

## The Humanistic Economics of *Krausismo*

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### Abstract

Current efforts of reconciling economics with ethics, as exemplified by the works of Amartya Sen, may be assisted by a glance back into the history of ideas. A tradition typically overlooked in Anglo-American scholarship, the Spanish and Latin America movement of *krausismo*, proposed a conception of a humanistic economics already in the late 19<sup>th</sup> century. This article reconstructs the intellectual premises of said tradition, portrays its participatory agenda for an integration of ethical norms into economic policy in a selected case and concludes with reflections on how to advance an economics in tune with society's normative aspirations.

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### Introduction

This article proceeds from the premise (explicated in section 1) that the theoretical commitments of conventional economics and ethics are at odds with one another. On that view, many business ethicists hope that current movements towards a heterodox economics might provide more fertile grounds for the seeds of ethics. As the works of Amartya Sen (\*1933) exemplify this quest for a new paradigm of economics, they are employed here in order to articulate and legitimize the goals of an economics amenable to moral reasoning and business ethics (section 2). With this touchstone in place, we take a glance back towards the humanistic economics espoused within the Spanish and Latin American *krausismo* movement of the late 19<sup>th</sup> century, as it prefigures many conceptual developments that today's economic philosophy is contending with. After retracing the origins and main tenets of *krausismo* to the theories of the German philosopher Karl Christian Friedrich Krause (1781–1832), central positions of the preeminent 'krausist' economists of the late 19<sup>th</sup> century, Gumersindo de Azcárate (1840–1917) and José M. Piernas y Hurtado (1843–1911), are reconstructed (sec-

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tion 3). Last, we consider how these historical configurations may contribute to an economics on a humanistic basis, concluding with reflections on the current state of scholarship in business ethics (section 4). The main contribution of this paper is to show that and how the Spanish '*krausistas*' advanced, in practice, the integration of ethics and economics through a deliberative approach of public reasoning very much in line with the theoretical postulates of Amartya Sen.

## 1. An Odd Couple: Economics and Ethics

Conventional economics and ethics are strange bedfellows (Koslowski 2000). For decades, academics of various stripes have pointed out how the tenets of the former hinder the precepts of the latter (for a recent survey on the pertinent literature, see Moosmayer *et al.* 2019). Elegido (2009) summed up numerous empirical studies spanning several decades that consistently showed how instruction in economics negatively impacts the moral behavior of students; Racko (2019) reviewed more recent studies in this field and showed furthermore how the selfsame instruction undermines not only students' *behavior* but also their *values*. In that vein, it has also been highlighted (Dierksmeier 2019a) how Michael Jensen (\*1939), has meanwhile given up on the mechanistic premises his own 'principal-agent'-theory rested on for decades – due to the "out-of-integrity behavior" (Erhardt and Jensen 2011, VII) to which, he now feels, it strongly contributed.

The corrosive effect of an economics education on business ethics is typically attributed to its contrary methodological-epistemological and ontological-anthropological commitments (Hühn 2014). Around 1800, Anglo-American economics began to shed all methods smacking of the humanities: normative and qualitative studies were increasingly shunned in favor of descriptive and quantitative analyses (Dierksmeier 2011). In terms of epistemology, that implicated a turn away from a discipline for practical orientation to a theoretical science of a positivist bent (Brodbeck 1998). In terms of ontology, economics came to rely less and less on historical or phenomenological knowledge, embracing instead axiomatic and reductionist conceptions of the market (as an ahistorical transaction plateau of maximization behavior), the firm (as a nexus of contracts of maximizing agents), and the individual (as but a rational maximizer of self-interest) (for a critique see Dierksmeier 2016).

Since its very inception, this last aspect, i. e., the anthropology of the *homo oeconomicus*, has come in for much criticism. Over the last two decades, though, this critique was markedly reinforced by findings of empirical game theory, behavioral economics, and neuro-economics, which converged in showing that real economic agents act far less (instrumentally) rational – e. g., impulsive – and, at the same time, much more (morally) reasonable than the model supposes (Zak 2004; Singer and Fehr 2005; Fehr and Rangel 2011).

Although recent economic *research* literature duly cites such findings, thus far, they have had a scant impact on the *pedagogy* of the discipline. In fact, in economic textbooks and introductory courses all across the world, up to date the methodological-epistemological and ontological-anthropological commitments from the early 1800s prevail, which conceptualize economics as a discipline that analyses transactions – in deliberate analogy to force vectors in *analytical mechanics* – as determined by individual preferences, budgetary constraints, and conditions of competition (Mirowski and Plehwe 2009; Mirowski and Sent 2002; Mirowski 2002; Mirowski 1989).

A corollary of this ‘mechanistic’ mental model of economics is to treat economic transactions as if they were occurring by *necessity* – an assumption in fundamental opposition to ethical discourse, resting as it typically does on the premise of individual *freedom* and responsibility (Dierksmeier 2011). Where, however, economic agents are depicted as if forced by their own preferences and constraints to transact in a certain manner, students often take away from their economics classes the feeling that, in all things economic, moral imperatives are feckless at best and harmful to efficiency at worst (Hühn 2014; Painter-Morland and Slegers 2018).

This bifurcation between a *mechanistic* model of economics and a *humanistic* conception of ethics (Dierksmeier 2016) roots in intellectual developments that reach back to two interrelated disputes amongst German economists around the turn to the 20<sup>th</sup> century with strong repercussions for subsequent Anglo-American economics: the *Methodenstreit* and the *Werturteilsstreit* (for a good survey on both debates, see Backhaus and Hansen 2000).

Extremely simplified, the *Methodenstreit* (German: “dispute over methods”) pitched a historical school of economists (spearheaded by Gustav Schmoller [1838–1917]) against proponents of an axiomatic method (most notably Carl Menger [1840–1920], William Stanley Jevons [1835–1882], and Leon Walras [1834–1910]). The former excelled (not only but notably) in works rich in statistical material and circumspect about cultural contexts and considerations. The latter instead wanted to emulate the physical sciences of their day and era, as exemplified by the *Mécanique analytique* of Joseph-Louis Lagrange (1736–1813) (Brodbeck 1998). Whereas the historical school appreciated (not only but especially) economic knowledge generated by way of careful generalizations from broadly sourced socio-historical materials, their opponents only accepted formal deductions as properly scientific and relegated historical data to the pedagogical, didactical, or applicational realm of economics (Goldschmidt and Störing 2019).

These rival methodological-epistemological orientations prepared the ground for the subsequent *Werturteilsstreit* (German: “dispute on value judgments”). Rooted as they were in the traditions of the humanities as well as in legal and political philosophy, adherents of the historical schools of economics (then championed by Werner Sombart [1863–1941]) engaged not only in a description of economic phenomena past and present but also embraced normative and qualitative aspects as part and parcel

of the economists' remit. This, however, was opposed by an increasing number of economists (led by Max Weber [1864–1920] championing the idea of economics as a 'value-free' science whose normative evaluation was to be left to politics.

We can behold the outcome of these debates in today's economics departments throughout the Western world (Atkinson 2009; Goldschmidt and Szmrecsanyi 2007). In their majority, these are predominantly staffed by academics steeped in the axiomatic tradition, whereas proponents of alternative conceptions of economics (such as, say, institutional, historical, or, today, also feminist economics) often play a more marginal role (Eisler 2007; Reardon 2009; Goldschmidt *et al.* 2006). The upshot is a paradigm of economics from which the normative pretensions of ethics are viewed with suspicion (Becker *et al.* 2017) – as an intrusion of unscientific attitudes and attachments into the pristine realm of 'value-free' science (Dierksmeier 2016). It is this positivistic posture which, presently, proponents of heterodox economics, post-autistic economics, pluralist economics, humanistic management, etc., wish to change (Reardon 2009; Ehnts and Zeddies 2016; Barker and Kuiper 2003; Novarese and Pozzali 2010; Amann *et al.* 2011; Pirson 2017).

While the current surge in pluralism within economics surely facilitates a broader and deeper conversation about the ethical as well as cultural foundations and implications of economic agency (Wight 2014; Beschorner and Hajduk 2017), the judgment is still out on the eventual impact of these voices upon the discipline at large. Will they lead to lasting change in economics (Goldschmidt, Grimmer-Solem, and Zweynert 2016), or are they bound to be disregarded as insufficiently 'scientific' by the academic establishment (Caspari and Schefold 2011)?

Arguably, a true paradigm shift towards a humanistic perspective might require not only an add-on of alternative perspectives but rather a thoroughgoing reconstitution of economics (Dierksmeier 2016). Representative for the latter tendency are the works of the Amartya Sen, who aims for a systematic renovation of economic thinking oriented at the principle of human freedom. It is from authors like Sen that we can glean what a genuine recasting of economics as a humanistic discipline might look like, before directing our glance backward in time to the tradition of *krausismo* in search for exemplars of a 'humanistic economics.'

## 2. The Task of Economics According to Amartya Sen

Nobel laureate Amartya Sen, highly appreciated in the scholarly community of professional economists worldwide, is well-positioned to spearhead changes within the discipline at large (Pressman and Summerfield 2009; Walsh 2007; Anderson 2005). The sovereignty with which he handles the mathematical and logical apparatus of conventional economics protects his proposals for a paradigm change from being dismissed as insufficiently rigorous by colleagues of a more conventional bent of mind. What is more, Sen's economic philosophy does not aim at a piecemeal revision

of the conventional wisdom of economics but at a wholesale revision of its ontological axioms as well as its epistemological and methodological foundations. Sen may therefore serve us here as a yardstick for what to look for in a future economics aligned with ethics.

Amartya Sen challenges Lionel Robbins' canonical formulation of neoclassical economics as a positivistic "science which studies human behavior as a relationship between ends and scarce means which have alternate uses" (Robbins 1932, 16). Sen ridiculed the single-minded focus upon means, irrespective of their goals, as follows: A man who fervently works at cutting off his toes with a blunt knife behaves hardly any more rationally as soon as he – after analyzing the relative inadequacy of the chosen means – reaches for a sharper knife (Sen 2002, 39). One cannot meaningfully talk about economic rationality, Sen wants to say, without a view to what its appropriate goals might be. This is why Sen champions a conception of economic rationality encompassing our critically reflexive freedom "to reason about what we should pursue" (*ibid.*, 46). It is high time, or so he argues, "to reclaim for humanity the ground that has been taken from it by various arbitrarily narrow formulations of the demands of rationality" (*ibid.*, 51).

For Sen, the rationality of human behavior is not tied to egoistic premises but could also be linked to other – e. g., moral – indicators: "The first and most direct use of rationality, it can be argued, must be normative: we want to think and act wisely and judiciously, rather than stupidly and impulsively. If the understanding of rationality is firmly tied to the systematic use of reason, the normative use of rationality is easily placed at the center of the stage" (Sen 2002, 42).

As a mechanistic and positivistic economics cannot capture these normative dimensions, Sen calls for a value-oriented economics in its stead. Yet, this demand must contend with the entrenched view that the commitment to positivism is precisely what makes or breaks the scientific status of the field (Anderson 2003). In order not to be dismissed as unscientific, a pluralist account of economics has to prove its epistemological mettle against the epistemic *status quo* (Putnam 2003).

Sen's main line of defense for a normative approach to economics tracks crucial arguments of Hilary Putnam (1926–2016). Building on Willard van Orman Quine's (1908–2000) deconstruction of the fact/theory bifurcation (Quine 1951), Putnam had criticized the purported absoluteness of the fact/norm dichotomy and the physicalism it engendered in economics. On his reading, a physicalist approach to economics fails, however, on several accounts (Putnam 2003); first, because of its superannuated understanding of physics itself. Today's physicists have long since given up the clean separation – espoused by the physics of the late eighteenth and early nineteenth centuries – of empirical observation on one hand and analytic statement on the other. Witness the not directly observable, but indirectly inferred characteristics of negatively curved time-space or, turning to the infinitesimally small, of quantum dynamics. What is observed in each case depends upon how one conducts one's experiments – and *that* in turn results from how the respective object has previously been

conceptualized. Experience follows observation, and this, for its part, is orientated – consciously or not – by theory (Körhasan and Wang 2016).

Similar, then, to how one can seldom speak of entirely theory-free events in today's physics, Putnam concluded, economics does not really deal with entirely 'value-free' first elements or institutions (Walsh 2009). While in physics, *theory* (all the more so, the more sophisticated the discipline becomes) defines what is regarded as a *datum*, in *economics* (often implicit rather than explicit), *values* and/or *interests* settle what counts as a (pertinent) *fact*. Consequently, Sen concludes with Putnam, any attempt must founder to give a purely positivistic account of economic reality, disregarding the social and thus normatively impacted co-construction of its object. In truth, the isolated *rational agent* postulated by conventional economics behaves – at the very least, sometimes – as a socially embedded and *reasonable* person with (not only but also) *moral* orientations (*ibid.*).

On Sen's telling, economics should, therefore, break away from maximizing but one over-arching *utility* and the pretense that it might capture as well as comprise all human pursuits. We should instead realize that plurality of multi-dimensional (often conflicting) *values* are guiding economic agency: "To insist on the mechanical comfort of having just one homogenous 'good thing' would be to deny our humanity as reasoning creatures" (Sen 1999, 77). Market economies and the options they offer are social constructs, in Sen's view: sustained by *values* and *interests* inherent in their environments and procedures.

Economic policy should thus assure that markets do not undermine their own social, cultural, moral, and ecological presuppositions. Pre-modern economics had received these criteria from the respectively predominant ethics – of a mostly theological and/or metaphysical providence. But that avenue is now barred, factually and normatively, by the plurality of individual and social self-conceptions regnant in open societies. For there to be no regress behind the idea of freedom, the fundamentals of our socio-economic order should instead be influenced by everyone's free decision about the desirability of their respective socio-economic options (*ibid.*, 30).

That is to say, Sen wants to settle questions of macro-economic regulation through a "social choice" exercise" by means of "public discussion" (Sen 1999, 78). Economics owes citizens the possibility "to discuss and debate – and to participate in the selection of – values in the choice of priorities" (*ibid.*, 30). *Democratically* agreed-upon goals should lead to the definition of econometric benchmarks – instead of letting, inversely, *technocratic* benchmarks dictate economic policy. Accordingly, the discipline of economics should open up to "public scrutiny and criticism" (*ibid.*) so that economics develops theoretically the parameters needed to advance practically the kind of economy the people want.

In short, Sen sees an intimate relationship between a liberal *economy* and a self-reflexive *economics* (Majumdar 1998). Whoever demands *liberal economic practices* must, according to Sen, also promote a *freedom-based economic theory*, deliberating openly and freely about the adequacy of its methods and aspirations – in light of

society's fluctuating normative demands. And in this very commitment to make freedom the principle of both economic theory and practice, Sen's position is in striking resonance with the works of *krausist* economists of the late 19<sup>th</sup> century (Dierksmeier 2019b) that we shall expound in the following.

### 3. Philosophizing with the Public: K. C. F. Krause and the Spanish *Krausistas*

The philosophy of Karl Christian Friedrich Krause (1781–1832), while hardly known in the Anglophone world, was taken up in Spanish speaking countries by the political movement of *krausismo*, a cosmopolitan and progressive strand of liberalism (Dierksmeier 2010). Krause tried to reconcile the principle of freedom, reigning paramount in the philosophy of German Idealism of his day and era, with the *relational identity* of the human being, recognizing human freedom as deeply interdependent with its social and natural contexts. He thus argued for social solidarity and ecological sustainability (Dierksmeier 2019b).

Over several decades, from the middle of the 1860s until its suppression by Franco in the mid-1930s, *krausismo* exerted a notable influence on the constitutional life and political culture of Spain (Dierksmeier 2008). In Argentina and Uruguay, likewise, whole generations of presidents were committed to *krausismo* – until, in the second half of the twentieth century, anti-liberal dictators squashed such movements. Immediately after the end of these authoritarian regimes, though, the first democratically elected presidents of either country as well as the political parties supporting them respectively, again affirmed their allegiance to Krause's philosophy, as was the case with Argentina's first post-Peronian President, Raúl Alfonsín (Stoetzer 1985) as well as with the Battle family which has given Uruguay several heads of state (Stoetzer 1998).

In the last thirty years, Krause's philosophy has received increasing attention among scholars also outside the Spanish- and Portuguese-speaking world. While, for a long time, it was believed that the programmatic publications of *krausismo* were original creations of Iberian culture, in the 1990s, Enrique Menéndez showed that the writings promulgated by the father of Spanish *krausismo*, Julian Sanz del Río (1814–1869), were cleverly arranged translations of some original texts by Krause (Menéndez 1991). This led to a reinvigoration in the research of Krause's original writings, not in the least among German scholars.

From these studies, one can glean that Krause aimed at a methodologically consistent implementation of the Kantian project of a philosophy of freedom through phenomenological and dialogical methods. Numerous progressive tenets of his moral philosophy are attributed to this methodology (Dierksmeier 2003b). Krause wished to involve all persons in determining the rules under which they live, wherever possible in a direct and participatory manner, and where this was (still) impossible, at least in an

indirect and representative way. This gave his philosophy overall a strongly anti-discriminatory and highly inclusive as well as cosmopolitan character. Krause advocated for the legal representation of unborn children, minors, the disabled, distantly living peoples, and future generations – *nota bene*, at the outset of the 19<sup>th</sup> century (Menéndez 2001) – and pleaded for the elimination of any kind of religious, sexual, and racial discrimination at a time when nationalistic and sexist chauvinism was philosophical common fare (Landau 1985).

As the idea of freedom was to be not only the substantial capstone of Krause's philosophy, but was also to serve also as its central methodological foundation, he had no desire to present his theories ready-made before the public. Instead, he constantly referred back to pre-philosophical attitudes and sensibilities of his audience. To capture people's everyday concerns and worldviews, Krause employed dialogical techniques, comprehensible thought-experiments, and a process of theory formation geared to the empirical testing of its explanatory power; methods each and all deliberately open to falsification, therein again anticipating trends prevalent in academic philosophy only much later (Dierksmeier 2019b).

From 1803 onwards, two distinct strands mark out Krause's philosophy: His theory advances through a self-critical back-and-forth between *analytic* and *synthetic* considerations, which are to mediate between everyday opinions and scholarly ideas. Theory-formation should combine empirical experience and intellectual speculation in a process of conceptual *constructions* in which "the deduction and the intuition of the object, as though holding hands, proceed together side-by-side into the depths" (Krause 1828b, 336).<sup>1</sup> Thus to be remedied were, on the one hand, the penchant of solely *deductive* methods of losing contact with reality, and, on the other, the unimaginative blindness of purely *inductive* approaches as well as the analytical opaqueness of merely *intuitive* approaches (*ibid.*, 334).

In marked contrast to other speculative philosophies of his era, Krause assured it is not as if "the constructing philosopher [...] ventures to scientifically deduce, demonstrate, and construct, as such, the infinitely determined temporal individuality of things" (*ibid.*, 337). Philosophical constructions should rather work *extant* intuitions, inductions, and deductions as well as their reciprocal critique into a general theory. And since such endeavors result from creative combinatory thinking, Krause underlined how the resultant philosophical constructions – expressly including his own – were always prone to error and in constant need of critical revision (*ibid.*, 335–338).

For this reason, Krause turned to his readers. In the light of their experience and objections, he examined, time and again, his philosophical constructions. Every critique, he believed, must contain some valuable aspects that first have to be acknowledged and integrated before proceeding beyond these objections. In Krause's practical philosophy, this approach amounts to confronting the ethical postulates of his

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<sup>1</sup> All translations from Krause's German or from the Spanish writings of the *krausistas* were conducted by the author.



philosophy with the moral convictions prevalent amongst his contemporaries. In this way, Krause aimed to change the status of the public: from a passive object of philosophy into an actively participating subject (Krause 1828a). The task he set out was, in short, not to persuade but to convince, not to philosophize *about* but to philosophize *with* the public – a suggestion taken up literally by his Spanish successors.

At the end of the nineteenth century, Spanish *krausistas* developed a social-liberal concept of economic policy in line with Krause's premise of a cosmopolitan philosophy based on the "idea de la fraternidad humana" (Piernas y Hurtado 1891, 112). Two of them are of particular importance for our present concern, Gumersindo de Azcárate (1840–1917) and José M. Piernas y Hurtado (1843–1911). Azcárate's *Estudios económicos y sociales* ([1876] 2018), probably the most influential *krausist* book of the era, were widely discussed in public. Piernas y Hurtado, with a more technical focus, penned the *Tratado de Hacienda pública y examen de la española* (Piernas y Hurtado 1881) and the *Principios Elementales de la Ciencia Económica* (Piernas y Hurtado 1903), which both, reprinted in numerous editions, for several decades became standard textbooks for economics at Spanish universities (Guillén 2005).

Azcárate and Piernas y Hurtado collaborated closely, and their theories tidily complement one another, with Azcárate focusing on the sociological and political aspects of economics and Piernas y Hurtado – "principalmente para la enseñanza universitaria" – catering more to academic interests (Piernas y Hurtado 1891, 11). In what follows, I draw on their works conjointly as symbiotic applications of *krausist* principles to the economic sphere, since Azcárate and Piernas y Hurtado tracked Krause's philosophy faithfully in both *substance* and *method*.

Among the *substantial tenets* of Krause's ethics, the following were of crucial impact for their economic theories: Each emphasizes how the *relational identity* of the human being implies a social and ecological *responsibility*: one is to act with solidarity toward others (Azcárate [1876] 2018, 9; Piernas y Hurtado 1891, 72) and as a good steward of the environment (Piernas y Hurtado 1891, 121; see also 132). Moreover, endorsing Krause's strict "distinción entre la Sociedad y el Estado" (Piernas y Hurtado 1891, 80), in either regard, both 'krausistas' opted for state action, according to the principle of *subsidiarity*, i. e., only when subaltern forms of societal self-organization failed (Azcárate [1876] 2018, 74–75).

Equally strong was their *methodological* adherence to Krause. In regard to whether economics was an exact or formal science (like mathematics), a natural science (like physics), or rather a moral-*cum*-social discipline, Azcárate opted clearly for the third option. He argued that since economic acts rest, amongst other things, on individuals' oscillating opinions and evaluations, economics simply cannot belong to the "categoría de las ciencias exactas;" nor does economics share the character of the natural sciences as "*objetivo*, desinteresado, impersonal," relying, as it does, on the agency of the human subject as "libre y moral." Instead, we ought to conceptualize economics as "una ciencia *moral*," which not only describes what *is* but also investigates how

people *ought* to produce and redistribute wealth and which “medios prácticos” might best realize those goals (Azcárate [1876] 2018, 99–101, emphasis in original).

Existe entre las ciencias naturales y la Economía política una diferencia fundamental que no ha sido suficientemente puesta en relieve. Las primeras se ocupan de los fenómenos de la naturaleza, fuerzas fatales que no podemos modificar, sino solo comprobar. Las ciencias morales, y por tanto la Economía política, se ocupan de hechos humanos, resultado de nuestro libre albedrío, que podemos modificar para hacerlos más conformes á lo que exigen la justicia, el deber y nuestro bienestar (Azcárate [1876] 2018, 102).<sup>2</sup>

Piernas y Hurtado likewise underscored that the subject matter of economics is not predetermined by quasi-natural laws but instead rests upon the “*libre actividad humana* y se establece *socialmente*,” which is why economics belongs to the “*ciencias morales*” (Piernas y Hurtado 1903, 28, emphasis in original). This characterization of economics limits the use of mathematical methods. Due to its deductive nature, mathematics can only provide partial knowledge (“*conocimiento parcial*”) about economic phenomena as it tends to miss “*el valor moral, que es los más interesante*” (*ibid.*, 36). Therefore, in order not to sacrifice truth to technique, one ought to opt for a pluralism of methods (“*es necesario el concurso de esos diversos métodos*”) (*ibid.*, 37).

In particular, economics should not only study past and present economic configurations, but also pay heed to counterfactual – hypothetical as well as normative – considerations. Facts and principles (“*los hechos y los principios*”) have to be harmonized (*ibid.*, 30) so as to relate what is and what ought to be (“*lo que es y lo que debe ser*”) so that the discipline eventually can judge and criticize the *status quo* with a view to its due reformation (Piernas y Hurtado 1891, 25, emphasis in original). This “*carácter ético*” of economics should, Piernas y Hurtado stated, be self-evident since economics aims to investigate human transactions and so shares in the features characterizing all human agency: freedom and responsibility (*ibid.*, 35).

For that reason, both authors reject as infeasible the program of some economists to investigate, in a strictly ‘value-free’ manner, the supposed ‘natural laws’ (“*supuestas leyes naturales*,” Azcárate [1876] 2018, 106) of an economic sphere allegedly existing in splendid isolation from its environs – pretending that the ‘laws’ governing said sphere would differ essentially from those structuring all other dimensions of social life (“*regida por leyes naturales DISTINTAS de las que actúan en las restantes esferas*”; Piernas y Hurtado 1891, 125, emphasis in original). This emphatic positioning of economics as a social and moral discipline (see also *ibid.*, 38) must be appreciated in

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<sup>2</sup> “There is a fundamental difference between the natural sciences and political economics, which has not sufficiently been pronounced. The former are observing natural phenomena, inevitable forces which we cannot modify, but merely corroborate. The moral sciences, and thus also political economics, deal with human agency, resulting from our free will, which we can modify so as to have them conform more to what justice, duty, and our well-being demand.”

view of the then as now virulent discussions amongst professional economists whether economics may, should, or must not at all, comprise moral considerations.

Thus, the *krausistas* looked at the dispute between the axiomatic and the historical economics in England, France, and Germany in search of a middle path between them, characterizing either approach as important but incomplete. The gist of their assessment was that while the former group relied too little, the latter depended too much on the state, and none put enough trust in society's capacity to self-organize on behalf of the common good (Azcárate [1876] 2018, 111).<sup>3</sup>

Methodologically, the *krausistas* dismissed as insufficient both any purely philosophical approach to all things economic, oblivious of the facts on the ground, and its obverse. Against a *positivist* account of economics, they charged that concentrating “exclusivamente en los *hechos* económicos” would be *theoretically infeasible*, as if one could distinguish, classify, and evaluate these phenomena “sin criterio anterior, que solo puede dar la *idea*” (*ibid.*, 45, emphasis in original). At the same time, such a value-free approach would be *practically undesirable* since whoever admits of “no otro método posible que la *inducción*” (*ibid.*, emphasis in original) runs the risk of ossifying what they investigate, lending the aura of permanence to phenomena which might be merely contingent (*ibid.*, 120). Who, for instance, from a merely positivist lens, would have looked at the long-standing institution of slavery (“la esclavitud”) decades before its eventual abolition, might well have concluded to behold an eternal feature of ‘the economy’—suspecting it mistakenly to be expressive of a supposed ‘natural law’ of economics or human nature (Piernas y Hurtado 1903, 31 f.). At times, that is to say, the eventual truth about economic institutions is not yet inscribed in historical reality but revealed only by the use of counterfactual reasoning which hence must not be banned, lest the discipline of economics become a restorative or even reactionary force in society (Azcárate [1876] 2018, 121).

As a result, economics should recast itself as a “ciencia intermedia ó *filosófico-histórica*” that gets both the philosophical and the factual dimension right; doing justice to empirical findings as well as being able to judge them “con el criterio que la *filosofía* enseña” so as to be able to signal society a viable way forward (*ibid.*, emphasis in original; see also Piernas y Hurtado 1891, 24). Following Krause's methodology, the *krausistas* sought the desired connection of description and prescription

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<sup>3</sup> In the terse words of Azcárate: “En resumen, mientras los antiguos economistas, partiendo de ciertos principios abstractos, creían llegar por el método deductivo á conclusiones perfectamente demostradas y en todas partes aplicables, los *Katheder-socialisten*, apoyados en el conocimiento de los hechos pasados y presentes, sacan, por el método inductivo é histórico, soluciones relativas que se modifican según el estado de la sociedad á que se quieren aplicar” (Azcárate [1876] 2018, 97, emphasis in original). In my translation: “In sum, whereas the classical economists believed to reach perfectly demonstrable and universally applicable conclusions based on the deductive method, taking their departure from certain abstract principles, the *Kathedersozialisten*, resting on their knowledge of past and present facts, procure with historical and inductive methods solutions which are relative to and modified by the respective society wherein they apply.”

in philosophical *construction* (Guillén 1999). They appreciated the analytic work of empirical scholars who from statistical inductions generate general rules concerning economic data and valuations just as much as the synthetic efforts of economic philosophers who aim to procure deductively a conceptual framework that aligns those findings with one another and in light of the overarching goals of economics at large.

Eventually, “la inducción y la deducción” should align; and as long as this still fails to occur, the academic work must be judged as incomplete (Piernas y Hurtado 1903, 33). Azcárate thus answers the question, “qué método será el oportuno en la Ciencia económica?” as follows: “el analítico, el sintético y el constructivo” (Azcárate [1876] 2018, 44). The overarching claim here is, exactly as in Krause, that “análisis y síntesis se armonizan en la construcción” (*ibid.*, 43). After deduction and induction comes “tercero, el juicio,” an act of judgment about what is to be done here and now. This judgment cannot be algorithmically generated, resting as it does on the respective scholar’s contingent capacity for creative as well as spatially and temporally embedded thinking (*ibid.*, 46). That is to say, in order to produce judgments as to apposite action at any given time and place, economics must rely on human ingenuity (Piernas y Hurtado 1903, 31). This tenet goes hand in hand with the open and discursive nature that economics as a social science, in the *krausist* perspective, ought to have.

The role thus ascribed to conceptual *construction* opens up *krausist* economics to popular participation quite in line with what, much later, *pragmatists* propagated when making their case for recasting science in general as a form of social inquiry in the service of a participative resolution of shared problems (Dewey [1929] 2008; [1938] 2008). Decades before the *Methodenstreit* and the *Werturteilstreit* reached their apices, the *krausist* economists thus formulated a philosophical standpoint which sought to prevent the reduction of the discipline of economics to either of its methodological/axiological extremes. Neither ought economics deal merely in idealized abstractions out of touch with historical reality, nor should a positivist empiricism foreclose the discipline’s counterfactual, critical potentials. Rather, the analysis of what is, leading up to empirically warranted generalizations, was to be combined with a synthetic effort, bringing the whole of the discipline – including its normative dimension – into view, so that ultimately one could ascertain how to act in a given scenario (Piernas y Hurtado 1891, 27).

Notwithstanding the frequently crass *factual divergences* between moral values and economic valuations, the *krausistas* insisted on the fundamental *commensurability* of ethics and economics – since both realms are ultimately based on human freedom and responsibility (Dierksmeier 2003a). Mediating concepts thus could and should be constructed so as to integrate both spheres; and this integration was to be accomplished by first giving each side of the debate its due.

As a consequence, the *krausistas* admitted that, yes, in an *idealized* market (i. e., in a market not at all distorted by asymmetries of information, power, opportunities, transaction costs, etc.), individual economic activity, by directing itself rationally to

where the best returns may be expected, can steer production to take place wherever the greatest possible value is to be attained by the least possible means, optimizing in the process the overall societal allocation of resources. Where this does indeed happen, private economic activity will promote the common good without having to intend this effect. Given these presuppositions (which, however, only exist in pure form on economists' blackboards), the government's direct intervention into the entrepreneurial calculations may indeed damage the efficiency-enhancing allocations of the market (Dierksmeier 2003b). That is to say, *laissez-faire* does make sense under *idealized* market conditions – but, importantly, neither to bring them about nor necessarily in *real* markets, which deviate, at times drastically, from said idealization (Piernas y Hurtado 1891, 85 ff; Azcárate [1876] 2018, 100–104).

Under more ordinary circumstances, a configuration of the market through legal *guidelines* for entrepreneurial action therefore seems appropriate. The protection of public goods as well as a system of taxation-*cum*-redistribution should help everyone attain the basic presuppositions for economic self-reliance and all-around fair transactions. Were such policies in place, one could accept a wage policy orientated by the market price, including a correspondingly unequal distribution of wealth – not only in the name of efficiency but also, importantly, with respect to people's differing ambitions (Dierksmeier 2019b).

A good example showcasing how the *krausistas* aimed at such a 'constructive' integration of economic phenomena and principles is their treatment of labor laws. Piernas y Hurtado first set out to *deduce* what would be *ideal* working conditions; then tried to *induce* from extant systems of labor laws their underlying normative rules; in order to, ultimately, make recommendations of how to reform the Spanish labor laws of his day. After mulling over a host of theoretical alternatives, Piernas y Hurtado settled on an ideal principle of labor regulation aimed at safeguarding the transactional autonomy of employers and employees while at the same time protecting the physical and moral integrity of workers and their dependents (Piernas y Hurtado 1891, 331 ff.). The technical details of the deduction leading up to this view, as well as this precept itself, need not concern us here. Of interest for our purposes is, rather, Piernas y Hurtado's next step. This comprises a no less lengthy consideration of empirical data on historically tried and tested systems of labor regulation and their sociopolitical effects. At first glance, this historical data leads to a much messier picture: at the time, there were a multiplicity of rules and values in play in Spain, some owed to Catholic ideals of family life, others being a legacy of medieval guilds or feudal traditions, and yet others of a more modern origin, geared to enhance contractual autonomy.

Some of these historical regimes appear more in agreement with economic efficiency and social justice than others. As the *krausist* ideal of work is centered on the capability-oriented postulate to empower each and all citizens to economic autonomy, the state's regulatory and legislative powers are not called on to address any and all such problems. Rather, government action should remain subsidiary and secondary to the primary endeavors of individual self-reliance and negotiation.

In the first instance, people are to look out for themselves and their nearest and dearest. To give their demands more power as against employers, they could, for instance, associate on a voluntary basis, form and utilize unions, or establish worker cooperatives, laborer-owned firms, and shareholding schemes for employees (Piernas y Hurtado 1903, 366 ff.). Wherever such individual as well as mutual forms of self-help prove insufficient, though, the state should step in, “*obrando subsidiariamente*” (Piernas y Hurtado 1891, 116), to guarantee dignified working conditions. That is, the state is the last guarantor of the preconditions for a decent work-life, not their first producer. A free state requires a free economy; where the latter fails, the former ought to repair, not replace it (*ibid.*, 117). And when that happens, still, the reform of some parts of the extant labor regime seems more pressing than that of others; with the situation of child labor and the conditions of working women being most in need of adjustment (Piernas y Hurtado 1903, 171 ff., 355 ff.). Thus, instead of a wholesale rejection of the *status quo*, Piernas y Hurtado recommended a rather gradual and piecemeal reform of labor conditions, based on the very system it was to alter.

This ‘construction,’ however, being the outcome of solitary academic deliberation, still lacked an important *krausist* element: the *participation* of the public. In line with Krause’s demands that freedom be not only the goal but also the method of societal transformation, the political order was not to treat citizens as merely passive objects but as active subjects, and so was to include them whenever possible in the deliberation of policy (Scholz 1982a) and to have them co-determine legislation (Landau 1983).

The Spanish *krausistas* put this mandate directly into practice via a referendum in 1883 about the ‘*cuestión social*,’ organized by Gumersindo de Azcárate. At that time, Spanish society suffered from a strong antagonism between labor and capital (Azcárate [1876] 2018, 72). To address the problem of accelerating income inequality, monarchist forces demanded a *restoration* of the pre-modern social order. Conversely, socialist groups pushed for a *revolution* towards a more egalitarian future. Both groups fended for their positions in the name of justice and courted violence as a potential means to reach their goals. Against either alternative, the *krausistas* put their trust in a participatory and peaceful solution: *Reform* of the current state of affairs through the active involvement of the population (Malo Guillén 1998).

Trusting the capacity of society for the enlightened self-governance, Azcárate initiated a countrywide ‘*Encuesta*,’ which detailed the actual sociopolitical demands of the people. Asked about their conception of fairness and the demands of economic justice in terms of labor rights and wages, etc., the people’s answers turned out less radical than the revolutionaries had presumed but more far-reaching (in terms of demands for a strict regulation of child and female labor, for instance) than the royalists had hoped. That result enabled the *krausistas* to actualize several socio-economic policies, which had not been implementable before, due to the previous stalemate between the extreme left and the extreme right: a triumph for the *krausist* model of participatory political governance (Scholz 1982b), based on a ‘constructive’

PUNTOS DE SUSCRICIÓN.

En la Administración de la Imprenta Nacional, calle del Cid, núm. 4, segundo.
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PRECIOS DE SUSCRICIÓN.

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GACETA DE MADRID.

PARTE OFICIAL.

PRESIDENCIA DEL CONSEJO DE MINISTROS.

SS. MM. el Rey y la Reina (Q. D. G.) continúan en el Real Sitio de Aranjuez sin novedad en su importante salud.
De igual beneficio disfruta en esta Corte su augusta Real Familia.

MINISTERIO DE LA GOBERNACIÓN.

REALES DECRETOS.

Queriendo dar una prueba de mi Real aprecio á la ciudad de León por sus preclaros y distinguidos antecesoros y constante adhesión á la Monarquía constitucional,
Vengo en conceder á su Ayuntamiento el tratamiento de Excelencia.
Dado en Palacio á veintiséis de Mayo de mil ochocientos ochenta y cuatro.

ALFONSO.

El Ministro de la Gobernación, Francisco Romero y Robledo.

Queriendo dar una prueba de mi Real aprecio á la villa de Tresp, provincia de Lérida, por el aumento de su vecindario, progreso de su agricultura, industria y comercio y su constante adhesión á la Monarquía constitucional,
Vengo en concederle el título de Ciudad.

Dado en Palacio á veintiséis de Mayo de mil ochocientos ochenta y cuatro.

ALFONSO.

El Ministro de la Gobernación, Francisco Romero y Robledo.

MINISTERIO DE HACIENDA.

REALES ORDENES.

Imo. Sr.: Visto el expediente instruido en la Aduana de Cádiz por no haberse conformado la casa Corral, Manzana y Compañía con el aforo de una partida de cueros procedentes de Canarias sin la bonificación que corresponde á dicho artículo cuando procede de puertos extranjeros que no sean de Europa:

Visto el art. 36 de la ley de Presupuestos de 24 de Julio de 1878 fijando la bonificación de 3 pesetas por cada 100 kilogramos de los derechos de Arancel de los cueros sin curtir que procedan directamente de países extranjeros que no sean de Europa:

Considerando que las islas Canarias son puertos francos, y á excepción de los artículos que nominalmente expresa, la disposición 1.ª del Arancel vigente, y entre los que no se hallan los cueros, todas las demás mercancías que se conceptúan como no extranjeras á la importación á la Península:

Considerando que, hallándose enjutos los cueros de Canarias al pago de los derechos de Arancel, no puede negarse el beneficio que disfrutan los que proceden de países extranjeros;

Y considerando que de dar otra interpretación á la ley resultaría el inconveniente de que las procedencias de los

puertos extranjeros de Africa ó de América tendrían un beneficio especial, de que no disfrutaban los puertos españoles de Canarias;

S. M. el Rey (Q. D. G.), de conformidad con lo informado por la Sección de Hacienda del Consejo de Estado, y lo propuesto por esta Dirección general, se ha servido resolver que los cueros de que se trata tengan la bonificación establecida para los que procedan de puertos de fuera de Europa.

De Real orden lo digo á V. I. para los efectos consiguientes. Dios guarde á V. I. muchos años. Madrid 17 de Mayo de 1884.

Sr. Director general de Aduanas.

COS-GAYÓN.

Imo. Sr.: He dado cuenta al Rey (Q. D. G.) del expediente instruido en virtud de instancia de los callistas establecidos en Barcelona, en solicitud de que se les segregue del epígrafe núm. 19 de la tarifa 4.ª para el pago de la contribución industrial, creando al efecto un epígrafe especial con el fin de salvar por este medio las dificultades con que la referida clase lucha al tratarse del señalamiento de la cuota que anualmente vienen obligados á pagar:

Visitas las razones en que los reclamantes fundan su instancia. Visto el reglamento vigente de la contribución industrial y la tarifa por que contribuyen los callistas:

Considerando que éstos han probado que los practicantes y sangradores, con quienes hoy forman gremio, los recargan indebidamente sin que puedan defenderse de esta arbitrariedad, y que la industria de que se trata ha adquirido ya el suficiente desarrollo para que puedan formar gremio independiente, con lo cual nada se perjudica á la Hacienda;

S. M., de conformidad con esa Dirección general y con el dictamen emitido por la Sección de Hacienda del Consejo de Estado, se ha servido acordar que se añadan al final de la nota que aparece en la tarifa 4.ª, profesiones del orden civil, que dice: "Los Médicos homópáatas podrán formar gremio separado," las siguientes palabras: "y lo mismo los callistas del núm. 19."

De Real orden lo comunico á V. I. para su conocimiento y efectos correspondientes. Dios guarde á V. I. muchos años. Madrid 24 de Mayo de 1884.

Sr. Director general de Contribuciones.

COS-GAYÓN.

Imo. Sr.: He dado cuenta al Rey (Q. D. G.) del expediente instruido con el objeto de la reforma del epígrafe 96 de la tarifa 4.ª, Artes y Oficios, unida al reglamento vigente de la contribución industrial que dice textualmente: "Píederos que se dediquen exclusivamente á la computura de efectos de oro y plata, y también los que venden en tienda con obrador efectos que recompungan, siempre que no contengan piedras preciosas:"

Visto el expediente de que se trata: Considerando que amparados de la facultad de vender en tienda con obrador efectos de oro y plata que recompungan, siempre que no contengan piedras preciosas, puede ocurrir que los industriales en dicho epígrafe comencidos ejerzan un verdadero comercio en efectos de esos metales en perjuicio de los que contribuyen con la cuota señalada á esta venta en la clase 2.ª, núm. 9, tarifa 4.ª, y defraudando á la vez á la Hacienda, así como que mientras aquél epígrafe esté redactado en la forma en que hoy se halla no es posible impedir que se abuse de él vendiendo como efectos recompungidos objetos de oro y plata conteniendo adquiridos por los industriales de que se trata:

Considerando que sería más conveniente para éstos poder admitir para componer toda clase de objetos de oro y plata, tengan ó no piedras finas, pues es poco menos que imposible exigir que rehacian las composuras que se los ofrecen por reunir los efectos aquella circunstancia, y que de esta manera quedarán mejor destinados los actos de unos y otros industriales, y que será fácil separar los vendedores de toda clase de objetos de oro y plata, tengan ó no piedras finas, de los que trabajan en oro y plata para la venta de los objetos que elaboran y de los que se dedican á meras composuras de estos objetos;

S. M., de conformidad con lo informado por esa Dirección general y el dictamen emitido por la Sección de Hacienda del Consejo de Estado, se ha servido acordar la modificación del epígrafe núm. 96 de la tarifa 4.ª, Artes y Oficios, unida al reglamento vigente de la contribución industrial, dejándolo redactado en los siguientes términos: "Píederos dedicados exclusivamente á componer efectos de oro y plata, aunque contengan piedras finas, pero sin extender su industria á la venta de tales objetos."

De Real orden lo comunico á V. I. para su conocimiento y efectos correspondientes. Dios guarde á V. I. muchos años. Madrid 24 de Mayo de 1884.

Sr. Director general de Contribuciones.

COS-GAYÓN.

MINISTERIO DE LA GOBERNACIÓN.

REAL ORDEN.

Pasado á informe de la Sección de Gobernación del Consejo de Estado el expediente de suspensión del Ayuntamiento de Arroyo de San Serván decretada por V. S., lo evacuó con fecha 9 del mes actual en los términos siguientes:

«Excmo. Sr.: En cumplimiento de la Real orden de 23 del mes último he examinado la Sección al expediente adjunto relativo á la suspensión del Ayuntamiento de Arroyo de San Serván, decretada por el Gobernador de la provincia de Badajoz, porque de las actuaciones formadas por el Delegado que fué al pueblo á girar una visita á la Administración municipal apareció que no se llevan libros de Caja ni de entrada y salida de caudales, ni se hacen arques de fondos; que no se han formado las cuentas del último ejercicio económico; que practicado un arqueo extraordinario resultó que faltaban en la Caja 872924 pesetas, que no se acordó la declaración de fondos; que el Ayuntamiento ha dejado de celebrar algunas sesiones ordinarias, y las actas de varias de ellas no se hallan extendidas en el papel correspondiente; que según manifestaron algunos vecinos, habiéndose subastado en 800 pesetas el arbitrio de pesa y medidas de uso voluntaria, conviniere al Ayuntamiento y el remanente en que éste pagase tan sólo 800 pesetas; y que esta cantidad es, en efecto, la única que ha entregado el arrendatario en vez de las 600 que debía haber satisfecho ya.»

La Sección, teniendo en cuenta que la mayoría de las faltas imputables al Ayuntamiento consisten en irregularidades graves por las trasgresiones legales que entrañan, y que semejante proceder puede haber lesionado los intereses comunales que la Municipalidad tenía obligación de conservar y fomentar, cree que V. E. debe servir de mantener la resolución del Gobernador, y decir á esta Autoridad que dicte las medidas oportunas para regularizar la Administración local, y que instruya expediente para averiguar las causas que han motivado el déficit que se nota en la Caja; y si es cierto el convenio que se supone existió entre el Ayuntamiento y el arrendatario de pesa y medidas, á fin de exigir en la forma correspondiente la oportuna

Fig. 1

synthesis between extant ethical values and economic parameters. Short-lived as this triumph was – a few years later, the monarchy was reinstalled in Spain and economic policy was again decreed in an authoritarian fashion – the example underscores the practicability of the socio-economic philosophy of *krausismo* nonetheless.

#### 4. Back to the Present: Conclusions

The *krausist* movement delivered a proof of concept for a human-centered economic policy and showed that the influx of the ethical aspirations of the public need not ruin economic practice but can rather assure its social sustainability. The *krausistas* demonstrated how economic philosophy and economic life can influence one another productively. The immediate philosophical takeaway of this historical experiment is: Reality proves possibility (Dierksmeier 2019b). Extant moral norms of fairness can become a motor of economic policy – and improve it. If, however, ethics can and does play a constructive role in economic *practice*, why ban it from economic *theory* (Enderle 1996)? In other words, *normativity* might have to be admitted (back) into economic theory because it is part and parcel of what constitutes the *factuality* of economic transactions (Werhane 1994; Dierksmeier 2016).

Just as the *krausistas* demanded that a comprehensive and (not only but also) ethically attuned notion of human reason, instead of sheer self-interest, be the overarching principle for economic development (Azcarate [1876] 2018, 49), we also find a selfsame plea at the heart of Amartya Sen's epistemological reform of economics (Pressman and Summerfield 2009) to broaden economists' conception of rationality so as to include normative reasoning. Refracted backward in time, Sen's justification for present-day pluralist economics illuminates the *krausist* position as well. The economic theory of Amartya Sen expounds and elucidates what the economic philosophy and the practical experiments of the Spanish *krausistas* had aimed at. Both approaches complement one another: The *krausist* efforts prove the feasibility of construing economic policy based on a moral analysis of human interactions and public involvement, and Sen's theory demonstrates the epistemological legitimacy of a humanistic economics in that vein.

Both the *krausistas* and Sen make us see how normativity belongs to the theory of economic facticity. Normative values and ego-ideals orientate our life throughout (Bowie and Weaver 1991). The *Ought* has an *Is* – in our operative aspirations and actionable ideals (Koehn 2013), which is why an economics build upon the *homo oeconomicus* is simply not *realistic* enough as it does not speak *ideally* enough about human beings (Dierksmeier 2016). We are well advised to hew closer to the real *conditio humana* than the fictionalized model of the *homo oeconomicus*, because moral values, far from detracting from academic accuracy in economic theorizing, may well be what brings economics in closer contact (again) with the reality of the *homo sapiens* whose transactions it attempts to model (Rúna and Zolnai 2017).



In that sense, not only are the freedom-based, humanistic economics of *krausismo* and of Amartya Sen well aligned with current research from neuro-economists, behavioral economics, and empirical game theorists, they also provide an important explanatory basis for the empirical findings in those fields. Rather than treating the normative dimension of economic interactions as marginal or as a mere add-on to extant economic models centered on self-regarding behavior, with the conceptual means provided by both Krause and Sen, normative orientations can recapture within economic theory the very centrality they hold in economic practice.

The consequences of this overlapping humanistic consensus of economic philosophies across cultural divides and historical time are patent: In order to avoid “intellectual schizophrenia” on the part of their students (Dierksmeier 2011), current management education and economic pedagogy should align themselves with the avantgarde of recent economic research and rebut the epistemological, methodological, and ontological claims to supremacy from stalwarts of the mechanistic paradigm. The pedagogical *status quo* at many business schools will no longer do (Amann *et al.* 2011), based as it often still is on ‘value-free’ economics as ‘normal science’ (Kuhn 1962) plus some moral amendments and/or a few countervailing ethical exhortations. Instead, we need a genuine paradigm change in the direction of a humanistic economics and a humanistic management pedagogy (Pirson 2017; Pirson *et al.* 2014). If ethical instruction shall no longer be regarded as less accurate and/or less important by students, what must be had is a thoroughgoing philosophical critique as well as reform of microeconomics, macroeconomics, and business studies in light of the very humanistic foundations their own ethical theories rest upon (Moosmayer *et al.* 2019). Herein lies an enormous opportunity as well as a sizable lacuna for future research.

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