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Table of Contents

Alla Marchenko & John Smithin The inaugural issue of the <i>Aurora Philosophy Journal</i>	... 1
Torrey Byles The speech foundations of money and property: a look at Searle and Ostrom	... 5
Alistair Dow & Sheila Dow Coase and the Scottish political economy tradition	... 21
Graham Hubbs Settling on how to settle: collective intentionality and money	... 35
John Smithin An important philosophical dispute in Toronto: Gilson, Lonergan, and anticipations of critical realism and MMT in economics	... 53
Leo Zelmanovitz The ontology of capital explained by the notion of property claims	... 67

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The Inaugural Issue of the *Aurora Philosophy Journal*

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Abstract

This short note provides an introduction to the work of the *Aurora Philosophy Institute* and to the inaugural issue of the *Aurora Philosophy Journal*, a new academic journal.

1. Introduction

This is the inaugural edition of the *Aurora Philosophy Journal*, an academic journal devoted to philosophy and social ontology. In what follows, we will describe the work of the *Aurora Philosophy Institute* and our expectations for the future of the *Journal*. We will also discuss the main themes of the current issue, and the contributions of the individual papers.

2. The *Aurora Philosophy Institute*

The *Aurora Philosophy Institute* is a non-profit organization, federally incorporated in Canada since July 2019, dedicated to philosophical research and ideas. Our programs continue to promote philosophical ideas and concepts which we feel will have practical results, in the areas of community outreach, education, public policy and research.

Let us draw your attention to our logo on the front cover. This is the *Tree of Life* which is a widespread theme or archetype in many of the world's mythologies, religions, and philosophical traditions. We think that this is an excellent fit for philosophy.

Much of our existing output, in the form of videos, research papers, the *API* blog, power-point presentations, *etc.*, can be found on the website at www.theapi.ca and at www.youtube.com/channel/UCFeH6q_xtAGFUz2YwaPAmtw on our YouTube channel.

The *APJ* will continue the presentation of our research results in a more formal academic context.

3. The *Aurora Philosophy Journal*

This is Vol.1, No.1 of the *APJ*. We anticipate the *Journal* will continue to be published on an occasional basis in the first instance. In future, we will appoint guest editors to oversee the production of each subsequent issue. This inaugural issue is edited by John Smithin, Executive Co-Director of the *API* and Professor Emeritus at York University, Toronto, Canada.

4. This Issue

We have been fortunate to be able to recruit a number of distinguished contributors for this first issue of the *Journal*, all of whom are also Associates of the *API*. These are Torrey Byles (Principal Economist, Granada Research), Alistair Dow (University of Victoria), Sheila Dow (University of Victoria), Graham Hubbs (University of Idaho), John Smithin (York University), and Leo Zelmanovitz (Senior Fellow, Liberty Fund).

The main themes of the inaugural issue have to do with the philosophy of money, social ontology and political economy. For example, in the first paper Torrey Byles looks at the body of work on social ontology by the philosopher John Searle and the political economist (and Noble Prize winner) Elinor Ostrom. Both authors have argued that social reality is ontologically subjective, albeit epistemologically objective, and is ultimately based on the collective intentionality of the various language communities. In the second paper, Alistair and Sheila Dow consider the methodology of another Nobel Prize winner, Ronald Coase, and the extent to which his work was influenced by the Scottish tradition in political economy (*cf.* Adam Smith) and thereby by the Scottish enlightenment in philosophy.

Next, Graham Hubbs also takes up the difficult question of collective intentionality, and the key role which this plays in the laying the foundations of the philosophy of money and of social ontology in general. He distinguishes between two main approaches to collective intentionality - the psychologistic approach and the accountability approach. He critiques the latter and advocates the former, drawing in particular on the work of G.E.M Anscombe in her *magnum opus* - which was itself entitled *Intention*. Continuing the theme of philosophy and money, John Smithin investigates the extent to which the notions of 'critical realism' and 'modern monetary theory' (MMT) in economics were anticipated in the mid-twentieth century by two Toronto-based religious scholars, Etienne Gilson and Bernard Lonergan. Lonergan was a self-proclaimed critical realist whereas Gilson argued for metaphysical realism *per se*.

Finally Leo Zelmanovitz moves on from the issue of the ontology of money (a subject to which he has made notable contributions in the past) to that of the even more controversial topic of the ontology of capital. He argues that the dualistic approach - whereby capital has been portrayed as a dichotomy between capital as composed by material goods and funds expressed in monetary terms - is untenable.

He argues that the notion of property claims, over goods that actually exist in the real world, answers the need for a more complete ontology of capital.

5. Conclusion

As the Founding Directors of the *API*, we are enthusiastic about this most recent development in the history of our *Institute*. We hope that the reader will agree that the papers that have been contributed to this first issue are of an extraordinarily high academic quality, and augur well for the future of this series.

Acknowledgements

Thanks to Dave Barrows, John Cummins, Stella Crouch, Ronen Grunberg and the distinguished contributors to our first issue.

The Speech Foundations of Money and Property: A Look at Searle and Ostrom

Torrey Byles

Principal Economist, Granada Research

Abstract

This essay sketches how money and property exist in human activities that are coordinated by speech and constituted by rules. Such metaphysical claims are directly opposed to positivist understandings of money and property and demonstrate the tight connection between theory and practice, and the central role played by language in the science of socio-economy. From the perspective put forth here, long-standing beliefs are reversed. Money is not a means, but the purpose of allocation. The 'market' is not merely an institution of a money-using society: it is entirely what such a society understands itself to be by its members. It is hoped *via* this counter-conceptualization of money and property as essentially social ontology in speech-action, a realistic theory of socio-economy can be derived and demonstrate the necessity of communitarian and participatory orientations to governance of monetary and deliberately structured market economies.

1. Introduction

This paper is about the speech-based constitutive and performative aspects of economic institutions, particularly money. I focus on John Searle's theory of speech acts and Elinor Ostrom's theory of institutional construction and governance, particularly concerning assets and resources owned in common. I use the term 'speech-based' rather than language-based to emphasize the dynamic, in time, discursive-dialogical and process dimension of language use. Language is, first and foremost, an activity of communication among humans where static monological descriptions, spoken or written, are only one category of language use among several. Distinguishing the many categorical uses of language communication was one of the most important philosophical developments of the 20th century, and re-casts the entire Western tradition of metaphysics, removing the false dichotomy 'mind/idealism' versus 'body/materialism'. The 20th century's discovery of language, the so-called linguistic or interpretive turn, allows for a more sophisticated theory of money-based and market economies than was possible before.

Searle focuses on the general landscape of institutional reality.¹ Ostrom takes the analysis to a greater level of procedural detail regarding how human groups use language to create mental-intentional structures to mutually govern their activities.²

You could say that Searle is broader but shallower, whereas Ostrom is deeper but narrower. Ostrom focuses on one subset of institutional reality, non-market situations and community property (what she calls *common pool resources*). Searle looks at all institutional forms, property, corporations, collective-action structures, money, marriage, government, and describes the basic linguistic-intentional components. Ostrom goes into more detail than Searle in spelling out the precise syntactical forms of institutional statements and rules. She distinguishes three kinds of rules, regulations, norms, and strategies. In distinguishing types of rules, Ostrom carries forward the development in 20th century analytical philosophy which helped to unravel empiricism³.

Because Searle is operating at a more general, 'higher' level of how language creates institutions than Ostrom, I will structure my overview of social ontology based on his theory, and add in Ostrom's contributions 'as if' they were extensions of Searle's theory. The two are not in full agreement, so I will point out differences as well.

Searle's theory of speech action is not the last word on social ontology and the creation of social order through speech. But he provides a cogent and summary view of the basic notions. Work by Charles Taylor and, more recently, Anne Rawls has also shown how language, and categories of practical language use, have taken the implications of communication through language to bring together philosophy, social theory, and anthropology as different scholarly paths to the common objective of resolving the epistemological question of how humans make sense of their reality and existence by communicating in language.

2. The Basic Speech Action Conception of Money

To begin to understand the speech action of money, and other economic institutions, it is necessary to dismiss the naïve, but common, understanding of language as merely representing an existing reality. It is not so much that money is a language in the

¹ Searle, J. (1995), *The Construction of Social Reality*, New York: The Free Press; (2010), *Making the Social World: The Structure of Human Civilization*, Oxford: Oxford University Press.

² Ostrom, E. (1990), *Governing the Commons: The Evolution of Institutions for Collective Action*, New York: Cambridge University Press; (2003), 'How types of goods and property rights jointly affect collective action', *Journal of Theoretical Politics* 15; (2005) *Understanding Institutional Diversity*, Princeton: Princeton University Press; (2010), 'Beyond markets and states: polycentric governance of complex economic systems', *American Economic Review* 100.

³ Rawls, J. (1955), 'Two concepts of rules', *Philosophical Review*; Anscombe, G.E.M. (1958), 'Brute facts', *Analysis* 18; Searle, J. (1964), 'How to derive 'ought' from 'is'', *Philosophical Review*.

common-sense understanding of language as a *representation* or *symbol* of fixed objects. Rather, the object that money is believed to represent or symbolize is not a thing, but a process, a continuous possibility of certain kinds of activities (paying, earning, hiring, investing, saving, borrowing, *etc.*).

The historically first instances of money were based on physical objects, such as precious metals or coins made from precious metals. And it is still true that, today, a dollar bill or a credit card is in some sense a physical substance that represents money. Also, at any moment, there is a countable quantum of money (of specific currency units) in existence. *I.e.*, there is a finite ‘money supply’ at any given moment. All these are physical manifestations of money. But in its essence, ontologically, money is *not* a physical object. Rather, it is a standing possibility for specific activities to take place, such as buying, selling, hiring, being hired, accumulating assets, and so forth. Money is a token or symbol of credit given, located in some collectively imagined intersubjectivity, the shared mental beliefs of a group of individuals

The ontology of money (as with all social institutions, such as property, marriage, corporations, football games, government, *etc.*) is less to do with a fixed object than constituting and defining a situation between humans in order to perform activities in a constituted space of potential action. According to Geoffrey Ingham, ‘money is a social relation’.⁴ Dirk Bezemer writes that, ‘money is not a thing but the symbol of a financial relation ... one person’s revenues are another person’s outlays ... one person’s capital gains are financed by another person’s ... debt’.⁵

Money establishes relationships between people (more precisely between agents and agencies that have been linguistically constituted). The main relations constituted by money consist of two agents in an employer/employee relationship, two agents in a transfer of property-ownership of buyer and seller, two agents as lender and borrower in a loaned-money relationship, and two agents in the general relationship of a giver and a receiver (donations, inheritances, marriage and family transfers, *etc.*).

The point is that money, as all economic institutions, exists in language. But, its linguistic factuality has to do more with the *constitutive* and *performative* aspects of language, which are relatively obscure and not well understood. Not so much with the *designative* aspect of language, describing and symbolizing fixed physical things.

The constitutive and performative aspects of language came to attention and understanding in the 20th century *via* philosophers and social theorists such as Peirce, Durkheim, Weber, Saussure, Wittgenstein, Heidegger, Austin, Kuhn, Gadamer, Merleau-Ponty, Searle and Taylor. The *designative* aspect of language is the common-sense, yet naïve and incomplete, understanding of language. That naïve and restricted view of language (that language’s sole function is to designate/represent an independent reality) buttresses the typical and mistaken positivistic understanding of money as a neutral measure of value and medium of exchange.

⁴ Ingham, G. (1996), ‘Money is a social relation’, *Review of Social Economy*.

⁵ Bezemer, D. (2016), ‘Towards an accounting view on money, banking, and macroeconomy: history, empirics, theory’, *Cambridge Journal of Economics*.

2. The Epistemology of Positivist Economics and Neutral Money

The naïve understanding of language represents a positivist view of science where knowledge is held to consist of statements mirroring a reality independent of individual consciousness, a reality of obvious and unambiguous ‘clearly identifiable and given’ objects. Such a conception of language, knowledge, and mental cognition has its metaphysical roots in the dualistic and individualistic Cartesian-Kantian theory of knowledge and in British empiricism (Bacon, Hobbes, Newton, Locke and Hume). In this metaphysics, the conceptualization of the world by a human observer exists in a radically separate realm and substance than the observed external objects of the world. In addition, the ‘consciousness’ of the individual subject, immediately and thoroughly knows the contents of its own mind.⁶

From this presupposed dichotomy of subject and object, an epistemological problem arises. How to be sure one’s conceptualization truthfully corresponds to the real? Positivism and empiricism are thus a metaphysical and ideological stance that theories of real objects, ‘knowledge’, can be stated in nomothetic statements (as with Euclidean geometry). These statements are isomorphic to reality, a ‘mirror’ or ‘photographic positive’ of reality.

This same dualistic metaphysics is responsible for the mistaken beliefs that money is neutral and outside (exogenous to) socio-economic activity, and that prices denominated by money are somehow isomorphic to natural, empirical economic forces, such as ‘supply and demand’. The mistaken *object* - and *commodity* - view of money is a holdover influence from that classical theory of science and metaphysical stance. The alternative to positivism is the non-dual, participatory (monist) metaphysics where there is only one realm, not two, and thinking and speaking are activities, not other worldly events in some different realm from the physical. There is still the possibility for intellectual reflection and distancing in order to ‘objectify’ and ‘theorize’ one’s reality. However, such thinking, that is higher order cognitive intellectualization, is derivative of a more primordial, habituated, and pre-conceptual engagement with life. Our cognitive frameworks for understanding either the natural or human worlds, are historical, cultural, and geographically-based. They are received by individual actors in the process of growing-up and adopting the anonymous meanings, cognitive frameworks, theories, *etc.*, that are implicit and routinely spoken in the community’s language.

Philosophical reconsiderations of metaphysics and language took place simultaneously with the ‘methodenstreit’ (strife over methodology) that occurred in economics prior to WWI. Only Innes’s, Knapp’s, and (later) Keynes’s theories of money were in alignment with the larger philosophical currents. In retrospect, when Keynes latched onto the idea of a ‘monetary theory of production’ in 1933, he fastened to what today we might call the ‘performativity of money’. Keynes called it the ‘marginal efficiency of [money] capital’. Keynes began to see that when a community (typically a nation state) stipulates and then creates quantities of a

⁶ Locke, J. (1690). *An Essay Concerning Human Understanding* (as reprinted by Oxford University Press, Oxford: 1975).

recognizable unit of valuation by which members of the community may settle and complete payments of taxes this *also* allows members to settle payments and coordinate interdependent activities amongst themselves, in private-sector trade, services, manufacture, extraction, transport, *etc.* Money allows people to get things done, to be productive. With money, the transformation of the physical world seems now to have no limit.

When the classic metaphysics of Enlightenment-era science was dissolved in the 20th century, the natural sciences and many of the other ‘human sciences’ adapted their methodologies. But the discipline of economics, for the most part, remained resolutely in the camp of classic Cartesian-Kantian, dualistic, science. I will follow up on this in the conclusion, but first let’s see how language creates institutional reality.

3. Social Ontology and Departures from Positivist Economics

All of institutional reality, according to Searle, is created by speech acts that have the same logical form as declarations. Searle’s claim comes out of the philosophical treatments of language that began during the 1950s in the wake of Wittgenstein’s focus on ‘use’ conditions and Austin’s performative aspects of language that are social, contribute to meaning, and constitute meaning.⁷

3.1: *Subjectively Constructing a Shared Objective Reality Through Language*

According to Searle, institutions arise out of three rudimentary elements, (1) humans share a common purpose that requires collective, coordinated action, (2) they make specific rules to govern how they will interact to achieve the purpose, (3) these rules are made by a specific linguistic form, what he calls ‘status-function declarations’.⁸

The alpha and omega of Searle’s linguistic theory of institutions is the establishment and pervasive acknowledgement in society of these ‘status-function declarations’, often embodied in rules that constitute social institutions. These are functional devices that allow people to ‘do things’.

The status-functions that society places on things, organizations, positions in organizations, *etc.*, allow people to make such statements as ‘this quantity X of currency units, given to you, settles my debt obligation to you for your giving me this commodity Y’, ‘this land is my property’, ‘this piece of paper is legal tender for all debts public and private’, or ‘to fill this job position at this salary requires degrees and certifications in these subject areas’. Rules that constitute (as opposed to merely regulate) are instances of status-function declarations. In order to function, status-

⁷ Rawls, A, (2015), ‘Getting information systems to interact: the social fact character of ‘object’ clarity as a factor in designing information systems’, in *The Information Society*, Taylor & Francis.

⁸ Searle, *Making the Social World*.

function declarations must be widely recognized. Only with wide recognition does a status-function become an objective fact of reality.⁹

The anomaly, from the classic Cartesian-Kantian dualistic metaphysical position, is recognizing that a declared status-function is a mental, subjective, act. It depends on the mind of the observer, and does not exist independently of observation. Thus, money, corporations, governments, *etc.*, only exist because we believe them to exist. They don't exist in the same way that rocks and trees exist. They are observer dependent. Rocks and trees exist whether or not they are observed by humans (or any other intelligent being). The physical world, *i.e.*, the 'objective' world, is observer-independent.

From the dualistic 'empirical' standpoint, institutional reality has the odd phenomenological characteristic of being an *objectivity* created by multiple shared *subjectivities*. As Searle points out, institutions are epistemologically *objective* even though ontologically *subjective*. They are real, but only exist in our minds.

Social ontology is Searle's term for this class of declared, collectively acknowledged, mental things. In other words, the economic realities of property, governments, money, contracts, and so forth, are mental projections each of us makes, conforming to common semantical meanings, but not necessarily existing physically. They sometimes do have physical correlates, such as a headquarters building for a corporation or government agency, or a piece of paper or metal coin for money, or a plot of land or physical object as property. But the declared functions of the objects are not intrinsic to their physical structure, and indeed many institutions including credit money, property, corporations, securities, *etc.* have no physical analogue at all.

The vernacular term for social ontology is 'consensus reality'.¹⁰ However, the concept of a shared, and common, semantic world of mental objects has been one of the major developments of the 20th century philosophy and social theory, and has taken on several alternative, more or less synonymous, descriptive labels, including intersubjectivity, the background, referential totality, and so on.¹¹ In mainstream economics, the phenomenon is alluded to, but not made explicit, in such concepts as bounded rationality, rational expectations, and '*macrofoundations*'.¹²

⁹ Recognition does not mean that it is accepted as legitimate. For example, a convict may deny that their sentence is legitimate, but nonetheless recognizes their status as incarcerated. Nor does recognition need to be a conscious thought. Action that is in accordance to a rule can become habituated and therefore unconscious.

¹⁰ The notion and term 'consensus reality' did not enter the Anglo-Saxon cultural mainstream, and its origin in Husserl's notion of 'intersubjectivity' until the 1960s when various authors began to describe objective reality as consensus reality.

¹¹ Also 'habitus' (Bourdieu), normative totality (Gramsci), mutual intelligibility (Habermas), anonymous meanings (Gadamer), paradigm (Kuhn), discursive formations (Foucault), conventional wisdom (Galbraith), average mutual information (Ulanowicz), bias in the network (Beinhocker), the mental model (Matutinovic).

¹² Simon, H. (1957), *Models of Man*, New York: John Wiley.; Lucas, R. (1987) *Models of Business Cycles*, Oxford: Basil Blackwell.; King, J.E. (2013), *A Brief Introduction to Post Keynesian Macroeconomics*.

Intersubjectivity came to be recognized after a centuries-long philosophical dispute regarding the inadequacies of the Cartesian-Kantian and empiricist theories of knowledge to scientifically address human and social phenomena. The principal inadequacy with the Cartesian-empiricist tradition was its absolute metaphysical separation between subject and object.

A consensus institutional reality, where things are objectively real only because enough personal subjective viewpoints believe them to be real, is *ipso facto* the point at which economics and all 'human sciences' cease to be 'positive' and empirical (at least, in the classic 18th century sense of these terms). That *belief* determines experience, and that determination of what is real is dependent on *belief*, is diametrically opposite one of the foundational maxims of empirical science, which is, that only through sufficient factual instances and experiences can beliefs be validly inferred as *truth*.

Mainstream economics to date has generally resisted the idea of a socially constructed institutional reality. Its epistemological presupposition is adamantly individualistic wherein confirmation of reliable truth and belief is purely the affair of an individual subject. In this individual epistemological view, there is a complete omission of how that individual's consciousness is shaped by his or her community, especially the norms of rational thinking and understanding of reality.

The discernment of intersubjectivity in the early 20th century by such social theorists and philosophers as Durkheim, Simmel, Weber, Husserl, Heidegger, and Wittgenstein, revealed the distinctive role of language use, and how language is always tied to specific historical, geographical and cultural moments and situations, and the resulting effect on knowledge and theory of knowledge. Today, the implications of the *philosophy of language*, which is different to *linguistics*, are reshaping not only the human sciences but also the physical-natural sciences and theories of information.

Wittgenstein inaugurated the idea that word meanings (semantics) depend on the circumstances in which people use words in ordinary speaking situations. To put it crudely, pragmatics or 'getting things done' determine semantics. John Austin expanded this to show that certain uses of language actually perform action. They make something the case by explicitly saying that it *is* the case: for example, 'I promise' or 'I apologize'.¹³

These developments helped to upend the conventional, positivistic understanding of language. When people speak, they are not just *representing* things in the world. In fact, they are *doing* things and the doing gives meaning and definition to the descriptions of the doing. Not only is speaking a kind of human activity, but also human activities are coordinated by language and are themselves linguistic expressions of an individual's intention. Speaking coordinates action when multiple individuals are participating in an interdependent activity (*e.g.*, conducting an exchange of ownership of assets for money, at the grocery store as well as the stock exchange, hiring somebody to perform services, *etc.*). Language is implicit in an

¹³ Austin, J. (1962), *How to Do Things with Words*, Cambridge, MA: Harvard University Press.

individual's action because the intention and the performance can be expressed in public, common language words (common meaning).¹⁴

Action in speech is not just the *locutionary* motion of making sounds with one's larynx. It is the *illocutionary* force of changing the situation that other listeners or readers (who understand the speaker's words) now must confront. Austin's student, Searle further clarified Wittgenstein's notion of language games by classifying speech actions into five categories, Assertives, Expressives, Declarations, Directives and Commissives.

Searle's taxonomy of speech-actions shows that the category of speech use for representing and designating reality (the naïve, positivist, understanding of language) is only one categorical use of language. There are four other categories. Searle demonstrates that, contrary to positivistic metaphysical standpoints, there is no clear demarcation between 'objectivity' and 'subjectivity' that language straightforwardly mediates.

The speech action of *declaring* is the ontological foundation of economic institutions, including money. It is through the action of *declaration* that humans make the social-public world of economic institutions of money, property, governments, and corporations. The declarative speech act is different from other speech-actions in that it has the capacity *to create a new reality by representing that reality as existing*. This is the *constitutive* aspect of language. Some examples are, 'War is declared', 'I now thee wed', 'the meeting is adjourned'. Unlike other speech actions, *declarations* don't merely describe reality, they *make reality*. They don't merely report facts, they *make facts*.

Contrary to the positivist framework of a strict separation between observing subject and observed object, language introduces the fact that economic and social reality exists as much in the observation than in the observed. The psychological/cognitive issue of ontology is a key issue in economics. All economic institutions, including money, are created by the declarative speech act. They are 'status function declarations'.

Declarations make something 'count as' something in a certain context. This piece of paper counts as a means of settlement when a counterparty with whom I just made an exchange expects monetary compensation. As a US citizen, I count as being able to vote in elections, and so on. A declaration is a kind of *rule-of-use* that causes a social-public object to exist (to come into being *ex nihilo*) simply by human fiat and acceptance by the community of speakers.

Rules that embody declarations that bring an institution into existence are considered to be constitutive rules, and are also called generative rules.¹⁵ Such rules are different from other kinds such as regulatory rules or rules of strategy.

¹⁴ For this last point, I am saying that, for example, the phrase 'I am paying for groceries' does not need to be explicitly stated in the act of paying for groceries to perform payment and transfer of title. And yet, the phrase can serve as an objective, positivistic description of unverbilized, intentional action.

¹⁵ Searle, *Making the Social World*; Ostrom, *Institutional Diversity*; Searle, 'How to derive ...'; Rawls, 'Two concepts ...'.

Constitutive rules make reality. For example, the rules defining the moves of a knight (and all the other pieces) in chess, are not merely arbitrary rules. They make the knight and each particular piece what it is. The rules of the allowed movements constitute the character of the chess piece. The rules of playing chess or baseball, constitute these games. The games wouldn't exist without these rules. Regulatory rules augment already constituted institutional reality. For example, if it starts to rain, a baseball game is postponed. Strategic rules describe 'rules-of-thumb' (or norms) of how to successfully take action given an institutional situation. In baseball, 'stealing bases' is a good way to increase the likelihood of scoring runs, but the player must be a fast runner. In financialized markets, 'buy low, sell high' is a rule of strategy to make profit.

Thus, not all rules create institutional realities. Regulatory and strategic rules operate inside pre-established institutions. Only constitutive rules, as the name implies, constitute the institution in the first place. Rules, while expressible in nomothetic statements, are more appropriately thought of as descriptions of practices and actions.

Status-function declarations are interlinked, laterally and hierarchically, to create the social-institutional world. Examples of 'lateral' linking of declarative statements include 'my employer agrees that I have performed work and puts money in my bank account', 'I write a check to pay my credit card provider', and so on. 'Hierarchical' (vertical or nested) examples include uttering the sentence 'I do' which counts as a promise in the context of a marriage ceremony, making a promise in a marriage ceremony counts as making a contract, being *in* the state of marriage counts for getting tax discounts on one's annual income tax filing.

Institutional reality comes out of the repeated application of the constitutive rules of X counts as Y in context C. The result is a fabric or space of interconnected declarative statements made and enacted, for the most part, often non-verbally and unconsciously. As such, institutional reality consists of conditioned habits of behavior. Both Searle and Ostrom distinguish constitutional and hierarchical declarative structures.

In his broad-brush approach to the linguistic basis for economic institutions, Searle makes the categorical distinction between rules that constitute institutions from those that merely act as regulating an already existing institution. Ostrom also makes the distinction between constituting and regulating rules, but she goes into more detail about the relationship between these two categories of rule. She claims that this distinction depends on the level of viewpoint of analysis of an 'action situation'. What is a regulatory rule at one level may be a constitutive rule at a broader level higher up.

According to Ostrom the issue of level of analysis has to do with how rules are made by groups. Her analysis maps a group's movement up and down rule hierarchies to make explicit the authorities and processes for establishing rules. She distinguishes an 'operational level' for rules where people simply act according to this or that rule from the 'constitutive level' of rules, which describe the rules of group legislative processes where declarative statements create the operational rules.¹⁶

¹⁶ Ostrom, *Institutional Diversity*.

Ostrom recognizes the distinction between constitutive and regulatory rules, but goes into greater detail than Searle on the issue of hierarchical/nested constitutive rules. Searle is the analytical philosopher spelling out the general logic of institutions, whereas Ostrom is the empirical political scientist collecting and tabulating hundreds of case studies around world. Searle paints a broad-brush linguistic construction of the social world, whereas Ostrom writes a primer of the 'syntax and grammar of institutions'.

At the core of Ostrom's analytical framework is what she calls 'the action situation or arena'.¹⁷ This is an important conceptualization that makes explicit key existential variables of social relations and the possibility of cooperative behavior among individual persons. The behavior of individuals is strongly influenced by the social situation. Individual differences, say in temperament, make a difference, but the context of interaction also affects behavior. Contrary to Cartesian-Kantian empiricism, the individual person is very plastic and shows different 'selves' given different normative circumstances. Trust is central to coping with dilemmas and comes out of the norms, rules, and the existential conditions of the situation, not just the presence or absence of something in an individual. The conception of an action arena outlines the specific existential parameters how individuals and the situation mutually influence each other. Her action arena consists of two basic components: the situation and the participants in the situation. Action arenas exist in the home, the neighborhood, in local to international councils, in firms, in markets and interactions among these.

Ostrom holds that with these social situations or arenas, there are seven general clusters of variables that participants come to identify, and commit to, in working out collective and interdependent action. These include the roles, participants, and positions of who may interact, outcomes, linkages, costs and benefits, other information, and so forth. It is by this framework, according to Ostrom, that social reality is created in language by humans.

One of the advantages of Ostrom's approach is her power to distinguish between rules as norms and rules as actual regulatory laws of allowed behavior. This is important because Ostrom's framework provides a way to view the relationship between cultural norms and ideologies on the one hand and actual rules and social ontology on the other, including the difference between the two and how one may evolve into another.

In Searle's broad-brush analysis it is difficult to know where social ontology of institutions stops and sociology of knowledge and ideology begins. This is a defect in his analysis because it affects major issues in economic theory, especially those theories of money-based economies (*e.g.*, Keynes's monetary theory of production).

Some of the critical issues to which a robust speech-action approach to monetary economy would contribute in big ways are price formation, inflation, production functions, profit margins, capital gains and allocative efficiency, efficiencies of flows of money units versus efficiencies of material-energetic transformations, rights of ownership and management, and public versus private property among others. The

¹⁷ Ostrom, 'Beyond markets...'.

pseudo-dualism of empiricism obscures the ideological (value) component from the social realist component of these major issues.

3.2: *Ontology and Action - The Performative Aspect of Language*

The constitutive aspect of declarative speech-action, to make exist economic institutions and to be real, is closely tied to a second aspect of language, *performativity*. Once something has been declared to exist factually through declaration, for example money or property, now there are actions that speakers can take relative to the existential fact of the declaration. The existence of the thing gives us reasons for acting. For example, because I share the publicly recognized idea that the plot of ground upon which my neighbor's house is built is her private property, I walk around it, not over it. When the waiter brings me a piece of paper stipulating an amount of money that I owe for dinner, I pay it. I may not want to do these things. My desire is to walk straight across my neighbor's lawn to save effort in getting to my destination. I'd rather keep my money, not give it away. But the linguistic institutions of private property, money, and commercial exchange give me reasons for acting that are contrary to these desires. This is language's performativity.

Thus, according to Searle, the power of language is twofold. Firstly it can be used to construct reasons for acting. This is language's *semantic* power, the power to make meaning. Semantic power, in turn leads to, secondly, action that is based on feelings of obligation to respect a declaration. This second kind of power is *deontic*, which is the ethical-moral power of rights, duties, obligations, permissions and authorizations. It stems from a Greek word whose meaning is either 'mouth' or 'duty'.

Deontic power is the magic of language. It is the basis for all institutional reality. Language can be used to create facts and, once such facts are created, can cause people to do things that they otherwise would not do (walk around the boundaries of someone's property, pay the bill). *The power of language goes beyond language*.¹⁸

Money, like all economic institutions, is created in language and used for a myriad of other institutionalized behaviors. As linguistically constructed, it carries with it the semantic and formal powers of language that cause humans to act in ways that are congruent to semantics and meaning, but not necessarily or intrinsically arising in the realm of the physical. To understand the force and causal power of language is to understand the performativity and constituting powers of words. This principle carries over into a monetary economy because money (credit) is linguistic/semiotic in nature.

Social ontology, including economic institutions such as money, property, government and corporations, is the social conditioning of what we think to be 'objective' external reality. It pervades our perception. We see things 'in' physical reality that are not intrinsic to that reality. Because animals lack the richness of human language, they cannot do this perceptual trick. My dog and I both see a man carrying a ball over a line drawn upon the grass field, but only I can see a man scoring a touchdown. This is another departure from conventional economic thinking, especially neo-classical, neo-liberal, and libertarian theory. We are not really as individual as we think we are.

¹⁸ Searle, *Making the Social World*.

3.3: *Social Ontology and the Individual*

Conventional economic theory posits an individual mind that is completely autonomous from social influences and separate from external reality. It dogmatically disavows that, (i) there could be a collective view of things inside an individual mind, (ii) such a collectivized view acts to make objective facts about an external world, and (iii) something besides seeking pleasure - *viz* a promise to fulfill an obligation - could be the source and cause of action.

The notion of social ontology overturns these dichotomies. It suggests a liminal third realm, an intersubjectivity, in between subject and object, individual and collective. The facts of language and social ontology defy the conventional, positivist view. From the conventional economic point of view economic institutions appear arbitrary and exogenous, 'outside' economic activity. In fact, *they constitute what economic activity is*. Not only do humans create institutions, but institutions create humans. As Michael Sandel puts it, 'We've drifted from *having* a market economy to *being* a market society'.¹⁹ And, according to Fontana and Gerrard, 'the allocative process is a means of achieving monetary ends rather than the monetary process being the means of achieving allocative ends'.²⁰ This is another critical ontological departure from positivist thinking. Social ontology exists in each of us. The individual's understanding of situation and purpose, as well as the day-to-day unconscious performance of myriad social institutional practices, is conditioned by society. The conditions, and immediate social relations and processes, inform individual behaviour. Each individual stands in relation to others in such roles as buyer, seller, employee, employer, speculator. The medium is the semiotic material, language, and other signs. There is not some supra-organism or collective mind governing individual organisms. Rather, each individual self is a series of such socially situated relations.²¹ The individual organism is a society unto itself, just as groups and collectivities can at times cohere intentionally as a single entity. Self and society interpenetrate each other through the medium of sign and language.

The inability to grasp this point, or get traction on it, has derailed economic theory since the time of Kant and Smith. While the early Classical economic theorists maintained an incipient framework of social groups (worker, capitalist, landlord), this was dropped when economists opted for a fully positivist and individualist subject-object science. The failure to adequately account for money eventually upended this account of the solitary, self-contained, unchanging omniscient individual. Positivist economics must hold a number of pre-analytic assumptions about monetary economies in order to make an ethical-moral justification for such a social order. The chief assumptions are (i) facts and values are separate, (ii) money is neutral, and (iii)

¹⁹ Sandel, M (2012), *What Money Can't Buy: The Moral Limits of Markets*. New York: Farrar, Straus and Giroux.

²⁰ Fontana, G. and B. Gerrard. (2002), 'The significance of the monetary context of economic behaviour', *Review of Social Economy*.

²¹ Hoopes, J.(1998), *Community Denied: The Wrong Turn of Pragmatic Liberalism*. Ithaca: Cornell University Press.

any price that a buyer pays must be fair, by definition. The money units paid is equal to the utility units received. Positive economics does not acknowledge the zero-sum nature of monetary transactions.

4. Some Remarks about the Ontology of Property

Like money, property is a social relation. According to Ostrom, 'Property rights define actions that individuals can take in relation to other individuals regarding some thing. If one individual has a right, someone else has a commensurate duty to observe that right'.²²

Earlier, I sketched a conception of the ontology of money not as a material thing, but as a standing possibility to coordinate action. Now I want to illustrate the same speech ontological principles by examining the ontology of property, assets, and economic goods. Property is another class of constituted objects created in language and arbitrarily assigned to physical objects. The classical economist's notions of the three primary factors of production, land, labour and capital, referred simply to different ways that humans generated money income. Ronald Coase suggested that the three factors of production and natural resources should *not* be considered *things per se* but permissions to act in one way or another.²³

In the middle of the 20th century, Samuelson posited only two kinds of property, public and private. Other economists - and the tradition of common law - held to at least a third category, commonly held or communal property. This third category included such things as property held in marriage, partnerships, condominiums, and closely held corporations. It also included resources that were accessed by several private parties but owned by none, such as fisheries, forests, irrigation systems, grazing pastures.

This latter group, the commons, was recognized by Garret Hardin and James Buchanan as a unique category in the 1960s.²⁴ Hardin made famous the so-called 'tragedy of the commons' whereby too many users degrade a resource, possibly to exhaustion. Mancur Olson, searching for a general theory of collective action, posited a finer distinction of common property by introducing two physical characteristics of the underlying resource, rivalry, the finiteness of a thing, and exclusivity, the ability to restrict access to a thing.²⁵ There are thus three types of property, private, public and communal, with a division of the communal type into two kinds, (1) common pool resources (CPR) - where one person's subtraction of the physical resource impacts the other owners but exclusion people is hard, and (2) toll goods - where controlling access is relatively easy, and there is no subtractability.

²² Ostrom, 'Types of goods ...'.

²³ Coase, R.H. (1988) *The Firm, the Market and the Law*, Chicago: University of Chicago Press. .

²⁴ Hardin, G. (1967), 'The tragedy of the commons', *Science*; Buchanan, J. (1965), 'An economic theory of clubs'. *Economica*.

²⁵ Ostrom, 'Types of goods ...'.

In the years since the popularization of the ‘tragedy’ of the commons, it has been reasoned that whether a communal form of ownership is tragic, or not, is a matter of communication and perception, the observer’s inner narrative, and the institutional rules concerning permitted activities regarding the resource. ‘Prisoner’s dilemmas’ only happen when the actors are not allowed to communicate with each other.

Outcomes can be ‘comedic’ as much as ‘tragic’ depending on how humans choose to act, including the rules they make to govern themselves. Indeed, we can rename Hardin’s dilemma ‘the *drama* of the commons’ to highlight the critical role of social/group choice and pro-active institutional design. *Drama* is that general term for narrative accounts of human affairs that entail both happy endings (comedies) as well as sad endings (tragedies). Further compounding the no-communication scenario is the notion that all interactions in drama are unique, ‘one-shot’ events. There is no ongoing interaction or relationship between actors.

Both libertarians (advocates of private property) and communitarians (advocates of communal forms of property) use the ‘tragedy of the commons’ as foils to their preferred normative solutions. Privatization seems inevitable for utilitarians with a liberal bent. They believe that locking people together violates a fundamental concern for individual autonomy. By contrast, illiberal communitarian solutions seem relatively attractive to those who are ready to sacrifice individual autonomy for collective goals.

The solution (according to Dagan and Heller, for example) is to craft laws that directly address the normative values of the libertarian and communitarian.²⁶ This creates what they call a ‘participatory commons regime’ that allows members the freedom to come and go, but where rules for exit are modified to respect certain community concerns and not negate the benefits of cooperation. Examples of such rules are grace periods (cooling off periods), exit taxes, and rights of first refusal. There is no neutral, pre-political tragedy of the commons. The metaphor itself assumes either open access (anarchy), or law that is hostile to cooperation.

Ostrom concurs when she points out that most of the economics literature lazily considers private property to be defined by the single permissible action of alienation. She points out that alienation is only one of many kinds of permissible actions along a spectrum of actions that circumscribe human use. Moreover, the right to sell one’s rights to a resource is not, in fact, necessary for good management or efficient allocation of that resource.²⁷ Many existing regimes of CPR governance have managed resources sustainably for long periods of time without individuals possessing the right of alienation. Empirical studies show that groups of individuals who possess at least the rights of proprietorship are able to govern and manage their systems effectively. Thus, overconsumption of common property or underproduction of public goods are not forgone desiderata nor insoluble dilemmas. All that is needed is communication, agreements, and monitoring capabilities by the users themselves. Ostrom’s work is extensively about the many forms of communication people use to set up viable, reproducible, and efficient collective action structures, without the assumed rule of privatization. One aspect of the right to alienation to property that has

²⁶ Dagan, H. and Heller, M. (2001), ‘The liberal commons’, *Yale Law Journal*.

²⁷ Ostrom, ‘Types of goods ...’.

not received much attention in relation to reducing the cost of living and as mitigation for inflation. Such an inquiry would be consistent with recent calls in academic economics to return to an ‘accounting view’ of monetary production.²⁸

5. Conclusion: Methodology and Socio-Economics

Searle and Ostrom help the science of socio-economics move away from positivism. They explain how, through conversation, humans create an objective social reality of meanings and commit to live by them. They outline the existential normative conditions and situations in which humans must interact with each other and, through speech, make intelligible their reality and coordinate action into the future.

The human sciences (including sociology, economics and psychology) have not taken seriously enough the epistemological issues that stand at their core. The key idea is that social practices are constitutive of meaning, and that ‘objects’ (including economic institutions such as money and property) are the result of social processes. In the 20th century, the jobs of philosophy and sociology converged. They both attempt to explain how people make sense of and know their (shared) reality.²⁹

These are huge insights. But up until now, social theorists, including economists, have *not been empirical enough* as to how conversational practices that are cooperative, produce objects of fixed meanings and/or identities.

In the classic empirical sciences the subject (the scientist, the observer, the analyst,) is *independent* of the object (the thing observed). An event in the forest, a tree falling for example, happens whether somebody observes it or not. In contrast, in the case of money and other institutions such as property, corporations, and markets, these objects exist only because people believe them to exist. They are *observer-dependent*. If there is an independent reality for the economic theorist to observe, it consists of people in motion who have these beliefs about their lives and what these beliefs lead them to do. The theorist must understand the meanings, thus corrupting a strict separation of subject and object, disallowing an absolute objectivity of observation. Social objects are not explicable by making hypotheses and comparing them to independent facts. The ‘facts’ are the habits of thought, the beliefs and the social practices which are not independent but are constituted in self understandings of the people who enact them. Social theory and practice are one.

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²⁸ Bezemer, ‘Towards an accounting view...’; Hicks, J. (1960) *The Social Framework: An Introduction to Economics* (Third Edition) Oxford: Clarendon Press.

²⁹ Rawls, A. (2011), ‘Wittgenstein, Durkheim, Garfinkel and Winch: constitutive orders of sensemaking’. *Journal for the Theory of Social Behaviour*.

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Coase and the Scottish Political Economy Tradition

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Abstract

The work of the Nobel prize winner Ronald Coase took a different approach to that of standard economics and he made a series of reflections, over the years, setting out his methodological views. He first employed this approach in his path-breaking paper on 'The nature of the firm', which was drafted while in his first academic post at the Dundee School of Economics and Commerce. The distinctive Scottish political economy approach, derived from the Scottish enlightenment in philosophy, still dominated economics in Scotland at the time, although the Dundee School stood apart from it. The purpose of this paper is to consider how far Coase was influenced by being in Dundee, and in particular by the Scottish political economy tradition. We find little evidence of influence from the Scottish tradition while Coase was at Dundee. Nevertheless we identify many features of Coase's methodology which do accord with the Scottish tradition. In particular we draw out the similarities with Adam Smith's approach, which Coase had encountered before coming to Dundee. We conclude that there was a missed connection with the Scottish tradition as it had continued in Scotland into the twentieth century.

1. Introduction

Ronald Coase wrote up the research into the theory of the firm, which contributed to the award of the Nobel prize in economics in 1991, while he held his first academic post at the Dundee School of Economics and Commerce. Analysis of Coase's contribution to economics has increasingly focused on his distinctive methodology, something which was already apparent in his 1937 paper on 'The nature of the firm'.¹ Understanding his methodology has been a central feature of analysis of the diverse interpretations of this article, as well as of the other citation for the Nobel prize, 'The problem of social cost'.²

¹ Coase, R.H. (1937), 'The nature of the firm', *Economica* 4.

² Coase, R.H. (1960), 'The problem of social cost', *Journal of Law and Economics* 3. See Medema, S.G. (2011), 'A case of mistaken identity: George Stigler, 'The problem of social cost' and the Coase theorem', *European Journal of Law and Economics*, 31; Boettke, P.J. and Candela, A. (2020), 'The Austrian school of economics: a view

On the face of it there seem to be interesting parallels between Coase's methodology and the Scottish political economy tradition which arose directly out of the 'Scottish enlightenment' in philosophy, something noted in passing by Wang.³ This tradition was still alive and well in the 1930s when Coase was at Dundee, posing the question as to how far Coase was influenced by the intellectual environment when he was in Scotland. Even if such influence cannot be identified, it is interesting to consider the possibility of a missed connection. Given that some commentators have identified contradictions within Coase's methodology, might these have been averted had he absorbed more of the Scottish tradition and its philosophical foundations?

In posing and addressing this question, we apply what we will explain to be a Coaseian approach, starting with the empirical context of his ideas. We therefore consider first Coase's educational path, before he arrived in Dundee, as informing his views on economics. This is important not least because he had already formulated much of the argument for 'The nature of the firm' before arriving in Dundee. We then explain the nature of the Scottish political economy tradition, and its expression in the 1930s Scottish environment which Coase encountered. This provides the background for considering how far Coase may have been influenced by that tradition, considering his methodology in relation to it. While his 'nature of the firm' article contains methodological statements, we go on to consider his *corpus* of work, within which he both elaborated and developed his views on methodology. Finally we consider Coase more directly in relation to his reading of Adam Smith, whose direct influence we conclude to have been the most important.

2. 'The Nature of the Firm' and Dundee

Ronald Coase's introduction to economics occurred almost by accident, *via* an education in 'commerce'. He had an unusual student experience. He attended Kilburn Grammar School in London, England, choosing in his final years to take as an external student the first year in the London School of Economics (LSE) B.Com. degree, largely because he lacked the Latin requirement needed for entry to his preferred degree in history. Having passed the intermediate examinations he attended LSE in person from 1929 to 1931. There he was taught by Arnold Plant, newly appointed as Professor of Commerce, whom Coase credited with introducing him to Adam Smith's invisible hand.⁴

from London', *Review of Austrian Economics* 33; Marciano, A. (2017), 'Why is 'Stigler's Coase theorem' Stiglerian? a methodological explanation', *Research in the History of Economic Thought and Methodology*.

³ Wang, N. (2003), 'Coase on the nature of economics', *Cambridge Journal of Economics* 27.

⁴ Cord, R.A. (2018), 'Arnold Plant (1898-1978)', in R.A. Cord. ed., *The Palgrave Companion to LSE Economics*, London: Palgrave Macmillan; Marciano, A. (2018), 'Ronald H. Coase (1910-2013)', in R.A. Cord. ed., *The Palgrave Companion to LSE Economics*, London: Palgrave Macmillan.

Having passed the examinations needed to graduate, Coase still lacked, according to the regulations, the required time in attendance at LSE. Thus Coase took up the one-year Sir Ernest Cassel Traveling Scholarship awarded by the University of London. This allowed him, under the supervision of Plant, to visit the United States studying the behaviour of firms by interviewing senior personnel, thus fulfilling the LSE requirement for graduation.⁵ Coase seems to have engaged enthusiastically with this direct exposure to business practice, which was a formative experience in terms of motivating and informing his subsequent theoretical development. Coase⁶ reports that he came back full of ideas on the theory of the firm.

On his return to Britain in 1932, Coase took up his first professional job as Assistant Lecturer in the Dundee School of Economics and Commerce in Scotland. That November, Coase wrote to his American girlfriend (later his wife) as follows⁷:

‘As regards work, I have decided to write an article for one of the English academic economic periodicals. So I shall have to get busy. If I can get it published, it will be of great help to me academically. Do you understand what I mean? So much for news – if the above can be called news.’

Was this an announcement of ‘The nature of the firm’ eventually published in 1937, and one of the two main articles cited in the award of the Nobel prize in 1991? We cannot be absolutely sure as Coase did publish an article in 1935 on duopoly in the *Review of Economic Studies*.⁸ But we do know from Coase himself that the material in his first lecture on the course entitled ‘The organisation of the business unit’ was essentially the argument published in ‘The nature of the firm’.⁹ As was usual for the Scottish academic year, that course commenced in October 1932. His colleague and friend Duncan Black, who had also just been hired as an Assistant Lecturer at the Dundee School, reported that ‘Coase had expressed to me 50 times or more the theory of the firm in which he was then engaged’.¹⁰ Having just returned from the year in America which inspired the ideas in the famous paper, and so soon after lecturing on these ideas, it seems very likely that Coase is announcing to his future wife the article which proved to be so influential.

⁵ Coase, R.H. (1995), ‘My evolution as an economist’, in W. Briet and R.W. Spencer, eds., *Lives of the Laureates*, Cambridge MA: MIT Press.

⁶ Coase, R.H. (1991), ‘The nature of the firm: origins’, in O.E. Williamson and S.G. Winter, eds., *The Nature of the Firm: Origins, Evolution, and Development*, Oxford: Oxford University Press.

⁷ Coase, R.H. (1932), Letter to Marian Hartung November 23, Subseries 3: Correspondence, Box 2, Folder 17, Ronald H. Coase Papers. University of Chicago Library, Special Collections Research Center.

⁸ Coase R.H. (1935), ‘The problem of *duopoly* reconsidered’, *Review of Economic Studies*, 2.

⁹ Coase, ‘My evolution’.

¹⁰ Note by Duncan Black, GB248 DC 304/7/1, Duncan Black Collection, University of Glasgow Archives and Special Collections.

Coase was lucky to be hired in 1932 in the depths of the Depression. The Dundee School of Economics and Commerce had been founded in 1931 with the purpose of training students for business. Sir William Beveridge of the LSE had been an adviser. As Coase himself acknowledged:

‘If the Dundee School had not been established in 1931, I don’t know what I would have done. As it was, everything fell into place. I was to be an economist and could evolve.’¹¹

At this stage Coase had not studied a great amount of economics. His major influence, as noted above, was Arnold Plant, who encouraged the study of Adam Smith. At Dundee Coase continued this interest in Smith but also was inspired by the new work on imperfect competition arising in 1933 from the publication of the works of Joan Robinson and Edward Chamberlin. His letters from Dundee to his friend Ronald Fowler at the LSE, in 1933, were full of discussions of cost curves.¹²

Coase and his fellow new appointee Duncan Black also attended a class entitled ‘Analytical economics’ given by Kenneth Eastham (another LSE product) at the Dundee School, which was for graduates of the Scottish universities who intended entering into business. The emphasis was on value theory, the supply curve, and duopoly. In short, while at Dundee Coase was still young and his ideas were still being formed, with the LSE as the network which nurtured him. The importance to him of the LSE is evident from the fact that he returned there in the summer break.

3. The Scottish Political Economy Tradition

The intellectual environment in Scottish economics in the 1930s, when Coase came to Dundee, was still heavily influenced by the Scottish political economy tradition stemming from the period of the Scottish enlightenment.¹³ It was grounded in a realist philosophical tradition forged in large part by David Hume and Adam Smith and then applied to the development of economics.¹⁴ Hume’s philosophy in particular emphasised the limits to knowledge about complex systems.¹⁵ In a counterpoint to Cartesian rationalism, Hume argued that reason alone was insufficient for knowledge.

¹¹ Coase, ‘My evolution’.

¹² Coase, R.H. (1933), Letters to R F Fowler, Series II: Correspondence. Box 22, Folder 9, Ronald H. Coase Papers, University of Chicago Library, Special Collections Research Center.

¹³ See D. Mair, ed., (1990), *The Scottish Contribution to Modern Economic Thought*, Aberdeen: Aberdeen University Press; Dow, A., S. Dow, A. Hutton and M. Keaney (1998), ‘Traditions in economics: the case of Scottish political economy’, *New Political Economy* 3; Dow, A. and S. Dow, eds., (2006), *A History of Scottish Economic Thought*, London: Routledge.

¹⁴ Dow, S. (2002), ‘Historical reference: Hume and critical realism’, *Cambridge Journal of Economics* 26.

¹⁵ Dow, S. (2009), ‘David Hume and modern economics’, *Capitalism and Society* 4.

Rather (uncertain) knowledge was built up as belief, drawing on a wider range of human faculties, including sentiment and imagination as well as reason, all drawing on and applied to real experience. Given the limits to the scope for definitive knowledge of causal mechanisms with respect to an open-system subject matter, no one theory could be demonstrated categorically to be superior to another. This was the basis for a pluralist understanding of knowledge.

Foundational to all enquiry was a theory of human nature. On this basis, Smith contributed a philosophy of science which explored the motivation of the philosopher as the drive to understand surprising events which caused a sense of awe and wonder.¹⁶ Theories were accordingly developed which were psychologically satisfying in relation to real experience, as well as reason, belief and aesthetics and which could be presented persuasively to an audience. The audience in the eighteenth century was concerned primarily with practical problems of technology, production, trade, and policy and related moral issues. This provided the impetus for economic analysis as a set of case studies within moral philosophy.

The methodology employed for developing economic theories arose from the Scottish understanding of Newtonian experimental methodology.¹⁷ From observations, provisional principles would be developed which would then be reassessed in light of further observation. As opposed to the Cartesian axioms, the expectation was that these principles might require adaptation in different circumstances and would always be open to challenge. For economics, the 'experiments' referred to detailed historical study of different contexts, including a study of the institutions and conventions which applied in these contexts. Not only was Cartesian deductivism insufficient, so was inductive reasoning, given the complex, evolving nature of the subject matter. Rather, the mode of reasoning was one of abduction.¹⁸ This process inevitably involved drawing on a range of what subsequently emerged as different disciplines in the social sciences, as well as on philosophy and history. The selection of methods and sources of evidence would be determined by the problem being addressed – a pluralist methodology. In the absence of scope for demonstrative proof, adoption of new theories required persuasion, as Smith set out in his theory of rhetoric.¹⁹

Economic methodology developed differently elsewhere. In England, the influence of the philosopher John Stuart Mill was particularly strong in promoting the development of theoretical structures based on deductive reasoning, such that applied economics came to be understood as the dual of pure theory and history was pursued

¹⁶ Smith, A. (1795), 'The history of astronomy', in *Essays on Philosophical Subjects* (as reprinted by Oxford University Press: Oxford, 1980).

¹⁷ Montes, L. (2006), 'Adam Smith: real Newtonian', in A. Dow and S. Dow, eds., *A History of Scottish Economic Thought*, London: Routledge; Comin, F. (2006), 'Adam Smith: common sense and aesthetics in the age of experiments', in A. Dow and S. Dow, eds., *A History of Scottish Economic Thought*, London: Routledge.

¹⁸ Abduction is the method promoted in modern times by critical realists. On this parallel, see Dow, 'Historical reference ...'.

¹⁹ Smith, A. (1762-3) *Lectures on Rhetoric and Belles Lettres* (as reprinted by Oxford University Press: Oxford 1983).

as a subject separate from economics.²⁰ Thus, by the 1930s, the Scottish approach to economics as an applied subject was overshadowed by the ascendancy of pure theory elsewhere in Britain. The academic discipline of economics had become widely established in Britain, and teaching was dominated by a few key textbooks, in Scotland as elsewhere.²¹

Nevertheless, higher education in Scotland more generally continued to be influenced by the traditional Scottish requirement for undergraduates to start their degrees with a course in either moral philosophy or logic and metaphysics. Further, the Scottish tradition was maintained in research. As Alec Macfie²² put it: ‘The trend has been to teach the orthodox line, but to do one’s special work in historical, social or semi-philosophical research’. A particular focus was the work of Adam Smith. There was also a significant degree of engagement by academics in public policy.²³ Dominant figures in Scotland in the early decades of the twentieth century were William Smart and William Scott, successive Professors of Political Economy at the University of Glasgow. Macfie²⁴ describes these upholders of the Scottish tradition as being:

‘Humane, widely experienced scholars. Each of them had the firmest grasp of and respect for facts, human as well as industrial. Their sense of history and its constant relevance to any finally valuable economic theory is worthy of the master who was their continual joy and inspiration. And their active part in the affairs of a great industrial city was as inevitable as his. In each of them is found that energetic growth from the core of hard facts to their deeper philosophic meanings which was Adam Smith’s most shining gift. And each of them contributed his thinking to the direct service of the State on many commissions and committees, just as did Adam Smith in the more personal, less official manner of his day.’

²⁰ On J.S. Mill’s Scottish father, James Mill, see Torrance, T. S. (2006), ‘James Mill as economist: theory dominated by deductive method’, in A. Dow and S. Dow, eds., *A History of Scottish Economic Thought*, London: Routledge. Deductivism rose to the ascendancy over inductivism following the *Methodenstreit*. While this struggle was more marked on the Continent, in fact Marshall’s efforts to promote a synthesis, in order to establish the discipline on a firm footing in England, tipped the balance to deductivism.

²¹ Dow, A. and A. Hutton (2006), ‘Economics in the Scottish universities from the late nineteenth century’, in A. Dow and S. Dow, eds., *A History of Scottish Economic Thought*, London: Routledge.

²² Macfie A.L. (1955), ‘The Scottish tradition in economic thought’. *Scottish Journal of Political Economy* 2.

²³ Dow, A., S. Dow and A. Hutton (1998), ‘Applied economics in a political economy tradition: the case of Scottish political economy’, *New Political Economy* 3.

²⁴ Macfie, A.L. (1952), ‘Note on the growth of political economy’, in *Fortuna Domus: A Series of Lectures Delivered in the University of Glasgow in Commemoration of the Fifth Centenary of its Foundation*, Glasgow: University of Glasgow.

This description is sufficiently close to accounts of Coase as to indicate parallels between his approach and the Scottish tradition.

4. The Scottish Political Economy Tradition and Coase in Dundee

The establishment of the Dundee School of Economics and Commerce in 1931, with the support of the LSE, was in many ways at odds with the Scottish tradition, focusing more on the mathematical formalism of the emerging neo-classical tradition. Munby²⁵ suggests that the School might be ‘regarded as a foreign irritant in the Scottish oyster’. But there was also a neo-Austrian strain at the LSE which was promoted there later by Hayek, who was himself strongly influenced by the Scottish political economy tradition.²⁶ Indeed, there was an interest in Austrian thought at the University of Glasgow. The Department of Political Economy, in which Black studied, had earlier been influenced by Austrian economics when Professor William Smart, who died in 1915, translated into English, and edited, two works of Böhm-Bawerk and von Wieser’s *Natural Value*.²⁷ Coase was to identify Hayek as one of his major influences.²⁸ But Hayek only came to the LSE in 1932 after Coase had left (though he gave public lectures there in early 1931), so his main influence came later. The influence of the LSE more generally on Coase, particularly after his return there in 1935, is important for the development of his ideas and has been thoroughly explored.²⁹ But our interest in this paper is in Coase’s time at Dundee.

Coase had already had some exposure to the tradition given the earlier influence of Plant’s teaching on Smith. But he was exposed to the Scottish political economy tradition more directly through his close association with his fellow new appointee, Duncan Black. It is clear that Duncan Black and Ronald Coase influenced each other intellectually during their formative years at the Dundee School. Black later became well known for his work on decision making in committees and, more generally,

²⁵ Munby, D.L. (1957), ‘The Dundee School of Economics - in memoriam’, *Scottish Journal of Political Economy* 4.

²⁶ Hayek, F.A. (1960), *The Constitution of Liberty*, London: Routledge & Kegan Paul; Hayek, F.A. (1967), *Studies in Philosophy, Politics and Economics*, London: Routledge & Kegan Paul.

²⁷ Dow and Hutton, ‘Applied economics ...’.

²⁸ Coase, ‘The nature of the firm: origins’.

²⁹ Boettke, P.J. and M. Candela, ‘Ronald H. Coase’; Thomas, J. (2016), ‘Ronald Coase and the London School of Economics in the 1920s – 1940s’, in Ménard, C. and E Bertrand, eds., *Ronald H. Coase*, Cheltenham: Edward Elgar; Medema, S.J. (2020), ‘Between LSE and Cambridge: accounting for Ronald Coase’s fascination with Alfred Marshall’, in K Caldari, M. Dardi, and S. G. Medema, eds., *Marshall and the Marshallian Heritage: Essays in Honour of Tiziano Raffaelli*, London: Palgrave Macmillan. Later in his career Chicago was also an important influence.

social choice theory. In 1983 he sent Coase a copy of his *Festschrift*.³⁰ Coase replied to Black³¹:

‘Going through it, and particularly looking at my own contribution, I was led to muse on our Dundee days together. That was a very happy period – and one can now see that so far as the two of us were concerned, a very productive period. We had little idea in those days of how successful our writings would prove to be.’

So, Duncan Black and Ronald Coase became friends at Dundee, and stayed friends throughout their lives. Again, in 1987 after a visit to Dundee, Coase wrote to Black as follows: ‘I didn’t exaggerate when speaking of our period together in Dundee. It was a wonderful time for us and it was during these two years that we laid the foundations for what we have accomplished since’.³²

While Black did not work in the Scottish political economy tradition he was thoroughly familiar with it. In his many conversations with his friend he would have spoken of the degree he had just completed at the University of Glasgow where Scottish political economy was the ruling paradigm in the Department of Political Economy. Further, Black would have taken a compulsory course in either moral philosophy or logic and metaphysics which nurtured an important philosophical dimension of the Scottish tradition. We can conclude that Coase learned from Black of that tradition as practiced in the Scottish universities in the early twentieth century.³³ Indeed, Coase himself confirms this surmise:³⁴

‘[Black] came from the University of Glasgow, where economics was still treated, as it had been in the days of Adam Smith, as a branch of moral philosophy. Black came to Dundee with an interest in philosophy and politics as great, or perhaps greater, than his interest in economics. At Dundee, he was brought into contact with the analytical approach to economics ... which was dominant at LSE.’

5. Coase’s Methodology and the Scottish Tradition

Coase opened his paper on ‘The nature of the firm’ with a methodological statement. He emphasised the importance of exercising ‘good judgment in choosing between rival sets of assumptions’. Assumptions should be both realistic and tractable. This

³⁰ Tulloch, G., ed., (1981), *Towards a Science of Politics: Papers in Honor of Duncan Black*, Blacksburg, VA: Public Choice Center.

³¹ Coase, R.H. (1983), Letter from Coase to Black May 11, Duncan Black Collection, GB248 DC 304/4/COAS/11, University of Glasgow Archives.

³² Coase, R.H. (1987), Letter from Coase to Black August 10, Duncan Black Collection, GB248 DC 304/4/COAS/17. University of Glasgow Archives.

³³ Dow and Hutton, ‘Applied economics ...’.

³⁴ Coase, R.H. (1993), ‘Duncan Black (1908–1991)’, *Proceedings of the British Academy*.

realism continues to be evident as the article proceeds, with the emphasis on understanding why the real world is as it is – in particular, why production is organised in some cases by markets and in other cases by firms. Already we see a common concern with Scottish political economy, that theory should address the real world as its subject matter rather than problems internal to theory.

Nevertheless, Coase goes on to explain that an assumption needs to be tractable in the sense of allowing reasoning with respect to substitution at the margin, and, quoting Lionel Robbins (of the LSE), that the assumption must ‘relate to formal relations which are capable of being *conceived* exactly’.³⁵ He concluded the article by noting that his new theory of transactions costs provided a static equilibrium theory for the split between organisation by the market and organisation by firms. He also noted that it provided a theory of moving equilibrium to explain the changing size of firms. He seems to be using the term ‘equilibrium’ in the mainstream sense of a theoretical solution rather than a state of rest. Here we see Coase conforming to the type of approach to economics which was based on concepts which lent themselves to the calculus (although he himself did not use mathematics), and which therefore underpinned the rising dominance in economics of a particular form of deductivist mathematics. Within Coase’s first article we thus find what were to become conflicting aspects of his methodological approach. In order to understand his methodological thinking better, we explore his later writings where he expanded on, and indeed developed, his position.

Coase’s realism continued to be evident throughout his career. He consistently argued that economics should be defined by its subject matter. His critique of mainstream economics stemmed from its increasing abstraction away from the workings of the economic system.³⁶ This critique applied particularly to Robbins’s definition of the subject matter in terms of choice.³⁷ The purpose of theory was to explain why particular phenomena were observed. This argument was made in specific contrast to Friedman’s instrumentalist argument in favour of the purpose of theory being to predict.³⁸ Indeed Coase was doubtful of the scope for econometric analysis, given the range of relevant variables which eluded quantification. He was further concerned that econometrics imposed theoretical preconceptions on observation.³⁹ For Coase, just as he had stated at the start of the ‘nature of the firm’ article, it was important for assumptions to be realistic and for theory to encompass the relevant elements of reality.⁴⁰

³⁵ *ibid.*

³⁶ Wang, ‘Coase on the nature of economics’.

³⁷ Medema, S.G. (1994), *Ronald H. Coase*, London: Macmillan.

³⁸ Friedman, M. (1953), ‘The methodology of positive economics’, in *Essays in Positive Economics*, Chicago: Chicago University Press.

³⁹ Coase, R.H. (1982), ‘How should economists choose?’ *G. Warren Nutter Lecture in Political Economy*, Washington, DC: American Enterprise Institute for Public Policy Research.

⁴⁰ Bertrand (2015), ‘Coase’s choice of methodology’, *Cambridge Journal of Economics* 40, argues that Coase was not arguing against Friedman’s methodology in practice, which did indeed differ from his methodological statement.

This realism provided the basis for a methodology which had much in common with the Scottish tradition. Coase's theorising was built on detailed analysis of particular cases, drawing on history and emphasising the role of institutions. Attention to the complexity of context was critical for understanding the operation of provisional principles, and exceptions to them. As in the Scottish tradition, demonstrative proof was impossible, so Coase too emphasised the importance of rhetoric.⁴¹

Coase's later focus on property rights and the role of the legal system more generally mirrored Smith's stages analysis of the emergence of commercial society.⁴² He argued for economists to draw on other disciplines in their own right, rather than colonising them.⁴³ In particular, he argued that a theory of economic decision-making required a theory of human nature, and that this would benefit from drawing on research in socio-biology.⁴⁴ Smith accordingly provided support for Coase's stance against 'blackboard economics':⁴⁵

'Adam Smith would not have thought theory sensible to treat man as a rational utility maximiser. He thinks of man as he actually is – dominated, it is true, by self-interest but not without some concern for others, able to reason but not necessarily in such a way as to reach the right conclusion, seeing the outcome of his actions but through a veil of self-deception.'

Nevertheless, Coase⁴⁶ drew the distinction between the Smith of the *Theory of Moral Sentiments*⁴⁷ and Smith the economist⁴⁸: '*The Theory of Moral Sentiments* is a study of human psychology. The *Wealth of Nations* is a study of the organisation of economic life'. Indeed, Coase argued that self-interest was the dominant motive in the *Wealth of Nations* and that the argument for benevolence in Smith arising from renewed attention to the *Moral Sentiments* had been overplayed. Hodgson identifies this as veering towards the concept of the individualistic 'economic man', taken further by Williamson, and as lending Coase's work to mainstream methodological

⁴¹ Mäki, U. (1988), 'Coase, R.H.', in J.B. Davis, D.W. Hands and U. Mäki, eds., *The Handbook of Economic Methodology*, Cheltenham: Edward Elgar.

⁴² Smith, A. (1762-63), *Lectures on Jurisprudence* (A), (as reprinted by Oxford University Press: Oxford, 1978.)

⁴³ Coase, R.H. (1977), 'Economics and contiguous disciplines', in M Perlman, ed., *The Organization and Retrieval of Economic Knowledge*, Boulder, CO: Westview Press; Coase, R.H. (1999), 'The task of the society', Speech to ISNIE, September 17, available at <http://www.isnie.org/coase-isnie-speech.html>.

⁴⁴ Medema, *Ronald H. Coase*.

⁴⁵ Coase, 'Economics and contiguous disciplines'.

⁴⁶ *ibid.*

⁴⁷ Smith, A. (1759), *The Theory of Moral Sentiments*, D.D. Raphael and A.L. Macfie, eds., (as reprinted by Oxford University Press: Oxford, 1976).

⁴⁸ Smith, A. (1776), *An Inquiry into the Nature and Causes of the Wealth of Nations*, R.H. Campbell and A.S. Skinner, eds., (as reprinted by Oxford University Press: Oxford, 1976).

treatment.⁴⁹ Yet Coase continued to challenge the assumption of man as a rational maximiser, on the grounds that self-interest was pursued as much by instinct as by rational calculation.⁵⁰

For economists as much as for economic agents, Coase understood knowledge as belief, persuasion was an inherent element of communication. Here he seems to have been influenced by his encounters with Thomas Kuhn at Stanford.⁵¹ But Coase developed these ideas further by treating persuasion as an exercise in marketing within the market for ideas. The emergence of dominant ideas was the outcome of a competitive process.⁵² Also consistent with his theoretical analysis, Coase argued that this competitive process required appropriate institutions. Government was one such institution, ‘harmony in human nature does not imply that no government action is required to achieve the appropriate institutional structure for economic activity’.⁵³ Yet he argued more generally against government intervention on the neo-Austrian grounds that policy-makers inevitably lacked sufficient knowledge.⁵⁴

The inevitable prevalence of uncertainty was also a factor in his analysis of the firm. He noted⁵⁵ in ‘The nature of the firm’ that ‘It seems improbable that a firm would emerge without the existence of uncertainty’. Nevertheless he rejected Knight’s argument that it is uncertainty which determines the allocation of activity to the market or the firm, that entrepreneurs have special judgmental skills which allow them to manage uncertainty. Coase argues rather that these skills can be priced by market forces. Whether production is organised by the firm or the market remains a matter of relative costs at the margin.⁵⁶

Coase’s understanding of the limitations to knowledge corresponded to his critique of deductivism in mainstream economics. He criticised the way in which this approach adopted unrealistic assumptions and conducted analysis on an overly abstract plane – what he referred to as ‘blackboard economics’. In particular he

⁴⁹ Hodgson, G. (1989), ‘Institutional economic theory: the old versus the new’, *Review of Political Economy* 1.

⁵⁰ Coase, ‘Adam Smith’.

⁵¹ Coase, ‘How should economists choose?’. Skinner, A.S. (1972), ‘Adam Smith: philosophy and science’, *Scottish Journal of Political Economy* 19, draws parallels between Kuhn and Smith, of whose philosophy of science Kuhn had been unaware.

⁵² Elzinga, K.G. (1972), ‘R.H. Coase’, in D.L. Sills, ed., *International Encyclopaedia of the Social Sciences: Biographical Supplement*, London: Collier Macmillan.

⁵³ Coase, R.H. (1976), ‘Adam Smith’s view of man’, *Journal of Law and Economics* 19.

⁵⁴ Coase, ‘The nature of the firm: origins’. Although he did not discuss it explicitly it seems that Coase’s notion of uncertainty was Knightian in the sense that full knowledge was available in principle, if not in practice. See Coase, R.H. (1992), ‘The institutional structure of production’, *American Economic Review* 82. This is opposed to Keynes’s view that full knowledge was not available even in principle. See Dow, S. (2015), ‘Addressing uncertainty in economics and in the economy’, *Cambridge Journal of Economics* 39.

⁵⁵ Coase ‘How should economists choose?’.

⁵⁶ Coase ‘The nature of the firm’.

criticised what he saw as the excessive mathematization of economics, referring approvingly to Marshall's position on the subject.⁵⁷ Mathematics was useful as long as it was realist, this required the mathematics to fit the reality rather than the other way round.⁵⁸

Because of his realism, Coase was concerned for theory to start with observation. His methodology has been characterised therefore as drawing on a combination of induction followed by deduction, in order to arrive at general hypotheses which would then be referred back to different real contexts. But, in an echo of our discussion of the Scottish tradition, Ghosh and Wang have taken this discussion of Coase's methodology further by focusing on the role of observation as characterising his methodology as being abduction rather than induction.⁵⁹ Indeed the important role of surprising observations as inspiring the 'why' question which motivated Coase's theorising echoes particularly Smith's discussion of the motivational role of 'wonder'.⁶⁰

Coase's methodological statements were misunderstood, notably by Posner⁶¹, who portrays Coase as being anti-theory (something he identified as a British characteristic). This misunderstanding corresponds to the low status ascribed to the Scottish tradition in applied economics, where applied economics is understood as antithetical to theory. It is clearly puzzling to think of Coase as doing anything other than theorising. Indeed Posner's argument provoked a range of contributions on Coase's methodology. What Coase was arguing against was, in fact, not theory, but the dominance of deductivist mathematical formalism in mainstream theorising. Indeed Coase himself chastised American Institutionalism for being anti-theory.⁶² He was concerned for economics to become a hard science in the sense of building theory on observation.⁶³ Accordingly he repeated later Duncan Black's accolade that he had achieved both realism and exactness.⁶⁴ Latterly Coase⁶⁵ was not even hostile to the application of mathematical argument to theory:

'My remarks have sometimes been interpreted as implying that I am hostile to the mathematization of economic theory. This is untrue. Indeed, once we begin to uncover the real factors affecting the performance of the economic system, the

⁵⁷ Coase, R.H. (1975), 'Marshall on method', *Journal of Law and Economics* 18; Medema, Ronald H. Coase.

⁵⁸ Smithin, J. (2020), Professor John Smithin, in P. Armstrong (ed), *Can Heterodox Economics Make a Difference? Conversations with Key Thinkers*, Cheltenham: Edward Elgar.

⁵⁹ Ghosh, R. and N. Wang (2014), 'The methodological pragmatism of Coase'. Paper presented to the inaugural WINIR conference, Greenwich.

⁶⁰ Smith, 'The history of astronomy'.

⁶¹ Posner, R.A. (1993), 'Nobel laureate: Ronald Coase and methodology', *Journal of Economic Perspectives* 7.

⁶² Wang, 'Coase and the nature of economics'.

⁶³ Coase, 'The task of the society'.

⁶⁴ Coase 'My evolution'.

⁶⁵ Coase, 'The institutional structure of production'.

complicated interrelations between them will clearly necessitate a mathematical treatment, as in the natural sciences, and economists like myself, who write in prose, will take their bow. May this period come soon.'

This statement marks a change from Coase's earlier position on mathematics in implying support for a much more comprehensive mathematization of economics. Indeed his theory *was* amenable to mathematization. He took a static marginalist approach, with equilibrium a core concept. Even his 'dynamic' approach was one of a shifting static equilibrium. His approach to theory therefore differed from the more evolutionary dynamic approach of the old institutionalists (and the Scottish tradition) which was only amenable in a limited way to mathematical formalism and, in fact, required the kind of pluralist approach Coase himself had earlier espoused.⁶⁶ It is perhaps critical that Coase does not seem to have been aware of Smith's philosophy of science.⁶⁷ Had he been aware, he would have been discouraged from conceiving of fully mathematising 'the real factors affecting the performance of the economic system' as being feasible, rather than some persuasive, provisional, theorising drawing on a range of methods.

Coase therefore inhabited the rather ambiguous methodological ground of the so-called New Institutional Economics.⁶⁸ For much of his career Coase was treated as an outsider to mainstream economics. Yet, once made methodologically tractable in mainstream terms, the idea of transactions costs was easily absorbed into mainstream theorising. While we have found many important parallels with the Scottish tradition, Coase's static marginalist style of theorising ultimately lent itself to a very different methodological approach.

Indeed these apparent conflicts have a parallel in the different interpretations of Smith. The general equilibrium interpretation translates Smith's abductive, pluralist theorising into deductive marginalist analysis which lends itself to mathematical treatment. Since we have concluded that Adam Smith himself was the route by which Coase was influenced by the Scottish political economy tradition, we round out the discussion by considering more directly a comparison between Coase and Smith. The early influence of his study of Adam Smith was clearly important and it is interesting to contemplate the reason that this influence was so strong. Coase may in fact have been drawn at a personal level to Smith because of similarities in their circumstances and demeanours. Both came to economics with new questions, drawn from experience, and were thus able to start theorizing with a relatively clean slate. Both were solitary scholars, independent-minded and modest about their achievements. Coase⁶⁹ refers to Smith's description of himself as a solitary scholar and his 'independence of mind and liking for solitude'. He notes further Smith's discussion of the need to rely on the cooperation of multitudes in the market, since sympathy only

⁶⁶ Medema, *Ronald H. Coase*.

⁶⁷ Smith, 'The history of astronomy'.

⁶⁸ Hodgson, 'Institutional economic theory'; Rutherford M. (1994), *Institutions in Economics: The Old and New Institutionalism*, Cambridge: Cambridge University Press.

⁶⁹ Coase 'Economics and contiguous disciplines', p. 310.

extends to one's immediate circle.⁷⁰ Finally, Boettke's description of Ronald Coase as being 'feisty, though always gentlemanly'⁷¹ could equally be applied to Adam Smith. As Elzinga⁷² put it, Coase:

'Must be seen as his own man, an archetype of the independent scholar. Not unlike Adam Smith, Coase has worked productively alone, drawing ideas from his reading and reflection, classifying facts through his grasp of economic theory.'

6. Conclusion

We have seen that Coase came to Dundee already under the influence of Plant's teaching on Smith at the LSE, and motivated by the detailed knowledge of firms which he had built up in his time in the USA. But the grounds on which he distanced himself from mainstream economic methodology hold much in common with the broader Scottish political economy approach, still evident in Scotland during his time at Dundee. He encountered this approach in the course of his many exchanges with Duncan Black. But his circumstances and inclinations seem to have meant that he did not actively engage with the Scottish tradition during this time. This must count as one of the great 'missed connections' in the history of economic thought. Had Coase been more thoroughly imbued with the Scottish tradition the tensions we have identified in his own methodological position might have been averted.

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⁷⁰ Smith, *Theory of Moral Sentiments*.

⁷¹ Boettke, P.J. (2013), 'Ronald Coase and comparative institutional analysis', available at <http://www.coordinationproblem.org/2013/09/ronald-coase-and-comparative-institutional-analysis.html>, accessed 30 July 2021.

⁷² Elzinga, K.G. (1984), 'Elzinga on Coase', in W.H. Spiegel and W.J. Samuels, eds., *Contemporary Economists in Perspective*, Part B, Greenwich CT: JAI Press.

Settling on How to Settle: Collective Intentionality and Money

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Abstract

For the past several decades, philosophers have investigated the notion of *collective intentionality* to probe the teleological structure that distinguishes group actions from actions performed solely by individuals. In this essay, I review the two dominant approaches to collective intentionality since the 1990s, which I call the *psychologistic approach* and the *accountability approach*. Drawing upon G.E.M. Anscombe's *Intention* and works inspired by *Intention*, I critique the former approach as a step towards developing the latter. I then turn my attention to showing how the accountability approach can help us understand the ontology of money. I argue that the approach is particularly useful for shedding light on the chartalist account of money, which focuses on money's function of denominating and paying off debts. By studying what it means to settle on a collective goal, we gain insight into the ontological centrality of money's capacity to set and settle debts.

1. Introduction

The notion of a collective acting with the unity of single agent is perhaps as old as Western philosophy itself, for one of Plato's guiding ideas in *The Republic* is that the *polis* can be usefully understood on analogy to the soul of a natural person (and *vice versa*). Plato characterizes the *polis* as having a seat of reason, a source of honor and anger, and a collection of passions, just as an individual person does. It is only by understanding the *polis* in this way that we grasp what it is for it to work together and what makes one *polis* better than another.¹ This concern with explaining how a collective can act like a single rational being is also central to the theorizing of 17th and 18th century political philosophers. Thomas Hobbes's introduction to *Leviathan* opens with an elaborate comparison between an individual human and the 'artificial person' of the commonwealth. He argues that the best-run state will be led by a single individual whose will coordinates all the activities of the state's members.² Jean-Jacques Rousseau was wary of the despotism inherent in this arrangement, but he agreed with Hobbes that for a state to function well it, like a natural person, has to be bound together by a single will. His *Social Contract* presents a method by which the

¹ Plato (1992), *Republic*, translated by G.M.A. Grube and revised by C.D.C. Reeve, Indianapolis: Hackett.

² Hobbes, T. (1994), *Leviathan*, edited by Edwin Curley, Indianapolis: Hackett.

members of a state can, through the creation of law, collectively self-impose a will that binds them together. He calls this collectively self-imposed law the 'General Will'. It is a will that unites the members of a collective into a single body, but it is produced by all members of the body and not, as on Hobbes's view, by one elite member.³

For the past several decades, a number of philosophers working at the intersection of social ontology and the philosophy of mind have taken on the age-old topic of collective agency under the head of *collective intentionality*. This literature has grown out of the philosophy of action; to understand the explanatory concern of these philosophers, it is worthwhile asking what are the basic questions they expect to answer with a theory of intentional action. The literature springing from the work of Donald Davidson sought to explain the difference between, *e.g.*, intentionally turning on a light by flipping a switch and unknowingly scaring off a prowler by that very same action.⁴ One intuitive way to mark the difference between these phenomena is in terms of the agent's state of mind. Inside their mind, they had an intention to turn on the light but not one to scare anyone off. If we think of intentions this way, then we understand them as mediators between mental states and activities such as beliefs, desires, or acts of practical reasoning, on the one hand, and motions of the motor system, on the other. Theorized in this way, they bridge the mind and body on the output side of the mind-body problem.

An adequate account of intention will include a variety of elements. It will explain how intentions are caused and how they related to beliefs and desires. It will explain what bearing evaluative judgments can have on intentions and whether it is possible to intend to do something that one thinks is completely bad. It will explain the relation of intentions to practical reasoning, and it will explain their epistemology, including whether they are knowable in an especially first-personal way and whether unconscious intentions are possible. Suppose you developed such an account and then, armed with your account, you set out to explain acts of collective agency. One of your primary tasks would be to explain what sorts of intentions are at work when agents act together, and you would want your account to be able to distinguish genuine collective action from cases in which agents give off an appearance of collectivity but are each acting merely individually. Your full account would illuminate what it is to understand the state as like a soul, as an artificial person, and as having a General Will, but you would start with much simpler examples. It is enough, initially, if you can distinguish adequately between two individuals walking side-by-side as individuals and two individuals taking a walk together.⁵ This is the initial explanatory task of contemporary collective intentionality.

³ Rousseau, J-J. (1997), *The Social Contract and Other Later Political Writings*, translated by Victor Gourevitch, Cambridge: Cambridge University Press.

⁴ Davidson, D. (1980), *Essays on Actions and Events*, New York: Oxford University Press.

⁵ The origin of this example is Margaret Gilbert's 'Walking together: a paradigmatic social phenomenon' in Gilbert, M. (1996), *Living Together: Rationality, Sociality, and Obligation*, New York: Rowman and Littlefield.

In what follows, I will review the two dominant approaches to collective intentionality since the 1990s. I will call these the *psychologistic approach* and the *accountability approach*. Drawing upon G.E.M. Anscombe's *Intention* and works inspired by *Intention*, I will critique the former approach as a step towards developing the latter.⁶ My argument will pivot around what it means *to settle* an intention in both the individual and the collective case. I will not attempt here to explain how the accountability approach can be extended to account for the unity of a state or any other community. I will, however, close with a discussion of how the approach can apply to the ontology of money. Money is a central topic for many theories of social ontology.⁷ I will show how the accountability approach is particularly useful for shedding light on the chartalist account of money, which focuses on money's function of denominating and paying off debts. By studying what it means to settle on a collective goal, then, we gain insight into the ontological centrality of money's capacity to set and settle debts.

2. The Psychologistic Approach.

The psychologistic approach starts from the presumption that the teleological and motor phenomena of intentional action are to be explained in terms of the psychological states of individuals. In *Intention*, Anscombe characterizes the method of this approach as follows:

‘... if we want to know a man's intentions it is into the contents of his mind, and only into these, that we must enquire; and hence ... if we wish to understand what intention is, we must be investigating something whose existence is purely in the sphere of the mind.’⁸

This view comes naturally to anyone motivated by a materialist view of the mind, especially if this materialism is embraced as a repudiation of a religious conception of

⁶ Anscombe, G.E.M. (1963) *Intention*, Cambridge, MA: Harvard University Press. In the only other explicitly Anscombian analysis of collective intentionality of which I am aware, Ben Laurence also identifies psychologism as a central aspect of the mainstream approach to collective intentionality, which he in turn critiques. See Laurence, B. (2011), ‘An Anscombian approach to collective action’, in A. Ford, J. Hornsby, and F. Stoutland (eds.), *Essays on Anscombe's Intention*, Cambridge, Mass.: Harvard University Press.

⁷ John Searle, for example, focuses on money as a central example of ‘social reality’, and he uses his account of collective intentionality to explain the construction of this reality. See Searle, J. (1995), *The Construction of Social Reality*, New York: Free Press; and Searle, J. (2010), *Making the Social World*, New York: Oxford University Press. For a tidy discussion of how these pieces fit together, see Papadopoulos, G. (2015), ‘Collective intentionality and the state theory of money,’ *Erasmus Journal for Philosophy and Economics* 8.

⁸ Anscombe, *op. cit.*

an immaterial soul or (less likely) of Cartesian dualism. This picture of the mind gives it a spatial location, locating it in the brain, somehow, and not in the heart or the hand. If we wish to understand what it is for me to point my finger intentionally, we should not start by investigating my finger, let alone what it is pointing to. Rather, we need to start with the mind in my head whose workings eventually produce the pointing. When we layer a mechanistic explanatory strategy on top of this materialism, we know not only where to look, but what to look for. Inside the mind, we want to discover the springs of action and how they cause motor activity such as finger-pointing.⁹

When it is applied to explanations of collective intentionality, the psychologistic approach examines the interrelations between intentions, conceived of as items whose existence is purely in the sphere of individual minds, that give rise to collective action. Sticking with the spring metaphor, my actions are sprung by the intentions in my mind, and yours are sprung by yours. Your intentions cannot spring me immediately into action, for they are not connected to my body in the right way to do so, and mine cannot spring you immediately into action, for the parallel reason. We can coordinate our springs, or perhaps more accurately, our springs can be coordinated, to allow us to do all manner of things together, from running a commonwealth to taking a walk together. Starting as the psychologistic approach does with these psychological springs of action, it is unsurprising that many who adopt it specify the collectivity of collective action, at least in part, in the *contents* of the relevant individual intentions. Put another way, because of its commitments to explaining all intentional phenomena psychologically and to ascribing psychological states only to individuals, the psychologistic approach must capture at least part of the collectivity of collective intentionality in the connections between psychological states. Thus, it is not surprising to think that these states need to have suitably collective contents in order to so connect.

An example with a bit of detail will help us see what is at issue here. Suppose there is a rally tomorrow and Leo and Sheila, independently of one another, each plans to go to it. According to the psychologistic approach, Leo has an intention that is accurately specified by 'I intend to go to the rally tomorrow', and Sheila also has an intention that is accurately specified by this sentence. Each of them can act on their individual intentions and successfully attend the rally, but doing so need not amount to them going to the rally *together* as a collective. For their action to be collective, each of them will need to include some representation of the other as someone with whom to go to the rally. The psychologistic approach can capture this by saying Leo has an intention accurately specified by 'I intend to go to the rally tomorrow together with Sheila' and by saying Sheila has the parallel and interrelated intention. Putting the matter this way gives us a task for philosophy, for we might now ask, what is it to intend to do something *together with* another? Can we further specify, or analyze, or explicate this relation of 'together with', as it is present in collective action?

Everyone who writes on collective intentionality thinks that the answer to this last question is, yes. Everyone who writes on the topic thinks something can be said that

⁹ Velleman uses this phrase in Velleman, J.D. (2000), *The Possibility of Practical Reason*, New York: Oxford University Press.

helps us to understand the difference between two individuals coincidentally doing the same thing and two individuals doing something together. For many adherents to the psychologistic approach, at least part of what can be helpfully said is provided, again, by the specification of the contents of the relevant intentions. The most prominent proponent of this sort of account is Michael Bratman.¹⁰ According to Bratman, the needed content-collectivity is articulated by propositional attitudes with the form ‘I intend that we *J*’. The plural grammatical subject of the proposition embedded in the intention makes the intention suitable for connecting with other intentions of this form into a network of collective intentionality. On Bratman’s view, each of Leo and Sheila has an intention specified by, ‘I intend that we go to the rally tomorrow’. Because each has an intention of this form and with this content, they intend to go to the rally, not coincidentally together, but jointly together in what Bratman calls a *shared intentional activity*. If neither Leo nor Sheila is coercing the other and if each is committed to mutually supporting one another in the activity, the activity is not merely shared; it is, on Bratman’s taxonomy, *cooperative*.¹¹

Bratman’s ‘I intend that we *J*’ formulation is useful, I think, because it provides the best (and perhaps only) way for an account of collective intentionality at once to respect the basic metaphysical commitments of psychologism while simultaneously supplying a form of rationalization suitable for complete practical explanation. To see this, consider an exchange between Bratman and Christopher Kutz on the nature of the intentions that explain collective action. Bratman and Kutz agree on several central points. As does Bratman, Kutz follows the psychologistic approach, and he claims that anyone who takes their common tack should account for the collectivity of collective action in the content of intentions. Kutz asserts that the intentions involved in many collective actions ‘cannot be made sense of except in collective terms’ which, in turn, is a matter of content ‘... collective *content* is necessary to distinguish cooperation from merely parallel behavior’.¹² He argues for this claim by disputing what appears to be the only other psychologistic way of explaining the collectivity of collective intentionality, *viz.*, in terms of intentions with a distinctive and irreducible ‘we-’ *form*. To see the options here, consider the following example from John Searle, an advocate for the existence of intentions with irreducible ‘we-’ *form*. Searle asks us to imagine a group of graduating business students, each who believes humanity will be best served by everyone following their selfish interests and who also believes their fellow business students believe the same. If each sets out alone, intending to do their part to better humanity by pursuing their individual self-interest, then, Searle asserts, there is no collective action. Contrast this with the case in which the students make a pact on their graduation day to do their part by each following their individual self-interest. Searle claims that the only adequate way to explain the difference here is to posit a novel form of intention, ‘we-intentions’, to mark off the latter case from the former. On Searle’s account, the content of the relevant intentions

¹⁰ Bratman, M. (2014) *Shared Agency: A Planning Theory of Acting Together*, New York: Oxford University Press.

¹¹ Bratman, M. (1992), ‘Shared cooperative activity’, *The Philosophical Review* 101.

¹² Kutz, C. (2000), ‘Acting together’, *Philosophy and Phenomenological Research* 61 (original emphasis).

is the same in both cases (to pursue one's individual self-interest), but in the former case the form of the intentions is that of an 'I-intention' whereas in the latter it is that of a 'we-intention'.¹³

There are a variety of complaints one might have with Searle here. One might object to his claim that the business students in the first case do not perform a collective action. If individually self-interested motivations can give rise to coordinated group behavior, why think that their pact in the second case makes a difference? Alternatively, even if one agrees with Searle that the latter case involves a sort of collectivity that is absent in the former, it is not clear how invoking intentions with irreducibly 'we- form' explains (as opposed to merely labels) the phenomenon. Neither of these, however, is Kutz's objection. Kutz argues that the content of the relevant intentions in Searle's two cases is not the same. In the first case, the students do not intend to do anything together — each intends to act selfishly, predicts that their fellows will do the same, and further predicts that this will be to the benefit of humanity. In the latter case, the students do intend to do their part in the joint project of making humanity better, each doing so by pursuing their individual self-interest. This is a difference in content, not form, because in the latter case but not the former, the intention is to do something *together*, and this togetherness is properly specified in the content of the intention.

Kutz's interpretation here provides a recipe for anyone wanting to be a monist about the form of intention, who rejects the existence of intentions with a distinctive 'we-' form. Given any example that purports to show the need to account for collectivity in terms of a distinctive 'we-' form of intention, embed the collectivity in content of the 'I' intention. Not only is this *an* option for the proponent of the psychologistic account, but I think it should be the *preferred* option. Psychologism goes hand-in-hand with individualism. The bogeyman alternative is what Hans Bernard Schmid calls 'the specter of the group mind', which is derided by most who discuss collective intentionality, going at least as far back as Wilfrid Sellars in 1963.¹⁴

¹³ This example is from Searle, J. (1990) 'Collective intentions and actions,' in P. Cohen, J. Morgan, and M.E. Pollack, eds., *Intentions in Communication*, Cambridge, MA: Bradford Books, MIT Press.

¹⁴ For Schmid's phrasing and discussion, see Schmid, H.B. (2009), *Plural Action*, New York: Springer. Sellars's place in this debate is subtle. He acknowledges the legitimacy of *sentences* whose logical form is 'We intend that X do A', and he says the 'internalization' of this form as the concept of 'us' is 'a form of consciousness and, in particular, a form of intending'. See Sellars, W. 'Imperatives, intentions, and the logic of 'ought'', in H.N. Castañeda and G. Nakhnikian, eds., *Morality and the Language of Conduct*, Detroit: Wayne State University Press. This form of consciousness, he says, need not 'involve the existence of a 'group mind', capable of having beliefs and intentions, in a sense incompatible with empiricist principles'. This might sound like a psychologistic account of collective intentionality articulated in terms of a 'we-' form of intentions. Sellars is primarily interested here, however, about the logical relations between sentence forms. He takes on no commitments regarding what facts would determine the collective intentionality or lack thereof in, e.g., the graduating business student example. A proponent of psychologism could

Fidelity to the individualism of psychologism and metaphysical parsimony recommend that the psychologistic approach take Kutz's and Bratman's route of locating the collectivity of collective intentionality in the content of individual intentions.

In spite of their similarities, Kutz thinks some collective intentions are 'merely participatory' and, as such, do not have Bratman's 'I intend that we *J*' form. The intentions Kutz has in mind are '... intentions to do [one's] part in achieving [an] executively determined goal'.¹⁵ Kutz believes that the content of such an intention is not to achieve a collective end but rather merely to contribute to a collective end. Kutz presents musicians doing their part in an orchestra and players doing their part in a team sport as examples of individuals who have merely participatory intentions. About the former case, he says 'It would ring false to attribute to an individual cellist in an orchestra the intention that 'we play the *Eroica*'.¹⁶ Something more is needed, he thinks, for an individual to have an intention with the 'I intend that we *J*' form.

I do not wish to dispute Kutz regarding whether a cellist saying 'we play the *Eroica*' would ring false. Even if Kutz is right here, the distinction he is describing is of trivial importance to an articulation of the teleological structure of collective intentionality.¹⁷ This triviality becomes clear when we think through the case using Anscombe's special question 'Why?'. Anscombe argues that what an agent does is intentional just in case they can articulate the good they believe they are pursuing without having to take a third-person perspective on themselves. She calls these articulations answers to the question 'Why?', in a special sense, and answers of this sort reveal the intentions an agent has in acting. Plenty has been written on what this amounts to and why it matters.¹⁸ For our present purposes, all we need from Anscombe's device is to imagine asking this cellist why they are playing the cello, and imagine them saying 'Because I am doing my part in the orchestra', and then imagine us proceeding to ask why they are playing those notes in particular and not some others. A natural response for the cellist here is 'because we are playing the *Eroica*'. This response reveals the goal of the orchestra, which in turn rationalizes the contributions made by each of the orchestra members. Even if Kutz is correct that there is a genuine distinction between trying to achieve a collective end and merely trying to contribute to the collective end, it is the end itself that rationalizes both the collective action and the individual actions that are its parts, so it is the end itself that

thus grant all that Sellars says about the logical form of 'we-consciousness' while insisting that the individualistic 'I intend that 'we *J*' form psychological states comprised by any 'we-consciousness' have the individualistic 'I intend that we *J*' form.

¹⁵ Kutz, *op. cit.*

¹⁶ Kutz, *ibid.*

¹⁷ Bratman's own complaint to Kutz here is that such an intention would not enable one '... to adjust in response to pressures of consistency and coherence with respect to [the collective] end' and thus cannot support shared cooperative activity (Bratman, M. (2014), *op. cit.*, 170).

¹⁸ For an excellent overview, see Wiseman, R. (2016), *Routledge Guidebook to Anscombe's Intention*, New York: Routledge.

matters for explaining the overarching teleological structure of collective intentionality.

The virtue of Bratman's 'I intend that we *J*' formulation is that it captures this teleological structure by explicitly specifying the rationalizing goal of a given collective action. This formulation locates this collectivity in the content of individual intentions, and it does so in a way that makes the overarching, rationalizing goal explicit. This pair of features, I think, makes Bratman's the preferred formulation of the psychologicistic approach. For the remainder of this paper I will treat it as the exemplar of this approach.

3. Settling on Collective Intentions

One Anscombean critique of Bratman's view — which, I think, carries over to any psychologicistic account of collective intentionality that locates collectivity in the content of individual intentions — is that the basic structure of intending is infinitival, not propositional. If the only way the view can account for the collectivity of collective intentionality is *via* the specification of a plural subject of a proposition that is the content of the relevant intention, then the view must be wrong. This critique is suggested by Michael Thompson's naïve action theory, which focuses on the logical implications of taking infinitival specifications of action as basic.¹⁹ Thompson thinks that deep truths lie behind a person's propensity to say 'I intend to do such-and-such' rather than 'I intend *that* I do such-and-such' when they say what they intend to do. Those persuaded by Thompson are likely to see a promising line of attack here against any psychologicistic account that so much as allows for irreducible propositional objects of intention. This style of critique, however, risks going unheard by those who are unmoved by grammatically-guided analyses of the logical form of practical reasoning, which includes Bratman.²⁰ In spite of my sympathy with the Thompsonian strategy, I will meet Bratman on his own terms and pursue a challenge that he himself takes to be pressing.

The issue at hand concerns what is needed for a collective intention to be 'settled on'. Bratman acknowledges that his account will fail if it cannot make sense of an individual agent settling the matter that a collective action take place. The challenge to his account being able to satisfy the requirement comes from J. David Velleman, who says that '[y]our intentions are attitudes that resolve deliberative questions, thereby settling issues that are up to you'.²¹ On Bratman's account, it must be possible

¹⁹ Thompson, M. (2008), *Life and Action: Elementary Structures of Practice and Practical Thought*, Cambridge, MA: Harvard University Press.

²⁰ Bratman, *op. cit.*

²¹ Velleman, J.D. (1997), 'How to share an intention', *Philosophy and Phenomenological Research* 57. Bratman quotes this passage Bratman, M. (1997), 'I intend that we *J*,' in R. Tuomela and G. Holmström-Hintikka, eds, *Contemporary Action Theory, Vol. II*, Dordrecht: Kluwer. For a recent discussion on the importance of the topic, see Alonso, F. (2017), 'Intending, settling, and relying', in D. Shoemaker

for a person to resolve a deliberative question by forming an intention with collective ‘that we *J*’ structure, thereby settling not just what that person will do but also what the other members of the collective will do. Moreover, on Bratman’s account, this must be possible not just in contexts where one person has authority or control over another but also in non-coercive, cooperative contexts. If no such ‘that we *J*’ intentions can be formed, then shared cooperative action is, according to the account, impossible. But shared cooperative activity is possible, so there must be some way one person can non-coercively settle what a collective will do.

To see what is at stake here let us return to Leo and Sheila and the rally, starting this time with a non-collective case. Imagine that Leo is deciding whether or not to go to the rally. He deliberates, and then he decides that he will go to the rally. Upon deciding that he will go to the rally, he settles the matter, moving from a state of indecision to one in which he forms the intention to go to the rally. If we formulate the intention using a proposition as its object, his settling of the intention generates an intention specified by ‘I intend that I will go to the rally tomorrow’. This possibility is not mysterious. Contrast this with his deliberating about whether he and Sheila will go to the rally. Suppose he has no authority over Sheila. He deliberates, and he concludes that they will go to the rally, thereby forming an intention specified by ‘I intend that we will go to the rally tomorrow’. At a minimum, it would seem that Sheila must know of this intention and accept it as her own for there to be a collective action of going to the rally. Bratman agrees with Velleman, however, that he is committed to the possibility of Leo deciding, by himself, without any special authority, that they will go to the rally simply by forming the relevant ‘I intend that we *J*’ intention. But how could Leo’s decision, on its own and by itself, settle that he and Sheila go to the rally together?

Bratman’s answer is that a person settles a collective matter if they form a ‘that we *J*’ intention and can predict with a high degree of accuracy that the rest of the relevant collective will likewise form the intention if they (the rest of the collective) come to know of it.²² Leo can settle that he and Sheila go to the rally if he intends to go to the rally, if Sheila becomes aware of this intention (perhaps because he says to her, ‘I’m looking forward to the rally tomorrow’), and if he can correctly predict that she will thereby intend to go with him (perhaps because whenever there is a rally, they go together). If this happens, then Sheila’s psychological condition changes from one in which she was not intending to go to the rally to one in which she has this intention. Should she and Leo successfully go to the rally, it will be Leo’s decision that made it so.

There is nothing about the meaning of ‘to settle’ that prevents us from seeing Bratman’s account as one in which one person non-coercively settles what another (and thereby a collective) does. When we consider Anscombe’s account of the form of practical reasoning, however, we see that Bratman’s response ignores the way that

(ed.), *Oxford Studies in Agency and Responsibility*, Volume, 4, New York: Oxford University Press.

²² This is Bratman’s answer in Bratman. M. *op. cit.*, and although he has continued to elaborate this response over the past two decades, his core thoughts on the matter remain unchanged in later works.

a person can immediately establish, maintain, or alter an intention through an exercise of reason. Anscombe argues that practical reasoning differs from theoretical reasoning in its form, not its content. She is less than ideally clear about what she means by ‘form’, but one hallmark of this difference between practical and theoretical form is the fact that practical reasoning can result immediately in action. Richard Moran and Pamela Hieronymi have developed this insight into a view of rational self-control, which is the kind of control we exert over ourselves when we let reason immediately determine what we believe (in the theoretical case) and what we do (in the practical case).²³ There is a variety of sorts of immediacy that is relevant to this discussion — full examination of them would lead us astray from our inquiry. What matters presently comes out through a distinction Hieronymi draws between the ‘managerial control’ and ‘evaluative control’ we exercise over our lives.²⁴ Managerial control is demonstrated by the way we can act to achieve our goals. If I decide to get a cup of coffee, I do not thereby instantly have a cup of coffee. I need to do something, such as go to the coffee shop and order one, if I am to have a cup of coffee. The control I exert over the cup, obtaining it and then drinking it, is managerial. Contrast the control I exercise in deciding in the first place to get the cup of coffee. I might deliberate about it, thinking first that it is too late in the day for coffee, then thinking that being more alert is worth whatever inconvenience the caffeine might later cause, and I might decide to get the cup. When I make this decision, there is nothing further I need to do to myself to form the intention to get the cup of coffee. I do not need to manage myself to form the intention for the coffee in the way that I need to manage the cup if I want actually to drink the coffee. The control I exert over my intention, then, is not managerial, but evaluative, and it is immediate, for it involves no instrumental activity to bring the relevant intention about once I have made the decision.

We can recast this distinction between sorts of control as a distinction between ways of settling. When I decide to go ahead and get a cup of coffee, that immediately settles my intention on the matter. By contrast, when Leo decides that he and Sheila will go to the rally, his decision does not settle the matter, for if Sheila never learns of the decision, there is no guarantee that she will form the intention to go to the rally (let alone to go with Leo). When Leo decides that they will go to the rally, there is nothing further to do for him to form the intention to go, but there is something further — *viz.*, to communicate or signal the decision — that needs to happen to bring about the intention in Sheila that settles that they go together. He thus cannot exert evaluative control over whether they go to the rally. Bratman’s worry about settling, however, is a worry precisely over whether one person can evaluatively settle a collective action. This is what Velleman has in mind when he speaks about ‘resolving deliberative questions’ and ‘settling issues’. It is a matter of exerting evaluative

²³ See Moran, R. (2001), *Authority and Estrangement: An Essay on Self-Knowledge*, Princeton: Princeton University Press. Also, Hieronymi, P. (2005), ‘The wrong kind of reason’, *The Journal of Philosophy* 102. Hieronymi, P. (2006), ‘Controlling attitudes’, *Pacific Philosophical Quarterly* 87, and Hieronymi, P. (2009), ‘The will as reason’, *Philosophical Perspectives*.

²⁴ Hieronymi, *ibid.*

control, not managerial control. The worry that Bratman is trying to address about one person settling a collective action is thus not resolved by showing that one person can exert manipulative control over another's intention. Within Bratman's framework, that worry could be addressed only if it were possible for one person to settle another's psychological state by exerting evaluative control over the mind of the other. But this is impossible. No matter how much control one person has over another, the first must *do something* beyond making decisions to exercise that control over the mind of the other.

This is a problem for any psychologistic view that captures the collectivity of collective intentionality in the content of the relevant intentions. Any such view will owe an explanation of how one can settle the intentions of another via an exercise of evaluative control, but no explanation will be forthcoming, because this is impossible. Bratman is right to take this worry seriously, and I have just argued that neither he nor any other proponent of psychologism can meet it. This does not force us, however, to embrace anything as metaphysically occult as a group mind. The alternative is to stop thinking about psychology altogether and to focus instead on social norms of accountability.

4. The Accountability Approach

The argument from the last section paves the way to exploring how collective intentionality, both cooperative and coercive, could result from evaluative control, how collective intentions do sometimes manage to get immediately rationally settled, and how they can immediately be rationally maintained and altered. The way forward, I think, is to develop Margaret Gilbert's alternative to psychologism, which focuses on the ways in which mutual accountability is a constitutive feature of many sorts of collective intentionality, present even in actions as mundane as taking a walk together.²⁵ According to Gilbert, intentionality is collective just in case each of two or more people have the 'right to rebuke' the other or others for failing to do their part in a joint activity, and this right to rebuke is what makes the activity joint, not merely coincident. This right, Gilbert says, is produced by agreement, which can be tacit. On Gilbert's view, the difference between you and I each walking as individuals in close proximity to one another, on the one hand, and taking a walk together, on the other, is that in the latter case we have at least tacitly agreed to walk together and thus, if either of us unilaterally quits, the other has the right to issue a rebuke for doing so.

Gilbert does not deny that, in order to act collectively, agents need to have intentions to do so and beliefs about their fellow participants doing so as well. She is not some mid-20th century behaviorist who questions the existence of ordinary psychological kinds. Moreover, her assertion that there are norms of collective action is not in itself what distinguishes her view from psychologism. Bratman, for example, claims that collective intentionality requires joint commitments on the part of its participants, and commitment is obviously a normative notion closely linked to that of

²⁵ See Gilbert *op. cit.*, and Gilbert, M. (2014), *Joint Commitment: How We Make the Social World*, New York: Oxford University Press.

accountability. What is distinctive about Gilbert's view, and any other accountability view of collective intentionality, is the explanatory pride of place it gives to normative notions such as the right to rebuke. To adopt the accountability approach is to claim that these normative phenomena are explanatorily basic. On the accountability approach, the psychological aspects of collective intentionality are simply the means by which humans manage to institute and exercise the norms, but the norms are what constitute the phenomenon itself.

This positioning of the normative as explanatorily prior to the psychological belongs to a philosophical *geist* over the last century whose standard bearers include Anscombe, Ludwig Wittgenstein, John McDowell, and Robert Brandom.²⁶ A full defense of the explanatory priority of normativity calls for engagement with all of their work that goes beyond the brief confines of this paper. At present, I will simply note that all of these writers have reason to applaud the anti-psychologistic character of Gilbert's view. Her view suffers, however, because it is overly constrained by a modern liberal focus on the force of agreement. Gilbert's account of agreement is subtle and perhaps surprising. She argues, for example, that agreements may be coerced yet still be binding.²⁷ This gives her an expansive view of agreement, but it is still too narrow to do the needed work in an account of collective intentionality. The following challenge from Schmid shows one reason why. Schmid worries that Gilbert's appeal to agreements makes her view untenably circular. Whatever one says about agreements, one must, Schmid claims, categorize acts of agreement as themselves acts of collective intentionality, so Gilbert's appeal to agreement to explain collective intentionality leaves her trapped in an explanatory circle. To get out of this circle, Schmid thinks we should see shared intentions based on agreement as 'a special (and especially complex) kind', which thus 'should not be taken to be the 'paradigm case' of an analysis of shared intentionality'.²⁸

I agree with Schmid's conclusion here, and I think Anscombe would have as well. She presents a case of collective intentionality relevant to this point near the end of *Intention* with her example of the building project director. In the example, a project director commands a crew of workers on every step of constructing a building without being on site to watch the progress. She claims that '[h]is knowledge of what is done is practical knowledge'.²⁹ Although it is not her main point, this example shows that agreement is not essential to settling a collective intention. An action is an action when Anscombe's question 'Why?' reveals its practical logical form. 'Why?' applies to joint activities even when initiated by something other than agreement, *e.g.*, coercive commands. What is essential is the establishment of a collective goal, which

²⁶ Anscombe, *op. cit.*; Wittgenstein, L. (1953), *Philosophical Investigations*, eds., G.E.M. Anscombe and R. Rhees, Oxford: Blackwell; McDowell, J. (1996), *Mind and World*, Cambridge, MA: Harvard University Press; Brandom, R. (1994), *Making it Explicit: Reasoning, Representing, and Discursive Commitment*, Cambridge, MA: Harvard University Press.

²⁷ See Gilbert, M. (1993), 'Is an agreement an exchange of promises?', *Journal of Philosophy* 90.

²⁸ Schmid, *op. cit.*.

²⁹ Anscombe, *op. cit.*

is answerable to a desirability characterization, and which determines a teleological order.³⁰ How such goals are established is a contingent feature of social communities. Agreement is one way this can happen. When we reason about what to do and then come to an agreement about the matter, we exert evaluative control and thereby establish the collective goal that organizes our action. But this is not the only way. Gilbert's myopic focus on agreement seems blind to the possibility of coerced, agreement-free collective action, but she is correct that the collective pursuit of a collective goal requires norms of accountability to determine grounds for rebuke.

Once we appreciate this, we see what the proponent of the accountability approach should say in response to Velleman's challenge to Bratman. First, Hieronymi is right about the difference between evaluative control and managerial control, and Velleman's challenge is really about the possibility of one person exerting evaluative control over another by settling deliberative questions. This is not a matter of managing minds but rather of setting goals, and who gets to set what goals is a normative and socio-historic matter. Of course, rebellion is always possible, as Anscombe herself notes in the project director example when she says, 'orders, however, can be disobeyed, and intentions fail to get executed'.³¹ This fact, however, just shows a basic way that collective intentionality differs from individual intentionality. There is no space for dissent in the individual case: if a person quits on a goal, there is only one mind at play, and that mind is changed by giving up the goal. The collective case has room for dissent, where one person refusing to pursue a goal does not change the other's mind. When giving an account of collective intentionality, the place to start is here, not inside the minds of individual acting agents, but with the norms that govern the coordination of their action.

5. Collective Intentionality and the Ontology of Money

To see the relevance of this discussion to issues beyond the philosophy of mind and the philosophy of action, let us now bring it to bear on the ontology of money. Reflection on the ontology of money's value — what it is and where it comes from — goes back at least to Aristotle.³² John Locke presents a common way of framing some of the relevant issues when he writes that 'gold and silver, being little useful to the life of man in proportion to food, raiment, and carriage, has its value only from the

³⁰ Anscombe discusses desirability characterization in Anscombe, *op. cit.* These characterizations occur in the major premises of practical syllogisms.

³¹ Anscombe, *op. cit.*, section 45. I discuss Anscombe's views on this in Hubbs, G. (2016), 'Anscombe on intentions and commands,' *Klesis* 35.

³² Aristotle (1999), *Nicomachean Ethics*, translated by T. Irwin. Indianapolis: Hackett; Aristotle (1999), *Politics*, translated by C.D.C. Reeve. Indianapolis: Hackett. For an insightful discussion of the differences between the accounts in the *Ethics* and in the *Politics*, see Eich, S. (2019), 'Between justice and accumulation: Aristotle on currency and reciprocity', *Political Theory* 47.

consent of men'.³³ Locke is not committing himself to the strong view that money gets its value only through explicit acts of consent. Rather, he is asserting that in order to understand how something with so little use-value could come to be so valuable in exchange, we need to think of money's value as if it were produced by explicit acts of consent, even if in reality this consent is merely tacit. On the imagined model, we collectively decide to accept gold and silver in any exchange, which from Locke's point of view just is to decide to value it as money. Money's value is thus understood as if it were produced by an act of collective intentionality that results in the consent Locke describes.

This story invites at least as many questions as it purports to answer. Why, for example, are we imagined as collectively provisioning ourselves through commercial exchange rather than any other social practice? What about commercial exchange would compel a community to decide on just one or two media as generally acceptable in exchange? And given that there must only be one or two such media, why would a community choose precious metals? There are orthodox answers to all these questions, some which go back at least to Aristotle, all of which are on display in the opening chapters of Adam Smith's *The Wealth of Nations*.³⁴ One key aspect of Smith's account that differs from Locke's is the way it depicts money's invention as a gradual development. In place of Locke's apparently one-off event that produces social consent, Smith describes money as emerging over time out of moneyless barter. Smith's story also treats money's value less as something we agree to and more as something we discover. He writes that 'every prudent man in every period of society, after the first establishment of the division of labour, must naturally have endeavoured to manage his affairs in such a manner as to have at all times by him, besides the peculiar produce of his own industry, a certain quantity of one commodity or other, such as he imagined few people would be likely to refuse in exchange for the produce of their industry'.³⁵ On this view, the invention of money is not taken to be the result of an actual act of consent, nor is it modeled on a hypothetical act of such consent. Instead, money comes into being as 'every prudent man' seeks to have that thing he expects all others to accept in exchange. It is the result of several acts of individual prediction, not one act of collective agreement.

Smith's explanation of the invention of money's value does not lend itself well to psychologistic accounts of collective intentionality. No group of individuals decides that gold will be universally acceptable in exchange and thus settles the matter, each member from then on intending that they will accept gold in any commercial exchange. Instead, market participants engage as individuals in what André Orléan describes as 'mimetic rationality', each observing what others desire and then forming beliefs about what kind of things are liquid and thus prudent to have at all times.³⁶

³³ Locke, J. (1980), *Second Treatise of Government*, C.B. Macpherson, ed., Indianapolis: Hackett.

³⁴ Smith, A. (1999), *The Wealth of Nations*, in Andrew Skinner, ed., New York: Penguin Classics.

³⁵ Smith, *ibid.*

³⁶ Orléan, A. (2014), *The Empire of Value: A New Foundation for Economics*, Translated by M.B. DeBevoise, Cambridge, MA: MIT Press. I discuss Orléan's view

The psychology here is the psychology of individual belief, not of collective intentionality. If we assume that what is common here between Smith's and Orléan's views is correct, we might be tempted to conclude that the social ontology of money is to be explained using the resources of something other than a theory of collective intentionality.

The issue here is highlighted by Searle's discussion of the connections he sees between his accounts of intentionality in general, collective intentionality, social ontology in general, and the ontology of money. As we saw in section 2, Searle holds that collective actions are to be explained in terms of intentions that have a unique and irreducible 'we-' form. This account of intentions belongs to his broader account of intentionality, where 'intentionality' here means 'aboutness' in the sense made familiar by Franz Brentano.³⁷ For Searle, then, there are other intentional attitudes with distinctively 'we-form', including 'we-beliefs' and an attitude I will inelegantly call the 'we-count-as' attitude. The latter is the key to his account of social ontology. According to Searle, a community creates and maintains social facts through attitudes of the form 'We count Xs and Ys in C'.³⁸ For an example, consider chess pieces. A knight moves the way that it does on the chess board because (we) chess players count (Xs) pieces that look like horses and that start on the back row one square in from the corner squares as (Y) knights in (C) the game of chess. He describes the capacity for the knight to move in its specific way as a 'deontic power' of the knight. This account applies to money as well as it does to chess. Canadian dollar bills have the power to buy things and to settle debts because (we) users of Canadian dollars count (Xs) notes that look like Canadian dollars and that are printed by the Canadian Bank Note Company as (Y) media of exchange and settlement in (C) Canada (but not necessarily elsewhere). The deontic power of a given Canadian dollar is its ability to buy things and settle debts with it.

Searle's 'X counts as Y in C' schema aptly characterizes the way in which social facts are created and maintained, but much like his invocation of 'we-' intentions, this describes the relevant phenomena without explaining them. In the case of money, what we want to know is *how* the relevant Xs come to count as dollars in Canada and then *what sustains* its deontic powers. When it comes to this, Searle regurgitates the orthodox view, asserting that coins were originally just sophisticated media of exchange and bills were just representations of these media.³⁹ This view has been criticized on economic, historical, anthropological, and philosophical grounds, so there is no good reason for anyone to accept it anymore.⁴⁰ Searle's explanation of the

of money in Hubbs, G. (2021), 'Monads in the *Empire of Value*', *Capitalism: A Journal of History and Economics* 2.

³⁷ Brentano, F. (1874), *Psychology from an Empirical Standpoint*, London: Routledge and Kegan Paul.

³⁸ Searle discusses this in a number of places; here, I draw on Searle, J. (1998), *Mind, Language, and Society*, New York: Basic Books.

³⁹ Searle, *ibid.*

⁴⁰ See Smithin, J. (2022), *Beyond Barter*, Singapore: World Scientific Publishing; Graeber, D. (2011), *Debt: The First 5000 Years*, Brooklyn: Melville House; Ingham, G. (2004), *The Nature of Money*, Cambridge: Polity.

establishment and maintenance of money's deontic powers must thus be rejected, but his 'X counts as Y in C' schema helps us see what we need if we are to draw upon a theory of collective intentionality to explain the ontology of money. If such a theory is going to be explanatorily useful, it will be because it helps us understand how the deontic powers of money, the ways that it 'counts as Ys in C', are established and maintained.

This sort of explanation is delivered by examining the teleological structure of money from the perspective of the accountability approach. The first step here is to note that a given object might be maximally liquid and broadly desired for some reason other than its general acceptability in exchange. Its commercial function might be something that money is good for, but it might be that it is able to perform this function only because it is good for something else. That something else, according to theorists of money known as chartalism, is the value that money has for discharging debts. The term 'chartalist', which is from the Latin meaning 'ticket' or 'token', was introduced by Georg Friedrich Knapp in his book *The State Theory of Money*.⁴¹ As the title of the book indicates, he is interested in debts that are created, collected, and enforced by the state. According to this view, sovereign currency gets its value because the state that issues it demands it back in payment for taxes. The value of this currency ultimately resides in its ability to discharge debt. Not all money needs to be sovereign currency on this view. It recognizes the ability of private banks in states with a sovereign currency to create new liquidity, which counts as money even though it is not itself sovereign currency. The value of money, however, is assumed ultimately to be stabilized by sovereign currency and its ability to clear debts to the state.

This account of sovereign currency brings us close to Gilbert's idea of a right to rebuke, for the state reserves the right to rebuke — in this case, through punishment — those who do not pay their debts to it.⁴² When the state decides what it will accept as payment for taxes and fines, it settles what will settle the debts owed to it. This is how sovereign currency gets its value, and it is this value that underpins money's ability to be used in other ways, *e.g.*, in commercial exchange. On the chartalist view, the explanation of money's value does not bottom out in descriptions of psychology, although of course there can be no money unless the members of a community believe that certain things are money and others are not. The value of money is its value to discharge debt, and to discharge a debt just is to satisfy a norm. If we have reason to support the chartalist view of money over the orthodox market-based view that is common to both Locke and Smith (and, again, we decisively do) then we will understand its social ontology best by starting from its role in various social practices of accountability rather than from the psychological states of those who use it.⁴³

⁴¹ Knapp, G.F. (1924), *The State Theory of Money*, Translated by H.M. Lucas and J. Bonar, London: Macmillan.

⁴² The omnipresence and importance of debt throughout human history is the topic of Graeber, D., *ibid.* For a philosophical discussion of the subject, see Douglas, A. (2016), *The Philosophy of Debt*, New York: Routledge.

⁴³ For arguments in favor of chartalism, see Smithin, J., *op. cit.*; Smithin, J. (2018), *Rethinking the Theory of Money, Credit and Capitalism*, Lanham MD: Lexington

6. Conclusion

This paper has focused on the settling of deliberative questions and the settling of debts. The connection between the two is perhaps most clear if we focus not on settling but on the prior condition of being unsettled. When a deliberative question is unsettled, a decision that needs to be made remains under consideration. Something must be done, but what to do is still left up in the air. When a debt is unsettled, it is likewise up in the air, awaiting payment to bring it to completion. Both sorts of settlement bring resolution to the unresolved. The goal of this paper has been to show that we get clarity on a wide range of questions concerning collective intentionality, social ontology, and the nature of money when we focus on the normative structure of bringing resolution to unresolved states through processes of settlement.

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Books; Kelton, S. (2020), *The Deficit Myth*, New York: Public Affairs; Ingham, G. *op. cit.*; and Graber, *ibid.*

An Important Philosophical Dispute in Toronto: Gilson, Lonergan, and Anticipations of Critical Realism and MMT in Economics

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Abstract

This paper discusses the twentieth century ‘dispute’ between two Catholic philosophers, both with strong connections to Toronto. These are Bernard Lonergan the author of *Insight*, late of Regius College, University of Toronto, and Etienne Gilson, late Director of the Pontifical Institute for Medieval Studies (PIMS) also at the University of Toronto. From the Canadian Studies point of view this dispute is of interest as part of the reconstruction of the general intellectual and cultural environment in Toronto in the mid-twentieth century. The substantive philosophical issue at stake is that of ‘philosophical realism’ championed by Gilson *versus* the ‘critical realism’ of Lonergan. In economics, there has also been discussion recently about the interface between critical realism (CR) as applied to economics and modern money theory (MMT). The Gilson/Lonergan dispute anticipated the later secular scientific discussion around CR. Similarly, both in the early stages of his career, and again after retirement, Lonergan himself turned his attention to monetary macroeconomics in ways that anticipated some of the issues discussed in MMT.

1. Introduction

This paper will show that the secular debate about the relevance of critical realism (CR) to economics was anticipated in the work of two Catholic philosophers, Etienne Gilson and Bernard Lonergan, both of whom were prominent in the intellectual scene in Toronto in the mid-twentieth century. Gilson was a champion of a ‘methodical’ or ‘philosophical’ realism (that is, realism *per totam viam* - as defined below), and Lonergan of critical realism. At one stage Lonergan also made contributions in the areas of monetary macroeconomics and circuit theory, thus anticipating some of the current work done in that field, such as modern monetary theory (MMT).

In what follows, sections 2 and 3 will explain in more detail what is actually meant by such terms as ‘critical realism’, ‘modern monetary theory’, and ‘realism *per totam viam*’ in economics. Then, sections 4 and 5 go on to demonstrate how the various philosophical issues that have arisen in this secular debate were anticipated in the disputes among those scholars involved in the neo-scholastic revival of the mid-twentieth century, including Gilson and Lonergan. Sections 6, 7, 8 and 9 discuss the substance of the positions of Gilson and Lonergan respectively, and section 10 looks at the implications of their work for the overall project of the construction of a ‘philosophy of society’ based on a realist social ontology. Finally, section 11 offers a

conclusion and suggestions for further research, and touches (but no more than that) on the very large question of the compatibility or otherwise, ultimately, of a realist approach with theology itself. Strictly speaking this is a matter that is beyond the scope of the present paper. Nonetheless it does seem to require at least some comment and attention from the point of view of future research in the field.

2. MMT and Critical Realism

A convenient starting point for our discussion is the 2020 edited volume by Phillip Armstrong on heterodox economics, which was subtitled *Conversations with Key Thinkers*.¹ Armstrong interviewed the ‘key thinkers’ (including myself) about two subjects, namely MMT and CR as applied to economics. There are significant philosophical aspects to both.

MMT recently came into prominence in the public policy debate in the USA, after being championed by several radical politicians. It is essentially the proposition that, under flexible exchange rates (or with a fixed-but-adjustable exchange rate), a central government with its own ‘sovereign’ currency faces no binding financial constraints.² This claim clearly does have the potential to promote significant change in ‘the way the world thinks about economic problems’,³ if it were ever to be widely accepted. The philosopher Graham Hubbs has recently pointed out that the debates around MMT were, and are, essentially about social ontology, specifically the ontology of money, even if the protagonists themselves may not have been fully aware of it.⁴

Critical realism, as applied to economics, has been championed by Professor Tony Lawson of the University of Cambridge⁵ drawing on the earlier work of the philosopher Roy Bhaskar. It argues for an ‘ontological turn’ in economic methodology (that is, toward a realist social ontology), and much less reliance on forms of statistical induction which seek evidence of constant event conjunctions.

¹ Armstrong P., ed., (2020), *Can Heterodox Economics Make a Difference? Conversations with Key Thinkers*, Cheltenham: Edward Elgar.

² Kelton, S. (2020), *The Deficit Myth: Modern Monetary Theory and the Birth of the People's Economy*, New York: Hachette Book Group; Mitchell, W., L. R. Wray, and M. Watts (2019), *Macroeconomics*, London: Red Globe Press; Wray L.R. (2012), *Modern Monetary Theory: A Primer on Macroeconomics for Sovereign Monetary Systems*, London: Palgrave Macmillan.

³ Smithin, J. (2021) *Beyond Barter: Lectures on Monetary Macroeconomics after 'Rethinking'*, Singapore: World Scientific Publishing. The quote is from a letter from Keynes to George Bernard Shaw in 1935, talking about his own (then forthcoming) *General Theory*.

⁴ Hubbs, G. (2020), ‘Philosophical explanations of the nature of money’, paper presented to the *Aurora Philosophy Institute*, November.

⁵ Lawson, T. (2019), *The Nature of Social Reality: Issues in Social Ontology*, London: Routledge; Lawson, T. (2003), *Reorienting Economics*, London: Routledge; Lawson, T. (1997), *Economics and Reality*, London: Routledge.

From the purely philosophical point of view, I would argue the most significant aspect of CR is the qualifier ‘critical’. The indicates acceptance of all, or most, of the implications of the so-called ‘critique of knowledge’, which was the ultimate end product of the ‘high modern’ period in philosophy from Descartes and the introduction of Cartesian ‘doubt’, down to Kant. The vocabulary and presuppositions of CR tend to be Kantian in nature.

3. Realism *per totam viam*

D’Ansi Mendoza coined the above phrase as part of the subtitle of a PhD thesis completed in 2012, *Three Essays on Money, Credit and Philosophy*,⁶ which also dealt with some core issues in monetary macroeconomics. This work also canvassed a realist social ontology but, unlike CR, a realism which goes ‘all the way’. What is meant by this is a version of realism which does *not* necessarily accept the implicitly idealist starting point of the critique of knowledge. Mendoza’s work drew on sources such as Aristotle, Aquinas, Etienne Gilson himself, and Searle.⁷ In a recent book, entitled *The Realist Turn*, Rasmussen and Den Uyl (2020) similarly advocate what they call ‘metaphysical realism’.⁸

Realism *per totam viam* should not, I think, be classified as a ‘naïve’ or ‘direct’ realism. Rather, and, as already mentioned, it would be more accurate to call it a ‘methodical’, ‘philosophical’ or, as just mentioned, ‘metaphysical’ realism. (Some writers have simply used the term ‘non-critical’ realism).⁹ The issues that separate it from CR seem to me to be to be essentially those of the philosophy of mind, in the sense in which that term is widely used today.¹⁰ (The reader should note, however, that this would have been an anachronistic usage in the days of the ancients, scholastics, or moderns). The essential point to be made in this regard, and the key question that needs to be asked, is: what is it that we are conscious of, when we are

⁶ Mendoza Espana, D’A. (2012), *Three Essays on Money, Credit, and Philosophy: a Realist Approach per totam viam to Monetary Science*, PhD Thesis in Economics, York University, Toronto.

⁷ Searle, J. (2010), *Making the Social World: The Structure of Human Civilization*, Oxford: Oxford University Press; Gilson, E. (1990), *Methodical Realism: A Handbook for Beginning Realists*, San Francisco: Ignatius Press; Gilson, E. (1986), *Thomist Realism and the Critique of Knowledge*, San Francisco: Ignatius Press.

⁸ Rasmussen D.B. and Den Uyl D.J. (2020), *The Realist Turn: Repositioning Liberalism*, Cham, Switzerland: Palgrave Macmillan.

⁹ Wilhelmsen, F.D. (1986), ‘Foreword’ to *Thomist Realism and the Critique of Knowledge* by Etienne Gilson, San Francisco: Ignatius Press.

¹⁰ Searle, J. (2015), *Seeing Things as They Are: A Theory of Perception*, Oxford: Oxford University Press; Robinson, D. (2007), *Consciousness and its Implications*, Chantilly, VA: The Teaching Company; Searle, J. (2004), *Mind: A Brief Introduction*, Oxford: Oxford University Press; Adler, M. (1985), *Ten Philosophical Mistakes: Basic Errors in Modern Thought – How They Came About, Their Consequences and How to Avoid Them*, New York: Macmillan Publishing Company.

indeed conscious? The moderns supposed that what we are directly conscious of, and all that we can be directly conscious of, is the contents of our own minds. Also, as in the case of John Locke, for example,¹¹ they frequently used the term 'idea' in a blanket sense to cover all the contents of the mind (which means, ultimately, that they did not always properly distinguish between the intellect and the senses). The opposite view is that in the case of ideas, properly so-called, it is always the idea's object of which we are directly conscious, not the idea itself. The ideas are not 'that which we apprehend', but the 'means by which' we apprehend the object.¹²

I would argue that the statement in the previous paragraph does present the nub of the issue, but it will likely need a lot of unpacking - very probably much more than there is actually 'space or time'¹³ for in a short article. Nonetheless, to give at least some idea of the sort of issues that may arise I would imagine that many twentieth and twenty-first century philosophers might well respond to the above by saying (something along the lines) of:¹⁴

'But ... but ... no-one now believes in naive 'what-you-see-is-what-you-get' realism, everybody accepts that the senses are limited, everyone accepts that evidence is theory-laden. So, where is the dispute?'

Perhaps we can most efficiently answer this (admittedly hypothetical) question simply by posing some further questions. For example, who is actually meant by everyone, or everybody, in the above statement? Does this mean only the set of all analytical philosophers? No doubt it is true that no-one in this group actually believes in naive realism, but that *is* exactly what critical realists accuse their opponents of. Also, what does it mean to say that we 'accept the limitations of the senses'? Is this supposed to be something like the argument in Kant, that we can never actually grasp reality precisely *because* we can only see it from a particular point of view? The realist might well respond to this by saying that the senses do, in fact, do their specific job perfectly well - in their particular human context - but cannot be expected to do the job of the intellect. Similarly, it might be agreed that some or most 'evidence' is theory-laden (such as economic statistics, to take an obvious example) but the realist would nevertheless argue that the intellect is able eventually to sort all of this out *via*

¹¹ Adler, *Mistakes*.

¹² Adler, *Mistakes*.

¹³ I have put these two words in quotes because of the reference to the critique of knowledge, Kant, *etc.*, *etc.*, in the previous section. In his popular 'coffee-table' book, *The Story of Philosophy: A Concise Introduction to the World's Greatest Thinkers and Their Ideas* (London: Dorling Kindersley, 1998), Bryan Magee attributes the following argument to Kant, 'Space and time are forms of our *sensibility* without which we would not be able to perceive or apprehend anything in the world' (emphasis added). As will be argued below, this sort of statement in and of itself seems to vividly illustrate the difference in the outlooks of critical realism and realism *per totam viam*, respectively.

¹⁴ I grateful to Graham Hubbs for suggesting this particular choice of words.

concept formation (which is also an issue that will come up the discussion of Lonergan below).

What Gilson himself might have said of his opponents in the Louvain school and elsewhere in the mid-twentieth century, was these self-identified ‘Thomists’ spent too much time looking over their shoulders at the contemporary scene in academic philosophy, and perhaps even seeking acceptance, or acknowledgement, from that quarter. But what *was* the contemporary academic philosophy scene at the time? On the one hand, it might be said, there was existentialism and, on the other, linguistic analysis. Both of these, at least to some extent, did accept the premises of the critique of knowledge. This is clearly so in the case of existentialism, but it was also true of ‘analysis’ in ways that were somewhat more subtle. Even though analytic philosophy saw itself as the antidote to Hegel and German idealism, it still concerned itself mainly with epistemological questions, rather than actually going back to metaphysics *per se*.

Hubbs, for example, has made the point that in the case of the two analytical philosophers, Ludwig Wittgenstein and his associate Elizabeth Anscombe, one of their reactions to the ‘British Hegelianism’ of the late nineteenth and early twentieth centuries was a profound mistrust of metaphysics as such.¹⁵ This is fair enough, perhaps, in the case of Hegel, but this surely does not mean, or should not mean, that it is legitimate to conclude (to quote Hubbs) that ‘*all* metaphysics is garbage’ (emphasis added)? The realist argument, to the contrary, would be that a correct metaphysics, which is to say to *start* with the correct metaphysics, is indispensable. As it turned out, however, linguistic analysis in the twentieth century also eschewed metaphysics. The primary concern was with mainly epistemological issues around the relationships of the signifiers (the words) to reality. The end result of such a focus was thus the general conclusion of linguistic analysis that the ‘reality’ we are talking about is, in fact, partially constituted by the very language games that are used to describe or label it.¹⁶ This then eventually lead on to the argument that ordinary language philosophy is essentially a means to the end of ‘practical reason’ as opposed to the (presumably unattainable) ‘pure reason’. To put it another way, in the twentieth century he philosophy of language itself was in many ways regarded as the ‘first philosophy’. The other branches of philosophy were seen as necessarily deriving from, and as being dependent on, linguistic analysis. It was seen almost as a replacement for the lost metaphysics. Into the twenty-first century, however, there has been something of change in the main focus and interests of academic philosophers. In the words of John Searle, for example, ‘the center (sic) of attention has moved from language to mind.’¹⁷ We thereby return, full circle, to the argument of the opening paragraphs of this section.

Perhaps one of the best ways of understanding the underlying nature of the dispute between the different conceptions of realism, is to say that for Aquinas, for example, and for Gilson in the twentieth century, realism was a methodological principle, not a

¹⁵ Hubbs, G. (2021), Elizabeth Anscombe: *Intention*, paper presented to the *Aurora Philosophy Institute*, May.

¹⁶ Adler, *Mistakes*.

¹⁷ Searle, *Mind*.

postulate.¹⁸ Hence the title of Gilson's first book on the subject which was (precisely) *Methodical Realism*. From this point of view there was, and is, no point in questioning realism. It would never have occurred to Aquinas, for example, to do that, nor probably to anyone else before Descartes. Moreover, as already discussed, it is not reasonable to suggest that this methodological principle can be dismissed as a naive or immediate realism. All that the senses actually have to do is to grasp that there *is* something real and observer independent out there, and not just a xerox copy (as we used to say) or photocopy of it, somewhere in the brain of the subject. At the same time, however, to grasp that there is a reality - that 'existence exists' as the familiar locution would have it - does not mean that the subject immediately understands precisely *what* that reality is, there and then. Gilson, in fact, has explicitly argued that in the scholastic tradition one of the primary topics of interest was that of concept formation (the use of the intellect) the role of which is to understand and interpret the reality.¹⁹

Just as the neo-scholastic realists of the mid-twentieth century were apparently reacting to Hegelianism, phenomenology, existentialism, and so forth, the secular critical realists of the latter part twentieth century were reacting to post-modernism. Some of Bhaskar's work, for example, can be seen in part as a response to Rorty.²⁰ Post-modernism seemed to rule out a 'scientific' approach as applied to the social sciences, whereas critical realism would affirm that science in some sense is indeed possible. Admittedly this would not resemble the pseudo-science (as they would see it) of such putatively positivist disciplines as mainstream/neoclassical economics or finance, but nonetheless a 'scientific method' of some kind would be possible, one that is appropriate to the particular subject matter of the social sciences. From the point of view of the methodical realist this sort of conclusion would all be well and good. However, it would once again be argued that too much is conceded to the modernists regarding the critique of knowledge. Evidently the seeds of *post*-modernism had already been planted right there at the very beginning of the modernist project itself.

4. Anticipations

The underlying premise of the present paper is that both of these secular debates (CR and MMT), of the late twentieth and early twenty-first centuries, were anticipated by Catholic scholars in the mid-twentieth century, including Gilson and Lonergan. All of the relevant philosophical issues around the differences between a realism *per totam viam* and CR were fully discussed (if not agreed upon) in the debate around twentieth century neo-scholasticism. Sherman Balogh, an Associate of the *Aurora Philosophy Institute (API)*, recently gave a presentation to the *Institute* which specifically covered

¹⁸ Gilson, *Thomist Realism*.

¹⁹ Gilson, *Methodical Realism*.

²⁰ Vandenberge, F. (2014), 'In memoriam Roy Bhaskar (1944 - 2014)', *European Journal of Social Theory*, 1-3.

the topic of Lonergan's self-proclaimed 'critical realism'. This is now available on the *API* YouTube channel.²¹

The main focus of the present paper is on CR rather than MMT (which in many ways is the opposite, or complementary, focus to that of Armstrong's book cited above). Nevertheless, the work of Lonergan, in particular, also reveals striking parallels with MMT. As a young man in the 1920s and 1930s Lonergan spent a significant amount of time in Europe as a graduate student, and then in Rome. This gave him first-hand knowledge of the dire political and economic situation of the time. This, in turn, led to a life-long interest in such things as macroeconomics, endogenous money, and circuit theory. He made at least two attempts to contribute to the field, both at the beginning of his career and towards its end, after retirement. There are two volumes which appear in the *Collected Works* summarizing his contributions, namely *For a New Political Economy*²² and *Macroeconomic Dynamics: An Essay in Circulation Analysis*.²³

5. Canadian Studies?

One of the significant interests of the *Aurora Philosophy Institute* is in Canadian philosophy. Given our location, there is interest particularly in the intellectual scene in Toronto in the 1950s and 1960s, exemplified by such figures as the famous Marshall McLuhan ('the medium is the message'). Gilson and Lonergan were both part of that scene.

Etienne Gilson, originally from France, was one of the Founders and later the Director, of the Pontifical Institute of Mediaeval Studies (PIMS) at St. Michael's College, University of Toronto. He continued to have an affiliation with the College until 1968. (McLuhan was also on the faculty of St. Michael's). Bernard Lonergan was a Canadian from Buckingham, PQ, and was eventually Professor at Regius College, another Catholic (Jesuit) constituent college of the University of Toronto, in two spells 1947-1953 and 1965-1975. The *magna opera* of the two scholars were both apparently largely 'composed' and written in Toronto.²⁴

6. 'Get Your Retaliation in First'

²¹ Balogh, S. (2021), 'The critical realism of Bernard Lonergan', paper presented to the *Aurora Philosophy Institute*, April.

²² Lonergan, B. (1998), *For a New Political Economy* vol. 21, Toronto: University of Toronto Press.

²³ Lonergan, B. (1988), *Macroeconomic Dynamics: An Essay in Circulation Analysis* (as reprinted in the *Collected Works of Bernard Lonergan*, vol. 15, Toronto: University of Toronto Press

²⁴ Lonergan, B. (1957), *Insight: A Study of Human Understanding*, (As reprinted in the *Collected Works of Bernard Lonergan*, vol. 3, Toronto: University of Toronto Press); Gilson, E. (1952), *Being and Some Philosophers*, Second Edition Corrected and Enlarged, Toronto: Pontifical Institute of Mediaeval Studies.

This is a long-standing, if somewhat cynical, maxim of professional footballers. *Cf.* the members of my favourite team Southampton FC (whose nickname, strange to relate - the Saints! – turns out to be at least somewhat appropriate in the present context) in the late 1960s. Those were the days of the ‘Alehouse Boys’, as they were dubbed by a famous manager of Liverpool FC, after his skillful side came up against the more ‘robust’ play of SFC.

How is this slogan relevant to the philosophies of both Gilson and Lonergan? In the title of this presentation, I was careful to use the term ‘dispute’ rather than ‘debate’. In fact, there was no direct debate. Gilson wrote *before* Lonergan and, significantly, had also claimed that in principle, any and all versions of critical realism are untenable, regardless of any novel future form they might take. He ‘got his retaliation in first’. According to a later commentator on Gilson, the most that could be said was that;²⁵ ‘A mark of the continuing importance of *Realisme thomiste* is that philosophers of this school²⁶ (Coreth,²⁷ Lonergan, and many more), feel compelled to write, whether implicitly or explicitly, with Gilson’s critique in mind’.

There is explicit commentary by Lonergan, with sub-sections on ‘Kant, Gilson, Coreth’, ‘Kant and Gilson’, and ‘Gilson and Coreth’, in a paper entitled ‘Metaphysics as horizon’ first published in 1967.²⁸ This treatment, however, is brief and does not appear to be decisive. Also there is a largely positive review by Lonergan of the first edition of Gilson’s *Being and Some Philosophers*.²⁹ On the other hand, there is no evidence that Gilson even mentioned the name of Lonergan anywhere in his writings.³⁰ Therefore, the best course of action will be to separately evaluate the general arguments of both authors on the merits.

7. Gilson: ‘A Handbook for Beginning Realists’

This was the subtitle used in the English translation of *Le realisme methodique*, and was also the title of the final chapter.³¹

In that book, Gilson attacked the views of two critical realists of the Louvain school, Cardinal Mercier and Monsignor Noel, who were well-known in their own day. (This was part of a vigorous debate among the neo-scholastics of the early 20th

²⁵ Wilhelmssen, ‘Foreword’.

²⁶ *I.e.*, ‘Transcendental thomism’.

²⁷ Emerich Coreth, 1919-2006, was an Austrian Catholic philosopher and the author of *Metaphysik: Eine methodisch-systematische Grundlegung* (Innsbruck, Vienna, Munich: Tyrolia, 1961).

²⁸ Lonergan B. (1967), ‘Metaphysics as horizon’, (as reprinted in *The Collected Writings of Bernard Lonergan*, vol. 4, Toronto: University of Toronto Press).

²⁹ Lonergan, B. (1948), ‘Review of Etienne Gilson, *Being and Some Philosophers*’, (as reprinted in *The Collected Writings of Bernard Lonergan*, vol. 20, Toronto: University of Toronto Press).

³⁰ Personal correspondence with Sherman Balogh, 29.06.2021.

³¹ Gilson, *Methodical Realism*.

century). Gilson argued that realism was incompatible with the critical method, and that realism *per se* (which is the same thing as Mendoza's realism *per totam viam*) is, in effect, its own method. To the extent, therefore, that Mercier and Noel had accommodated the critique of knowledge in their own thought it could not be considered realism, still less '*realisme thomiste*'.

The problem once again, as Gilson saw it, was that the critique of knowledge is idealist in method, and therefore *starts* with thought. Moreover this *tendenz* goes all the way back to Descartes who, according to Gilson, 'was in intention a realist' but 'an idealist in method'.³² This way of proceeding, however, does not work. We cannot, as Gilson himself says, 'proceed from thought to things'.³³ There is no 'bridge' between them. (This is precisely the 'problem of the bridge', as it is actually so-called). Fundamentally, the underlying metaphysical issue is that idealism postulates the primacy of consciousness rather the primacy of existence (or 'being'). To a realist, on the other hand, and putting the matter in Cartesian terms, it would be not so much a question of 'I think therefore I am' but rather 'I am therefore I think'. Hence the essential incompatibility between realism and idealism.

Among the many criticisms made of *Methodical Realism* was that the views of only a few of Gilson's critical realist opponents were discussed. So, in his second book on the topic, *Thomist Realism and the Critique of Knowledge*³⁴ (*Realisme thomiste et critique de la connaissance*) Gilson returned to charge and discussed the work of some more of his contemporaries. He also went on to argue, however, that because what is at stake are fundamental philosophical principles, not the formulations of particular authors, there was no further need to repeat the exercise each and every time a new version of critical realism is proposed. This logic would obviously apply equally both to Lonergan and to the various secular CRs discussed above.

8. Lonergan: Cognitive Theory, Epistemology, Metaphysics

Lonergan's *Insight* is a massive volume of 875 pages and is not easy to read. All Lonergan scholars should therefore be grateful to Peter Beer, who published a very readable introduction to Lonergan's work in 2009, with a second edition in 2020.³⁵

What is particularly interesting is how Beer characterizes Lonergan's achievements. On Beer's account Lonergan is said to have made contributions in three main areas, in the following order, (1) cognitive theory, (2) epistemology, (3) metaphysics. This listing in itself seems to me to provide the key to the impasse between Gilson and Lonergan. Whatever the value of Lonergan's contribution to the 'special science' of cognitive theory (and the consensus here seems to be highly

³² Gilson, *Methodical Realism*.

³³ Gilson, *Methodical Realism*.

³⁴ Gilson, *Thomist Realism*.

³⁵ Beer, P. (2020), *An Introduction to Bernard Lonergan: Exploring Lonergan's Approach to the Great Philosophical Questions*, Glenn Waverley, Victoria, Australia: Sid Harta Publishers.

positive), from the philosophical point of view this sequence is the wrong way round. It violates what Gilson would call the 'philosophical order'.³⁶ The metaphysics should come first, then the epistemology, then the special science, whatever that happens to be.

I have earlier commented on the same issue myself, when discussing the 'requirements for a philosophy of money and finance' (the special science, in that case, being monetary theory).³⁷ There are also analogies here, in my opinion, with both Hicks's last book on money and Searle's first book on social ontology. Hicks called his book *A Market Theory of Money*.³⁸ It really should have been *A Monetary Theory of the Market*. In my view, Hicks did make a substantial contribution to social ontology in that work (as I have explained elsewhere, for example, in both of my recent books *Beyond Barter*³⁹ and *Rethinking*⁴⁰). However, disappointingly, he did not actually start discussing the ontology of money, which should logically have been first in the order of importance, until about one third of the way through the book - in chapter 5 entitled 'The Nature of Money'. The earlier chapters were devoted to the typical sort of discussion of market behaviour that we see in *soi-disant* microeconomics, without any particular reference to the key institution (of money) that makes it all possible. Searle, for his part, got it right. His volume was called *The Construction of Social Reality* and not *The Social Construction of Reality*.⁴¹

The metaphysics must come first, specifically the fundamental choice between realism and idealism. The appropriate epistemology follows from that. Then, the epistemology may be applied to a particular special science, whatever it is. I have previously called this iterative process a 'rigid hierarchy'.⁴² The 'philosophical order' in the context of monetary and macroeconomic theory would be the specific sequence (1) Metaphysics - social ontology, (2) Epistemology - comprising in particular, economic sociology and monetary macroeconomics, (3) Ethics, (4) Politics - in the sense of political economy.

9. Watching the Detectives'?

An interesting device used by Beer in his explanation of Lonergan's cognitional theory was to refer to the murder mystery, 'Dial M for Murder', in a film directed by

³⁶ Gilson, *Methodical Realism*.

³⁷ Smithin J. (2013), 'Requirements for a philosophy of money and finance', in G.C. Harcourt and J. Pixely, eds., *Financial Crises and the Nature of Capitalist Money: Mutual Developments from the Work of Geoffrey Ingham*, London: Palgrave Macmillan.

³⁸ Hicks, J. (1989), *A Market Theory of Money*, Oxford: Oxford University Press.

³⁹ Smithin, J. (2021), *Beyond Barter: Lectures on Monetary Macroeconomics after 'Rethinking'*, Singapore: World Scientific Publishing.

⁴⁰ Smithin, J. (2018), *Rethinking the Theory of Money Credit and Macroeconomics: A New Statement for the Twenty-First Century*, Lanham MD: Lexington Books.

⁴¹ Searle, J. (1995), *The Construction of Social Reality*, New York: The Free Press.

⁴² Smithin, 'Requirements'.

Alfred Hitchcock. Chief Inspector Hubbard of Scotland Yard is called in to investigate the case of a woman who has killed an intruder to her apartment, apparently in self-defence. Then it seems that the intruder was actually a blackmailer, with information about the woman's activities, and that she murdered him to cover this up. Finally, it is revealed that the whole thing was planned by the woman's husband who has planted the evidence in the expectation that she would eventually be convicted of murder and executed. (A charming tale!). DCI Hubbard has to sort all this out, and ultimately (which, for Lonergan, is the most important point) *himself* be convinced that he has finally discovered the truth. Even though this is very far from being an accurate depiction of real-world police procedures, constraints, and motivations, it is a good illustration of Lonergan's theory.

Lonergan himself mentions detective stories in the very first sentence of the preface to his long book. He says that 'in the ideal detective story the reader is given all the clues but fails to spot the criminal'. (Presumably the readership of detective novels is taken not to consist primarily of critical realist philosophers). The fictional detective, however, does solve the mystery by what Lonergan calls a 'supervening act of understanding'.⁴³ This is what Lonergan means by insight, and this is what his book sets out to explain. The key question, though, is exactly how does this insight come about? Is there any role for what Gilson calls the 'transcendentals'?⁴⁴ Lonergan thinks, 'yes'. But, if the philosophical order is maintained, presumably there would not need to be. The metaphysics would already be established. It would therefore not be necessary to attempt to derive the metaphysics from the praxis.

These stylized detective procedures seem closely to parallel what Lawson, in the works cited earlier, has called the 'abductive' or 'retroductive' method as opposed to pure deduction or (statistical) induction. (It appears after all that Conan Doyle, the author of the *Sherlock Holmes* mysteries, did not use the correct terminology in describing the activities of his own fictional detective hero). It is important at this stage in the argument to make the point that under realism *per totam viam* much of this orientation, or praxis, will remain. A methodical or philosophical realism would also canvass abduction or retroduction as the correct empirical method.

10. A Philosophy of Society?

We return now to the field of monetary theory, or monetary macroeconomics, including MMT. In this 'special science' (and, I would imagine, in many of the other social sciences also) as crucial implication of realism is that the ultimate goal of research must be *explanation* rather than *prediction* or forecasting (as these terms are usually understood in economics, that is, as an extrapolation of past statistical correlations). At this point I would like to refer to Reed Collis's recent PhD thesis,

⁴³ Lonergan, *Insight*.

⁴⁴ Gilson, *Methodical Realism*.

which in my view provides a good exemplar of the correct method.⁴⁵ However, this should by no means be taken as suggesting that there cannot be sensible policy advice in economics. (Advice, that is to say, which is based on genuine knowledge - which must mean precisely the sort of knowledge that can be acquired by the abductive method and a realist approach). It is well past time for the notorious 'two-handed economist' to be retired.⁴⁶ Yet another quote from Gilson is apposite at this point. According to Gilson, 'the greatest difference between the idealist and the realist is that the idealist *thinks*, whereas a realist *knows*' (emphasis added).⁴⁷ Would the *critical* realist, if placed in the position of having to give policy advice, claim to 'know' about the particular issue under discussion, or merely to 'think'?

Discussion of the particular special science (social science) of monetary macroeconomics inevitably leads on the important general question of whether the ontology of the social world (money clearly being an integral part of that realm) is in any way different from that of the natural world,⁴⁸ the world of the 'brute facts'.⁴⁹ In what sense can the term realism be said to apply to the former?⁵⁰ John Searle, in his project of developing a 'philosophy of society',⁵¹ as opposed to a 'social philosophy' (which is not the same kind of thing at all), argues for a realist social ontology based on the ideas of collective intentionality and the performance of speech acts. The resulting social institutions and 'social facts' are immaterial, but are nonetheless 'real' and binding on the participants. They ultimately can and do have causal effects in the material world. Money is an obvious case in point, and is actually used as example in much of Searle's work. In my own view, the main point that needs to be understood in this context is that realism (including realism *per totam viam*) is not co-extensive with materialism. Nor is it the case, in spite of what is often stated in such sources as philosophical dictionaries,⁵² that idealism and materialism are the only possible opposites or alternatives. As we have already seen in this paper, the true polar opposites, are realism and *idealism* which observation, in turn, speaks directly to

⁴⁵ Collis R, (2018), *Three Essays on Monetary Macroeconomics: An Empirical Examination of the Soundness of the Alternative Monetary Model and Monetary Policy in Canada*, PhD thesis in Economics, York University, Toronto.

⁴⁶ Harry Truman, President of the United States from 1945–1953, is credited with having once exclaimed 'Give me a one-handed economist! All my economists say, on the one hand ... [and then] ... on the other'. Truman clearly was looking for someone to claim actual knowledge of the specific topic being discussed, rather mere 'expertise' in the academic field.

⁴⁷ Gilson, *Methodical Realism*.

⁴⁸ Searle, *The Construction*.

⁴⁹ Anscombe, G.E.M. (1958), 'On brute facts', *Analysis*, 18.

⁵⁰ Note, from the above discussion, that the debate between Gilson and the Louvain School seemed to focus mainly on the natural world ('things') whereas when we come to criminology, monetary macroeconomics, *etc.* as in Lonergan, the emphasis has shifted to society.

⁵¹ Searle, *Making the Social World*.

⁵² See, for example, Blackburn, S. (1994), *The Oxford Dictionary of Philosophy*, Oxford: Oxford University Press.

Gilson's reservations about the putative 'half-way house' of critical realism. Both the brute facts of the physical/material world *and* the immaterial social facts are real. It is somewhat easier to grasp this notion in the case of the natural world, as the brute facts are both ontologically objective and epistemologically objective.⁵³ But the idea of being able to have 'a grasp of reality' is equally applicable to the social world. The immaterial social facts may well be *ontologically* subjective. However, just like the brute facts, they are epistemologically objective and just as real in their impact on human beings and their environment. There can, therefore, be a genuine social science which studies both the nature of the immaterial social facts and also their causal effects on the material world. It is entirely possible to aspire to 'knowledge' in each of these special fields (including monetary macroeconomics) rather than mere 'opinion'.

11. Conclusion

At first sight it might seem tempting to suggest that the most fitting conclusion to this paper would be along the lines of the old adage that there is 'nothing new under the sun'. Many of the issues that have been discussed in the secular debates about CR and MMT were indeed anticipated in the work of Gilson, Lonergan, and other religious scholars in the mid-twentieth century. However, in my view such a conclusion would be rather misleading given the current state of economics, and some of the other social sciences, at the present time.

What *would* be a new departure at this particular juncture of history would be an attempt to now re-construct all such disciplines as cognitional theory, monetary macroeconomics, economics in general, and the other social sciences, on the basis of a realist social ontology derived from a methodical or philosophical realism (*realism per totam viam*). According to Searle, writing about a decade ago;⁵⁴

'This investigation is historically situated. It is not the sort of thing that could have been undertaken a hundred years ago or even fifty years ago. In earlier eras, from the seventeenth century until the late twentieth century most philosophers in the western tradition were preoccupied with epistemic questions. Even questions of language and society were construed as largely epistemic: How do we know what other people mean when they talk? How do we know that the statements we make about social reality are true? ... These are interesting questions but I regard them as largely peripheral ... In the present era ... we have in large part overcome our three-hundred-year obsession with epistemology and skepticism.'⁵⁵

⁵³ Searle, *The Construction*.

⁵⁴ Searle, *Making the Social World*.

⁵⁵ A dozen years on this statement may perhaps seem to have been a little over-optimistic?

Searle describes this project as the creation of ‘a new branch of philosophy that might be called the *philosophy of society* (emphasis added).⁵⁶ The founding of a philosophy of society based on realism *per totam viam* would be clearly be a much different endeavour than to attempt to perform the same task on the incorrigibly shaky foundations that ultimately can be traced back either to idealism *per se*, or to the modernist project of the critique of knowledge. In some sense also, given Gilson’s depiction of the project of Aquinas in the thirteenth century, it would also appear to be very much a case of ‘back to the future’ in some important respects.

In closing, however, I think it necessary to (at least briefly) mention another very important issue which strictly speaking is beyond the scope of the present paper, but is an unavoidably large and obvious ‘elephant in the room’. It is evident that many, or most, of the realists, or would-be realists, mentioned in this paper were devout Catholics, such as Gilson, Noel, Mercier, Lonergan, Coreth, Adler (who converted to Catholicism towards the end of his life), and Anscombe. This must inevitably bring in at least some irreducible element of the supernatural, mysticism, divine revelation, and so forth. On the face of it, therefore, this appears to be yet another basic contradiction. As is very well known, the essence of Aquinas’s project in the thirteenth century was precisely to bring to about a satisfactory reconciliation between faith and reason, and this was also the objective of Gilson in the twentieth century. However, absent such pre-existing religious (and in some cases also professional) commitments the question is bound to arise as to why such a reconciliation is necessary? From this point of view, the ultimate task might be seen as eventually to derive a realism without the theological overtones, and to retain only the purely philosophical elements than can be found in the works of such writers as Aquinas and Gilson.

Ayn Rand the controversial novelist/philosopher, and very much a figure to be reckoned with in the popular culture of the USA in the mid-twentieth century, made just such an attempt to do away with religion *via* her philosophy of ‘Objectivism’.⁵⁷ The very name of this movement indicates its basic philosophical orientation. As a result she earned the enmity (which in the circumstances is by no means too strong a word) of many who might otherwise have largely agreed with (say) her political opinions and views on economics.⁵⁸

Searle himself, who also ended his career as a controversial figure (for different reasons),⁵⁹ was somewhat more circumspect on this issue. He did not directly address the question of the existence or non-existence of a deity, but rather argued that modern science has so thoroughly ‘de-mystified’ traditional notions of the supernatural and religion that these are no longer relevant or interesting questions to

⁵⁶ Searle, *Making the Social World*.

⁵⁷ Peikoff, L. (1991), *Objectivism: The Philosophy of Ayn Rand*, New York, Dutton.

⁵⁸ Chambers, W. (1957), ‘Big sister is watching you’, *National Review*, December.

⁵⁹ In 2019, Searle was deprived of his status as Professor Emeritus at the University of California at Berkeley for having violated the University’s policies against sexual harassment.

the modern secular mind.⁶⁰ I would say that this point of view is by no means inconsistent with the parallel observation that, on a global scale, religiosity, various form of mysticism, cultural relativism, and so on and so forth, are probably very much in the ascendancy at the current time. The point is simply that if one is willing to take a thoroughgoing idealist, or primacy of consciousness, approach there is no need to reconcile this with any form of realist metaphysics. However, there clearly *is* an issue to be faced for any religious or theological champion of realism, including many of the scholars discussed above.

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⁶⁰ Searle, J. (1999), *Mind, Language and Society: Philosophy in the Real World*, London: Weidenfeld and Nicholson.

The Ontology of Capital Explained by the Notion of Property Claims

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Abstract

The debate about the nature of capital has been portrayed as a dichotomy between capital as composed by material goods and capital as funds expressed in monetary terms. It has been recognized in the literature that the different ontologies discussed offer ‘at best a very partial account’ and that is the reason why a more comprehensive ontology of capital is needed. This paper explores how much that portrait is accurate historically and as a depiction of the current state of the debate about the nature of capital. It concludes with the idea that such a view is in general a correct one, and that the notion of property claims over goods that exist in the real world is the answer to the need for a more complete ontology of capital.

1. Introduction

One of the most widely used concepts in economics is that of capital, and yet there is no consensus about its meaning. According to the Merriam-Webster Dictionary Website, the use of the word capital in English with a financial meaning started in the 16th century, probably derived from either French or Italian. These ‘financial’ meanings include ‘accumulated goods to produce other goods’ and ‘accumulated possessions calculated to bring in income.’¹ The classical economists started to use the term with these colloquial ‘financial’ meanings, but soon they began to find new meanings for the concept. The marginal revolution starting in the 1870s has not changed that and therefore, to this day, economists have applied the concept of capital to describe many different things.

Arguably, this imprecision in the use of the concept goes well beyond semantic differences. It reflects contrasting views about the subject matter. That is to say, it is about the very nature of capital that there is no consensus, and this unsettled ontology of capital has undeniably hindered the advance of our knowledge about capital. As we know, the entire enterprise of scientific enquiry serves the purpose of better understanding reality, and the formulation of ontological hypotheses are tools for that purpose. To the extent that there is no agreement about what the phenomenon we

¹ Merriam-Webster Dictionary Website (2020); ‘9 Financial words with surprising origins - a capital bruise, a budget of news, the fund of a bottle, and more’, in *Words at Play*. Retrieved online on September 21, 2020 from <https://www.merriam-webster.com/words-at-play/financial-word-origins/capital>

want to study is, it is obvious that for that reason alone further advance of our knowledge has been hindered. This is attested by the current state of our understanding about capital after more than two hundred years of debate on the subject.²

After this brief introduction, let us present the structure of the paper as follows. In the next section, the dual nature of capital is discussed, and it is argued that capital not only exists *in natura* and is represented in the abstract world, but also that the relations between what exists and the ways in which they are represented matter. In section 3, the ‘representational theory of capital’ (RTC) is presented. In section 4, the claim that capital is represented by property claims is argued. In section 5, some implications of the existing instruments by which capital is represented are discussed. Section 6 brings the article to its conclusion.

2. Does Capital Have a Dual Nature?

It is generally argued that there are basically two schools of thought on what the nature of capital is. They are, respectively, the school that understands capital as ‘material goods’ and the school that sees capital as a ‘fund,’ that is as an amount of resources with a monetary expression. For the purposes of this article, following the late Sir John Hicks,³ whose terminology was also used by Endres and Harper,⁴ we will call the first school ‘*materialist*’ and the latter ‘*fundist*’. Hicks himself maintains that the distinction ‘is quite ancient.’⁵ In Hicks’s article, he mentions an interesting discussion among ‘fundists’ about whether the value of capital should be determined as ‘backward looking’, to accrued costs, or ‘forward looking’ to discounted future income.⁶

For the purposes of the present article, Hicks’s main insight in his article is the thought experiment that he attributes to Henry Thornton, of conceiving the entire economy in a single balance sheet. In that balance sheet, once all debts and other claims have been cancelled, there would remain just the real goods on the asset side

² For further discussions on ‘defining the nature of something’, see Rasmussen, D.B. and D. Den Uyl (2020), *The Realist Turn: Repositioning Liberalism*, Cham Switzerland: Palgrave Macmillan.

³ Hicks, J. (1974), ‘Capital controversies: ancient and modern’, *American Economic Review*, Papers and Proceedings 64, available on-line at: www.jstor.org/stable/1816058.

⁴ Endres, A.M., and D.A. Harper (2020), ‘Capital in the history of economic thought: charting the ontological underworld’, *Cambridge Journal of Economics* 44.

⁵ Hicks, *op. cit.*

⁶ Hicks, *op. cit.*

and the ‘fund’ of capital on the liability side.⁷ This is an implicit concept of representation.⁸

There are many different conceptions of capital in each of these two categories,⁹ with differences about, say, which material goods are or are not capital, or which funds are capital and which are not. There are even some conceptions of capital that understand it as both material goods and funds of financial resources. However, these categories still stand, both in the history of economic thought and in current debates about capital, as the basic categories in which the nature of capital may be classified.

Discussions as recorded in the history of economic thought are extremely useful for current debates as they help us to understand how we evolved to the existing state of the art. The argument in this article is that capital should be understood as being both real world phenomena and their representation as social constructs in the form of property claims, not a mere statement that capital should be considered as both rather than either/or. Therefore, it is far from being a narrow claim. On the contrary, it offers a theoretical framework to understand capital as a social relation - with diverse and complex forms of representations - including the one proposed by Marx. To say that capital is represented by ‘property rights with a spectrum of liquidity’ is neither ahistorical nor reductionist, since all forms of claims over all forms of capital as they can be apprehended *ex natura* may be so represented.

An example of the application of this classification may be found in Eduard Braun’s recent article on how Austrian economists use the concept of capital as either heterogeneous material goods, or as homogeneous funds, and sometimes as both, and the implications of that for their theorizing.¹⁰ Braun uses the same classification to define the ‘Cambridge capital controversy’ as between neoclassical economists arguing for a conception of capital that is homogeneous and measurable, and neo-Ricardian economists rejecting that on the grounds of the materiality of capital goods.¹¹

Further references to the dichotomy between the *materialist* and the *fundist* conceptions of capital may be found in David Harper and Anthony Endres’s excellent summary of the explorations on the nature of capital in the history of economic thought.¹² In that article, they recognize that the different ontologies discussed offer ‘at best a very partial account,’ and that is the reason why a more comprehensive ontology of capital is needed. More than two hundred years of enquiry has not

⁷ Hicks, *op. cit.*

⁸ For further discussions on the limitations of the distinction as discussed by Hicks, see Kirzner, I. (1974), ‘The theory of capital’ (as reprinted in *The Foundations of Modern Austrian Economics*, Dolan, E.G. ed., Kansas City: Sheed and Ward, 1976).

⁹ Like any other theoretical propositions, ontological conceptions may be classified according to their main characteristics, for instance, Hicks talks about ‘both schools’ when discussing the economists who see the nature of capital as one of ‘real goods’ or as a ‘fund’.

¹⁰ Braun, E. (2020), ‘Capital as in capitalism, or capital as in capital goods, or both?’, *Review of Austrian Economics*, 33. First published online on February 15, 2018.

¹¹ Braun, *op. cit.*

¹² Endres and Harper, *op. cit.*

produced a more comprehensive ontology of capital and therefore we have only the existing partial accounts. We may well conclude that what we currently call capital is not reducible to a single concept. That would be an acceptable outcome, although some of the better minds in the field do not seem prepared to give up yet.¹³ That is not to say that an eventual ontological position valid for all analytical cases could not adopt a view, following Menger, that capital was a ‘genus’ possessing many forms¹⁴ which, incidentally, is similar to the ontological proposal presented in this article. Furthermore, I appreciate their effort to ‘advance beyond the dualistic ontology’ of capital, as stated in their conclusion. That is also my aim.

Harper and Endres intend to advance beyond the dualistic ontology by pointing out the different aspects of capital theory that were the focus of the scholars when they were proposing their ontologies, and the role those ontologies play in their respective theoretical edifices. I do not think that any further references to the literature are now necessary to stress the prevalence of the dual nature of capital. As we will argue below, this interpretation of capital is wrong. Rather, capital may be better understood by applying the notion of property claims. Furthermore, this thesis of interpreting capital as represented by property claims encompasses the insights captured both by the dual nature of capital as material goods and as a fund with a monetary expression.

The present article does not intend to develop the argument in much more detail, something I have done in my recent book on *The Representational Theory of Capital*.¹⁵ The goal of this article is just to focus on the ontological account, which is to be presented in order to offer an alternative to the existing conceptions of what capital is - rather than on its connections to existing problems found in the literature.

3. The Representational Theory of Capital

However, I have a somewhat different take on both the history and the current state of the debate. As it will become clear below, this different take may be summarized as saying that, neither in the literature of the past nor in current debates, the positions of the different authors have been based on so clear-cut distinction. My view is the following: - the view that there is a dual nature to capital is wrong both as an understanding of the history of economic thought and as the state of our understanding today.¹⁶

¹³ For a presentation of John Smithin’s argument for the futility of such an effort, see Smithin, J. (2018), *Rethinking the Theory of Money, Credit, and Macroeconomics: A New Statement for the Twenty-First Century*, Lanham, MD: Lexington Books. For a brief discussion of his thesis, see the section “Can capital theory be abolished?” in Zelmanovitz, L. (2020), *The Representational Theory of Capital – Property Rights and the Reification of Capital*. Lanham, MD: Lexington Books.

¹⁴ Endres and Harper, *op. cit.*

¹⁵ Zelmanovitz, *op. cit.*

¹⁶ Genuine ontological work requires a logical foundation, including the principle of the absolute. If it can be demonstrated that capital is not only capital goods, nor funds with monetary expressions, not even the sum of both, but that capital also exists as a

Starting with Böhm-Bawerk's article in 1881, 'Whether legal rights and relationships are economic goods',¹⁷ it has been assumed (mostly implicitly) by many economists that capital goods are represented by property titles like anything else that exists in the world (when these things are not *res nullius*). That claim, of course, it is not an absolute claim. Nonetheless, the fact remains that some understanding of a 'relation' between goods in the real side of the economy and the financial side is a basic presumption for most economists. It is one with a long tradition, but one that rarely is made explicit, and even less so is any understanding of the 'representational' nature of that relation. In the 1881 piece, Böhm-Bawerk made clear the existence of a real and an abstract side in the economy, and that capital goods are represented in the abstract side of the economy by legal rights and relationships. It is true that this piece has been somewhat forgotten by the profession and never become canonic. Yet, the theorizing is there, and it seems to me a mistaken interpretation of his argument to say that because legal rights are not part of the real side of the economy, they are not of economic value. It seems to me even to be absurd to say that. This is the reason why the author of the present article has proposed to rehabilitate the old Böhm-Bawerkian 'rights and relationships' view, by offering a formal model,¹⁸ with the hope that now it will be given the consideration that it deserves. For instance, it is difficult to imagine how Menger's ontology of economic goods, in 1871, with categories such as 'economic good', 'commodity', and 'exchange' could be conceived without the concept of property rights and the representation of claims over goods *ex natura* in the abstract realm in which those claims are 'exchanged'. And yet, there are discussions of Menger's classification that do not explicitly mention them.¹⁹

Exceptionally, that assumption was made explicit by Lachman, in Chapter VI of *Capital and its Structure*, when he discusses the relations between the material goods in the structure of production and the property claims representing them in the asset structure. However, Lachman acknowledges the relation matter-of-factly, without discussing its significance or any of its implications. For instance, he mentions that sometimes capital goods are 'directly' represented in the asset structure, and sometimes they are not, without any elaboration.²⁰

An example of this is that the stock of some intermediary goods, say, tires, owned by a car assembly corporation, are at one and the same time a certain quantity of material goods and an entry in the financial statements of the same corporation, as

social relation of property claims over goods in the real world, then, calling the alternative conception 'wrong' seems to be the 'right' thing to do. At least, until this conception may come also to be falsified.

¹⁷ Böhm-Bawerk, Eugene (1881), 'Whether legal rights and relationships are economic goods' (as reprinted in *Shorter Classics of Böhm-Bawerk*, Volume I, South Holland, IL: Libertarian Press).

¹⁸ Zelmanovitz, *op. cit.*

¹⁹ For example, see Zuniga, Gloria (1999), 'An ontology of economic objects', *American Journal of Economics and Sociology*, April. Available on-line at: https://mpra.ub.uni-muenchen.de/5566/1/MPRA_paper_5566.pdf

²⁰ Lachman, L., (1956), *Capital & Its Structure* (as reprinted by the Ludwig von Mises Institute, Auburn, AL: 2007).

part of their inventory and therefore of their working capital. To advance the example further let us suppose the corporation needs cash. In order to achieve that, they may decide to sell some of the tires they have as part of their inventory or, alternatively, they may issue a promissory note with that inventory of tires as a collateral. We are talking about the same tires and they have both a material existence and an abstract representation at the same time, to the extent that someone has a claim over them, they are the property of someone.

Therefore, capital goods and processes do have an existence in this world, even if some of them are immaterial, like intellectual property (IP), and, at the same time, they are represented in property claims with different degrees of liquidity. It is worth noting that capital goods have myriad attributes, some of which are in the public domain and others in the private domain, but unless something belongs to no one, they are all captured by property titles. Which is, by the way, what means to be in the 'public domain'. That is not to say that there is just a single definition of property rights. On the contrary, property rights have different bundles of features and what serves to define proprietorship of land is different from what serves to define IP, what serves to define public uses is different from what serves to define private uses. Yet, a minimal commonality among these diverse claims exists and that is why, for the purposes of the formal model, we may talk about all those different claims as if they were all 'property claims'.²¹

The formal model mentioned above is based on a very simple proposition, that on Earth, where there is only one species of rational beings, everything that exists belongs either to someone or to no-one, that is $Wt = Pr + Rn$. It is from this basic enunciation, after some elaboration, that I derive the model for a representational theory of capital (RTC).²²

Let us consider some examples. First, imagine a piece of agricultural land. That land has a property title, say a freehold deed. And yet, because agricultural land varies immensely in its features, its value is not clear, therefore, the demand for any given piece of land is limited to a relatively small number of potential buyers. Now, let us imagine that that piece of land belongs to a real estate investment trust (REIT) specialized in the ownership of agricultural land, one that has its shares traded in some organized secondary market like the New York Stock Exchange (NYSE). Any day of the year that the NYSE is open, you can buy or sell the shares of that REIT with minimal difference between the bid and asked price, a price you know because it is made public by the stock exchange in real time as the transactions are cleared. In the first example, the land has good title, but its value is not liquid and certain. The best you can do is to estimate a range around x US dollars per acre. While, in the

²¹ For a discussion about the contributions of Hernando de Soto (in *The Other Path* and *The Mystery of Capital*), and others, on the mechanisms for representing capital both in the formal and in the informal sector, and the economic consequences of that, see Zelmanovitz, *op. cit.*

²² Out of necessity, for the sake of the formal model, security of possession, in the broadest sense possible is reduced to a single 'bundle' of rights called 'property rights'. That is not to say that such simplification is an adequate description of reality, it is not, and it is not meant to be that. For details, see Zelmanovitz, *op. cit.*

second example, the shares of the REIT represent ownership of the land owned by the REIT, those shares have a market price made public second by second by the NYSE. The price may vary from second to second, but it is liquid and certain at any particular moment.

When we think about the nature of capital, between the heterogeneous collections of material goods, and the funds kept in assets with monetary properties, say, cash, bank deposits, or shares of money market mutual funds, there is an immense continuum of other claims on property with varied degrees of liquidity. Capital goods are represented directly by some property titles, such as the freehold deed on the agricultural land or the shares of an REIT owning similar land. Claims on capital goods may be general claims on property given by ownership of monetary instruments that are so 'liquid' as to represent a potential claim on everything that is for sale, including capital goods. Therefore, it is a somewhat impoverished vision to see the dichotomy, both in history and in our current understanding of capital, as one between conceptions of capital as material goods and as funds. It would be better to say that the 'dual nature' of capital is a dichotomy between the real (even if immaterial) capital that exists in the world and the different forms in which claims over them are represented, some of them being so liquid as to have monetary properties. If the nature of capital can be understood in that way, capital will still have a 'dialectic' nature, but it is one that elucidates why capital is at the same time composed by goods, ideas, and processes *and* the claims over them. One that will help us to understand why the relation between capital as material goods and the claims over them are sometimes direct and at other times they are not.²³ And also, one that will help us to visualize why the monetary expression of some claims may be actualized in an exchange, and others may be frustrated.

Take, for instance, Jacques Rueff's concept of 'false rights' that was used in order to explain the operations of monetary inflation.²⁴ For Rueff the government, by the use of its monetary prerogatives may create claims on goods by the production of exogenous money, which have no correspondence to the production of goods for sale in the market. It is this disconnect between 'goods' and 'claims on goods' that frustrates the expectations of the holders of some of the claims, since that equivalence was broken by the introduction of 'false rights'. Similar effects may happen to representations of capital that no longer represent claims over things in the real world, as happens with unsustainable levels of public debt or with shares in money-losing

²³ There are many circumstances in which there is not a 'direct' relation between capital as material goods (and processes) and claims over them. Some of those circumstances have to do with the fact that the nature of some financial instruments are derivatives of equity claims, for instance, all debt instruments. Another example of the 'indirect' relation between some financial instruments and the structure of production of society, which all stream of revenues ultimately come from, are instruments of public debt issued against tax revenues, being those particular taxes or the general funds of the state. They are, in essence, claims on the streams of revenue that the equity claims over the structure of production are entitled to, and in this sense, they are derivatives of those claims.

²⁴ Rueff, J. (1964), *El Orden Social*, Madrid: Ediciones de Aguilar, S.A.

businesses. As we can see from these examples, with the application of the notion of the representation of capital goods by property claims, a significant portion of the perplexities encountered in the discussions about capital in the literature can be dispelled. As we can see from the references in the literature already mentioned, this notion of representation has already been present, albeit mostly implicitly and underdeveloped, in the debates about the nature of capital. The attribution of either a 'materialist' or a 'fundist' position to some of the participants in those debates misses the subtleties of their reasoning. Finally, if the RTC is accepted, and applied by economists, as involving *both* the object of property claims and the property claims themselves, this notion of property rights with a spectrum of liquidity may allow for a unified ontology to be applied in all cases - as required by the different research agendas followed by the different researchers.²⁵

4. The Claim Explained

The RTC proposes that in the abstract side of the economy, financial instruments are particularly liquid forms of property claims over things that exist in the real world, particularly over capital goods, ideas and processes. This central claim of the RTC is based on the fact that in the abstract realm of social constructs, all human societies create instruments to symbolize claims on things that exist in the real world in order to communicate how their use is determined in any given society. We may call all those arrangements property rights in a very broad sense. A tribal society may have had collective property rights vested in the entire tribe, a modern society may have a complex structure with different forms of collective and private property rights represented by a myriad of different instruments. An international treaty determines the common property of the ocean to all nations but recognizes territorial waters and special economic zones to sovereign states. The constitution of a country may determine that the bodies of water are public and private property starts on the shore at high tide. The civil law of a country may determine the rigorous procedures to register real estate as private property claims to be opposed *erga hominem*, and a less rigorous procedure may be required to register movable forms of personal property. Common law and customs may define the limits of a property in a rural area and in a dense urban area differently. In Roman times, the transmission and acquisition of a real estate property was done by an elaborated ceremony, with emphasis on the presence of testimony in order to represent that the claim over that property was transferred from Caius to Titus and then belonged to Titus. In Brazil, where I was

²⁵ I understand how bold is the claim that the present proposal represents a 'unified ontology' of capital. I do not claim, however, to have 'discovered' it, but simply to have called attention to what has been with us since the above mentioned piece in 1881 by Bohm-Bawerk, something that has had clear applications such as in Rueff's *Social Order* (*op. cit.*). At most, my claim is to have proposed a formal presentation of the argument that capital is to be understood as either goods that exist in the world or property claims over those goods. This is an understanding that provides a comprehensive framework.

born, a country with a continental legal system, there is a network of public registrars covering the entire country and any transference of real estate property is only recognized to have occurred once the contract transferring a given piece of real estate is registered in the office in the jurisdiction of that property. Claims over Bitcoin are registered in the decentralized ledger provided by the network of computers managing the block-chains in which the transactions with that crypto-currency are registered. In all the examples above, there are goods (material and immaterial) in the real world that are represented by different forms of property claims. The representation, therefore, is common to all human societies, what varies are the forms it takes.

Capital is perhaps the most difficult concept to understand in economics and there are many reasons for that. For one, we apply the concept of capital to many different things and it is impossible to be explicit at every time to make clear what we have in mind when referring to capital in that instance. The way in which the science of economics has evolved adds to the confusion. Economists understand capital either as collections of heterogeneous ‘goods’ applied to the production of more goods, or as homogeneous financial ‘funds’ that are available. When treated as ‘goods’, capital is usually distinguished from ‘consumer goods’. When treated as ‘funds’, capital is usually expressed as sums of money. Both uses of the concept are correct, but incomplete, according to the RTC. What is proposed by the RTC is that there is a representation of all capital ‘goods’, be they material or immaterial, in different forms of property claims, being some of those forms, instruments that are so liquid as to be ‘as good as money’. This proposal is simply an extension to capital of the idea that everything that exists in society belongs to someone or it is a *res nullius*.

Because capital ‘goods’ are represented by different forms of property claims not only financial instruments, there is a relation between capital ‘goods’ and financial instruments. However, this is not a direct relation. There are some capital goods that are not represented by financial instruments (but by other forms of property titles), and there are financial instruments that do not represent capital goods (debt instruments in general, public debt in particular, derivatives, *etc.*). If, for the sake of simplicity, we adopt a model by which only equity titles have direct claims over the production of more goods and the stream of revenues associated with them, then all the debt claims over streams of revenues are derivative of the equity claims, and public debt is derivative of the taxing prerogatives of the sovereign over the stream of revenues that originated in the production of more goods and services. In this sense, there are financial instruments, such as titles representative of public debt, that do not represent capital ‘goods’ in the real world.

In a monetary economy, there is a relation, but not a direct relation, between the quantity of goods for sale and the stock of money. In other words, prices are not absolutely inelastic. In the same way as stated above, there is a relation, albeit not a direct one, between capital in the real side of the economy and claims over wealth in the abstract side of the economy. The fact that these relations are not Cartesian seems to be a good thing. Because exchanges are indirect and cleared by money, we have a price system that has elevated humankind to the complex division of labor and level productivity that we have today. This very same aspect of reality, however, allows for some manipulation of the money supply that, in its most malignant form, degenerates into hyperinflation and dis-coordination of economic activities.

The heterogeneous feature of capital goods, ideas, and processes in the real world, among many possible dimensions, exists over a continuum between the extreme of ‘consumer goodness’ and ‘capitalness’. Some goods are ‘capital’ not because of any intrinsic characteristic, but because an entrepreneur found a way to put it to use in order to produce more goods. Therefore, not even the amount of capital goods in existence at any given time is certain, much less the many manifestations in which claims over their production are contracted among the individual economic agents.

5. ‘Good Money’ and ‘Good’ Financial Instruments

The result of what has just been stated is to suggest that the fact that these relations are not direct may actually be a good thing. But, in order to assess whether something is good or bad, we need to stipulate first what its function is. Money’s primary function in society is to facilitate the coordination of economic activities among its members, that is, to facilitate the division of labor. That is done by serving as an instrument that is a medium of exchange and means of payment in general, a unit of account and a store of value. Good money is a money that performs better that ultimate function; and for that, we do not need to delve into the question of which of its instrumental functions, if any, takes precedence over the others.²⁶ Other goals, such as being an instrument for the fiscal needs of the state, are secondary goals and will be better performed if the monetary instruments perform well their primary function. The representation of capital by property claims, among them, financial instruments, serves the function of facilitating the mobilization of the real wealth in society to produce more goods. This representation may be considered good, or bad, as a consequence of how well it fulfills that primary function.

Thinking about the applications of the RTC, arguably the forms by which capital in the real world is represented by financial instruments in capital markets in different societies may be compared and ranked according to their efficiency. For example, I argue that the representation of claims, which derives from the taxing prerogatives of the sovereign - that is, instruments of public debt - as if they were similar to investments in capital formation, is a distortion in our system of how capital is represented via financial instruments. Such a distortion compromises the efficiency of the system. In order to make such a claim, however, we need to move a step back, get some distance from the arrangements that we currently have in place, and conceive of a Weberian ideal type. Once we have done that, we may be able to assess how much our current arrangements differ from the most efficient arrangement we are able to

²⁶ That is not to say that inquiries on the nature of money are not worthwhile and illuminating about its role in human societies, quite the opposite is true. It is just the case that the argument here about the role of money in advancing social coordination is done by serving as an instrument for *all* those ends, so, no need to advance that discussion here. For my thoughts on the essence of money, see Zelmanovitz, Leonidas (2016) *The Ontology and Function of Money: The Philosophical Fundamentals of Monetary Institutions*. Lanham, MD: Lexington Books.

conceive.²⁷ Ideally, I think, the fact that investments in public debt are only marginally related to capital formation, even in a very broad sense, is reason enough to have them categorized separately from instruments that do represent real wealth. For instance, prior to the current pandemic, the deficit of the US federal budget was about 20% of all expenditures, and capital formation, even in the vague and imprecise way in which it is considered in the national accounts, amounted to only 12% of the budget. In applying just the ‘golden rule’ of public finances (which determines that debt should not be used to pay for expenses), only 60% of the debt would adhere to the rule. Not to mention that it is doubtful whether that 60% of the debt would generate sufficient revenue to repay the investors of that portion of the debt, much less the whole.²⁸

Nowadays, of course, things have only gotten worse. It is a distortion in the allocation of capital in society that pensioners and other savers, who would require to be able to access consumption of goods in the future, think that they are investing in a capital structure that would generate goods in the future sufficient to meet their needs. In reality, their savings are being spent in current consumption of beneficiaries of Uncle Sam’s (that is, the American government’s) largesse. Such a distortion of our perception of the reality translates into statements such as that we are experiencing low growth because we are awash with savings, that there is an excess of savings, etc.²⁹ The reality, however, is that the existing savings have been consumed and no

²⁷ One possible improvement over current arrangements would be the adoption of a monetary policy such as the ‘zero real policy rate’ (ZRPR) that is, a monetary policy that would keep real interest rates ‘low but still positive’, as advocated by Smithin on many occasions as, for example, in Smithin, J. (2008), ‘The rate of interest, monetary policy, and the concept of ‘thrift’’, *International Journal of Political Economy* 37. The distortions pointed out here, I would argue, go beyond sound management of monetary policy, since distortions like the ones mentioned here are caused by excesses in fiscal policy, that for one reason or another, have not yet been captured in the pricing of the financial instruments representative of public debt.

²⁸ Such reasoning, incidentally, is even compatible with the arguments of modern monetary theory if MMT is understood just as an instrument for transferring purchasing power from the public to certain politically decided ends, under a framework that acknowledges the scarcity of real resources, as proposed, for instance, by Nersisyan, Y., and R. Wray (2019) ‘How to pay for the green new deal’, *Working Paper #931*, Levy Economics Institute, Bard College, NY. For a brief discussion of their claim in that paper, see Zelmanovitz (2019), ‘Modern monetary theory and the moral equivalent of war’, posted on *Law & Liberty* in November. <https://lawliberty.org/modern-monetary-theory-and-the-moral-equivalent-of-war/>

²⁹ The distortion mentioned here should not be confounded with the ‘paradox of thrift’ as described by Keynes. Keynes was pointing out the existence of real savings (represented by financial claims against private debtors with equity positions on the existing structure of production, that is, industrial plants, warehouses, shops, etc.) under circumstances of the business cycle that would not recommend further investments. What I am mentioning here is the existence of financial claims owned by savers and owed by the government, which have spent the borrowed resources not in

capital formation sufficient to generate the income necessary to repay all the existing claims exists. In an ideal type of capital markets, claims on present real wealth or the production of future wealth would be distinct from claims deriving from the powers to tax. Note, that it not that the power to tax may entitle even a better assurance of its repayment. That may or may not be the case, but this is not the point. The point is that the claims do not represent what they were supposed to represent, that is, a match between new savings and new investments in the production of future goods, which, hopefully, will be sufficient to repay the saver plus remunerate the investor for the privation of their present consumption.

6. Conclusion

The RTC affirms that capital cannot be understood just as goods and processes on the real side of the economy, or financial instruments in the abstract side of the economy, or even both. By bringing the concept of property claims to the fore, the RTC argues that capital may only be understood if we acknowledge that capital goods in the real side of the economy are represented by property claims in the abstract side. By acknowledging that a relation of representation exists, it necessarily follows from this that the ways in which the legal institutions of a given society allow for that representation to happen may turn out to be better, more efficient, than other institutional designs. To escape from the false dichotomy that has plagued capital theory seems to be the first step necessary to accept this more nuanced ontology of capital, and that is the purpose intended with this paper. Given the RTC proposal, that is, once it is accepted that every piece of capital *in natura* is represented by some property claim, and that every financial instrument is a form of a property claim (which entitles us to ask, a claim on what?), I think I have offered not only a tool to identify the causes of some of our maladies, such as slow economic growth, but also to assess concrete proposals of how to address the shortcomings in our current institutional arrangements. I would like to conclude by inviting others to make good use of this tool in order to increase our well-being, both at the societal and individual levels.

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productive endeavors but on current spending or, at the very least, on unprofitable investments. Such a destruction of real wealth, for different reasons, has not yet been completely reflected on the pricing of those claims. Be that as it may, it is, in my opinion, a different case from the one described by Keynes and therefore may require a different solution.

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