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## 56 Realism

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### Introduction

This chapter examines the relation between realism and ethics in economics. As this volume attests, ethical positions are implicit in much of what economists do and say. Also clear is that often what economists advocate as right or good partly depends on what they believe exists; that is, what the world is like. Realism, which in simple terms is the belief in the existence of a world independent of what we know or think, bolsters such arguments. As Gasper (2007) implied, there can be no well-being without being.

The question of realism and ethics in economics is examined here principally through a focus on two key interventions in the recent debates on realism in economics. First, Uskali Mäki made an excellent recent contribution to the methodology of economics on the question of realism. Mäki offered a number of distinctions in realism which attempt to clarify a number of debates in economics, particularly related to neoclassical economics and key figures within it. One point made by Mäki is that realism is a varied concept, and no single definition of realism can describe economics completely accurately.

The second key intervention relates to critical realism, a variant of realism which has recently been extremely influential in economics, associated particularly with Tony Lawson. Specific features of critical realism are relevant to ethics, as are its specific ethical claims. Before we look at these contributions, it is first necessary to clarify the meaning of realism.

### Realism

As a project, realism in economics has taken particular forms: (i) clarification of what is meant by realism; (ii) advocacy of certain types of realism, particularly critical realism; and (iii) claims that schools of thought or meta-schools have adopted, albeit implicitly, one or another variant of realism. To do justice to realism as a philosophical position, it is necessary to recognize its nuances and variety. That is because realism has many opponents and often suffers from oversimplification.

For Mäki (1989),<sup>1</sup> ‘simple realism’ (also known as ‘ontological realism’) is a philosophical position which makes a claim about the existence of objects outside the human mind. Realism can be stronger: things *do* exist; or weaker: things *might* exist. Stronger realism engages in what Mäki calls ‘truth ascription’, whereas weaker realism attempts only ‘truth nomination’; but both are realist (Mäki 2005). These distinctions are important, because criticisms of realism often attack the strength of its claims, or even its perceived claims of infallibility. Mäki (ibid.) argues that the weaker truth nomination definition of realism refutes a series of arguments against realism.

The nature of existence is important in this context. Mäki (1996) differentiates *independent* existence (existing independently of the human mind); *external* existence (existing externally or independently of any individual human mind); and *objective* existence

(existing unconstituted by any representation of it). Realism tends to favour that last definition, since it is clear that although theories and other conceptions of objects can causally affect them, objects can be conceived independently. There can be a temporal referential detachment between the person's identification of an object and the object itself (Mäki 2005).

For example, one can examine one's own *past* consumption choices as an object of analysis. In fact, economics has a preponderance of concepts, such as equilibrium, for which it is difficult to claim strongly that they exist. However, while the exact measurement of unemployment is obviously relative to some agreed standard, an idle machine or worker remains idle irrespective of our conception of them.

According to Mäki, the crucial distinction is between *common sense* realism and *scientific* realism. In the former, objects exist and are identifiable through common sense. In many ways, economics rests on common sense realism, since its objects, such as firms, households and other economic agents, may be said to exist simply by looking around. This is unlike, for example, the way in which quarks exist, although the same cannot be said for equilibrium or utility. Economics is populated by 'folk' objects and indeed folk theories, including that of *homo economicus* (Mäki 1992). In some ways, therefore, the project of everyday economics (see Ruccio and Amariglio 2003, Ch. 7) is, if not redundant, not as radical a departure from conventional economics as might be supposed. Mäki (1992) argues that theory from the Austrian School, for example, accepts the existence of the entrepreneur from simple common sense. In other ways, however, economics represents scientific realism. Scientific realism depicts entities lying beyond the realm of common sense, identifiable by some set of 'scientific' procedures. The entities exist independently of investigations into them, which succeed in referring to entities and describing them approximately correctly; this explains the uncontroversial success of science (Mäki 1996). (Though economics is not uncontroversially successful like some branches of physics or chemistry.) Clearly economics is also populated by scientific theories about scientific objects. For example, those of the Austrian School regard the market process, and post-Keynesians regard uncertainty, as objects requiring scientific investigation.

Certain tenets of scientific realism are commonly held (albeit certainly not universally). For example, a central notion is that scientific objects are entities which possess causal powers. Often the metaphor of depth is used to communicate the notion of causal powers. Powers may be said to reside 'beneath' their effects. Mäki (1990, 1992) uses such concepts to discuss Austrian theory. He argues that some economists in the Austrian School (for example, Kirzner 1979) regard entrepreneurial alertness as one such power.

### **Critical realism**

One example of a version of scientific realism is critical realism, which developed from the philosophical work of Roy Bhaskar (1978, 1979, 1986). There are several distinct stages of critical realism, but most of the work in economics has been developed from Bhaskar's early work on transcendental realism and critical naturalism. Critical realism in economics has been developed mainly by Tony Lawson (1997, 2003) based primarily on Bhaskar's earlier work and does not explicitly engage with the later dialectical critical realism phase. Rather, critical realism is taken to be already dialectical. Critical realism is based on the transcendental deduction of reality from objects of experience. Bhaskar (1978) uses scientific experiment as the canonical explanandum, and Bhaskar (1979)

generalizes this to any intentional act. Critical realism argues that for those acts to be possible, the world must be stratified, differentiated and open. Here, 'stratified' implies the metaphor of depth, as discussed above. 'Lower levels' contain causal mechanisms which generate actualities (particularly events) and experiences of them at 'higher levels'. Critical realism also stresses the importance of properties at one level rooted in, but irreducible to and emergent from, lower levels. 'Differentiated' implies that the world is not uniform. 'Open' refers to the fact that event regularities of the sort 'if  $x$  then  $y$ ' will not occur. This definition is buttressed by notions that mechanisms interact with one another, are sometimes not activated and therefore that their effects are not always manifest.

Critical realism has been criticized for engaging only in philosophical ontology; that is, in identifying real objects very abstractly and abdicating the identification of actually existing objects to science. Nonetheless, it has been influential in social science and to some extent in economics in affecting the practice of research. Critical realism has been particularly effective in refocusing practitioners on ontology, in raising questions about mathematics and quantitative methods, in resisting anti-realist positions and in clarifying bases for truth claims. Like Mäki, critical realist authors have made claims about various schools of thought being implicitly critical realist. Such claims tend to focus on the so-called 'heterodox' traditions, including post-Keynesianism, Marxism, Austrianism, institutionalism and feminism.

Several key features of critical realism are worthy of note. First, its transformational model of social activity provides a lens through which one can understand the independent existence but causal interdependence of agency and social structure. Thus, social structure, which might include morality, conditions agency, but is also conditional on it. A moral dimension therefore pre-exists agents' actions based on it, but is also transformed and reproduced by those agents' actions. As such, specific societies can have their own historically specific ethics without abandoning the concept of moral realism.

Critical realism attempts to be critical in a number of ways, including of itself. First, theories are considered fallible, reality being the arbiter of the value of a theory. Thus, the claims of critical realism must be regarded as less strident than some anti-realists might presuppose. Second, Bhaskar (1979, 1986) developed an explanatory critique, discussed below, which aims to expose false beliefs and identify structures which cause them. A third key element is the recent stress on absence.

Mäki criticizes some realisms as being too global; that is, being too top-down. He prefers bottom-up realism, arguing that global approaches cannot adequately describe economics, and that economics thus displays multiple realisms. One could also take the view that there are no grounds a priori for holding one realism to be inherently superior to another. Implicitly he is arguing against critical realism, which can be interpreted as adopting a top-down approach in economics. In its defence, by adopting a position which involves some prescription, critical realism is able to comment on inconsistencies between theory and practice, as well as on methodological incoherence and the like. Further, it could be argued that all practitioners have an implicit methodology and thereby philosophical approach. In effect, although imposing a realism on a discipline can be an oversimplification, positing a specific realist position may describe very well the practice of many economists, allow one to identify significant movements in economics and permit injunctions into practice. Indeed, arguably current practice is partly the consequence of past methodological injunctions.

Critical realism offers its own specific view on ethics, which is discussed further below. First, though, it is useful to examine whether realism in general has ethical implications.

### **Realism and ethics**

Examining the relation between realism and ethics is not straightforward. One might begin by asking, 'Realism about what?' The implications of realism for ethics (and by extension, for economics) follow from two types of argument: (i) realism *about* ethics and (ii) specific ontological claims about the real world which lead to ethical claims and implications for ethical theories.

In the second category of argument come ethical claims which implicitly accept realism about ethics and are based on specific ontologies, such as that people's well-being is based on their objective needs, for example, to eat and get shelter, but also on non-physical needs, such as conditional and unconditional recognition, mutual recognition among equals and equality of moral worth (see Sayer 2005). These have direct implications for economics. In the first category of argument, if one holds a *moral realism* – the existence of moral properties irreducible to people's beliefs and attitudes or judgements as to what is right or wrong; the positing of an independently existing morality – then morality is a cause, independent of one's understanding of it, which can in principle be identified and perhaps modified. Morality can then be treated like any other causal mechanism. Such a position is one of *ethical naturalism* (see Calder 2007). Of course, as that example shows, the two types of argument can be combined.

The first type of argument is a broad philosophical one and perhaps has fewer implications for economics than the second; it will be considered first. Gasper (2007) offers a simple direct implication of realism for ethics, which is the basic argument that without being, there can be no well-being. However, Gasper's argument also acknowledges that 'well-being' has a normative component in the definition of 'well', which still begs the question of what status the normative dimension has.

Putnam (2004) in *Ethics without Ontology* offers several arguments against realism about ethics. His arguments are against Ontology generally; that is, against theories which a priori make universal claims about existence. Putnam questions the bases of such claims in a variety of ways. For example, referring to the above discussion of existence, Putnam might claim that a single definition of existence is assumed. Yet he argues that the word 'exist' has multiple meanings. Which meaning is used is a question of convention. Putnam adopts a Deweyan pragmatism, which states that ethics concerns the solution of practical problems and that ethical positions emerge from people attempting to resolve these problems. Ethics, in this view, do not pre-exist practice, they emerge from it. Putnam seems to be rejecting moral realism. Indeed, Putnam rejects *apriorism* generally, which suggests he could be read as opposing scientific realist philosophical ontological claims about causal powers.

In other ways, though, Putnam's position is similar to recent, more sophisticated treatments of realism offered by, for example, Mäki and critical realism. There is agreement that what is moral is contestable and varies with context, being sorted out through practical problems and action. Ethical judgements are recognized as being highly complex (see Sayer 2000) and fallible. They are held to be based on intelligence, without reverting to a strict rationalism, which disallows the role of inclination or emotion (compare Collier 2000; Putnam 2004, p. 104). Furthermore, the moral dimension is

agreed as being pervasive and as affecting action. In sum, although there is an ‘interminable’ (Kourany 2000, p. S98) debate about realism about ethics (as there is about realism generally), it is unclear that realism per se has direct implications for ethics.

The second category of argument about realism concerns ethical claims that implicitly accept some ontology. Traditionally, treatments of ethics deal with the three schools: virtue ethics, deontology and utilitarianism. Some positions are consistent with more than one school (perhaps even all three) in different ways. For Gasper (2007), ‘well-being’ varies with the ontological perspective taken, because it refers to having (needs met), doing (capacity to do activities) and feeling. Thus, well-being as ‘living well’ fits more with virtue ethics, whereas well-being as ‘feeling good’ is consistent with utilitarianism. Fleetwood (1997) argues that utilitarianism is based on an empiricist ontology, in which reality is exhausted by experiences, and therefore in which human capacities or *telos* are irrelevant. That position contrasts with ontologies in which humans are purposeful and use their capacities to propel them towards ends. Ethical positions which stress activity and living deny implicitly a Cartesian dualism of mind and body (Brown et al. 2007). The critical realist approach is also a combination of different approaches. It is a consequentialism (in terms of self-realization and freedom), a deontology entailing that humans possess an expanded range of rights and a virtue ethics including, for example, solidarity and care and sensitivity.

More generally, ontological claims have ethical implications. For example, critical realism argues for a specific morality, one in which good actions are those which encourage human flourishing. Thus, critical realism provides an ethics of removing or transforming structures which preclude flourishing and the institution of structures which promote it. This claim is in turn based on the claim that although humans do have a more culturally dependent nature in different contexts, there is a common human nature (although this must be empirically established) and an (albeit fallibly) identifiable species being: humans have generalized capacities (see also Lawson 1997, 2003). This is the *alethic truth* of humans. Further, we have needs to realize these capacities. Our needs contribute to our survival and flourishing. We then engage in *explanatory critique* of structures which preclude human flourishing. Once identified, we pass automatically from an explanatory account of that structure to a value judgement on it; specifically, to a negative evaluation of those structures. This is to say that in our actions we ‘effectively accept the goal of the good or eudemonistic society as a goal already’ (Lawson 2000, p. 55). We rationally act in keeping with our real natures and towards our own flourishing; we are true to ourselves.

### **Realism, ethics and economics**

Thus far the discussion has been fairly abstract, dealing with general implications for ethics of realisms and their associated ontologies. However, at a more concrete level, it should be clear that specific scientific findings, for example, may have ethical implications.

Furthermore, specific ontological claims have their own implications for economics in terms of the ethical content of economic theory and policy. One area of application is the literature on well-being and happiness. This has developed in response to dissatisfaction with measures of national income as proxies for well-being which can be identified as empiricist and utilitarian.<sup>2</sup> The argument implicit in the well-being and happiness

literature is whether humans are fulfilled by material consumption. That, in turn, contains an implicit ontological claim about humans and their nature, capacities, needs and so on. The implication of that, in turn, is the claim that humans have real essences. Building on these notions, Fleetwood (1997), drawing on Aristotle and relating to Marx (and implicitly critical realism) argues that humans have *telos* directed towards a 'good life' and take actions towards that end. To do so requires they (partly) create conditions which allow their capacity to flourish. Modern techniques of production and marketing, such as built-in obsolescence, driven by the need to secure *exchange* value, are then considered bad, because they prevent people from acquiring the *use* values which they require to meet their essential needs. Thus, he argues, modern societies which stress such activities are bad.

Sayer (2004) tries to demonstrate how the moral dimension affects economic activities. For example, he notes that ideas of natural rights underpin exchanges; claims about exploitation clearly rest on a judgement that natural rights have been violated. The same applies to perceptions of unjust production relations. Sayer takes the position that moral positions are essential to humans and are rooted in human psychology and nature: they are not merely social constructs. This is an example of how realism about ethics might make a difference. For instance, he argues that economic responsibility for others is a transhistorical necessity of any economy, because economies by their nature make individual agents dependent on others. Thus, economic activities require trust (see also Lawson 2000).

Fleetwood (2008) applies Sayer's analysis to the issue of consumer sovereignty and simultaneously illustrates some of the points made earlier. He argues that the concept of consumer sovereignty is one which is continually reinforced by the practice of agents. Consumer sovereignty itself contains a normative dimension that consumers ought to drive production and its conditions. Further, that position is supported by an ontology of individualism. In turn, individualism supports an ethic of selfishness. However, Fleetwood argues that in fact a strict consumer-focused approach to production may well be ethically unsound because it leads to detrimental effects on workers. Specifically, consumer sovereignty leads to the domination of workers and a lack of recognition of their needs as workers and humans. This lack of recognition prevents their flourishing and thus their essential needs are not met. Therefore, consumers buying a 'bargain' are ignoring the conditions of its production and the detrimental effects on workers producing it. Similar arguments could be made with regard to cheap goods and the effects of their production on ecosystems and other species.

Ontological claims about the nature of humans as complex (see, for example, van Staveren 2001) suggest that human decision-making is a multifaceted activity, including ethical judgements. Moreover, for Sayer (2004), the economy is moral in an even deeper sense, that all economic practices have implicit ethical bases. For example, labour relations (and for instance wage levels) 'presuppos[e] the establishment of moral economic norms' (Sayer 2004, p. 5). The same could be said of property rights, including intellectual property. Thus, as Tomer (2001) suggests, even if humans may at some point resemble the self-interested, separate, non-reflexive and unchanging nature of *homo economicus*, at other, perhaps more mature points in their lives, they exhibit different ethical positions. Thus, a consumption decision may include ethical judgements on what purchases may aid pursuance of the good life; whereas under the utilitarianism which may be implicit in neoclassical economics, the consumption decision is based purely on whether utility is maximized.

## Conclusions

Realism remains highly influential. Realism is simply the view that there is (or may be) a world existing independently (in some sense) of our conception of it. However, realism is highly variegated. In economics, Mäki and critical realism have tried to add clarity to realism in different ways. Mäki has attempted to categorize realism(s) via analyses of the practices within economics. Critical realism has also examined the practice of economists, but from the perspective of a philosophy of science. Specific realist positions usually accompany ontological claims, which in turn lead to ethical positions. Both are employed, most often implicitly, by economists in their formulation of theory and policy analysis.

## Notes

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1. An important element of Mäki's contribution is to (*passim*) clarify the distinction between realism and realisticness. While realism is a philosophical position (such as those discussed above), realisticness is an attribute of representations. If realism is to say that the vocabulary of true and false may be applied to a theory T, realisticness is to say that theory T is true (Mäki 1998a). Mäki holds that this is an important distinction because many of the debates in economics over realism (for example, realism of assumptions) actually confuse realism and realisticness. Mäki (1998b) applies this distinction to the work of Coase (1937, 1960) on transaction costs.
2. That is not to conflate literatures on well-being and happiness. Brown et al. (forthcoming) argue that the concept of happiness employed in that literature is an attempt to reinstate cardinal utility, and is based on individualism. They stress that well-being may have an alternative, objective basis. See also Gasper (2007)

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**See also the entries on:** Epistemology; Positive versus normative economics.