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The Good Life and the Good Economy: The Humanist Perspective of Aristotle, the Pragmatists and Vitalists; And the Economic Justice of John Rawls

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I begin by discussing the *humanist* perspective on the good life. The humanists asked what sort of life gives people the deepest, most lasting satisfaction and they arrived at arresting insights. I survey the conception of the good life in Aristotle; the variant of that conception represented by John Dewey and our own Amartya Sen, for example; and the variant that can be seen in William James and Henri Bergson, for example. Then I argue that the humanist insights into the good life help us to understand how and why an enterprising and innovative kind of economy began to sprout up once countries could afford it; merely to point to the falling away of restraints – the “unfreedoms” – does not by itself get us there. Furthermore, I suggest, the humanist conception of the good life takes us a long way toward a justification for society’s support of an entrepreneurial, innovative economy. This leads finally to viewing the good economy more broadly and here I try to weave in the strands of economic inclusion and Rawlsian justice.

Aristotle’s Perspective on the Good Life

Perhaps we owe to Aristotle the very *concept* of the good life. It means the sort of life that people prefer – that they would always choose if feasible after meeting prior needs such as food and shelter. In the book put together from his lectures, *Nicomachean Ethics*, which looks like it will be around as long as people read, he contrasts ways of life that are just *means* to some end with the *good life*, which is not a means to some end but rather an end in itself – lived for its own sake.² To paraphrase him: a society needs food (by producing it or trading domestic products to get foreign food) in order to get energy, needs energy in order to get roofs over their heads, needs roofs in order to get clothing to avoid being cold or sunburned, and so forth. Any *final good* – gourmet food, *haute couture*, and so forth – is the end of a hierarchy. He is interested in the *ranking* of the corresponding “activities” – being a gourmet, a clothes horse, etc. This may sound like economics with the sole difference that most economists (*classical* ones anyway) do not like to override or even pass judgment on the preferences of the consumer: they like to stay “neutral.” However, Aristotle too credits people with a sense of what the “highest

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² I have depended on the helpful edition prepared by Terence Irwin, ed., *Aristotle: Nicomachean Ethics*, Indianapolis, Indiana: Hackett Publishing Co., Revised Edn. 1999, which is widely used at Columbia. Following convention, page numbers refer to Immanuel Bekker’s classic edition of Aristotle (1831).

good” is – the life we should and do admire. He aims to explain the ranking, not to be a guru for those who have lost their way.

Aristotle recognizes that a certain amount of “moneymaking” is “forced” on society. (1096a) That might suggest that he conceives of the good life as affordable only to an elite. However, he does not say that those who can afford the good life are going at it “24, 7” while everyone else takes no part in it. Furthermore, it is implausible that he would have made the effort spanning many years to develop his thesis if he didn’t believe that the good life was already – or would eventually be – affordable to people of normal (or maybe above-average) ability and education. However, the question of whether the good life would ever be accessible to people in the bottom rungs of society is one I want later on to come back to.

One other comment here. Aristotle implies that pursuit of the “good” by a person making his entire life on a deserted island, even a rich island, would not compare, generally speaking, to pursuit of the good “in cities” – in a society, in other words. Thus he recognizes the many interactions and complementarities *at the level of ideas* among people in a society. As a consequence, a society needs to decide what the good life consists of in choosing the economic institutions to support and the culture to transmit in school. Thus, “we should try to grasp, in outline at any rate, what the good is.” (1094b)

So what is the substance of the good life? For me, some of Aristotle’s finest passages are about what the good life is *not*. It is not doing the correct thing. That may be the objective of politicians, he says, but “it appears to be too superficial to be what we are seeking, for it seems to depend more on those who honor than on the one honored, whereas we intuitively believe that the good is something of our own and [it is] hard to take from us.” Next he argues that the good does not consist of virtues either. We require some virtues to pursue successfully the good life but virtue is not sufficient: you could be miserable being virtuous if you had no sense of the right track to be on – the track toward happiness. When referring to the conception of the good that people seek and tend to reach, he often uses *eudaimonia* – the Greek word for *happiness* – as a synonym for the good. (1095b) I think these positions of Aristotle convey very well his humanist spirit. Aristotle is sharply differentiating his thinking from those religious conceptions of the good in which men and women dutifully perform the function of utilizing resources to survive and reproduce themselves in order that another generation might survive and reproduce themselves and so on over an indefinite future.

Aristotle hastens to explain that happiness does *not* derive from “amusement:” “It would be absurd if [our] end were amusement and our lifelong efforts and sufferings aimed at amusing ourselves... We amuse ourselves to relax... so that we can go back to do something serious.”³ (1176b) It could be that Aristotle is having a bit of fun with his student-age listeners. Yes, a night at the opera or the movie house is an input that increases or improves my scholarly output; but there is *some* consumption value in it – on a good night, anyway.

³ So having the occasional gourmet meal or watching the occasional soccer match is purely instrumental, not a final good. But for one whose life revolves around, say, soccer, that would be a final good.

I have to add that Aristotle did not foresee the political philosophers and political economists (notably Hayek and Friedman) who asserted that the good life means simply “freedom” – no matter what people choose to do with that freedom. These social thinkers do not want to *specify* the life that people would prefer to lead upon having sufficient grasp of the choices, at any rate. I am not sure what Aristotle would have said about that conception of the good life. But I believe that they have boxed themselves in a position from which they cannot offer any arguments for one system or another as long as individuals have individual freedom in both. The weakness of their position is that in an economic system the individual freedom of everyone to take some actions may have adverse consequences for everyone or, if not everyone, be adverse in some decisive way.

So what *is* Aristotle’s conception of the good life? It is the *pursuit of knowledge*. In his words, “[t]he best [thing] is understanding... This activity is supreme, since understanding is the supreme element in us.” (1177a) “Happiness [derives] from some sort of study.” Study is the “highest good,” he argues, largely because it requires “reason” and reason is the main faculty that separates human beings from the other animals. He adds that this fits with his observation that happiness is not felt by the other animals.

I would not dare appraise Aristotle’s *argument* for his proposition as a *philosopher* would. But I would say this: Suppose that dogs, dolphins or others *did* possess reason and a capability for happiness. (My wife and I always thought that our dog Shaggy led a happy life, even an exuberant life.) That would not refute the proposition that knowledge is the “best [good]” and pursuit of it the “supreme activity.” I think that Aristotle’s basic argument is that as our knowledge increases or the entire society’s productivity increases, people use the increase in their opportunities to delve into more and more elevated kinds of satisfactions rather than just enjoying more and more of the good old ones; the satisfaction from knowledge and its pursuit are at the tip of the hierarchy. A day devoted to this *last* activity of study rather than other activities must have the highest value since it is chosen over the others in spite of the sacrifice of the (less elevated) goods that alternative activities would have yielded.

What bothers me as an *economist* about Aristotle’s thesis – I imagine for you too – is the *narrowness* of the knowledge he regards as the “highest good” and whose pursuit is the “supreme activity.” For Aristotle the pursuit of knowledge appears to be a highly ascetic activity, practiced in a cloistered setting, perhaps stimulated by the occasional study group or conversation with a friend – the sort of activity carried on by mathematicians, theoretical physicists and scholars, such as philosophers and historians. It’s fair to say, I should think, that Aristotle’s experience and observation was confined to the classical world, so his thinking was naturally oriented around classical knowledge and the classical way of acquiring it – by study.

This is bothersome not so much because it would be nice to have a more general theory but because, if I’m not mistaken, there is a problem with the thesis in its original form. If Aristotle is right that highest good is exclusively knowledge that is not used for anything, a society as it becomes more and more productive or rich will devote more and

more time to the leisure activity of pursuing such knowledge, which has no commercial value in the marketplace. So the theory predicts that as hourly productivity increases in a country, we should observe at some point little or no further increases in the production and sale of goods – only steady further increases in leisure activity in the pursuit of knowledge. This is precisely the prediction made in the essay by John Maynard Keynes, “Economic Possibilities for our Grandchildren” – an essay adorable to some and appalling to others. But we do not observe that outcome⁴ But I believe this puzzle is obviously resolved once we take a broader view of knowledge.

Further Visions from the Aristotelian Perspective

Succeeding philosophers and writers have focused on *other kinds* of knowledge and *other kinds* of activities in pursuit of such knowledge while bearing in mind Aristotle’s fundamental insights: the hierarchy of desires, the desire for knowledge, and the place of knowledge as the most desirable yet the last to be affordable.

Humanist writers and philosophers after Aristotle have introduced *practical* knowledge, a good that is definitely *not* valued just for itself – much of it *informal* knowledge, which does not make its way into documents. These humanists have also introduced the quite different kinds of activities that are carried on in gaining such knowledge -- the worldly contexts in which much knowledge is pursued, the formal and particularly the informal. I have selected several of these humanists for a brief review and placed them into two groups.

The “pragmatists.” In one group (I will call them the “pragmatists”), knowledge is seen as acquired and used for the *purpose* of producing or acting in some way. An early figure here is the poet Virgil, who was born of peasant stock in the Po Valley in 70 B.C. (some 300 years after Aristotle’s birth) and who settled in Rome during the age of emperor Augustus. Virgil’s well-known poem *Georgics* somehow came to be viewed as a primer on agriculture until fairly recently; but at a deeper level it is an ode to humanity and Roman culture.⁵ It speaks lengthily and admiringly of the vast knowledge the farmer acquires and draws upon in plowing, planting trees, tending the cattle, and keeping bees. It expresses the farmer’s engagement in this work and his satisfaction at a successful harvest. This poem contains one of Virgil’s immortal lines: *Felix qui potuit rerum cognoscere causas.* (Happy is he who knows the causes of things.)

I would like to put Voltaire in this same group. He manifests appreciation of the satisfaction that can come from a life of action – of work. As he dramatizes in his book *Candide*, the action need not be in social causes or to right wrongs; Voltaire advises us to forget all that. Instead, he suggests that seemingly unromantic careers in the commercial sphere could be deeply meaningful and amply rewarding – after all, Voltaire was writing

⁴ Aristotle could not have been pleased with the finding of recent happiness researchers that, *after a point*, further increases in productivity do not add to reported happiness, a paradox I have discussed elsewhere. See, for example, Richard Layard, *Happiness: Lessons from a New Science*, London: Penguin, 2007.

⁵ The change of interpretation is credited to Roger Mynors. See *Georgics by Virgil*, R.A.B. Mynors, ed. Oxford: Clarendon Press, 1990.

in the late 18th century when the feudal manor was at an end and the flux and growth of commerce had begun. I love the stirring finale for sextet and chorus of the musical *Candide* composed by Leonard Bernstein with words taken from Voltaire by Stephen Sondheim:

We're neither pure nor wise nor good.
 We'll do the best we know.
 We'll build our house, and chop our wood.
 And make our garden grow.

I suppose it is implicit in Voltaire's conclusion that making a business grow is a challenge requiring a lot of one's knowledge of things and the acquisition of much more knowledge along the way; and that such a life is interesting and rewarding. (Incidentally, the French economists were the first to see any kind of role at all for the *entrepreneur*.)

In the middle decades of the 20th century closer attention was paid to the *nature* of the satisfactions deriving from the workplace and to the part played by the individual's *acquisition and use of private knowledge* in those satisfactions. A pioneer is John Dewey, the American pragmatist philosopher and one of the lions of Columbia for decades. Dewey, anticipating Hayek, understands that ordinary workers do, or at any rate could, possess considerable private knowledge – specialized knowledge of use in the course of their work. He emphasizes the *human need* for problem-solving activity.⁶ Even the worker of ordinary education can be engaged in and can gain intellectual development from the formation of the skills – a type of knowledge – arising from problems that are put to him or her in the workplace – or could be put to him or her if the workplace were desirably organized.⁷

The psychologist Abraham Maslow in a much-read 1943 paper drew up a hierarchy of human needs, starting with the most basic.⁸ In this hierarchy he gives a place to the need to acquire “mastery” of a trade or skill – typically after some apprenticeship. This need comes immediately after the physiological needs at the base and, next up the ladder, security needs. (Incidentally, Maslow accords the need for an ongoing *process* of problem-solving a loftier place in the hierarchy; but more of that below.)

John Rawls, toward the end of his magisterial work on economic justice, sets out with great clarity the main theme of this literature – the “Aristotelian perspective.”⁹ One's acquisition of knowledge, he says, constitutes the development of one's “talents,” or “capacities,” which is the essence of one's “self-realization.” And this self-realization, or as much of it as we obtain, is the central drive that every one of us has. All this

⁶ As nearly as I can tell at this writing, Dewey's discussions, which I recall from a course in college, range from *Human Nature and Conduct* (New York, Holt, 1922) to *Experience and Education* (New York, Simon and Schuster, 1938).

⁷ Dewey was upset by the arrival of Fordian mass production and hoped the workplace would be reformed again to provide the intellectual satisfactions of which it was capable. Of course, market forces have by now pretty much eliminated the assembly line – or, in many cases, moved it to Guangdong Peninsula.

⁸ Abraham Maslow, “A Theory of Motivation,” *Psychological Review*, 50, 1943, 370-396.

⁹ John Rawls, *A Theory of Justice*, Cambridge, Mass.: Harvard University Press, 1971, 424-433.

attributed to Aristotle. (A condensation of his discussion is in the footnote below.¹⁰)

A relatively recent contribution to this topic is that by Amartya Sen in his 1992 and 1999 books.¹¹ There is something fundamentally missing, Sen suggests, in present-day thinking about the generation of happiness. Neoclassical theory takes happiness to be a function of the bundle of consumer goods and leisure chosen; and this happiness could be seen as *indirectly* a function of the resources possessed. It is as if the economy's actors all participate in a comprehensive once-and-for-all auction in which they will contract their entire future. For whatever reason, Rawls tacitly uses that theory in treating a person's "self-realization" as a function of his or her "primary goods." Sen objects:

"[Besides the *indirect* one there is a] connection between capability and well-being ...making...well-being...depend [*directly*] on the *capability* to function. *Choosing* may itself be a valuable part of living, and a genuine choice with serious options may be seen to be – for that reason – richer....[A]t least some types of capabilities contribute *directly* to well-being, making one's life richer with the opportunity of reflective choice." (brackets, ellipses and italics added)¹²

Possibly Sen had in mind not only some joy of choosing but also that a person wants to acquire *backup* capabilities because life is subject to probabilistic *risks*. Anyone intending to become an oboist might fear a not uncommon car accident doing irreparable damage to his or her embouchure; so as a precaution the person would see the *option value* of developing some capability to function as an economist, say, alongside the capability to function as an oboist.

One might think to counter that an oboist can buy insurance against such an accident. But another point made by Sen in the exposition of his "capabilities approach" shows at once how unacceptable such a counter would be. He emphasizes with exceptional force that people to achieve any sort of fulfillment need "*to do things*." (Since almost any career we might choose would require problem solving, there is a derived need for capabilities.) If so, the insurance award paid on loss of the oboist's embouchure would hardly be compensation for the loss of career. Thus the need for backup capabilities.

Of course, another kind of "risk" (in Knight's terminology) is *uncertainty*. There is Knightian uncertainty in business owing to people's limited knowledge of the directions the economy will take. (The intended oboist has little idea the demand and the supply will

¹⁰ "...[H]uman beings enjoy the exercise of their realized capacities (their innate or trained abilities) and this enjoyment increases the more the capacity is realized or the greater its complexity... [It] is a principle of motivation. It accounts for many of our major desires... Moreover, it expresses a psychological law governing changes in the pattern of our desires. [It] implies that as a person's capacities increase over time...and as he trains these capacities and learns how to exercise them, he will in due course come to prefer the more complex activities he can now engage in which call upon his newly realized abilities. The simpler things he enjoyed before are no long sufficiently interesting or attractive."...Now accepting the Aristotelian Principle, it will generally be rational, in view of the other assumptions, to realize and train mature capacities... A rational plan...allows a person to flourish, so far as circumstances permit, and to exercise his realized abilities as much as he can." (428-429)

¹¹ Amartya Sen, *Inequality Reexamined* (New York, Norton, 1992) and Sen, *Commodities and Capabilities* (New York, Oxford University Press, 1999).

¹² *Inequality Reexamined*, p. 41. Sen cites Karl Marx and Friedrich Hayek among several precursors who placed a value on freedom independently of outcomes.

be.) But that takes us to a whole different world – the world of Hayek.

The post-Aristotelean literature of the “pragmatists” stops short of saying some of the most important things that must be said about knowledge. This literature is strikingly dry in portraying life at its best as one long series of pragmatic exercises in problem-solving, which serve to keep us engaged and yield other valued results more times than not. In the *modern* age, business life – and life outside business – is unquestionably more than just drawing on past “knowledge” and then applying “reason” in order to derive new implications, thus adding new knowledge to the past knowledge. Modern business life involves – is largely driven by – another kind of knowledge, typically so-called *personal* knowledge, which involves originality, inspiration, intuition, animal spirits. (It is called “personal” because it cannot easily be imparted to others. But, in principle, it can be acted upon.) As some participants act on such imperfect knowledge, they create uncertainty for themselves and everyone else. But not everything remains uncertain forever. There are discoveries and other outcomes, so some uncertainties are being resolved as new ones form. This is a world of creativity and adventure, first perceived by Hayek.

The “vitalists.” Happily, there is a significant literature about life in that world and its value. This literature expressed what Columbia’s Jacques Barzun and Yale’s Harold Bloom call *vitalism*.

I was introduced to it at Amherst College, though I am not sure that I was aware at the time that I was being indoctrinated in “vitalism.” My first exposure to it was the *Autobiography* by the sculptor Benvenuto Cellini. There Cellini, a larger-than-life figure of the Renaissance (and the protagonist of the Berlioz opera named after him), conveyed the joys of *creativity* and of *making it*. I have to say that I was taken aback by his raw ambition, which was beyond anything I had seen or heard of.

In the Baroque era, Cervantes and Shakespeare dramatize the individual’s quest. The message of Cervantes’ *Don Quixote*, it seems to me, is that a life of challenge and adventure is necessary for human fulfillment; and if the barren economy of the Spanish desert does not supply such challenges one must somehow create them by one’s self – *imagining* them, if necessary.

In the 18th century Enlightenment, such a view is reflected by some, though not all, of the key figures. David Hume, disputing the *rationalism* of the French, gives a crucial place to the “passions” in decision-making and to “imagination” in the growth of society’s knowledge. (Hume must be the first modern philosopher.) As already mentioned, Voltaire urged people to look for satisfaction in individual pursuits, to “grow your own garden.” Jefferson wrote of the “pursuit of happiness” and commented that people came to America “to make their fortune.” The term “pursue” conveys that seeking a fortune is more valuable than *having* one. “The journey is the end.”

Needless to say, the Romantic Age was wild about exploration and celebrated discovery as well as the determination and perseverance it often takes. We all recall the line of Keats about the time when Cortes “stared at the Pacific ... silent upon a peak in Darien.”

And that fierce stanza in Henley's *Invictus*: "It matters not how strait the gate/How charged with punishments the scroll/I am the master of my fate/I am the captain of my soul."

Finally, there is the Age of Modernism. No American philosopher wrote of vitalism more than William James. He saw great vitality with his own eyes. Born in New York City in 1842, he was witness throughout his life to the transformation of the American economy from relatively slow-paced to explosively innovative. In his ethics, so to speak, the excitement of fresh problems and new experiences are at the heart of the good life.¹³ If Walt Whitman is the poet of the American ethos, James is its philosopher.

The great French thinker Henri Bergson, a friend of James likewise a witness to the dawning decades of the modern era, was in his day (and is still) the main interpreter, or philosopher, of vitalism.¹⁴ His book *Creative Evolution* advocates a life of incessant "becoming" over mere "being" and urges us to find in ourselves the required *élan vital*. Bergson also grasps that the very idea of creativity would not make sense if we lived in a world of *determinism* rather than "free will." (Nietzsche was a precursor in this regard.)¹⁵

Is all this vitalism and pragmatism – in short, the Aristotelian perspective – the prevailing ethos in the present age? We don't have to make our own estimates based on people we know. The pathbreaking *World Values Survey* created by Ronald Inglehardt and colleagues at the University of Michigan surveyed household attitudes and compiled the results in many countries over the years 1991-1993. "When you look for a job," they asked, "do you look for opportunities for initiative?" The percentage who said yes was 52% in the United States, 54% in Canada. "Opportunities for interesting work?" 69% in the U.S., 72% in Canada. "Opportunities for taking responsibility?" 61% in the U.S., 65% in Canada. (In France 38% said yes to the initiative question, 59% to the interestingness question, and 58% to the responsibility question.)

In Iceland a month ago I asked a native resident there what the Icelanders think about the spectacular fortunes of many of Iceland's new entrepreneurs. He said "they don't feel bad about it. They are thinking only about how to achieve their own success."

No doubt the Aristotelian ethic was never unanimously embraced in America and less embraced in continental Europe. Yet it may have been widespread enough that, given the opportunity, it could set the tone of the economy – at least until some countervailing force or forces turn the tide in one or another country.

¹³ William James wrote somewhere, "My *flux*-philosophy may well have to do with my extremely impatient temperament. I am a motor, need change, and get very quickly bored." (Cited in Jacques Barzun, *A Stroll with William James*, New York, Harper, 1983, p. 265.) By "motor" he did not mean anything like a mechanical device, as Barzun remarks.

¹⁴ Bergson rose to fame with his 1907 book published in Paris and wider fame with the English edition, *Creative Evolution* (New York: Henry Holt, 1911). He was appointed to the Collège de France and won the Nobel Peace Prize in 1925. (Incidentally, Henrik Ibsen's dramatic poem *Peer Gynt* (1867) anticipates Bergson's theme when the Button Moulder says, "To be yourself is to slay yourself./ But on you, that answer's sure to fail;/ So let's say: To make your life evolve/ From the Master's meaning to the last detail.")

¹⁵ The latest item in the vitalist literature may be Kay Redfield Jamison, *Exuberance: the Passion for Life* (New York: Alfred Knopf, 2004).

The Rise of Capitalism: the Protestant Ethic vs. the Aristotlean Ethic

I want to argue that the Aristotelian ethic – Aristotle on happiness, the pragmatists on problem-solving and capabilities, and the vitalists on adventure and exploration – played an *essential* part in a huge development in our economic history.

Every schoolchild seems to know the provocative hypothesis of Max Weber that capitalism took root over the 1600s in the northern European countries, from Germany, Switzerland and Scandinavia to Britain and Scotland owing to the fertile soil created by the “Protestant ethic” of hard work and high saving.¹⁶ Subsequent scholarship has not found favor with that hypothesis. Amintore Fanfani showed that a similar rise of capitalism occurred in northern Italy. Some scholars have found that while Protestantism swelled in the years following Luther’s 95 Theses, the proportion of Catholics in the population returned to its previous high levels by the end of the century in most of those countries. Some demographers point to threshold effects as population in one area after another reached levels that made it economic to develop the area.

Another weakness of Weber’s hypothesis arises from the point that capitalism is not well measured by the size of the GDP; the growth rate of productivity would be a better indicator, though that too could rise or fall for reasons that do not reflect any change in the dynamism of the economy in generating successful innovations. It is a problem for Weber’s hypothesis, therefore, that even if populations increased and employment and output levels increased even more (in proportionate terms) over that century, there was no shifting of gears that put *labor productivity* – that is, output per hour worked – onto a steeper growth path. (In contrast, there is evidence of somewhat faster growth over the 1700s in some countries.) As implied in the paragraph above, the *marked* acceleration of *productivity* in several cutting-edge economies occurred at various times in the last half of the 19th century. So it is hard to argue that the rise of Protestantism, however brief or long-lasting, caused the later breakout of *dynamism*.

The *still surviving* hypothesis is that the institutions of capitalism began to evolve and led ultimately to waves of innovation (and faster growth) thanks to the gradual removal of institutions restricting economic freedoms – including the freedom to exercise various property rights, to form (and to close) companies, to file for bankruptcy protection and so forth – all this under a reliable and impartial rule of law. That hypothesis was boldly stated by the late Milton Friedman in his *Capitalism and Freedom*: new economic freedoms begat capitalism and capitalism bolstered liberties in other dimensions.¹⁷

¹⁶ Max Weber, *The Protestant Ethic and the Spirit of Capitalism*, trans. Talcott Parsons (London: Unwin, 1930). The book is based on a two-part article for a German journal in 1921-22.

¹⁷ Milton Friedman, *Capitalism and Freedom*, (Chicago: University of Chicago Press, 1962). Also relevant here, of course, is Friedrich Hayek, *The Road to Serfdom* (London, Routledge, 1944). To be sure, Hayek argues here that departures from capitalism toward socialism or corporatism are a threat to personal and political freedom (and certain economic freedoms almost by definition), but I do not recall any argument that capitalism sprung up naturally, automatically, with the establishment of various economic freedoms.

A fault or at least a lacuna in this theory of the rise of capitalism is that takes the preconditions it quite plausibly argues are *necessary* for a well-functioning capitalism – the key economic freedoms – to be *sufficient*: When an economic system of key freedoms protected by the rule of law is open for business, some participants in the economy will, after some experience with operation of the new system, step forward with entrepreneurial proposals; others will amid vast uncertainty step into roles as lenders or investors to finance some of these projects; and managers of enterprises will bravely evaluate and sometimes make pioneering adoptions of the new products and methods in spite of the uncertainties.

It is necessary to add that some sort of ethos, or culture, must be present to drive the economy toward the entrepreneurial and financial and managerial behavior that will generate the innovational activities that are the defining characteristic of finance capitalism. If the prevailing ethos, or value system, is not specified, we cannot be sure that the economic freedoms will not lead to some sort of monastic economy or perhaps an economy populated entirely by worker cooperatives and banking cooperatives in which very possibly there is little incentive to innovate for fear of causing damages of unknown probability to some employees or some savers.

The hypothesis to which I am led, then, is that capitalism is the product of a marriage between key economic freedoms and key cultural values. It is compelling (to me at any rate) that the prevalence of the Aristotelian ethic played, particularly in the 19th century, a critical part in the spectacular rise of *finance capitalism* and the ensuing explosion of innovation from the mid-19th century well into the 20th century (and erupting once or twice later in the century). The impulse to exploration and innovation, born of a desire for self-expression, and the desire of workers and financiers to engage in meeting the ensuing problems and bearing the ensuing risks must be fundamental to the choice of capitalism over other systems.

The Aristotelian Ethic and the ‘Good Economy’

I want to close by discussing briefly the *good economy*. As my colleague Joseph Stiglitz commented the other day, economics has not possessed a clear foundation for the economic system called capitalism. What *passes* for such a theory among libertarians is a *neoclassical justification* of a *free-market economy* in the sense of one with minimal government – one based on a model in which there is little for the government to do! The economy in the model is already perfect without a government! In my estimate, there is no greater economist than Friedrich Hayek in the 20th century. But Hayek’s vision of the good economy is filled with arbitrary exceptions, to which you and I would add our own exceptions; and he fails to see that capitalism is a creative system with much *disorder* alongside some elements of order so the government has to stand nearby to be ready to *step in* when things go awry.

A theme of my book *Rewarding Work* and of my introduction to the conference volume *Designing Inclusion* is that economic dynamism has valuable effects on the workplace experience – benefits consisting of the personal, or intellectual, development

of employees and entrepreneurs.¹⁸ In advanced economies at any rate, the mechanisms of innovation and of discovery largely shape that experience, such as the degree to which employees feel engaged in their jobs, and the rewards, such as job satisfaction, of participating in the workplace. Without such dynamism jobs would not offer much in the way of non-pecuniary rewards.

The generation of dynamism, I came to see, involves three actors: 1st, the *creativity* and *abundance* of the new ideas conceived and available for development; 2nd, the *diversity* of views among the canny financiers who select which entrepreneurs to back and to support through the development stages; and, 3rd, the *vibrancy* of managers and consumers in grasping and acting on the new ideas made available in the marketplace. A country's economic institutions and its economic culture – not just the rule of law and private property rights – impact on the actors in the innovation process and thus add to detract from an economy's dynamism.

In the theoretical framework that Friedrich Hayek started, capitalism is the premiere economic system for *dynamism* -- theoretically. Capitalism is all about innovation in *commercial ideas* – their birth, development and, finally, their “discovery,” or adoption, in the marketplace. Empirically, it is clear that where a well-functioning capitalism is feasible, or supportable, a well-functioning capitalism is better for the stimulation of new innovative ideas, their development and evaluation than either eastern European socialism or western continental European corporatism. (We mustn't repeat that debate for another century.)

The live question is whether capitalism is *just* – or less unjust, as Rawls would put it. Among the so-called advanced economies, the relatively capitalist ones look better than the other systems in some respects and worse on some others – whether that is inherently so is a question. To say which system would be acceptable – provided it will be able to function well in the country in question – we need some ordering device, such as might be provided by a conception of the *good economy*.

I suppose that the *good economy* depends upon what the *good life* is. For Calvin the good life consisted of hard work and wealth accumulation. For Hayek and Friedman it was a life of freedom. The appeal of work and of freedom are that they are necessary for a good life.¹⁹ But what is the *substance* of a good life, its essence?

The Aristotelian perspective gives an answer. Man seeks knowledge, as Aristotle says. People need the engagement and satisfaction that comes from problem-solving, as the pragmatists say. And there is the vitalist need for exploration and for the self-

¹⁸ Phelps, *Rewarding Work: How to Build Participation and Self-Support to Free Enterprise* (Cambridge, Mass.: Harvard University Press, 1997, 2nd printing 2007); Phelps, *Designing Inclusion* (Cambridge, Mass., Cambridge University Press, 2003).

¹⁹ In any case, these conceptions of the good economy are not rich enough to provide a political economy for our times. Calvinism appears consistent with a property-owning market socialism. Aside from Friedman's negative income tax and middle-Hayek's several exceptions, both of them appeared more enthusiastic about a free market economy – small government and atomistic competition -- than the speculative swings and gleeful commercialism of today's capitalism (in those places where it thrives).

expression that lies in originality.

If this is *good life* and if it the good *economy* must promotes a good *life* for its participants, it follows that an economy cannot be good that does not produce the stimulation, challenge, engagement, mastery, discovery and intellectual development that constitute the good life. Socialism and corporatism are unjust in creating stultifying economies that are inimical to the good life.

What about the least advantaged workers, though? They have a legitimate claim to some satisfactory level of *inclusion*. (In Rawls, of course, justice requires that the terms of their employment are as favorable as possible, thus providing them with the greatest incentive to take work and the greatest self-realization that society can manage.)

A country can simultaneously promote both the good life and inclusion by harnessing two sets of institutions to their best assignment. A higher level of problem-solving and exploration in the business sector can be sought by aiming for greater dynamism through institutions fostering the originality of entrepreneurs, the diversity of financiers and the sophistication among managers. A higher level of inclusion can be sought by fiscal incentives – a system of low-wage employment subsidies as well as classical education subsidies in order to attract marginalized workers to the business sector, shrink their unemployment rates and boost their pay.

Are the good life and inclusion competing goods, so gains in the one undo gains in the other? There are two fallacies here. One is the belief, with no foundation I know of, that a fiscal policy aimed at broad economic inclusion would substantially preclude ample dynamism and thus the good life for all. I have argued in *Rewarding Work* that, on the contrary, well-designed employment subsidies actually bolster the bourgeois culture, revive the ethic of self-support and increase prosperity in low-wage communities. That boosts a country's dynamism. And it builds popular support for capitalist institutions.

The other fallacy holds that the dynamism of capitalism harms disadvantaged workers. I argue that economic dynamism works to lift inclusion. Heightened entrepreneurial activity indirectly lifts up *both* those already enjoying much of the good life *and* – up to a point, at any rate – disadvantaged workers too, taken as a group. The reason is that increased dynamism, that is, a faster rate of successful innovation, creates jobs in product development, marketing and managing, and in so doing it ultimately pulls disadvantaged into better work and higher pay. (My reasoning is structuralist, not Keynesian.) The record of the present decade suggests that the disadvantaged suffer an acute failure of inclusion in economies resistant to innovation. Heightened innovation also serves the disadvantaged directly by making their jobs less burdensome and dangerous – and perhaps also more engaging. Innovation is not unjust if it tends to heighten the life prospects of the disadvantaged (alongside those of the advantaged).

My conclusion is that a morally acceptable economy must have enough well-directed interventions to make sure it possesses a satisfactory level of dynamism and enough interventions to ensure a satisfactory degree of inclusion.