

Approximating Prudence: Aristotelian Practical Wisdom and Economic Models of Choice

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Reviewed by James Halteman, Professor Emeritus, Wheaton College (IL).

People are complex and the decisions they make are influenced by many variables. Genetic predispositions, social goals, personal preferences, psychological tendencies and moral moorings are some of the factors that condition the choices people make daily. While economists focus on egoistic desires and apply an optimization process to analyze human choices, Aristotle analyzes the decision process by developing a comprehensive concept called practical wisdom.

Yuengert's goal in this book is to describe Aristotle's approach showing how it enriches understanding and informs real life experience. In the process, the limitations of mainstream rational choice models become apparent. In order to achieve this goal a significant portion of the book is given to explicating the meaning of Aristotle's practical wisdom. This is a comprehensive agenda covering nine chapters, two appendices and extensive notes and biographical material. Economists, philosophers and those interested in social sciences who are willing to do careful reflective reading will find the journey through this book enriching and rewarding.

Chapter 1 lays out the agenda to be explored and introduces Aristotle's concept of practical wisdom, or prudence as it is frequently called. Unlike economic models of choice, practical wisdom does not seek models with universal principles. Rather it includes a particular background account that is far more involved than the utility functions economists use to model behavior. Chapter 2 questions whether economists have an adequate grasp of the reality that their models hope to inform. Lacking this, the default position is to view reality as little more than a narrowly defined utility-optimizing enterprise. Mainstream attempts to broaden the utility function with a wider set of influences are considered, but Yuengert argues that these efforts do not escape the utility-optimizing framework. The claim is that a more complete approximation of reality is important and that the background account given by Aristotle can move economists toward that goal. Recent attempts to incorporate psychology, biology and sociology into economic thinking are recognized, but there is no common approach tying these models together.

Economists steeped in the instrumentalist methodology of prediction may challenge the wisdom of the search for a comprehensive background

account. Anticipating this concern, Yuengert points the reader to Appendix 1, which engages in an extended discussion of how prediction and explanation can be complementary rather than substitutionary, and that value judgments are inherent in any analysis and might best be recognized in economic work.

Chapter 3 explores further the concept of practical wisdom. Unlike the modern concept of prudence as a wise pursuit of personal interest, Aristotle calls for thoughtful reflection on all aspects of behavior. The wise person considers personal wellbeing that is tied to community responsibilities and an orientation toward the transcendent. Human reason done well is the key to the purposeful life. Such reasoning is not a technique designed to realize a goal that is common to all. Rather, it reflectively discerns the best course of action in a given time and place. Variables that the economic model assumes constant are incorporated into practical wisdom. There is not a strong claim here that Aristotle's practical wisdom is normative in the sense that it details what should be chosen. Rather, practical wisdom considers all options using a social frame of reference where the goal is a fulfilled, harmonious life.

The next five chapters evaluate various aspects of economic methodology in light of the practical wisdom in Aristotelian thought. Chapter 4 questions the assumption that economic actors know the relationship between the variables that purportedly bring utility and the level of pleasure experienced by the actor. Yuengert dissects the economic assumptions that preferences are given and fixed and that they are complete and transitive. When analyzed in single valued utility functions and optimized subject to constraints the resulting utility lacks the quality of happiness that Aristotle's *eudaimonia* embodies. *Eudaimonia* is acquired from a reasoned composite of ultimate goods such as truth, faith, friendship and life habits acting in concert, fulfilling one's purpose for living.

The instrumental goods of standard utility functions are not considered in light of the ultimate goods they are intended to serve. This omission in contemporary economic analysis leaves out a vital component of decision-making and puts some distance between optimal utility and true happiness. As is often the case in this book, where shortcomings in economic analysis are discussed, the counsel is not to discard economic methods, but rather to recognize their weakness and bring to the process appropriate qualifiers that point to the more complete story even if this must be done apart from formal analysis.

Chapter 5 takes up risk analysis. Where events are uncertain and contingent the standard economic analysis proposes probabilities for all

possible situations and well-ordered preference functions that can lead to the utility one might expect in a given situation. While behavioral economics is offering some qualifications to this standard approach, Yuengert sees added benefit coming from Aristotle who focused on virtues and practices that reduce the probability of downside risk or mitigate some of its effects. Caution, careful planning, docility as in learning from others, and flexibility when circumstances change all are qualities that contribute to effective risk management. Again, this addition complements standard practices in meaningful ways.

Chapter 6 describes the interplay of the will, reason, and passion in decision-making. Moral virtue involves a wise dialogue among these aspects of choice. Therefore there are times when what is preferred by the passions is qualified or rejected by reason and the will. There are no simple rules that can formalize this process. However, behavioral economics, the importance of character in human capital, and the role of social norms and habits in economic literature all open the door to a discussion of moral virtue that is important in understanding human choice. For Aristotle, freedom of choice occurs when one chooses those things that one has reason to value. Satisfying unreasoned wants is a violation of practical wisdom.

The seventh chapter attempts to bring together all that has been discussed before so that human choice is seen as an integrated composite of social context, moral virtue and desire. Every choice is personal, encompassing a history, goals, and an individualized story that is seen as a journey in process rather than a sequence of optimal choices toward a universally defined goal.

At this point Yuengert recognizes that accessing reality as depicted in this Aristotelian account is not a simple project. Consequently, economists resort to idealized and simplified forms to make modeling and policy proposals manageable. These good intentions have risks that are often not recognized and specified. What is left out may, in fact, be important to the goal economists are seeking and the carefully specified models may give an aura of completeness thereby excluding further inquiries. In the process, the positive analysis sometimes inadvertently takes on normative qualities, eliminating discussions of practical wisdom.

Chapter 8 provides a comprehensive description of practical wisdom by answering the question of where it resides. In some respects this chapter might have been placed first in the book because it clarifies some of the details about the concept. Much of practical wisdom is unique to an individual and is embedded in social context, history and

character. It is most easily observed in the good person whose passion and reason are aligned with what is generally considered good and true. These qualities are contextual to some degree, so universal rules will not suffice. Consequently any meaning of good will originate from within a community whose tradition the good person fully accepts and practices over time. Experience and good upbringing sort the bad from the good, so the older good person becomes the model. Unfortunately, economic modeling seeks universal principles that do not vary with social context, so practical wisdom is foreign to its logic. Yuengert does point out that economics works with tacit knowledge, firm-specific human capital and learning-by-doing, so connections between its methodology and practical wisdom are possible.

The final chapter is an appeal to economists to reflect on the consequences of using models that omit so much of life as it is lived. The appeal is for a mindful economics that recognizes its limitations, learns from behavioral and other social science contributions, and observes caution in normative analysis when so much that is important for such analysis is left out. Another caution concerns the degree to which abstract models become proxies for understanding reality when the true reality is far different. The lack of a clear understanding of preference formation limits the effectiveness of standard modeling. This concern comes through well in this chapter and it is an underlying theme of the entire book. Also, discipline-specific definitions of terms like rational and welfare omit the important broader long-run meaning of those terms.

Finally, if economists see their stories as fables that speak effectively to real life, while recognizing the distance between their stories and the real world, an important contribution can be made. The lack of a practical wisdom story in the mechanical fables of rational choice would be less problematic because fables do not pretend to approximate reality.

The first appendix elaborates on the downside of seeing economics as a purely instrumentalist tool of prediction with little regard for understanding what is real. The second appendix connects reasons with causes illustrating why a focus only on causes impoverishes a more comprehensive understanding of human choice. Assessing reasons may be complicated but reasons matter.

Those firmly committed to the standard consumer choice models may find practical wisdom to be too broad and subjective to be helpful where policy decisions regarding consumer choice are required. However, where those models caricature a choice process that misleads or offers little more than what is intuitively obvious, a more comprehensive discussion of

choice behavior is essential. It should be noted that the critique in this book is not focused on econometrics and mathematical tools in general, but rather on the specific optimization process in consumer theory.

The use of this theory is not rejected as a tool of analysis in the book. This point is frequently noted, but the appeal that economists should recognize their limitations is a major theme of the book. What is not clear is what that limited role will look like for mainstream practitioners and graduate school curricula. In the critique of instrumentalism the case is made that some narrative of reality is necessary for relevance. Perhaps recognizing rational choice as a fable would be a sufficient starting point if it is then coupled with a more complete presentation of practical wisdom in consumer choice. For Christians and those who question the usefulness of the positive/normative dichotomy the value of practical wisdom will be self-evident. Concerns about those in poverty, environmental care, and simple living do not fit well in normal utility-maximizing models, but they matter and a larger story is required where these and other similar values are important.

Yuengert has made a real contribution to the discussion surrounding economic methods. Scattered throughout the text are welcome examples that illuminate the philosophical concepts well. Yet this book is not easy reading and those not inclined toward philosophy and methodology may find the content challenging and maybe a bit repetitious at some points. But mastering the material is well worth the effort because economics is increasingly being challenged by other social sciences; although the rational choice methodology has spread to those disciplines, their more comprehensive methods have, in turn, opened the door to some creative thinking about economic methods. Aristotelian thought has much to say about how we see the world and *Approximating Prudence* is arguably the best available presentation of that view. ■