finance

- (1) **A Realist Social Ontology**
- (2) **Economic Sociology**
- (3) **Monetary Macroeconomics**
- (4) **Political Economy**

Correspondences



Realism versus Idealism

- In philosophy these terms have quite different meanings than they do in ordinary language. Realism is “the [view] that there is a real world independent of our thought and talk” whereas idealism holds that “reality is fundamental mental in nature”.
- There is a basic conflict in philosophy between idealism (Plato, Decartes, Locke, Hume, Berkeley, Hegel) and “naïve” or “direct” realism (Aristotle, Aquinas, Searle).
- Most philosophy/philosophers attempt some form of compromise;

E.g. “Transcendental Idealism” (Kant, 18th century)

“Critical Realism” (Bhaskar, Lawson, 20th century)

Interesting quote from Etienne Gilson (Director of the Pontifical Institute of Medieval Studies, University of Toronto in the mid-twentieth century);

- An idealist “thinks” but a realist “knows”

Simmel on the *Philosophy of Money* (1907)

“Every area of research has two boundaries at which the process of reflection ceases to be exact and takes on a philosophical character ... if the start of the philosophical domain marks, as it were, the lower boundary of the exact domain, then its upper boundary is where the ever fragmentary contents of positive knowledge seek to be augmented by definitive concepts into a world picture and be related to the totality of life.”

- This was a common enough understanding of the relationship between “philosophy” and “science” in the early-twentieth century.
- But the scheme suggested above really has *no* such boundaries. There is a philosophical character throughout. It is certainly possible to acquire knowledge of the subject matter, but not the sort of “exactness” presumably found in the natural sciences. The ontology of the subject matter is different.

What Type of “Knowledge” do we Seek?

Episteme

A Greek word, often translated as scientific knowledge, from the same root as epistemology. However, this rendering is misleading in a financial context. It would be better to say something like “understanding the principles of things”.

Technical Knowledge

In context, this would be the type of material learned in functional courses in business school (accounting, finance, marketing, *etc.* - and ,to some extent, microeconomics).

Practical Knowledge

“Hands on” knowledge which by definition, is something not found in college. Must “do it yourself” (DIY). *E.g.*, something as simple as physically being able to turn on a computer to buy and sell stocks and bonds,

(We are surely mainly interested here in the financial equivalent of episteme. There is not much use in playing the market, for example, or in knowing how some complicated financial derivative works, or even in having a PhD in finance, without some idea of the basic principles of money and credit.)

What has Happened to Mainstream Microeconomics?

- *I.e.*, the graphs, charts, diagrams, and equations seen in microeconomic textbooks.
- This does *not* appear explicitly in our scheme.
- But, this is OK, as soon as it is realized that the field of “economic sociology” *already* includes the study of markets and other such social institutions.
- However it does puts “the market” in its place, so to speak, in the broader social order, rather than being the *only* thing discussed.

Social Ontology

- The ontology of the social world is different from that of the physical world.
- Nonetheless they are both part of the same world. The mind and consciousness are, in the end, strictly biological phenomena. According to Searle in *Mind: A Brief Introduction* (2004) we must reject Cartesian “dualism”, and indeed any form of dualism, in favour of “biological naturalism”.
- Although the mind is a biological phenomenon the *products* of consciousness are not themselves reducible solely to material factors. Essentially the argument is a form of emergentism.
- Social facts are “ontologically subjective” but “epistemologically objective”. Therefore social constructs therefore can, and do, have causal effects in the material world. Consider the example of the “line drawn in the sand”, as discussed in Part 1. Money is just like that.
- What needs to be explained is why social institutions can seem very solid, even immutable, at one moment (such as an unbreakable taboo), but also how they can simply collapse the next (revolutions).

The Construction of Social Reality

- The was the title of Searle's (1995) original book. Note that the title was not *The Social Construction of Reality*. That would have taken us right back to idealism. See also his *Making the Social World: The Structure of Human Civilization* (2010).
- Social structure depends on;
 - Speech Acts
 - Constitutive Rules
 - Assignment of Status Function
 - Collective Intentionality
- The basic formula is;

“X counts as Y in context C” which is then iterated as many times as necessary.

An Iterative Sequence as Applied to Economic Sociology

The notion of iteration was introduced in the previous slide. For example, the “method of enterprise” (to use Weber’s term which is more accurate than Marx’s “capitalism”) implies, in order;

- (a) A political settlement of some kind.
- (b) Money (meaning by this the combination of the unit of account and the means of payment in the same asset, and also secure debt/credit relations). “Money is a social relation” according to Ingham (1996).. It is primarily a means of payment of debt, not a simple medium of exchange.
- (c) Private property (in the legal sense). According to Weber, “money is the father of private property”, not the other way around.
- (d) Markets.
- (e) Entrepreneurial business.

Ethics and Politics

- It is important to note exactly where ethics and politics come into this scheme. Actually, it is not possible to discuss *either* until after the ontological and epistemological issues have been decided.
- There may well exist an “objective science of ethics” as suggested, for example, by Rothbard (1998) in *The Ethics of Liberty*. The argument is *not* relativism or pragmatism. But, the ethical program must be coherent in some sense. It must be consistent with “the way the world works”.

(Max Weber apparently once told his left-wing students that social science should be “wert frei” - value free - in the first instance. I think that this must have been what he meant. The ethical discussion, for example, comes in only in the third place just before the politics. It is not any the less important for that.)