

The Purpose of Profit

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The Purpose of Profit

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Preface

This thesis represents the final step in order to graduate from the master program Management of Technology at the Technology, Policy and Management faculty of the Technical University Delft.

I want to express my gratitude to firstly to all those who have supported me during my studies, from the early beginnings all the way to the final steps. There are too many to mention, but I hope they all know.

A special thank you to my supervisor, Dr. C.W.M. Naastepad, for her support and practical instructions, but mostly for introducing me to a field of knowledge that I had no real notice of before. I imagine I will never forget these times and especially the inspiration I have gotten in the process. I would also like to thank Dr. Ir. U. Pesch for valuable additional feedback and interesting material, and Prof. Dr. C.P. van Beers for helpful comments. My gratitude extends to Dr. C. Houghton Budd, for the inspiring interview, and also to A. Kühl and the company Purpose for their willingness to share their vision.

I would not describe the topics in this thesis as very straightforward, but hopefully they are properly explained. For me, the aim was not only to create something sufficient for my degree, but also to spend my time on something I enjoyed and wanted to learn about, and that has certainly been the case.

Marina van Oord

Delft, December 2020

Executive Summary

Out of all the events and phenomena surrounding the financial crisis of 2007/2008, one stood out: financialization. What is financialization, why does it occur, and is it problematic? It can be described as the financial sector increasing in size and importance relative to the real economy (including, for example, in terms of business practice and policy making) because of, amongst other reasons, redirected investments. When real economic growth slowed down, attention shifted to financial growth, often expressed in profit. According to several studies, this has led to rising inequality and economic instability. Its occurrence appears to be related to an emphasis on (Neoclassical) profit maximization. In recent times, this is expressed as shareholder value maximization, which became the goal of business activity. The emphasis is arguably unjustified, because theoretical assumptions on which the goal depends, including the presence of the Neoclassical perfectly competitive market, no longer hold in current real-world conditions (they appear more oligopolistic). Perhaps therefore, the prescription of profit maximization is no longer valid. Is the solution to try and return to perfect competition? Considering the aforementioned consequences, maybe it is time to visit other ideas too.

The purpose of this thesis is to find elements of an economic model and especially a business model, that would provide a different economic goal. Ideally, a goal that, through our economic activities, would enable individuals to develop themselves and to participate in a stable economic system. Based on theoretical and empirical research, the thesis presents several building blocks for an alternative business model, relating to three realms of human existence: cultural-scientific, practical-economic and legal-political.¹

From Aristotelian literature² follows that *eudaimonia* would be the human goal (rather than Benthamite-utilitarian utility maximization). The cultural-scientific sphere would encompass what is referred to, by for example Wilken (1982) as, the *Geistesleben*. There would be freedom of thought, which contributes to development of, what Aristotle calls, virtues, which are essential towards *eudaimonia*. Financial literacy (Houghton Budd, 2017) might be instrumental. It would mean everyone would understand accounting and (also practice) bookkeeping in particular. An analogy with a mirror demonstrates that accounting shows what is happening. It is neutral yet it allows people to see what is going on, and thereby hold each other accountable.

The practical-economic sphere would be devoted to fulfilling the material needs of people. It is important to note that this would not include limitless wants (which means the consumer is not insatiable). The underlying idea for economic activity would be the implementation of the 'just price'³. A just price ensures that the costs of production are covered, but also, and this is an elaboration, the intellectual or spiritual input. The just price would be paid for the product of labour, and the input of the *Geist* of the producer. Labour would not be traded in a market because then remuneration might fall below that what is needed. Undeniably, the fact that there would be no labour market has huge implications.

¹ See Wilken (1982) who speaks of the economy, a legal-political sphere, and a free *Geistesleben* or spiritual life.

² In this thesis, that means literature that draws inspiration from the (interpretation of) ideas of Aristotle.

³ A concept developed by Aristotle and Thomas Aquinas, as explained in this thesis.

Tied to this is the idea that it is the *Geist* which improves and furthers the economy. Because of our collective knowledge and intellectual effort, (technological) advancements are made, which result in productivity growth. Productivity growth reduces the input of labour, which in turn creates productivity gains, which are commonly labelled as 'profit' (it saves the business labour costs). Wilken (1982) terms this 'free capital'. Because it is the collective *Geist* that obviated the labour, the right destination for the profit thereof are not shareholders, which would be the case if you adhere to the shareholder value maximization paradigm. Rather, the profits belong to the *Geistesleben* in the cultural-scientific sphere, where we collectively can benefit from that which we have collectively made possible. A highlight of these ideas is captured in the implications of a just price. If in every transaction a just price is paid, thus received, everyone is always able to meet their needs, both material and non-material. That would mean that there is an element of justice in economic activity. We would all have our needs covered, because we would agree that we all need to have them met, to the benefit of society and also the economy.

In the legal-political sphere, there is the initiative of the company Purpose that proposes legally embedded separation of ownership in terms of monetary returns and decision-making power which could be useful for an Aristotelian business model. The stewards hold the decision-making power, and can thereby lead the company based on a chosen mission (rather than that the default objective is personal financial gain). Additionally, a novel structure in labour organisation is proposed by Dr. Houghton Budd, which could be a first step to solving the issue of abandoning the labour market. If everyone is an entrepreneur, this places great responsibility on the individual, but it also gives enormous empowerment because it increases intellectual freedom and freedom of choice.

What remains to be researched are the implications of the ideas and suggestions in this thesis. They are first steps, in terms of theory formulation. But the consequences can be hard to grasp and need more exploration. For example, would people be willing and able to become self-employed, and what effects could it have in terms of required social securities? Or, how could a just price be adopted in practice?

To conclude, the suggestion is not to suddenly reform the whole economic system, based on what is said here. Rather, a business could choose to adopt several practices using the Aristotle-based building blocks. Important theoretical and operational building blocks are the implementation of the just price in transactions, the focus on fulfilling needs rather than creating wants, contributions to the development of the cultural-scientific sphere (without control), and lastly, in its most advanced form the business would consist of individual entrepreneurs. What a business could do, is apply one or more of the aforementioned elements to their business practice such as a just price.

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1 Introduction

This thesis started out with an observation, namely the financial crisis of 2007-2008. A fascinating topic that raised many questions as to why and how this could happen. There are many explanations about possible causes. After following lectures that dealt with the crisis, the phenomenon of 'financialization' stood out. Financialization means that all kinds of aspects of companies only have financial performance as the measure of their value. This also shapes the business operations, and it appears that profitability gets a central role. However, from certain literature from the lectures, it appeared that steering towards business performance in terms of profit, 'return on capital' or 'shareholder value maximization' could in fact have negative consequences in terms of, for example, income distribution, systemic instability in the economy and environmental impacts⁴. This led to the main question: what exactly is the purpose of profit?

Several steps have been taken in an attempt to answer that question. The first is to ask the question: how did it come to be that financial indicators now appear the only measure of (economic) success? Until not that long ago, economic or GDP (gross domestic product) growth, was used to measure welfare. However, more recently the focus on economic growth seems to have made place for a focus on the growth of financial indicators (such as profit or the value of shares). What could explain this shift? Perhaps it is related to the rise (since the beginning of the 1980s) of a particular branch of economic theory, the Neoclassical economic paradigm⁵, in which profit maximization (which today is expressed as maximizing shareholder value) plays a central role. The apparent goal of the company became profit maximization. This goal has been translated into statutes and legislation at the company (or micro-economic) level that specify the main goal of company activity. Is financialization related to the theoretical legitimation and legal endorsement of the goal of profit maximisation?

A next question would be, is it efficient⁶ from an economic point of view to consider profit maximisation as the driver and purpose of the company? Is profit maximization the only possible goal of a company, or has economic literature also suggested other goals (for both the business and the economy)? And what should, or could, be the purpose of the economy and business operations, appropriate for human needs today? Indeed, there is literature that emphasises not just the primary goal of the economy: meeting material needs. They highlight the funding of the cultural: in service of meeting non-material human needs.⁷ In this thesis, this segment of literature is called 'Aristotelian' because it is based on literature that refers back to Aristotle.⁸ Some of this literature proposes to revisit the idea of *eudaimonia* (or 'the good life'), which is important in Aristotelian thought⁹. It would provide an alternative outlook on what people would strive for. If striving for *eudaimonia* is the goal,

⁴ As discussed by, for example, Mazzucato and Wray (2015) and Turner (2017).

⁵ "For the most part, modern microeconomics proceeds in the framework of neoclassical analysis." (Koehn & Wilbratte, 2012, p. 502)

⁶ What 'efficient' is exactly is discussed in the chapters where this question is dealt with, as it depends on the economic point of view one takes (in this case, Neoclassical or Aristotelian).

⁷ Including, for example, Keynes (1930); Naastepad and Houghton Budd (2015, 2019); Sen (2001); Wilken (1982)

⁸ For the purpose of this thesis, the choice has been made to examine mostly literature that draws inspiration from Aristotle, the 'why' of this choice is discussed in Section 4.1.

⁹ It also fits the thoughts of Keynes (1930) for example, when he discusses the 'real values of life'.

that requires support and funding mechanisms. This immediately raises the question of where this funding could come from, and what the macro- and micro-economic implications would be. A suggestion found in literature at the macro-economic level is to use productivity gains generated in the economy. If productivity gains were to be spent on this, it could potentially subsequently reduce the amounts of 'excess liquidity' (Rüffer & Stracca, 2006) or 'superabundant capital' (Bain & Company, 2010) that accumulate from the strive for profit. Perhaps thereby it could reduce speculation and the risk of a financial crisis. But how can this be translated to the micro-economic company level?

The pursuit of the above-mentioned dual macro-economic objective of meeting material and non-material needs is closely intertwined with micro-economic management of the business because that is where it finds its practical economic implementation. Based on the literature mentioned above on possible objectives and economic goals, it is investigated how that could look like when operationalized in a business setting, and what is still needed. The aim is on the basis of this research, to identify some essential building blocks for a theoretical foundation of business operations aimed at the goals described in the Aristotelian literature.

The next step is to find out whether elements of such a (novel kind of) business already exists in practice, or if a business practice could be found that would suit an Aristotelian model. There are examples of companies that have not (or not entirely) designed their business operations according to the profit maximizing paradigm. For example, the German organization Purpose promotes a business management standard that separates management from shareholder benefits, called 'Steward Ownership'. We know what those companies are not doing (namely automatically distributing all their profit to shareholders), but what is it that they are striving for? To what extent does this differ from the objectives set by Neoclassical theory, and how do they give practical implementation to this, or: what is their economic rationale? For example, how do they think about the purpose of profit? In other words, what is the (theoretical) argumentation, implicit or explicit, behind this initiative, and does it provide usable practical elements towards an Aristotelian conception of the goal of economic activity?

Taken together, this is a rather comprehensive thesis, encompassing fundamental-theoretical, legal, and practical economic questions. The main inquiry underlying this thesis regards the purpose of profit and how it relates to the purpose of economic activity (the second perhaps shaped by the economic theory that prevails at certain time). The main question is investigated at three levels, because those combined allow for a structured exploration of the dynamics that appear present¹⁰. It

¹⁰ The idea of naming different segments of society, for example 'the economy', 'cultural life' and political life, is not uncommon, in the Netherlands at least (it is embedded in the public debate and in the way we speak about society). The three levels as depicted in this thesis specifically, are based on where I first encountered a definition of a division, which is in the following quote: "*A common understanding about society – reaching back through Comte and Montesquieu to Plato, and found among some of the most eminent macro sociologists including Alfred Weber, Max Weber, Émile Durkheim, Jürgen Habermas – is that it is made up of three dimensions or spheres: the economy, political life (including law-giving and regulation, parliamentary democracy, etc.), and culture.*"²³ (footnote 23 – 'Lebenswelt' per Habermas (1981)) (Naastepad, 2019, p. 369) Additionally, they have been inspired by Wilken (1982), who proposes a definition of them that is used later on in this thesis. But, also in for

makes it possible to explain the relation between the ideas from the literature on the goal of economic activity, and the practical implementation of those ideas. Figure 1 explains that structure, which is a recurring element in this thesis. First of all, it is examined what answers have been given to the research question at the level of idea generation, or the cultural-scientific level, *i.e.* the realm where (in this case economic) theories, concepts, hypotheses, paradigms etc. are created. Next, it is investigated how these economic ideas are embedded in law and regulation. Finally, it is examined how (conventional and novel) economic ideas and concepts are (or can be) implemented in real-life, or in practical business applications. Organising the research in this way, also makes clear for which aspect more research and development is needed.

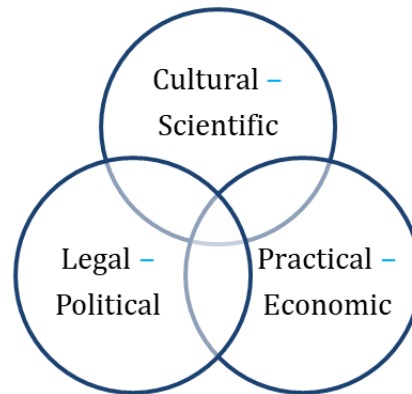


Figure 1 - Three areas of interest

The aim is to arrive at a concrete-as-possible image of practically implementable building blocks that would be compatible with an Aristotelian conception of the purpose of the economy and the business. The various research steps taken to this end are described in more detail in the coming sections. First, the research questions are presented in the next section.

1.1 Research questions

The main goal of this thesis is to explore the (possible) relation between the purpose of profit and the ideas behind economic activity, by proposing essential elements of a business form that would be compatible with an Aristotelian conception of the purpose of the economy and the business. The main question guiding this research is:

What kind of business form would be compatible with an Aristotelian conception of the purpose of the economy and the business?

This research goal is motivated, on the one hand, by the economic problems that, according to several authors, are associated with the prevailing business paradigm, and on the other hand, by an existing proposal for a legal change that would permit the separation of ownership and management of the business. In this research, the following sub-questions will be addressed:

example Keynes (1930), the idea of partitioning that what makes up society is visible; where the economy is clearly seen as separate from 'other spheres'.

- RQ 1. Can the emergence of financialization be explained as a (possibly unintended) consequence of the Neoclassical conceptualization of the goal of the economy, in particular of the theoretical emphasis on the importance of profit maximization?
- RQ 2. According to an emerging macro-economic and business organization literature, the ultimate goal of economic activity is not to achieve Benthamite-utilitarian 'happiness' or 'utility maximization', but to achieve Aristotelian '*eudaimonia*' (or 'the good life'). What could this goal look like when operationalized, how could this goal (according to this literature) be achieved economically, and how could the activities required for this be financed?
- RQ 3. On a micro-economic level, what would be essential elements of a theoretical foundation of business operations towards the economic goals mentioned in the Aristotelian literature as discussed before?
- RQ 4. What is the theoretical foundation (implicit or explicit) of steward-ownership as defined by the German Purpose initiative, and what is the purpose of the separation of economic and voting rights, that is central to steward-ownership?
- RQ 5. To what extent would steward-ownership be necessary and sufficient to realise a business model in practice based on Aristotelian literature?

How the research as a whole is approached is discussed in the next section. Additionally, how each chapter is handled is discussed in Section 1.4.

1.2 Research approach

This section explains the approach for the thesis, whereas Section 1.4 explains the content of the chapters. The various approaches have been selected to suit the research questions. The research is explorative in nature, and theoretical. The starting point is an idea, namely that a solution to the economic problems that (according to many authors¹¹) are associated with the currently dominant economic model, requires a rethinking of the purpose of the economy and the business. The main goal is to find building blocks of a business form that would be compatible with one alternative in particular, a conception of the purpose of the economy and the business based in Aristotelian inspired literature. This specific branch of literature is chosen as the starting point for an alternative view on the aforementioned purposes and is compared to the dominant paradigm.

The perspectives in the research are macro-economic (the economy as a whole) as well as micro-economic (the business level). The mix of perspectives might appear confusing at first but is in fact deliberate. From problems at the macro-economic level in the real economy, the research will zoom in on the actions of a business to evaluate and visualize its actions, to zoom out again to see the implications hereof for society.

In terms of research method, this thesis is a mix. For the theoretical part, mainly Chapter 2, 3 and a part of 4, desk-research has been done. This was chosen to be able to evaluate what is already out there, and to explore possible connections or contradictions. In terms of the three spheres, the desk

¹¹ Including, for example; Baumol (1967); Epstein (2018); Kalff (2005); Lazonick (2014)

research focusses on theoretical, so cultural-scientific elements. Chapter 5 also contains some literature, in addition to operationalisations based on the preceding chapters. This is used to answer research question 1, 2 and 3.

There is also an empirical part, which makes up Chapter 6, to answer research question 4 and 5. The first part of that chapter is a single-case study on the company Purpose, including an interview with one of the founders of that company. The goal of the case study is to investigate what practical, operational business elements are already out there that might be compatible with an Aristotelian based conception of the business. The interview is semi-structured and qualitative in nature and complements the data collection from various primary and secondary sources. It also provides the opportunity to obtain more information than that can be found in freely available sources. In terms of the three spheres, the first part of Chapter 6 explores legal-political elements. Because the case does not provide sufficient information, a second step is included. The second part of Chapter 6 is a qualitative semi-structured interview in order to explore a combination of the spheres practical-economic and cultural-scientific. In that way, also in the empirical part of this thesis all three spheres are addressed. The topic is accounting, which according to the interviewee could have a transformative effect on the economy when widely understood through ‘financial literacy’ (Houghton Budd, 2015a). The application for this thesis is to explore accounting as a method to implement or convert theoretical ideas of this thesis into economic practice. The goal of the case study and the interview is ultimately to see if, and if so what kind of operational, real-life solutions are possibly compatible with theoretical foundations from the literature study, and to concretise the ideas in this thesis. The next sections explain the relevance of this thesis in general, before presenting an overview of the chapters in Section 1.4.

1.3 Relevance

The research carried out in the thesis is explorative in nature. It is idea generating and contributes to the formulation of new theories. This section explains the relevance of the research for the Management of Technology master program, for society, and also the academic relevance.

1.3.1 MOT relevance

In relation to the master program Management of Technology, the aim of the research is to contribute to the availability of possible designs for conducting business practices. This is done by looking into and also questioning the way current economic activities have impact on business operations and on society. This in turn is done by identifying possibilities for alterations not only to business practices in order to strive towards a well-functioning economy, but also by identifying how business practice could possibly further increase human welfare. In relation to the master specialization track ‘Economics and Finance’, the aim of learning “*how the performance of the financial system can be improved by regulation and policy*” (TU Delft) provides a strong connection to the program. It should be noted that the performance improvement that is meant in the context of this thesis, is not necessarily intended for the benefit of the financial system, but rather for humanity.

1.3.2 Societal relevance

The societal relevance is therefore that by questioning the current goal of the economy and the business activities that follow from that goal, we touch upon important trending issues. Most notably

income inequality from economic instability that benefits a few, but impoverish the many¹². That topic is also enforced by the United Nations as it links to several of the Sustainable Development Goals¹³. By incorporating non-material needs into the economic purpose, and embedding these ideas in business practice, there are two ways in which this might contribute positively. Firstly, is that it might decrease the enormous amounts of money and capital being sent into the financial markets. That in turn could decrease the amount of speculative transactions, thereby possibly increasing stability of the economic system. Secondly, it opens up funding for the fulfilment of non-material human needs. Both can contribute to human welfare as it increases opportunities to develop oneself and living a fulfilling life.

1.3.3 Academic relevance

There is both a theoretical and an empirical contribution in this research. The theoretical contribution is that it increases and consolidates existing knowledge on the purpose of the economy, the business and profit. Also, it touches upon fundamental questions that challenge the dominant, Neoclassical economic paradigm, by for example questioning the goal that it prescribes for business operations. There is an empirical contribution because a comparison of business operations, founded in a critique of the dominant paradigm, instead of founded in a wish to improve one's own operations, is rare. The empirical contribution is solidified by using a single-case study and two semi-structured interviews to create an in-depth, explorative study.

1.4 Chapter overview

This section relates the research questions (as presented in Section 1.1) to the chapters in this thesis. The table below shows which research questions are answered in which chapter.

Table 1 - Research questions and corresponding chapters

Nr.	Question	Chapter(s)
RQ1	Can the emergence of financialization be explained as a (possibly unintended) consequence of the Neoclassical conceptualization of the goal of the economy, in particular of the theoretical emphasis on the importance of profit maximization?	2 + 3
RQ2	According to an emerging macro-economic and business organization literature, the ultimate goal of economic activity is not to achieve Benthamite-utilitarian 'happiness' or 'utility maximization', but to achieve Aristotelian 'eudaimonia' (or 'the good life'). What could this goal look like when operationalized, how could this goal (according to this literature) be achieved economically, and how could the activities required for this be financed?	4
RQ3	What would be essential elements of a theoretical foundation of business operations towards the economic goals mentioned in the Aristotelian literature as discussed before?	5
RQ4	What is the theoretical foundation (implicit or explicit) of steward-ownership as defined by the German Purpose initiative, and what is the purpose of the	6

¹² A fitting quote from Galbraith (1958, p. 33): "There is, Marshall observed, 'no moral justification for extreme poverty side by side with great wealth. The inequalities of wealth, though less than they are often represented to be, are a serious flaw in our economic organisation.'"

¹³ For more information, see <https://www.un.org/sustainabledevelopment/sustainable-development-goals/>

	separation of economic and voting rights, that is central to steward-ownership?	
RQ5	To what extent would steward-ownership be necessary and sufficient to realise a business model in practice based on Aristotelian literature?	6

The upcoming chapter (Chapter 2, entitled Growth and Financialization) describes the predominance – in everyday economic life – of GDP growth and increasingly also of financial growth as measures of performance and goals of economic activity. It also reviews possible societal implications of the one-sided focus on financial indicators (also called 'financialization') as described in the economic literature. The chapter is based on (empirical) observations, that are then analysed theoretically in the third chapter, because financialization is quite possibly a result of a pursuit that has arguably been taken too far, namely the pursuit of profit maximization. That goal of profit maximization appears to come from the Neoclassical economic paradigm, where it is an intermediate goal towards utility maximization. The economic purpose according to Neoclassical paradigm is discussed in Chapter 3 (The task of the economy according to the Neoclassical paradigm), with special emphasis on the production function and the factors of production. In terms of the thesis structure from Figure 1, Chapter 2 discusses practical-economic aspects and Chapter 3 cultural-scientific aspects. Jointly, chapters 2 and 3 will answer the first research question.

In Chapter 4 (The task of the economy according to Aristotelian economics) an alternative economic paradigm is explored, built on Aristotelian based literature, in order to be able to answer the second research question. Fundamental notions such as the *oikos* (the household) and the just price are discussed, as well as possible ideas on how to develop the theory into reality.

Chapter 5 (Operationalizing the two conceptions of the business) is where both the previous theoretical chapters are operationalized, fitting the third research question. For the Neoclassical theory, the purpose of the business is discussed as well as possible effects (on society, the economy etc.) that it might have. Some further explanation on the three spheres as briefly mentioned in the introduction is given. In order to operationalize from Aristotelian literature, the purpose of the business has to be derived, and it is grouped according to labour, capital and land.

Chapter 6 represents the empirical part of this thesis with a single-case study and two interviews. It provides an opportunity to see what parts of the theoretical (Aristotelian) ideas could potentially already have been operationalized and can be seen in practice. It also provides information on what areas are still in (need of) development and will answer the remaining two research questions.

Chapter 7 presents the conclusions and lastly, Chapter 8 is a discussion on the research itself including limitations and suggestions for future research.

2 Growth and Financialization

This chapter paves the way for the rest of this thesis by discussing two topics that triggered the questions asked in this research. The first is that it appears that we have moved from economic growth as a means for increasing welfare, towards growth as an end in itself (Section 2.1). The second topic is a phenomenon known as 'financialization' (described in Section 2.2). Financialization is the 'visible' manifestation of the growth focus turned into a focus on financial growth, which seems to be almost the sole purpose of economic activity in more recent times. This chapter presents these two phenomena and reviews possible societal effects as described in the economic literature. This chapter is a prelude to the next, where the question whether these two phenomena can be related to the spread of an economic theory that emphasises the need for profit maximisation is investigated.

2.1 Economic growth: from means to an end

Why did the focus on growth become so dominant in our economic endeavours? How and when did growth become an end, while it used to be a means to an end (most notably for increasing the standard of living)? In the current day and age, the growth focus specifically turned to financial returns, often in some form of profits¹⁴, and the increase thereof. According to several authors, this could lead to outcomes such as the economy losing its connection with economic reality (for example with production, distribution and consumption).

It appears that for some decades now, the aim of economic activity has been to sustain, the rather elusive concept of, growth. It is on the forefront of policy making since the end of the 1950s (Tily, 2015). One can wonder why this came to be the case. The book by Skidelsky and Skidelsky (2012) proposes that before growth, unemployment was one of the focal points of economic policy, but that issue had been largely solved and created a space that was filled with a focus on growth. This is combined with two other things, namely the rise of maximization ideology (on which later more), and the rise of using GDP (Gross Domestic Product) as a measure of welfare (Skidelsky & Skidelsky, 2012, p. 182). That growth became an end can be seen in that around the 1950s, levels of activity and levels of GDP for example (and the rise and fall, thus growth, thereof) no longer were the measure, but became the goal (Tily, 2015).

An interesting explanation for why growth seems so vitally important to us, and possibly why it became central in policy formation, comes from Lux (2003). The claim in the article is that because we have become more secular as a society, the human need for something other, something transcendental, has been filled with the chasing of growth. This in turn expresses itself more particularly in profit seeking, a new 'central motivational purpose':

"... the dominant publicly held corporate form of modern society is driven and maintained by profits. Since the profit motive means the expansion of financial wealth, a society based on the

¹⁴ Profits need to be defined. For now, a definition based on footnote 13 of Houghton Budd (2004, pp. 20,21) is considered to be sufficient. Profit can be seen in two parts. One part 'makes good' the capital (physical, the means of production), and the other part is (economically speaking) not immediately necessary for the business, and that second part tends to move away from the business (into for example, the financial sector).

profit motive must by definition and necessity be a society committed to perpetual economic growth.” (Lux, 2003, p. 2)

An elaboration of this philosophy is that the origin of the growth focus can possibly be found in that a longer time ago, there was a need to improve one’s standard of living (as for example discussed by Keynes (1930); Marx (1939)). Once one achieves a certain level of comfort (not to be mistaken with luxury), it was thought that people could place their attention towards other matters besides sustaining that particular standard of living. Keynes thought this would mean that “*mankind is solving its economic problem*” (1930, p. 364). In a practical sense, we would be living in a ‘leisure economy’ as fantasized about by Hudson (2012), where there would be such productivity growth that there could be, for example, a shorter workday.

It is true that at certain times in history, growth has a large role to play, for example in the years after a war. One can imagine that because of destruction, there is plenty of opportunity to rebuild or even a need to reinvent, with a certain level of speed, which often leads to some degree of (technological) progress. That can lead to an increase in growth rates, but at the same time that would (and according to Tily (2015) should) not necessarily lead to permanently high growth rates:

“Policymakers (and the wage-earning public) mistook the high growth rates of the post-War era as permanent and mistakenly used demand management (and wage bargaining) to attempt to sustain it.” (Tily, 2015, p. 5).

According to Galbraith (1958, p. 260), the problem of increasing the standard of living through economic activity such as production, is in fact solved, and that should be recognized:

“To have failed to solve the problem of producing goods would have been to continue man in his oldest and most grievous misfortune. But to fail to see that we have solved it, and to fail to proceed thence to the next tasks, would be fully as tragic.”

Although the point of solving the economic problem might, arguably, appear to have been reached in theory, in practice, growth is still very much at the heart of economic attention. So very much so, that in fact it appears it is thought that in order to sustain the economy, we must keep on keeping up demand for goods, so that we are able to keep producing and thereby employing people, who in turn will theoretically buy all those products that are produced. The concept of keeping up demand is one of the foundations of economic policy in more modern times (Turner, 2017).

However, there are some questions that can be asked about growth *in itself* being the centre of economic attention. What can be learned from the reviewed literature thus far, is firstly that it might be wrong to assume that economic growth in itself is an objective worth chasing. Our desire for more goods or material growth (and thereby growth in production and economic growth) is in fact *not* endless (Keynes, 1930; Naastepad & Houghton Budd, 2019). Moreover, when growth is forced upon consumers by influencing them with compelling commercials, it should be considered “*growth for its own sake, not genuine economic growth.*” (Naastepad & Houghton Budd, 2015, p. 58).

GDP as the growth parameter is also the subject of discussion. The book by Skidelsky and Skidelsky (2012) questions whether an increase in GDP also means an increase in welfare (p. 4). Nussbaum

(2011, p. 1) agrees: *“Increased GDP has not always made a difference to the quality of people’s lives...”*. She adds that distribution is neglected in GDP (Nussbaum, 2011, p. 13). Distributional differences can lead to income inequality, and welfare cannot be addressed without addressing income inequality (Skidelsky & Skidelsky, 2012, p. 22), but the issue of inequality has seized to be an economic issue (Galbraith, 1958, p. 69). The following quote captures the shift in economic issues of interest:

“The ancient preoccupations of economic life – with equality, security and productivity – have now narrowed down to a preoccupation with productivity and production. Production has become the solvent of the tensions once associated with inequality, and it has become the indispensable remedy for the discomforts, anxieties and privations associated with economic insecurity.” (Galbraith, 1958, p. 97)

As income inequality is rising (Mazzucato & Wray, 2015), perhaps it means growth in welfare is not being achieved. This is illustrated by Nussbaum (2011, p. 185):

“We are living in an era dominated by the profit motive and by anxiety over national economic achievements. Economic growth, however, while a part of wise public policy, is just a part, and a mere instrument at that. It is people who matter ultimately; profits are only instrumental means to human lives.”

This idea, that profits should be in service of human lives, provides inspiration for the rest of the thesis. This section in its totality has looked into what the growth focus is and why it might be so present in our economic endeavours. The answer might be that it is a remnant of longer ago in which the standards of living still needed to rise and it has become embedded in how we view the purpose of the economy. But should this quest for growth perhaps be reconsidered in light of the critiques? More relevant for this particular thesis is possibly: are profits currently being used as ‘instrumental means to human life’? The next step, in line with the growth-focused economic developments, consists of discussing the search for financial growth and profit, a phenomenon known as financialization.

2.2 Financialization

This section’s aim is to explain the phenomenon of financialization and its effects on the economy and the business, especially in regard to profit. Financialization is seen as a possible cause of the financial crisis of 2007/2008 (some say 2008/2009):

“The U.S. financial sector expanded dramatically over the last hundred years in both relative and absolute terms. This expansion has had a number of causes and consequences, most of which can be lumped broadly under the heading of increased “financialization” of the economy. This led, in part, to the financial crisis of 2008/2009.” (Kedrosky & Stangler, 2011, p. 2)

There are two sub-sections in this section, starting with answering the question of what financialization actually appears to be in 2.2.1. Next, the relation between financialization and the real economy is explored in sub-section 2.2.2., including some possible consequences of financialization.

2.2.1 What is financialization?

Perhaps it is good to firstly clarify the difference between finance and financialization. Finance is essentially funding, and is also used to describe activities related to that (Corporate Finance Institute, 2020). Financialization is most simply explained as that a multitude of aspects of the performance of a business are measured (perhaps even only) by financial standards. A more strongly (and possibly controversial) statement is made by Mazzucato and Wray (2015, p. 52): *“financialization is rooted in predatory value extraction”*. The term ‘predatory’ evokes a negative connotation, something that often shapes the (rather critical) literature reviewed in this section.

Lazonick (2010) attributes financialization of the economy to the ‘maximizing shareholder value’ ideology. Other authors too relate the two concepts, such as Epstein (2018, p. 335): *“... ‘shareholder value’ ideology, which some view as the very essence of financialization...”*. Financialization appears to manifest itself by the use of financial indicators as performance measures. An example would be earnings per share, or shareholder value:

“The manifestation of the financialization of the U.S. economy is the obsession of corporate executives with distributing “value” to shareholders, especially in the form of stock repurchases, even if they accomplish this goal at the expense of investment in innovation and the creation of U.S. employment opportunities.” (Lazonick, 2010, p. 680)

The quote above mentions already that following this ideology into financialization has consequences. According to Palley (2007), impacts of financialization are summarized by that the financial sector is becoming more important relative to the real economy, that income is directed from the real economy to the financial sector, and that it results in an increase in income inequality¹⁵. The effects manifest at both a macro-economic and micro-economic level. Palley (2007) states that financialization is happening via three channels. It would happen via alterations in: *“the structure and operation of financial markets; changes in the behavior of non-financial corporations, and changes in economic policy”*. (Palley, 2007, p. 1) These three channels might originate in the financial sector, but the outcomes greatly affect the real economy. Some particular relations between financialization and the real economy are discussed in the next sub-section.

2.2.2 Financialization and the real economy

The relationship between financialization and the real economy is of interest because the real economy is where people experience the consequences. There are arguments in favour of financialization. For example, as mentioned (and later on refuted) in Palley (2007, p. 4): *“expansion of financial markets enhances economic efficiency”*. That argument is based on the idea that if financial instruments reach across many ‘states of nature’, markets would be able to price better, which would improve resource allocation (the mechanism behind resource allocation is discussed in Section 3.2).

¹⁵ It would lead to income inequality because of *“a disconnection of wages from productivity growth”* (Palley, 2007, p. 3), which is further discussed in Chapter 3. Mazzucato and Wray (2015, p. 42) attribute it also to an *“unprecedented rise of concentration of wealth and income at the top”*, which in turn is explained on the same page as: *“much of the value extraction that has enriched those at the top has to do with (legal) manipulation of stock prices (Lazonick 2013)”*.

Palley (2007) presents a breakdown structure for the functional distribution of income (reproduced below). This is a schematic view on money flows. Because of financialization, the share of capital in national income has grown. Capital income trickles down, not to managers and workers as is would when income growth was directed through the wage share too, but via profits into the financial sector. This is the path that is indicated with an arrow for the purpose of the explanation here (not in the original figure).

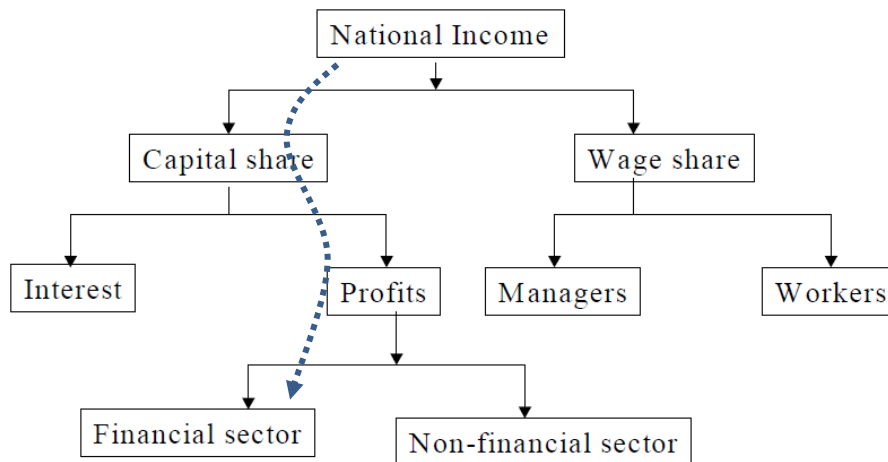


Figure 2 - Financialization and the functional distribution of income (Palley, 2007, p. 29)

There are doubts as to how sustainable financialization will be on the longer term (Palley, 2007, p. 2), of which two exemplary reasons presented in that paper are the following: “*The defining feature of financialization in the U.S. has been an increase in the volume of debt*”¹⁶ (p. 6) and also, very mildly put, “*At the macroeconomic level the era of financialization has been associated with generally tepid economic growth*” (p. 8), which would disprove a possible advantage of financialization.

More recently, the relationship between financialization and investments in the real economy has found to be negative (Orhangazi (2008) in Epstein (2018, p. 337)). Epstein (2018) explains that the cause of diminishing investments is twofold. Firstly, the incentives for managers have shifted towards financial investments and returns rather than real investments. Secondly, due to the increase of transfers towards the financial sector, there is simply less funding available for other (real) investments. This means that although the financial sector is growing because of financialization, the real economy does not get anything in return (or perhaps better put, a return proportional to its contribution to the financial sector). There is a growing belief that finance is no longer contributing to the real economy, it merely extracts value thereby only serving itself (Hudson, 2012; Mazzucato & Wray, 2015).

¹⁶ That is problematic because theoretically, the debt has to be repaid somehow, but with current levels, that is no longer possible. A similar case is also argued by Turner (2017).

The so-called ‘decoupling’ of the real economy and the financial sector due to financialization, is illustrated by the figure below.¹⁷ What we see in this figure is that private investment as percentage of GDP (a flow), and total financial assets as a percentage of GDP (a stock) followed a similar trend up to the end of the 1970s and beginning of the 1980s. After that point, total financial assets rose enormously, whilst private investments remained at a similar percentage as before. There appears to be a disconnection between available assets and investments. If financial assets are not used for investments, then what exactly could they be being used for?

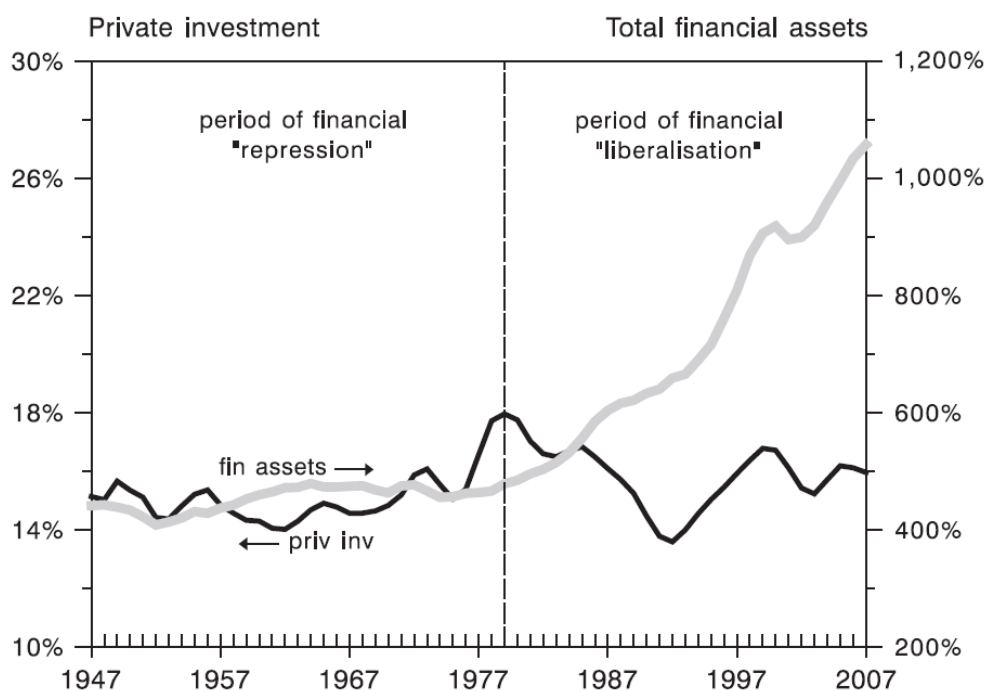


Figure 3 - Decoupling of real and financial world (Palma, 2009, p. 853)¹⁸

A possible explanation could be that the significant amount of money that is no longer engaging in real economy activities because of financialization, is instead engaging in speculative activities (Mazzucato & Wray, 2015). The following quote neatly captures why that could be a problem:

“Speculative finance not only leads to excess incomes and causes slower long run economic growth because of the misallocation of financial and human resources, but also imposes costs on society — sometimes very substantial” (Epstein, 2018, p. 345).

The costs that are referred to in the quote are attributable to financial crises that occur ‘periodically’ from an instable, speculative system, and according to the article of Epstein (2018), that is what is

¹⁷ Note the difference in scale for private investment and total financial assets.

¹⁸ “Total financial assets (all sectors) and private investment as percentage of GDP in the USA, 1947–2007. Three-year moving averages: fin assets, total financial assets (all sectors); priv inv, private investment as percentage of GDP (excludes private inventories). Both series are expressed as percentage of GDP. Sources: US Bureau, 2008 (see www.census.gov) and US Federal Reserve (2009).”

currently the case. The costs arise because: “*Large financial crises lead to high unemployment, lower output, less on-the-job training, and significant psychological and social suffering*” (Epstein, 2018, p. 346)¹⁹.

If financialization originates in a search for more financial returns by extracting value from the real economy, it can be questioned why there is no other purpose for this money. It is even arguably a practice that is counterproductive to the goal it chases, namely increasing financial returns, or better put, financial growth: “*the financialization of the U.S. corporation threatens long-term economic growth.*” (Lazonick, 2010, p. 675). Without long term economic growth, it is not hard to imagine that the growth of the financial sector is limited too, as more and more value is taken from the source of financial growth, that source (the real economy) will dry out if not replenished. Intuitively, this raises questions about the financialization process.

Here we already enter a grey area, as it immediately gives rise to a question: is where they are most profitable also where they are most needed? And what exactly is in fact ‘needed’? (A discussion on needs can be found in Chapter 4.) Also, if one is looking for a performance measure, there are other possibilities: “*...other approaches like ‘general well being’ might be equally valuable or even preferable.*” (Tily, 2015, p. 8). Alternative ideas on what should be included in performance are discussed in relation to Aristotelian ideas in Chapter 4 and Section 5.5.

The aim of this section was to explain financialization and some of its possible effects. It can be seen that at the core of financialization lie the financial measures that are linked to performance. The next section will present some further conclusions.

2.3 Conclusions

The chapter has explored the growth focus that appears to be shaping the purpose that is given to economic activity. It could be a remnant of a time in which growth was vital to increase standards of living. It can be questioned whether this purpose is still here today, and whether growth in itself is therefore something that should still be at the forefront.

The growth focus can be related to financialization, which is seen as the latest development in that regard. When growth slowed down in the economy, the attention shifted towards financial growth as that was still available to be expanded. It appears that because of the increased interest in financial performance, businesses tend to direct investments and profits towards the financial sector rather than the real economy. The question is, why might this have come to be? The next chapter will dive into a possible explanation, namely that the Neoclassical economic paradigm could be related to financialization.

¹⁹ Additionally, the article of Epstein (2018, p. 340) calculates the *net* costs (also of the financial system as a whole) on the following aspects: “(1) *rents, or excess profits*; (2) *misallocation costs, or the price of diverting resources away from more productive activities*; and (3) *crisis costs, meaning the cost of the 2008 financial crisis* (Epstein and Montecino, 2016).”

3 The task of the economy according to the Neoclassical paradigm

If one wonders where the focus on financial growth and in line with this, financial profits, comes from, an obvious place to start is the economic paradigm that is currently used to shape economic as well as financial activity. Therefore, one of the dominant economic theories today, the Neoclassical economic paradigm, will be discussed as the next step. The focus will be on the role of profit, how this is operationalized in business practices, and how it might be related to the search for financial profits in economic activity. The research question that will be dealt with in this chapter is the following:

RQ 1. Can the emergence of financialization be explained as a (possibly unintended) consequence of the Neoclassical conceptualization of the goal of the economy, in particular of the theoretical emphasis on the importance of profit maximization?

To answer this question, the emphasis on profit maximization in the Neoclassical paradigm is investigated, and possible relationships with financialization and (over-) accumulation of capital are explored. Neoclassical economics (also referred to as NCE) has been quite dominant in the past decades in shaping economic policy (Turner, 2017), thereby influencing the groundworks that are used when conducting business. A brief note to why Neoclassical economics could have become so dominant, lies within its historical context. After the decline of faith in Keynesian economics, which prevailed until after the 1960s, a sort of vacuum emerged (Skidelsky & Skidelsky, 2012, p. 67). Why it declined, and what filled the void, is connected to broader changes in society: “*which might be labelled the breakdown of institutional authority.*” (Skidelsky & Skidelsky, 2012, p. 92) With the disappearance of for example the role of the Church “*Neoclassical economics, atomistic and subjectivist, has swelled to fill the vacuum.*” (Skidelsky & Skidelsky, 2012, p. 93). Neoclassical economic theory poses that there is an optimal equilibrium in the economy that maximises output, and we should attempt to reach it. The theory asserts that this optimal point will be reached when profit is maximised and when markets are free, that is, when governments do not interfere (through laws, regulation etc.) with the competitive economic behaviour of private 'economic agents'.²⁰ Hence the emphasis on 'deregulation', 'flexibilization', and 'liberalisation', including the liberalization of the financial sector, which has meant over the past decades more and more freedom for banks and financial institutions. We see this, for example, in the disappearance of strict separation of activities between traditional banking and money and asset management providers (Lysandrou & Nesvetailova, 2015). Neoclassical theory is also the main economic theory that is being taught today (Ward-Perkins & Earle, 2013), and business operations are shaped by this economic paradigm.²¹

To begin with, the purpose of the economy according to NCE is described in Section 3.1. After that, the production function is introduced in Section 3.2, a theoretical notion that is important to Neoclassical theory and crucial to this thesis because it is the mechanism that is used to maximize profit (or shareholder value). The factors of production, central to the production function, are discussed in Section 3.3. because where the production function is the mechanism, the factors of production are the ingredients with which the production function operates. Lastly, Section 3.4 presents conclusions, including an answer to the research question.

²⁰ The only law that is essential to Neoclassical theory is a law to protect private property.

²¹ E.g. Ghoshal (2005).

3.1 The purpose of the economy according to Neoclassical economics

To define the purpose of the economy according to Neoclassical economics in this section, we have to look at a deeper layer of the theory. What is important, is that ‘the consumer’ is insatiable and he/she will always want to maximize their utility²². The human actor is referred to as ‘homo economicus’. In short, the purpose of the economy is to fulfil the wants or desires of the utility-maximizing consumer²³. Because the consumer is insatiable, there never appears to be a point at which he/she has enough. This might be a hint as to why perpetual growth became so important as a goal: there is no limit to wants.

However, growth is in fact not boundless in physical terms – even if it is boundless in terms of (physical and psychological) wants. At a macro-economic level, meaning for the economy as a whole, economic growth is bound by what is called the ‘savings-constraint’ (Naastepad, 2020a). In very few words, this means that investments are limited by the amount that is saved. This can be explained with the help of the image below, the circular flow of income of Neoclassical economics (adapted from Naastepad (2020a); Naastepad and Storm (2020)). It is visible that a part of income (seen at the bottom middle) is directed to consumption and another part is directed to savings. For the economy as a whole, the level (or growth) of output depends on the stock of capital (on the left-hand side), which depends on investments, which depends on savings. A main source of savings is profit, which is part of income (income consists of wages and profits).

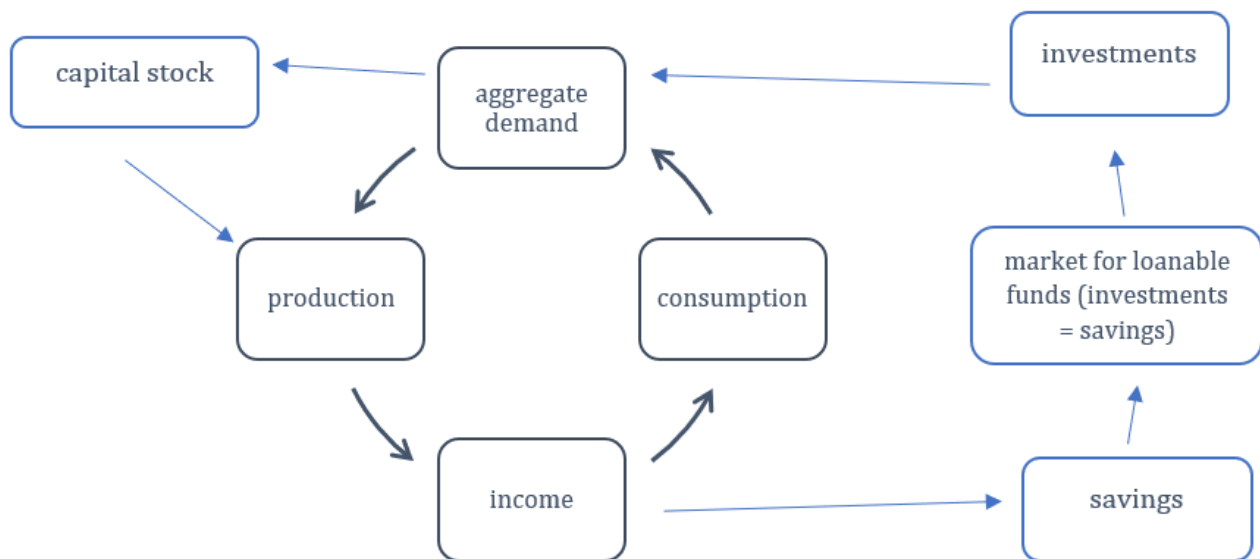


Figure 4 – The circular flow of income (adapted from Naastepad (2020a); Naastepad and Storm (2020))

²² It is important to note that although Neoclassical economic theory can be seen as a form of utilitarianism, utilitarianism itself is not necessarily Neoclassical.

²³ The difference between ‘wants’ and ‘needs’ is discussed in Section 4.1.

In Neoclassical economic models, financial capital is the savings or 'loanable funds' out of which investments (in physical capital) are financed (Naastepad, 2020a). This makes sense intuitively because the funds are loanable because they originate in savings. These are stored at the bank (they act as intermediaries) and will be distributed to those in need of credit. The assumption is that all savings are used as investment, thus all the savings find their way back into the real economy. As mentioned, it was rule (and custom) to finance investments in (physical) capital out of existing savings (Naastepad & Storm, 2020). This fits the 'retain-and-reinvest' approach of Lazonick (2014, p. 5) for the allocation of resources.

Kern (1983) summarises the Neoclassical economic problem as follows: "*The solution to the economic problem for neoclassical economists is to maximize the use of the scarce resources to satisfy the subjectively ranked ends.*" (Kern, 1983, p. 501) If the purpose of the economy is utility maximization, the task is to maximise savings, because this will maximise investment, and hence the capital stock, and hence production. How can you maximize savings? A short answer would be by minimising costs (for this will maximise output and hence savings, the source of financing investment). The strategy that has been used in order to minimize costs, is to establish markets for the so called 'factors of production' (the resources): labour, capital and land. How the Neoclassical economic paradigm uses them, is discussed in the next sub-section.

3.2 The function of production

A stylised version of reality is used to explain relations between the different factors of production and output at the micro-economic level. The central tool for this is called the production function, which will be explained in this section. It makes it possible to visualise levels of output based on input of the factors of production. What these make possible is to optimize combinations of factors that will in total give a minimization of costs. In a general form, the production function looks as follows:

$$Y = f(L, K, M, S, v, y)$$

In which:

Y = output

L = labour input

K = capital input

M = raw materials²⁴

S = land input

v = returns to scale²⁵

y = efficiency parameter

²⁴ In the book of Koutsoyiannis (1975), raw materials is denoted with 'R' but in order to avoid confusion with the 'R' of revenue, the letter M is chosen as the symbol for raw materials.

²⁵ "*The term 'returns to scale' refers to the changes in output as all factors change by the same proportion.*" (Koutsoyiannis, 1975, p. 77)

These variables are per unit of time ('flows'). The production function is a "*purely technological relationship between quantities of inputs and quantities of output*" (Koutsoyiannis, 1975, p. 70). Prices of the production factors are not included in the function. It is assumed that raw materials have a relationship to output (at all production levels) that is constant. Therefore, raw material is subtracted from output in terms of value, which makes that the output is measured in terms of 'value added' (which is given the symbol X).

$$X = Y - M$$

The production function is now no longer purely technological, as X is in monetary units. The factor 'land' (S) is assumed to be constant for the whole of the economy, and therefore it has no place in a combined production function (Koutsoyiannis, 1975, p. 70). But, for individual firms or sectors it is not constant, and in those cases, it is to be included in the factor of capital, as if it were equal to 'machinery and equipment' (in the factor K). This makes the production function:

$$X = f(L, K, v, y)$$

There are three important assumptions (Koutsoyiannis, 1975, p. 86):

1. The firm will always maximize profits, by the following rule:

$$\Pi = R - C \text{ where}$$

$$\Pi = \text{profits (maximum)}$$

$$R = \text{revenue}$$

$$C = \text{cost}$$

2. The output has a given price P_x' (and revenue is price multiplied with output).
3. The factors that make the cost component have a given price, with w' for the wage rate and i' for capital services (rental price for machinery).

In theory, to maximize profits, one has the revenue and the costs to play with so to say. In reality, how what constitutes profit maximization is dependent on the conditions in the market. There are several market conditions, such as: perfect competition, monopoly and oligopoly. In an economy that has perfect competition, maximizing profits would mean $\Pi = 0$ (maximum profits are zero). This is so because costs are minimized, but the gains that are made with that, are passed on to the consumer in the form of lower prices of the goods. If the firm would not lower its price, it would be outcompeted. If there is perfect competition, the price all goods and the factors of production is set by the market. In that case, the producer can only change their level of production (the output). The producer will choose the level of output that maximises profit, which is the level at which marginal cost equals marginal revenue. That would lead to cost minimization for the individual producer. For the economy as a whole, cost minimization is achieved through the implementation of factor markets for labour, capital and land (these are discussed in the next section).

If there is no perfect competition, which is the case for monopolistic or oligopolistic markets, profit can become 'supernormal' (i.e. above zero: $\Pi > 0$). In those situations, there is no or little competition,

which means that firms are not forced to lower their prices if they are able to reduce costs. In fact, they can gain what is called 'price-setting power', meaning that the market no longer dictates the price. As we appear to live in a partly oligopolistic economy, on which later more, there is the opportunity for firms to achieve and thus also to aim for supernormal profits. If the goal remains to be profit maximization, that means no longer $\Pi = 0$, but $\Pi > 0$, which is very different. So, the function of production is instrumental to Neoclassical economic theory, and within that are the factors of production which will be discussed in the next section.

3.3 Labour, capital and land

In this section, the three factors of production labour, capital and land are discussed as well as how they are treated, according to Neoclassical economics. The production factors are important, because in order to maximize profits, the apparent Neoclassical goal for business operations, the costs of the factors are to be minimized. The minimization is ensured by trading them in markets. By minimizing costs and maximizing profits, output is maximised and hence the overall utility is maximized too (the goal of Neoclassical economics). How do factor markets help to increase savings (because savings enable investments and growth)? Each production factor is now discussed.

3.3.1 Labour

Producers that are 'efficient' choose a least-cost combination of inputs, thus using the input as economically as possible (differently put, to maximize what can be created with the input). This is not a typically Neoclassical, but rather a general economic insight. But for Neoclassical economic theory, the idea of efficiency is taken a step further (Naastepad, 2020a). Besides material inputs, the factors of production labour, capital and land are also treated as costs that need to be minimized. What is then the implication for labour? If the cost of labour is to be minimized, that means that a price for labour must be established. This happens in a market (the 'labour market'). The price for labour is determined as follows. When there is more supply of labour, at the same demand level, the price for that labour will drop. And vice-versa, if labour is scarce, let's say the demand is up but the supply is the same, the price will rise. One could argue that by treating labour as a good to be traded on a market, it is simply a resource, and that it doesn't seem to consider the relationship with the person who provides the labour.²⁶ An implication of trading labour in a market is that the price of labour can even be reduced to a level below the so-called 'poverty line', and even below subsistence level.

A phenomenon that may put downward pressure on the price of labour (when labour is traded in a market) is technological progress:

"Among the most prominent implications of technological change is that it affects the prices of factors of production (including wages) and of produced goods. Hicks (1932) already observed

²⁶ One could argue that a wage is not the only return a person gets from labour. For example, dignity or a purpose are possibly valuable returns. However, "This discussion is, of course, a departure from the usual neoclassical formulation, where work only enters negatively into individual's well-being" (Korinek & Stiglitz, 2017, p. 33)

that innovations generally change the demand for factors and will, in equilibrium, lead to factor price changes, especially changes in wages.” (Korinek & Stiglitz, 2017, p. 20)

Because of technological progress, labour productivity (measured as GDP per hour²⁷) has risen, as shown in Figure 5. This means that the same amount can be produced with less labour. This applies mostly to the physical economy, or goods (not necessarily services, health care, education etc.). It leads to a drop in labour demand *per unit of output*. What will be the impact on the price of labour? Has the fall in labour demand per unit of output led to an overall decline in the wage rate (the price or cost of labour)? Figure 6 illustrates that the wage share (the part of income directed to labour, most likely in the form of wage) has indeed declined.

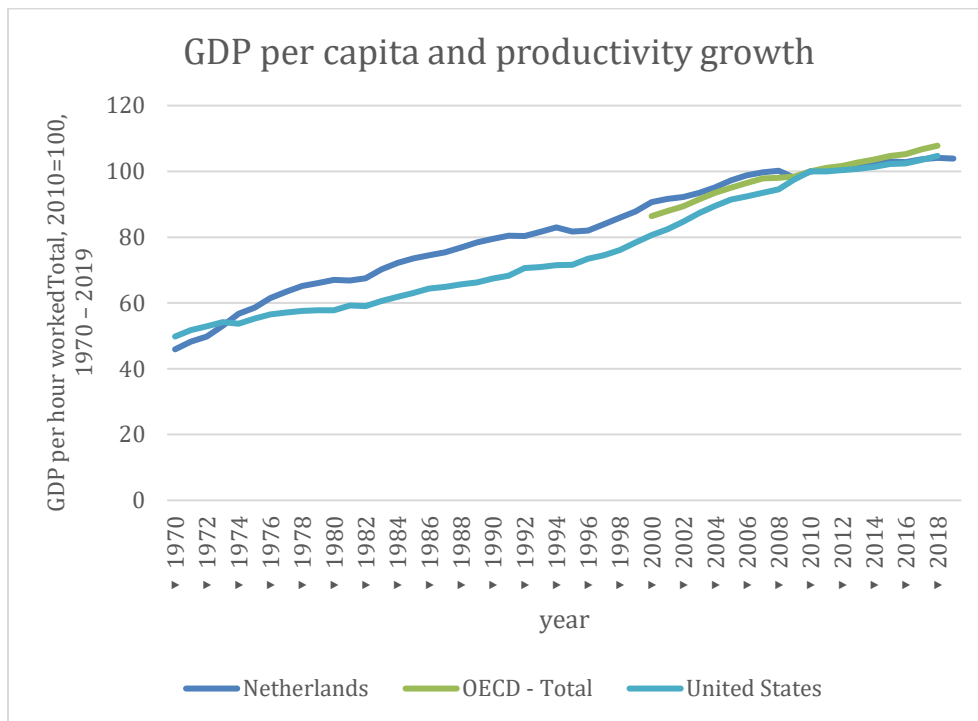


Figure 5 - GDP per hour worked (indicator) (OECD, 2020a)

²⁷ Definition from OECD (2020a): “GDP per hour worked is a measure of labour productivity. It measures how efficiently labour input is combined with other factors of production and used in the production process. Labour input is defined as total hours worked of all persons engaged in production. Labour productivity only partially reflects the productivity of labour in terms of the personal capacities of workers or the intensity of their effort. The ratio between the output measure and the labour input depends to a large degree on the presence and/or use of other inputs (e.g. capital, intermediate inputs, technical, organisational and efficiency change, economies of scale). This indicator is measured in USD (constant prices 2010 and PPPs) and indices.”

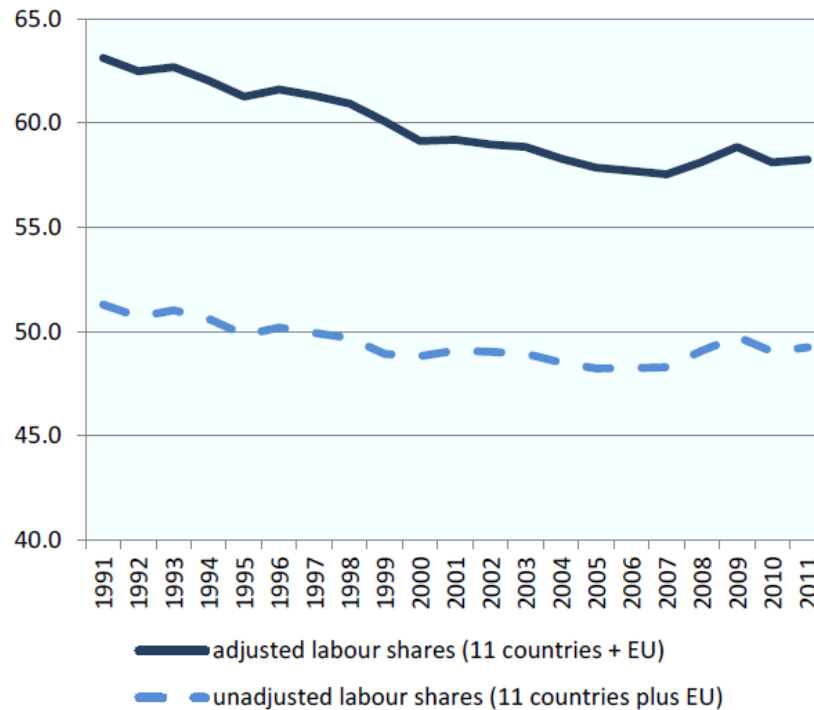


Figure 6 - Adjusted and unadjusted labour share in several G20 countries (OECD & ILO, 2015)

Neoclassical economists too have some concerns as to how the rapid technological progress, and thus productivity growth, is influencing wages, especially for low- and medium-skill jobs. For example, Acemoglu and Restrepo (2017, p. 35) state: “Automation, robots and artificial intelligence are having an arguably transformative effect on labor markets in the United States and perhaps in many other advanced economies”. They add that those “momentous changes are accompanied by concerns about the future of jobs and wages” and expect the wages (as well as employment) to decline. Moreover, the appreciation in Neoclassical economic theory for liberalization of the markets, also that of labour, might have an additional adverse effect on wages, especially in sectors that are less prone to technological advancements (Hassel, 2011, p. 24).

If technological progress puts downward pressure on the market price of labour, is this desirable? Why are reductions in the wage rate (effectively the minimization of the costs of labour) considered efficient in Neoclassical theory? As explained above, from a Neoclassical point of view, minimising costs (including the cost of labour) is necessary in order to maximise growth, which will maximise savings (and hence investment, and therefore growth in the next period). This can be explained by looking at the circular flow of income in Figure 4 and the distribution of income in Figure 2 (in Chapter 2). What will happen when the 'price' of labour is reduced? Different scenarios are possible depending on market conditions.

One possibility is that the reduction in the wage *rate* reduces the wage *share* and increases the profit share. This may happen under oligopolistic or monopolistic conditions, where cost reductions can be used to increase profits (rather than that the firm would lower output prices in line with their lower costs). If the propensity to save out of profit income is higher than the propensity to save out of wage

income, the redistribution (of wage to profit share) will increase total savings. That would lead to an improved ability to invest. According to Neoclassical theory, where all savings are being invested, the economy will grow.

Another possibility is that the reduction in the wage rate reduces output prices. This will happen under perfect competition. In this case, the real income of consumers will increase. Consumers may decide to save more, or to spend more (the decision will depend on the rate of interest). If they decide to save more, investment and output will grow.

All this follows from a theory which says that economic growth (in particular investment) is constrained by savings. This point of view was developed many years ago when Neoclassical theory emerged. At or around that point of time, it may have been true. But does it hold true in the modern economy, given our modern financial and monetary institutions? For example, it has been shown that banks are able to create money 'out of nothing' (e.g. Werner (2014)). If this is so, investment can be financed by newly created money and will no longer depend on available savings. There is then no need to minimise wage costs in order to increase savings. Perhaps the assumptions on which the Neoclassical theory depends have are no longer in place.

The tendency to use the concept of cost minimization of the Neoclassical paradigm, appears to have moved from the economy to other areas too. The substitution of labour with capital has become a widespread practice. The next sub-section discusses capital, the second factor of production.

3.3.2 Capital

The market for capital is somewhat confusing due to the liberal use of the term 'capital'. Nowadays, it can refer to finance, knowledge, machines... Traditionally, what is meant is physical capital, which are the means of production (such as machines). But the word 'capital' is also used to refer to financial capital, or better put, the savings that finance investment (in physical capital). In the circular flow of income in Figure 4, the capital stock is on the left-hand side. It feeds into production (thus fitting the first use of the term) and is in turn financed via the savings and investments (the second use of the term). In this sub-section, the use of the term capital refers to the savings, which are in the 'loanable funds' market: capital in financial form, and not to the market for physical capital.

The question is, do the financial markets do what they are supposed to do according to Neoclassical economic theory? That is, do they allocate capital efficiently? Data suggest that financial markets may not be doing what they are supposed to do according to NCE. Financial markets should redirect savings towards investments, as explained earlier. However, while the opportunity to do so rises (because profits are rising, thus savings), investments appear to lag behind (as explained in Chapter 2 with Figure 3 of Palma). Figure 7 and Figure 8 below give more recent data. Figure 8 shows that in the Netherlands as well as the U.S., the gross profit share has increased from 1960 onwards. Despite this increase in the profit share (and hence, presumably, in savings), gross fixed capital formation in the Netherlands as well as in the U.S. (and the E.U.) has declined since the mid-1960s (see Figure 7). How should these data be interpreted?

The OECD provides some information what an explanation of this phenomenon could be. Firstly, the increasing profits have for a large part occurred in the financial sector (and apparently, they stay

there). Secondly, dividends and buy-outs have increasingly been preferred to investments in real businesses. Thirdly, they say that demand (from 'household, government and trade') has limited the opportunity to invest. (OECD & ILO, 2015, p. 12) The suppressed demand could be attributed to the decline in the labour share (which in turn explains the increase in the profit share) (OECD & ILO, 2015). So, instead of investing it in the real economy, capital appears to be both originating in, and being transferred to the financial sector.

With respect to the financial markets one might ask, therefore, whether they are actually allocating financial capital to (real) investment, and if this no longer happens, which the aforementioned data suggests, why is this so? And if the real economy doesn't need (large shares of) this capital, where does this capital go? It could be that the capital that is not invested, is redirected into speculative activities, for example with land. Land as a factor of production (and as a destination for surplus capital) is discussed in the next sub-section.

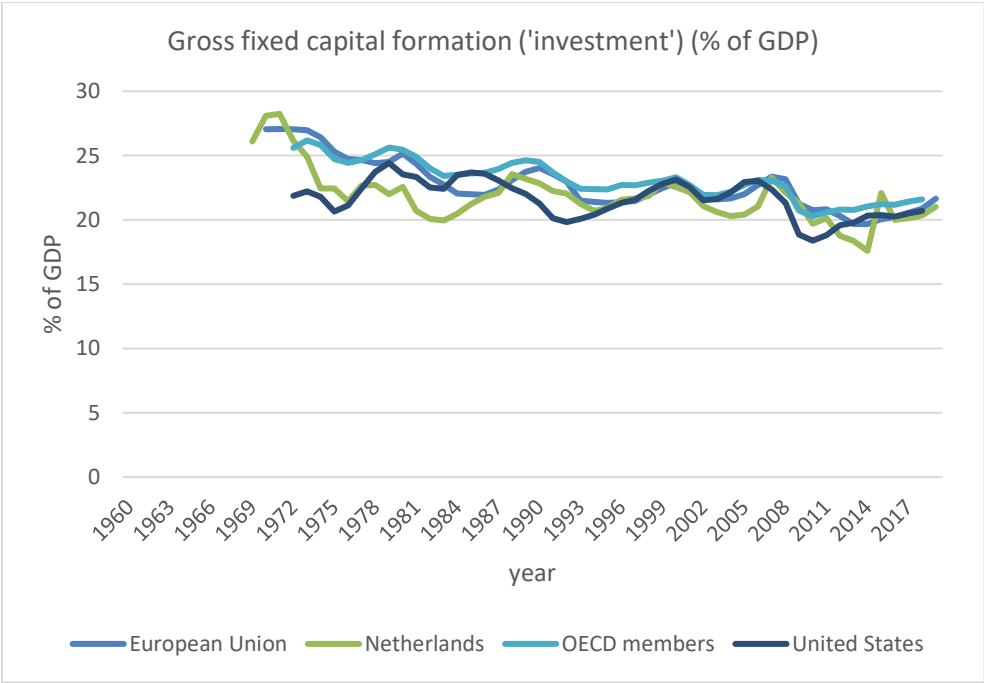


Figure 7 - Gross fixed capital formation for EU, NL, OECD²⁸ and the US (World Bank, 2019)

²⁸ OECD: Organisation for Economic Co-operation and Development

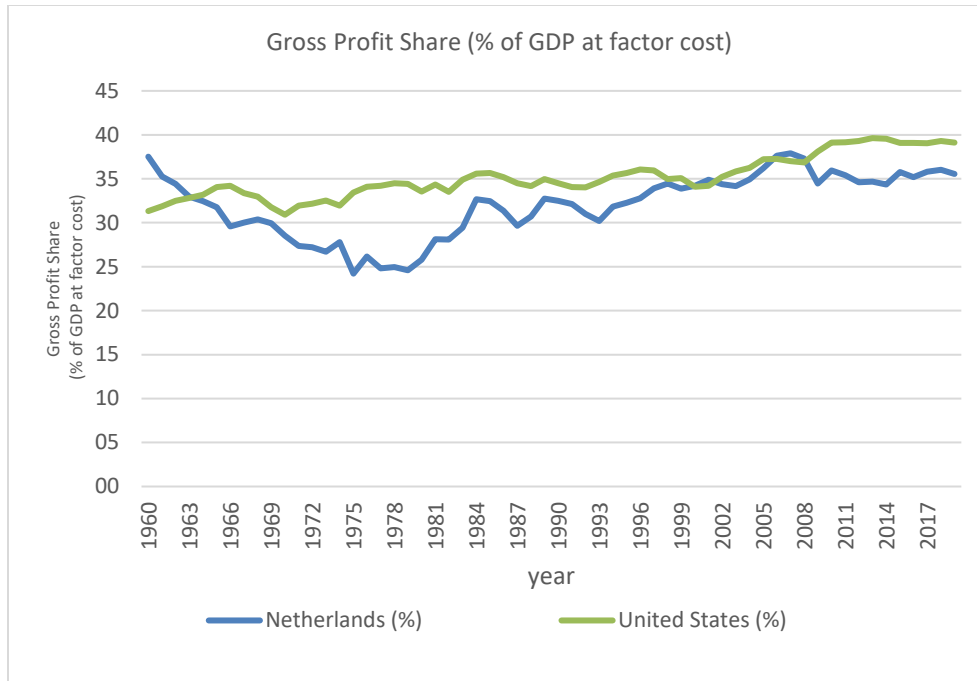


Figure 8 - Gross profit share (AMECO, 2020)²⁹

3.3.3 Land

Land (which also refers to nature) appears to be somewhat under-represented in the market theory that has been examined, possibly because it is often included in the previous factor of production, capital. A long time ago, it was simply a given as one can imagine, there simply was land available to be used. But now it has become a market too, quite likely because land is truly scarce in the sense that there is a limited supply on earth. The price is determined based on the possible future earnings one can make with the land, possibly with a premium in case of competition. Maybe because of its scarcity, in more recent years land has become one of the tools for speculation. When land (or nature, hereafter simply referred to as land) is no longer a common good, but something that can be marketed, the price hereof will inevitably rise.

Additionally, according to Korinek and Stiglitz (2017, p. 26), labour productivity and continuing economic growth are also an influence: *“Intuitively, as the supply of effective labor proliferates due to the introduction of machine labor, agents in the economy will compete for scarce non-reproducible resources like land, driving up their price.”* That would mean that because labour productivity increases (without addressing unemployment and its consequences at this moment), there is less price-increasing competition in that factor, so the competition shifts towards truly scarce resources such as land.

Another factor that leads to price increases in the market for land is the phenomenon of ‘land grabbing’, where (often private) investments are made into (agricultural) land, most likely as a new

²⁹ AMECO: the “annual macro-economic database of the European Commission's Directorate General for Economic and Financial Affairs” (European Commission website, 2020)

asset class for diversification and/or in search of financial returns (HighQuest Partners, 2010). The term 'grabbing' is used especially when it concerns the buying of land in countries that are less developed. But even in more developed countries, prices for, for example, agricultural land have grown, as is shown in Figure 9. It is visible that the increase was greatest before the financial crisis (2002-2008) and grew less, but still grew in the period 2008-2016.

In Figure 10, one can see the rising price of housing, which is of course related to land prices. It is possible that the money that is not invested in the real economy, is used for speculative activities with land. This would explain both the rising prices of land and provides a destination of the savings that are not used for investment, as illustrated by the quote below:

“Labor and capital increased in productivity; the land supply remained constant in quality and amount. Rents, as a result, increased more than proportionately and made the landlords the undeserving beneficiaries of advance.” (Galbraith, 1958, p. 43)

Now that all three factors of production (labour, capital and land) have been discussed as well as how they are treated according to Neoclassical economics, it will have become clear that with the strong belief in the benefits of markets, factors are translated into markets too. This tends to lower the 'price' of labour, stimulate the accumulation of financial capital, and raise the price of land. The next section will present the combined conclusions from this chapter.

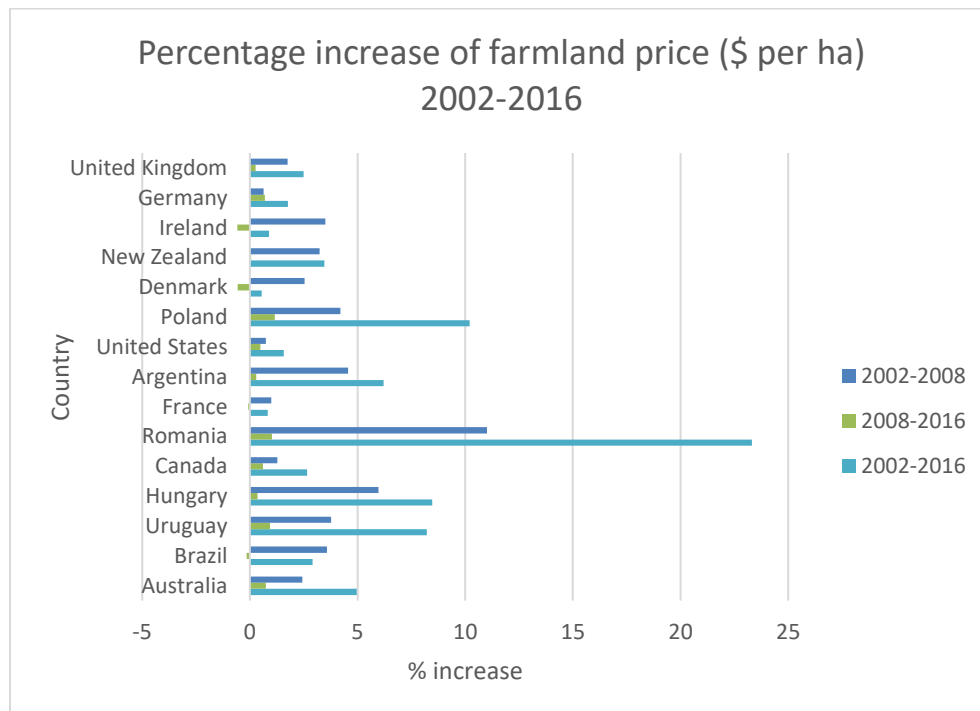


Figure 9 - Percentage increase of (farm-)land prices, based on (Savills World Research, 2018)

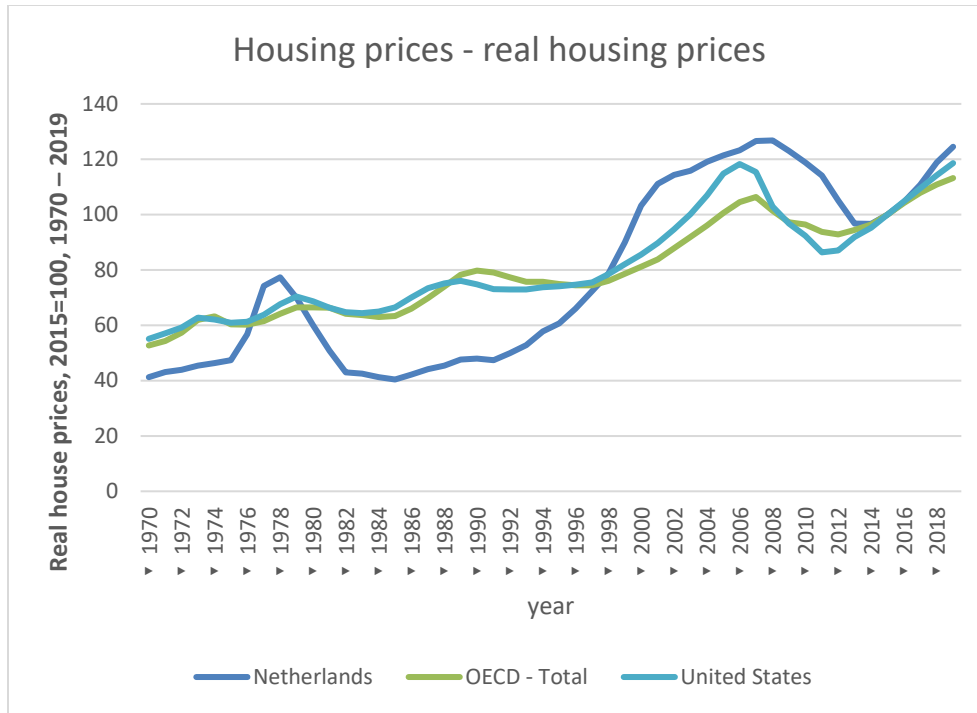


Figure 10 - Housing prices (indicator) (OECD, 2020b)

3.4 Conclusions

In this chapter, the Neoclassical economic paradigm has been discussed and related to developments in the real economy. The purpose of a Neoclassical economy appears to be utility maximisation, which is achieved through profit maximization or cost minimization, because that is expected *maximize* growth, savings, investment, and, therefore, utility. The research question in this chapter is:

RQ 1. Can the emergence of financialization be explained as a (possibly unintended) consequence of the Neoclassical conceptualization of the goal of the economy, in particular of the theoretical emphasis on the importance of profit maximization?

To repeat what financialization entails: it is growth of the financial sector relative to the real economy (for example in size), and the implementation of financial standards to measure a company's value (even for non-financial aspects). The theoretical answer to the research question is that it is probable that financialization is related to the emphasis on profit maximization, because the Neoclassical pursuit of profit maximization can be translated into financial targets (such as maximising the return on financial capital or maximising the value of shares). As explained in this chapter (towards the end of Section 3.2), the goal of profit maximisation is applicable only in a perfectly competitive market. In oligopolistic markets, where the assumptions of a perfectly competitive market do not hold and where, profit maximisation should not be applied. Nevertheless, profit maximisation is widely applied in all markets, without consideration for whether or not the assumptions of the pure Neoclassical model hold.

Empirically, it appears that the share of profits in total income has risen from the mid-1970s and onwards (see Figure 8). However, this seems not to have led to more investments in the real

economy, as one would expect based on Neoclassical theory. Instead there is an increase of flows to financial realms. This raises the question whether the profit maximization goal (which belongs to a perfect competition situation) still fits the circumstances.

Stated otherwise, the question is whether the pursuit of profit maximization is economically efficient in oligopolistic markets, according to Neoclassical theory. For perfectly competitive markets, the Neoclassical answer remains yes. Efficiency is defined as using inputs in the most optimal way for output, and in the Neoclassical economic theory inputs include the factors of production. The factors of production are traded in the factor markets to arrive at a price which reflects their scarcity.

Therefore, the material discussed in this chapter leads to a qualified answer to the above research question. On the one hand, financialization can be interpreted as being in line with the Neoclassical economic paradigm, which emphasises the pursuit of profit. On the other hand, profit maximisation holds only for perfectly competitive markets and not for oligopolistic markets. Moreover, according to Neoclassical theory, the *rationale* for profit maximisation or cost minimisation is to maximise growth and generate the savings (financial capital) that are supposed to finance investment in physical capital (the productive base of the economy), so that the economy can grow and utility can be maximised. Today, however, it seems that the link between savings (financial capital) and investment (in physical capital) is no longer automatic.

The theoretical analysis of the production function and factor markets in this chapter suggests that profit maximisation leads to efforts to lower costs, including the 'cost' of labour, in order to maximise output and accumulate financial capital (savings). To the extent that this financial capital is not used to finance investment in the real economy, it may be that it is used for speculative activities, which can raise the price of land and other objects of speculation. All of this may fit the concept of financialization, but not, perhaps, (the original) Neoclassical theory.

The important point here is that if financial capital is not used, and perhaps not needed, to support the growth of the economy in terms of investments in the real economy, what could its economic purpose be in that case? Neoclassical economic theory cannot answer this question because it rules out the possibility of a consumer whose needs are satisfied and who therefore does not need further growth. The next chapter will therefore discuss another part of economic literature. One that has a different theoretical foundation, namely Aristotle. Economics based on his ideas point towards a different underlying aim for economic activity, and could provide a purpose for the aforementioned financial capital.

4 The task of the economy according to Aristotelian economics

This chapter explores a purpose for the economy as developed in an economic literature based in Aristotelian thought. It is done in order to explore and envision what the economy could look like if one is interested in an alternative to the Neoclassical paradigm. The research question to be answered in this chapter is the following:

RQ 2. According to an emerging macro-economic and business organization literature, the ultimate goal of economic activity is not to achieve Benthamite-utilitarian 'happiness' or 'utility maximization', but to achieve Aristotelian '*eudaimonia*' (or 'the good life'). What could this goal look like when operationalized, how could this goal (according to this literature) be achieved economically, and how could the activities required for this be financed?

The analysis in this chapter is based on literature research, like the previous chapter. It consists of three sections, that each tackle a different critique. The first is to challenge utilitarianism as guiding principle, which with Neoclassical economics is arguably expressed in terms of money. The second, in the second section, is to question whether the market mechanism is the right (economically efficient and perhaps morally right) model to distribute resources across the economy. The third considers distribution, across society, of resources and thereby arguably of happiness.

The first task in this chapter to address the critiques is to investigate to some extent the ethical-philosophical idea underlying Aristotle's economic thoughts: achieving '*eudaimonia*' or 'the good life'. This is done in relation to the purpose of the economy that would emerge from it. It is of interest to compare this to the Benthamite-utilitarian idea of achieving 'happiness', which has a role in the Neoclassical economic theory (which manifests in the central importance of utility maximization). This forms Section 4.1. In the second Section, 4.2, the idea of the *oikos* (the household) and the just price (a pricing method developed from ideas of Aristotle), two important notions in an Aristotelian economic paradigm, are discussed. In Section 4.3, more practical thoughts on how to (economically) achieve *eudaimonia* are explored, as well as ideas on how it can be financed. The chapter ends with conclusions in Section 4.4.

4.1 The purpose of the economy according to Aristotle

This section aims to give some insight into the philosophical foundational differences between the Neoclassical paradigm and the proposed Aristotelian paradigm. It will answer the question of what the purpose of the economy is according to Aristotle. It will also look into a possible difference between wants and needs, and how that might be instrumental in a different economic purpose than what follows from Neoclassical thought. Bringing philosophy into economics might appear a bit unusual, but in fact, as for example argued by Atkinson (2009, p. 791): "*it is a legitimate exercise of economic analysis to examine the consequences of different ethical positions*".

The philosophical base of the Neoclassical theory is intertwined with a school of thought (known as 'utilitarianism'³⁰) of which Jeremy Bentham³¹ is well-known. Although Neoclassical economics can be seen as a form of utilitarianism, but the reverse is not necessarily true. As mentioned before, utility maximization is an important concept in the economic theory, which measures happiness in terms of utility, but expressed in terms of money (as discussed in Section 3.1). For Aristotelian economics, there is Aristotle as the prominent figure. One might question why it is important to bring philosophical thoughts into an economic thesis. The following quote from Naastepad and Houghton Budd (2015, p. 51) captures the answer: *"Unless we understand the wider nature of the human being and the purpose of human life, we shall not be able to define the boundaries of the economy or assign to capital its proper role in society."*

Another question might be, why Aristotle? He is sometimes referred to as 'the first economist' (Solomon, 2004). This is because he was a great source of inspiration to economic thinkers, especially in earlier centuries, where frameworks built on his ideas led the economic theories until approximately the end of the seventeenth century. However, Aristotle himself did not think about the word 'economics' in the way we do today, as for him it didn't exist as something so separate from other aspects of life as we treat it today. In his days, *'oikonomikè'* (the ancestor of 'economics') referred to aspects of managing a household. In addition, according to Kern (1983) 'householding' is the management of resources. Exchange between (managers of) households is possible, but importantly, that exchange is based on needs. Exchange is also Aristotle's 'first form of wealth getting' according to Kern. How we treat economics based on Aristotelian legacy nowadays, comes from his thoughts on trade and wealth accumulation³², the 'second form of wealth getting', which refers to retail trading. That second form appears to be limitless, meaning that the people who partake in it, have no apparent boundaries to their wants, and therefore also want unlimited opportunity to satisfy the wants, and it was therefore something Aristotle opposed to. He argued that accumulation for the sake of it, was not in line with a 'good life':

"Those who engaged in economic activity purely for the sake of the accumulation of wealth are men who "are intent upon living only, and not upon living well; and as their desires are unlimited, they also desire that the means of satisfying them should be without limit"" (1258a, 0-5)." (Kern, 1983, p. 508)

Aristotle apparently identifies that 'living well', to live towards *eudaimonia*, has a relation with the ability to constrain unlimited desires. For Bentham, not *eudaimonia*, but utility is the central theoretical notion (Naastepad & Mulder, 2018). Utility refers roughly to how much you get out of, in this case, economic activity (usually in terms of pleasure, with on the opposite side: pain). The idea is that utility should be maximised. In Bentham's take on utilitarianism, maximizing utility would be choosing for that what maximizes general happiness or pleasure, with quantity of it being what matters (Skidelsky & Skidelsky, 2012, p. 100). It can be referred to as 'radical individualism' according to Ghoshal (2005, p. 84). The thought of Galbraith (1958, p. 214) as mentioned in the

³⁰ Again, although NCE is a form of utilitarianism in which happiness is quantified in terms of income or money, utilitarianism is not necessarily Neoclassical.

³¹ Bentham, Jeremy. 1781. *An Introduction to the Principles of Morals and Legislation*.

³² Part of his works *Politeia* and *Ethica Nicomachea* (Skidelsky & Skidelsky, 2012, p. 103)

explanation of the growth focus, can be elaborated on. What the quote shows is that a possible reason that utility became a popular construct for economic ideas, is because of its ease of use:

“The Benthamite test of public policy was “what serves the greatest happiness of the greatest number”, and happiness was more or less implicitly identified with productivity.

...

It is so much simpler than to substitute the other tests – compassion, individual happiness and well-being, the minimization of community or other social tensions – which now become relevant.”

For Aristotle, *eudaimonia* is the theoretical notion in the place of utility. It refers to happiness, in the sense of ‘the good life’ or ‘flourishing’. *Eudaimonia* is the goal in life (the ‘*telos*’, or ‘end’). (Naastepad & Mulder, 2018). This in turn will define the economic purpose, as economic activity ought to be in service of the good life. *Eudaimonia* can be described as a state of being, but also when that is still in development. Being conscious of the goal, one is able to strive towards developing a ‘virtuous character’ (*ethos*), which will shape the ideas on what is ‘right and worthy in human life’ (Naastepad & Mulder, 2018, p. 320). To make it slightly more practical, elements of the goal of *eudaimonia*, as mentioned in Naastepad and Mulder (2018, p. 320) are such as:

- Obtaining practical skills (*technè*)
- Developing the virtuous character (*aretè*)
- A desire for knowledge (*episteme*)
- A desire for wisdom (*sophia*)

An important example of a comparison with the utility-based view is that economic activity aimed at achieving the good life can never result in unlimited acquisition of wealth, as touched upon with the quote by Kern, with the addition of: “*Wealth and external goods are a means to an end for Aristotle; as such there is some ‘natural’ limit to the needs of individuals as dictated by the ultimate good.*” (Kern, 1983, p. 507). This is somewhat in contrast to the growth focus as discussed in Chapter 2. That does not mean that growth cannot or should not have a role in the economic system, as there may be situations where it is in fact desirable³³, but it can never be a purpose in itself.

An idea regarding the growth focus is that one of the main reasons for its existence may be that the notion of a ‘good life’ is no longer central. According to Skidelsky and Skidelsky (2012, p. 89), this lack of an idea on what constitutes a ‘good life’ obscures the difference between needs and wants in modern economics. For Aristotle, we *need* whatever we require to attain the ‘good life’. In the current economic system, ‘wants’ have replaced needs, and there is no limit to wants, which might explain the everlasting urge for material growth. Because wants are unlimited, resources (especially capital) that are needed to fulfil the wants are seen as scarce, and therefore profits have to be maximised (to

³³ As for example discussed in Skidelsky and Skidelsky (2012), where they propose three reasons growth might be a necessity: to acquire more of the ‘basic goods’, as an index tool for some meaningful things and in some occasions for pragmatic, short-term reasons. (p. 169)

generate the financial capital required to finance (the growth of) physical capital). However, from an Aristotelian perspective there exists also another solution: "... perhaps a limiting of wants (through a consideration of the quality of ends) is an equally viable and necessary solution to the problem." (Kern, 1983, p. 501)

As mentioned in the previous chapters, with Neoclassical economics the means (growth) have become an end. The quote below – taken from an article that identifies common elements in the economic thought of Aristotle, and economists E. F. Schumacher and Herman Daly – is illustrative of this proposition:

"Aristotle's focus on the economic problem was not the problem of scarce resources, but of potentially unlimited or 'unnatural' ends. The common bonds of the system of economic thought of Aristotle, Schumacher, and Daly are that all three see the existence of unlimited wants as an influence which causes men to value means above ends." (Kern, 1983, p. 502)

The concepts of needs and wants are important, as they are necessary in order to explain one of the possible implications of an Aristotelian paradigm. In fact: *"In his discussion of needs and wants, Aristotle raised timeless concerns about the purpose of life..."* (Landreth & Colander, 2002, p. 39). From an Aristotelian perspective, needs should be central to economic activity, and not unlimited wants. As to what the difference between needs and wants are, there are several ideas on this. For example, Keynes (1930, p. 365) speaks of needs only (he does not differentiate to wants in exact words), but identifies a difference between things human beings desire, and things they desire relative to others. The second category would raise us a little above someone else ('feel superior to'), and it is that category that is insatiable. For the first category, the 'absolute needs', there is probably a point at which they are satisfied. According to Skidelsky and Skidelsky (2012, p. 26), the idea of Keynes of solving the 'economic problem', or alternatively put: reaching satisfaction of the absolute needs, can be related to Aristotle. If the economic problem is solved, and needs and wants defined (even to some extent), our economic efforts could be shaped differently, allowing for other aspects of life to get more attention (the 'real values of life' (Keynes, 1930, p. 366)). That is similar to how *eudaimonia* is envisioned. The problem is perhaps, when is 'enough' reached?

The book of Galbraith (1958) is a well-known discussion of whether needs have been satisfied in the more recent day and age. He separates physical needs from 'psychologically grounded desires' (Galbraith, 1958, p. 117). These desires refer to 'wants', the things that people have arguably less true need for, as they are not immediately necessary for physical survival or basic levels of functioning. There are created, constructed in the mind, perhaps arbitrarily. He states also on that page that: *"The concept of satiation has very little standing in economics. It is held to be neither useful nor scientific to speculate on the comparative cravings of the stomach and mind"* (Galbraith, 1958, p. 117) This could be illustrative of why there is currently no difference in economic theory between wants and needs, and why the consumer is considered to be insatiable. It is not considered to be a task of the economy to differentiate between what people should desire and what they do desire (what the needs are and what the wants). That seems to be a possible explanation on why there is a desire for perpetual growth. Because wants originate in the mind (as desires), there is no limit to them and so also no limit to economic growth. Needs and wants are not just a matter of personal taste, they are also

arguably shaped by society (Skidelsky & Skidelsky, 2012, p. 34) and even “*increasingly created by the process by which they are satisfied*” (Galbraith, 1958, p. 129).

So, there is an apparent difference between real needs and wants (‘must haves’ rather than ‘nice to haves’), unlike what the economic system currently portrays. When an apparent need becomes a want, and *vice versa*, is easily not determinable. It is likely that it very much depends on a person themselves and can vary over time. It will probably vary depending on what place or circumstance one is in, or what point in life one is at. It is likely that in line with Aristotelian thought, the difference is tied to the development of a virtuous character, because when we evolve, we are expected to be more able to recognize what really is a need (in support of *eudaimonia*) and what is just a want.

For now, it is safe to say that in an Aristotelian economy utility maximization is not the goal, nor is profit maximization the tool. Rather, it is about an economic system that allows all people to live sufficiently sustained in order to live towards achieving ‘the good life’. A clear formulation is the following: “*For Aristotle, the purpose of the economy is to generate the material conditions that enable the human being to do ‘fine actions’.*” (Naastepad & Mulder, 2018, p. 321). The purpose of the economy is therefore to ensure that everyone has access to the means that enable him to do fine actions, to live ‘the good life’.

To conclude this section, we return to the question: what is the purpose of the economy according to Aristotle? The answer would be that the economy should be subservient to the goal of human life, *eudaimonia* or, ‘the good life’. Economic activity is then in service of striving towards that goal. There also is a difference between needs and wants, and realising that difference might provide an interesting base for a different outlook on economics, based in Aristotelian thought. In the next section, the first step is taken for translating the economic purpose into economic practice, as a first step to clarify how the economy could be organized to strive towards the Aristotelian goal.

4.2 The *oikos* and the just price

In this section, the aim is to get as close as possible to an understanding of what Aristotle himself found a proper way of organising economic activity. This is done by examining several sections of his works as well as the notion of the just price, which was developed based on his thoughts. As mentioned before, the economic entity considered by Aristotle was the household, or the *oikos*. The task of the ‘manager’ of the household is to make sure that the needs of other members of the household are met:

“... the acquisition of goods/wealth (chrēmatistikē) is ‘part’ of household management in that the manager must have available a supply of certain necessary articles (food, money, etc.) which have to be acquired from somewhere by some means.” (T.J. Saunders in Aristotle (1992, p. 75))

The mode of acquisition referred to in the quote, matters too. In the first sub-section, this is discussed.

4.2.1 Natural and unnatural acquisition

In order to acquire the ‘necessary articles’ as mentioned in the quote above, there are several methods. Aristotle proposes three, which can be divided into two categories: *natural acquisition*, and *unnatural acquisition*. The fundamentals of the acquisition process are based on exchange. The

manager of the household has to have something to give in return for what he is aiming to acquire. This can be goods (something he has produced) or, in some cases, it can take the form of money (the use of money is addressed later on).

Natural means of acquisition would in principle be that the household managers is getting what is necessary directly from a natural source (such as fishing or hunting). The use of money to acquire things can also be considered natural, as long as it is *“to re-establish nature’s own equilibrium of self-sufficiency.”* (1257a28, T.J. Saunders quoting Aristotle (1992, p. 82)). What is unnatural, would be to trade with a *“desire to pursue monetary gain beyond the satisfaction of needs.”* (T.J. Saunders in Aristotle (1992, p. 80)). It is unnatural to acquire (much) more than the needs of the household require. The aim of the household manager is to fulfil the households needs, and not to profit beyond that: *“Aristotle first argues, more explicitly than hitherto, that the duty of the household-manager is to use and distribute goods, not to acquire them.”* (T.J. Saunders in Aristotle (1992, p. 85)).

The distinction in mode of acquisition differs from Neoclassical theory, where profit maximization has developed itself into the main goal and a legitimate mode, perhaps the natural mode, of acquisition. That is arguably incompatible with the Aristotelian definitions of natural and unnatural acquisition. The question remains that if the household manager should acquire that what fulfils the needs of the household, how can the economy be organised in such a way that it enables each (head of the) household to do so? The next sub-section discusses one possibility.

4.2.2 The just price

An important development, based on Aristotle’s work, is the concept of the ‘just price’, a concept quite different from the market price (this is discussed more later on). A large contribution has been done by the scholastics on this, such as, for example, Thomas Aquinas:

“A Thomistic concept of the just person price deserves to be reconsidered, especially because a Thomistic approach offers some useful ways to deal with issues quite differently from the popular neoclassical approach directed toward arriving at a socially optimal market price.”
(Koehn & Wilbratte, 2012, p. 501)

With the just price, one would be remunerated justly for his product or offering, and someone would thus be able to acquire in turn whatever it is, that is necessary for them. In this way, each household would be able to obtain what it needs. (De Roover, 1958) It fits the ideas of Aristotle on proportionality in exchange from the Nicomachean Ethics, chapter V:

“...if proportional equality⁶ is first established, and then reciprocation takes place, the stated requirement will be achieved; but otherwise the transaction is not equal, and breaks down. For there is no reason why the product of the one should not be more valuable than that of the other, so they must be equated.¹” (Aristotle, 2004, pp. 124,125)³⁴

The equation of goods ensures that a transaction is economic because it not only remunerates the parties in the exchange, but also provides them with opportunity for further development (and ultimately *eudaimonia*), because they are not deprived. Soudek (1952) explains that the *“fundamental*

³⁴ Footnote 6: the relative value of houses and shoes. Footnote 1: A fair basis of exchange must be found.

"inequality" of goods consists in their being products of different skills" (p.60) and that 'need' is the "equating factor". Need in this context does not only refer to an immediate (physical) need, but also refers to two aspects of a transaction, namely the request of one party, and the answer, solution or product of the other party. The fact that there are two parties involved that want to come to a mutually beneficial agreement, is important for a just transaction.

In the view of Aristotle, it are not needs that determine only the just price, but needs should underly the whole system (arguably, the economic system): *"...in the broadest sense human needs underly the system of specialization and exchange..."* (Hollander, 1965, p. 622). Included in a just exchange in such a system would be the 'well-being' of both the people directly involved in an exchange, but also that of the community (Koehn & Wilbratte, 2012, pp. 501,502). That would mean a price is determined not on how much something is needed relative to other things, but a price is determined based on the needs of the parties making the transaction. What a just exchange is then, based on a just price, is the following: *"It is the purposeful and mindful meeting of legitimate needs of particular individuals with whom one is transacting that makes for a just exchange, not the exchange's voluntariness."* (Koehn & Wilbratte, 2012, p. 507) This is arguably a fundamental difference with Neoclassical theory, in which an individual is aiming for *his own* utility maximization. What is intriguing, is that a just price and natural acquisition are instrumental for 'the good life'. If one is to be useful for society, to provide for the household, and able to strive towards *eudaimonia*, receiving a just price is necessary, just like paying a just price to others is essential. How would these ideas fit in the current day and age? In the current economic system, trading is undoubtedly connected with money and profit maximization (at least when Neoclassical theory dominates). In the next part, the use of money is discussed in relation to the just price.

4.2.3 The just price and the use of money

There are several theories on the origin of the concept of money. In the context of the literature in this thesis, one is brought forward, which is that money is introduced as an instrument. It can be useful to have something in which the proportional equality, by which the fairness of an exchange is judged, is expressed: *"Hence all products that are exchanged must be in some way comparable. It is this that has led to the introduction of money, which serves as a sort of mean³, since it is a measure of everything..."* (Aristotle, 2004, p. 125)³⁵ Money is an instrument in aid of justice in an exchange, as explained in the article of Dempsey (1935, p. 477): *"To this end, money was invented, that community life might be facilitated and preserved through just contracts which through the device of money are made both easier and more just..."*. Money is a suitable tool, not an end. The article of Hollander (1965, p. 621) adds that: *"Money, however, is merely a 'convention'. Behind the creation of money lies the phenomenon of human need."*

A next question might concern how much money would need to be paid for a good or service: what (or how much) is exactly the just price? The next part discusses what the difference is between the just price and both the market price and the Neoclassical (free-market) price.

³⁵ Footnote 3: i.e. a medium of exchange

4.2.4 Just price: different from the market price or the Neoclassical (free-market) price?

What factors determine the value that is given to be exchanged (in goods or money), what would make up the just price? The article of Hollander (1965) discusses the change in view regarding the just price. There was a time when it was considered to be a price based on costs of production, and a time where it was considered to be a price determined by a market. Hollander (1965) argues that *“there is strong evidence to support the claim that the just price was in fact related to costs”* (p. 616). On the other hand, De Roover (1958) argues that those two views on the just price, can in fact be the same: *“In other words, the market price could not fall permanently below cost. If so, there is no contradiction, since the market price would then tend to coincide with cost or to oscillate around this point like the swing of a pendulum.”* (De Roover, 1958, p. 422) The market price would be approximately comparable to the costs that had been occurred in the production of the good: at certain times below cost, and other times above. Additionally, De Roover (1958) expresses the opinion that Thomas Aquinas, who was influential in the conception of the just price, certainly *“...considered the market price as just”* (p. 422).

Before coming to a verdict on what, for the purpose of this thesis, will be considered the more truthful interpretation, it is important to note that the market price referred to above is not the same as the Neoclassical concept of a ‘free market price’, and that the free market price in turn is not the just price: *“the just person price is not the same as the neoclassical exchange price”* (Koehn & Wilbratte, 2012, p. 510). They explain the Neoclassical free market price as follows:

“... neoclassical economists explain market price and value in terms of supply and demand. Neoclassicists see supply as deriving from the costs incurred by competitive firm and demand as based on consumer behavior in the context of utility maximization. In addition, neoclassicists as defined herein consider compensation of the factors of production to be integrally related to the market price of the final product.” (Koehn & Wilbratte, 2012, p. 502)

Although there is mention of the costs being included in the Neoclassical price, when compared to (or added to) the analysis in Chapter 3, those costs will inevitably be minimized, because that maximizes profits. That in turn is likely to be incompatible with the following idea of Koehn and Wilbratte (2012, p. 504): *“The good life requires that citizens render each other that which is due to them, and what is most due to people is the ability to live a decent, reasoned and ordered life.”* To be awarded ‘what is due’, from the perspective of the seller, is very likely not what the buyer would give in an individual profit (and/or utility) maximizing setting. In contrast, the (just) market price would represent a form of ‘collective evaluation’ both from the sellers and the buyers who apart from their own interests, also have those of the community in mind. (Koehn & Wilbratte, 2012, p. 502)

That fundamental difference with the NCE ‘free market price’ is with regards to behaviour. In Neoclassical economics, people behave in a (individual) utility maximizing way. With a just price that would not work, because the needs (or utility) or the other party must be taken into account:

"One is not morally permitted to treat one or more persons unfairly in an exchange in order to achieve the greatest good of the greatest number of people. Each transactor has a claim to be rendered his or her due in each and every exchange" (Koehn & Wilbratte, 2012, p. 504)³⁶

This shows that 'cost minimisation' to the extent that producers or workers do not receive their due, is incompatible with an Aristotelian economic paradigm. Equality and justice are fundamental and the justice in the equality is described as *"a principle of distribution, be it of wealth, honor, or power."* (Soudek, 1952, p. 48). That does not mean that there is no notion of efficiency in Aristotelian economics, that inefficient producers would get a just price no matter their (lack of) efforts. As per Koehn and Wilbratte (2012, p. 513), the just price *"...enable trades people to continue in their trades (as long as they are willing and able to keep refining their trade and becoming more efficient in their craft with a view to meeting sustained consumer demand)."* What this quote illustrates is that the just price should enable someone to 'continue in their trades', which means that along with efficiency improvements, future developments (by for example education, or even from inspiration) have to be accounted for in the just price they receive. So, a just price includes not only cost of the (physical) production process, but also the input of the producer, through the *Gesitesleben*. In combination with the fact that it is not labour that can be paid for, but only the product of labour, that would mean an abolition of the labour market, a very important implication. More on this is discussed in the next chapter, especially in sub-section 5.5.1.

If these differences in price establishment are so fundamental to the paradigms, the question is how it would be possible to move from a (free) market price towards a just price, and how the difference between needs and wants has its place in it. The next part briefly discusses the opinion of two authors on whether it is man or the system that should change first to accommodate these ideas.

4.2.5 Man, or system change?

There has been an interesting discussion between two authors, Kern and Pack, who argue over what came first: man's unlimited wants, or this money-based socio-economic system that induces us to use money to make more money. The ideas of Kern (1983) on Aristotle's thoughts, sparked a response by Pack (1985), which in a subsequent response from Kern on Pack's critique, gives rise to an important question. According to Pack, Aristotle's second form of wealth getting (trade based) nowadays manifests as 'the use of money to make more money'. This could relate to the emergence of financialization, where the desire for money in itself becomes an unlimited want. He confirms that there is probably no limit to this form of wealth accumulation. But, as opposed to Kern, Pack believes that Aristotle would not point to the endless limit as the main issue, but: *"Instead, I think Aristotle would say that our current problem largely results from our method of acquisition."* (Pack, 1985, p. 392) So, he argues that it is not the desire for unlimited accumulation that is the problem, but the problem is the system that allows this to happen and induces people to behave in this way. Of course, the critique did not go unnoticed by Kern. Kern's response is formulated in a question:

³⁶ "the greatest good of the greatest number of people" is in reference to the Benthamite idea of "the greatest happiness for the greatest number".

“Do we have unlimited wants because of the possibility of sale for profit (Pack’s view of Aristotle), or (my interpretation of Aristotle) do men engage in trade for the sake of profit because they have unlimited wants?” (Kern, 1985, p. 393)

This question is relevant to this thesis because the view of Pack could imply that changing the mode of acquisition, by for example regulating profit maximizing sales, could limit possible negative effects of the profit maximization aim. However, if the issue is located in human nature, as it is according to Kern, changes would have to be much more fundamental: in the human mind. They agree on the fact that the concept of ‘needs’ should be leading in economics, not that of (‘seemingly’ unlimited) ‘wants’. As to how such a state could be achieved, Pack suggests that the ‘mode of acquisition’ has to be replaced first (Pack, 1985, p. 393). However, this suggests that a new mode has to be constructed first, it needs to be thought through. That implies that the first step indeed lies with Kern: there is a shift of thinking necessary before we can make the transition from wants to needs as the primary driver of economic activity. Because currently it is not the case that needs are central, but wants are, this has arguably contributed to the accumulation of large amounts of capital if one acquires or gains beyond their needs, often in the form of sums of money. These sums are referred to as ‘excess liquidity’ (Rüffer & Stracca, 2006) or ‘superabundant capital’ (Bain & Company, 2010) that are gathered in the quest for profits. What is and what could be the economic purpose of these? If Neoclassical economics seems to provide no answer to this question, could an answer be found from an Aristotelian perspective? The next section elaborates on that.

To conclude this section, the aim has been to get as close as possible to an understanding of what Aristotle himself found a proper way of organising economic activity. The just price, as developed based on Aristotelian thought, is instrumental. In case of an exchange, it should cover the needs of both parties. It is more than costs of production, because it includes input of the *Geist*. The most important difference with the Neoclassical free market price is that the intention in Neoclassical price determination is *individual* utility maximization. With a just price, one should take the needs of the other party into account as well. Cost minimizations, whereby it might be that the need of one party is not met, are not possible. Following from the last sub-section here above, the economic purpose of capital acquired beyond needs is addressed in the next section.

4.3 Towards ‘the Good Life’: ideas on profit allocation

This section introduces ideas on how the path to *eudaimonia* could be funded. If the economy and thereby the business ought to be in aid of being able to achieve ‘the good life’, what does this require in terms of more practical organisation? From the previous sections it has become clear that for a life that can be considered a ‘good life’, there are material and non-material needs to be met. One could also classify these in terms of the physical and non-physical economy, where the former concerns material needs such as goods, and the latter non-material needs such as education, healthcare, science, etc. One author who provides concrete suggestions is Wilken (1931, 1982). He proposes that the non-material aspects of life, the things that are not directly included in the material production process and therefore also not remunerated by prices, can be funded out of productivity gains achieved in the economy that arise from productivity growth. The source of this funding is ‘free capital formation’ (Wilken, 1982, p. 15). The next sub-section firstly addresses the need for the non-material aspects of life. The sub-section after that addresses the specific type of funding that is meant.

4.3.1 The importance of the non-material aspects of life

In the physical economy, activities are financed based on a system of debt and equity. Physical capital can be financed by loans (debt) or by issuing shares (equity). Goods are produced, a price is paid for them and that in turn can be used to pay back the debt or to internally re-generate the money that was initially provided by shareholders. In the non-material part of the economy, there are costs too, and bills to be paid, but there is no 'good' one acquires, which complicate a just transaction in a strictly Aristotelian sense. Currently, some parts of this sector are financed from governmental funding (via taxes for example), and others have been privatised (as it was believed that that would introduce a market mechanism in the Neoclassical sense, where prices would be lower because of competition).

Before moving to a discussion on a possibility for the funding of the non-material, it is necessary to clarify why the non-material is so (even increasingly) important to not just a 'good life', but also the economic system. An inspiring author on the subject is Wilken (1931, 1982). A first thought, but also one of the most fundamental in the argumentation in favour of the non-material, is that it is the social and creative elements of society that drive the economy (p.27). It is perhaps a misconception that the economy is viewed so separately from other aspects of society, and economic productivity could actually be lower because of that. Wilken argues that it is *Geist* that influences and shapes the economy. It is people through the (or their) *Geist* that are at the core of practical economic issues:

*"Und da das Arbeiten für den modernen Menschen die Bedeutung besitzt, daß es die einzige allgemeine Möglichkeit bietet, die Persönlichkeit, ihre innere Kraft und das Selbstsein richtig auszubilden, die persönliche Entwicklung in einem objektiven, d.h. auch kulturell wesentlichen Sinne zu steigern, - und da ferner die Wirtschaft dasjenige Lebensgebiet ist, in welchem wirklich umfassend die überwiegende Mehrzahl der Menschen die Gelegenheit zum Arbeit finden kann und muss, so ergibt sich, daß die wirtschaftliche Lebenssphäre eine zentrale praktische Bedeutung für die Verwirklichung der geistigen Notwendigkeiten der Menschheit in der neueren Zeit erlangt hat."*³⁷ (Wilken, 1931, p. 29)

The quote proposes that the 'economic sphere' should be used in aid of realizing aspects tied to the *Geist*, if not that it is the economy that should be the enabler of (the development of) the *Geistesleben*. Another author who presents also practical and calculated arguments, is Baumol (1993). The argument is that it is unavoidable to increase the spending on non-material aspects such as education and health care. The part of GNP (Gross National Product) going towards these activities ('personal services' as Baumol calls them) is growing and will continue to grow. But why? Most prominently because the labour productivity in education, health care, art, or more generally personal services, cannot rise as much and as quickly as in other sectors. (Baumol, 1967) This is due in part to the 'human touch' that is considered so elementary in the non-material sectors (p. 19), but also because standardization is often not an option, and because *"quality is, or is at least believed to be, inescapably*

³⁷ It translates to: *And since work has the meaning for modern people that it offers the only general possibility to properly develop the personality, its inner strength and self-being, the personal development in an objective, i.e. to increase also culturally essential senses, - and since the economy is that area of life in which the vast majority of people can and must find the opportunity to work, it follows that the economic sphere of life is of central practical importance for the realization of the spiritual needs of humanity in recent times.*

correlated with the amount of human labor devoted to their production." (Baumol, 1993, p. 20). As a response, Baumol makes the following point, both important and practical:

"As was pointed out some time ago by David Bradford (1969), in an economy in which productivity is growing in almost every sector and declining in none, consumers can have more of every good and service. To achieve this goal, some limited quantity of the inputs used to produce goods whose productivity is growing (the "progressive" outputs) must be transferred into the production of the stagnant services." (Baumol, 1993, p. 23).

This idea of transferring the productivity gains achieved in the goods-producing economy (in particular manufacturing) to another part of the economy that is equally important but less productive in terms of growth, in order to further the whole economy and society, bears similarity to the ideas towards 'the good life' as outlined in this thesis. An illustrative quote: *"For Sen (1997), the two are related as means and ends: the productive capabilities that lead to economic growth are linked to the expansion of human freedom to live the kind of lives that people have reason to value."* (van der Linden, 2019, p. 209) The next sub-section explores the ideas on how productivity growth and the subsequent productivity gains can be used to do exactly that.

4.3.2 Funding

The non-material aspects of human life, and the development of the *Geist* through the *Geistesleben* should be taken care of and therefore funded, but how exactly? A possibility suggested by Wilken (1987), Baumol (1993), Marx (1858), Keynes (1930) and others is to use productivity gains that are generated in the economy. Productivity gains are, as touched upon before, money that is saved during the process of labour-capital substitution. So, when labour can be replaced by a machine with lower overall costs, profit arises on the business's Profit and Loss account (Wilken, 1982, p. 13). However, the profits arising nowadays are not all productivity gains. It is important to understand that there are different kinds of profit. According to Wilken (1982), some are economic, whilst others are uneconomic. The book by Wilken (1982) is very helpful in differentiating between different kinds of profit or, more generally, different forms of capital formation. According to Wilken (1982, p. 220–221), capital formation can be 'justified' or 'unjustified' (in addition to capital being 'economic' or 'uneconomic'). Justified forms of capital formation are, according to Wilken (1982, pp. 220 - 221):

1. *"the free and primary formation of capital in the sphere of production, that is, the formation of profit in the true sense."*
2. *"the voluntary formation of capital in the consumer sphere, from savings and not from profits."*
3. *"the arbitrary formation of capital through the creation of money in the financial sphere. This can be considered as freely created in counterpart to the primary formation of capital. It is usually in the form of credit creation by the banks. The danger here is that any increase in the quantity of money which is not justified by some real development would upset the balance of the economy, increase prices, and capital sums, and lead to inflation. This would be an unjustifiable form of capital formation, which would hinder proper circulation."*

Unjustified formation of money capital can come from sources such as the following:

- a) Forced consumer savings (by way of pricing policies): *“the formation of capital through pricing policy, so that prices of goods are increased leading to what is called “forced savings” on the part of consumers.”*
- b) Underpaying that results in suppression of income formation: *“the formation of capital through the withholding of necessary income formation, for example through paying inadequate wages. Marx considered this to be the primary form of capital accumulation.”*
- c) Speculative transactions in for example land or property: *“the formation of capital through unreal and improper profit formation resulting from the sale of factitious goods such as land and various types of property, including factitious capital as already discussed. All this is linked with the speculative accumulation of money capital, which has the effect of impoverishing others by dislocating capital from its proper source.”*

To discuss the unjustified formation first, option c refers to the increase in speculative, price increasing activities as mentioned in the previous chapters. Option a could be when there is a, in Neoclassical terms, monopoly or oligopoly because then the business would have price-setting power. Option b could be addressed by the use of a just price, because there could be no ‘underpaying’. In this thesis, the emphasis is placed on item number 1, or the ‘formation of profit in the true sense’. True profit is thus the formation of profit from productivity growth: money, or capital, that is ‘spared’ by productivity growth are called productivity gains, and when those are booked onto the balance sheet as a profit, they become what is referred to as true profit.

In line with the Aristotelian purpose of the economy discussed before, there are material and non-material needs to be met, the latter in the cultural-scientific sphere. Various authors have suggested to use true profits in order to fund the creation of non-material value. It is to profit in this sense that the title of this thesis, ‘the Purpose of Profit’ refers to. It refers to what in the economic literature has been named ‘free capital’ (Wilken, 1982). That is, capital that is no longer tied to its original function in production (note the use of ‘freed’ rather than ‘free’) *“...freed capital – money freed from its current use in physical production as a result of the working of human intelligence, and no longer needed in such production...”* (Naastepad & Mulder, 2018, p. 317). An interesting question is: *“... who can legitimately claim to own free capital? To whom, precisely, should it rightfully belong – from the point of view either of its origin or of its use?”* (Wilken, 1982, p. 16), a question that will be discussed later on. Naastepad and Houghton Budd (2019, p. 123) take this further:

“Even if [freed capital was] seen as the ‘intellectual property’ of one or more individuals, one might ask which would be more economical: to link freed capital to (the past capacities of) inventors, or to what freed capital could achieve for society as a whole by funding the unfolding of present and the development of future capacities – i.e. education in the widest sense of the term? From an economic point of view, is it questions of ownership that we need to ask, or how freed capital is used most productively?”

Additionally, Houghton Budd (2004, p. 23) proposes “...surplus value (that is, value created over and above what is needed to meet investors’ dividends and ongoing capitalization needs) should not be privatized, but should go to the benefit of cultural life.” This would be a right destination, as the freed capital, originates due to human capacities; it is a consequence of the growth and use knowledge:

“...improvements in the production process originate in the general development of knowledge, intelligence, ideas, i.e. in cultural progress in general. In that sense, inventions and innovations cannot really be seen as the property of any individual; they are, rather, the fruits of intelligence and cultural life more generally” (Naastepad & Houghton Budd, 2019, p. 123)

It is precisely because of non-material aspects, healthcare and of course education, the time to spend thinking, that technological progress is made, and capital is freed. This combined knowledge if you will, is referred to by Eells (1967)³⁸ as "the arts", and by Wilken (1982) as the *Geistesleben*, and that as whole is exactly what should be rewarded for its contributions:

“That is, claims would not be made by particular individual members as countervalue for their individual intellectual contributions, but these would be raised on behalf of the *Geistesleben* as a whole, and must be transferred to it as a whole.” (Wilken, 1982, p. 32)

Intuitively this makes sense, but in the current system the question is whether this is being done, as illustrated by Naastepad and Mulder (2018, p. 316): “But does freed capital, in turn, support the further growth of human knowledge, ingenuity and consciousness, to which, arguably, it ‘belongs’?” When free capital is used to fund the goals stated above, society as a whole will benefit. According to Galbraith (1958, p. 201): “Investment in human beings is, *prima facie*, as important as investment in material capital. The one, in its modern complexity, depends on the other.” This quote underlines once again that in its principle, the material cannot exist without the non-material, and therefore deserves to be included in the economic system, rather than being an afterthought to society. The following quote is a neat summation of the issues in this section:

“To repeat, one cannot have an enterprise that does not make a profit, or in which this profit is not an increase in internally-generated capital. Fight over it or tax it as one will, the question is whether that profit is arrived at fairly and then, not who owns it, but what use is it put to? In particular, is it used to stock or to circulate capital? Is it collateralised against real estate or lent against the borrower’s capacities and initiative (what used to be called lending to the man not the asset)? Fundamentally speaking, once we see capital’s role as the economic counterpart and facilitator of people’s capacities – capital as the concomitant of Sen’s ‘capabilities’ – we will cease linking it to material security.” (Houghton Budd, 2015a, p. 11)

The question for this section was that if the economy (and thereby the business) ought to be in aid of being able to achieve ‘the good life’, what does this require in terms of how we organise the economy?

³⁸ According to Mees (2015, p. 195): “Eells was a manager of public policy research at General Electric and was particularly interested in the social role that corporations have as institutions in society – philanthropic, statesmanlike and what he called the “well-tempered corporation”. A renowned promoter of socially responsible business practice in the 1960s...”

The answer would be that the economy has a dual purpose, and so does the business. There is an obligation to meet the material and non-material needs of all people. Non-material needs refer to that category of activities which actually furthers human development, and in turn also economic development. It therefore ought to be properly funded, and that could be done with productivity gains. The next section presents all the conclusions from this chapter.

4.4 Conclusions

The topics in the chapter have covered the economic purpose according to literature related to Aristotelian thought, in comparison to what Neoclassical economics appears to prescribe. An essential difference is that in an Aristotelian economy, in aid of 'the good life', one must make a difference between wants and needs. Currently, the economy thrives on insatiable wants, but the needs are what should be the leading concept. The aim in this chapter has been to answer the following research question:

RQ 2. According to an emerging macro-economic and business organization literature, the ultimate goal of economic activity is not to achieve Benthamite-utilitarian 'happiness' or 'utility maximization', but to achieve Aristotelian '*eudaimonia*' (or 'the good life'). What could this goal look like when operationalized, how could this goal (according to this literature) be achieved economically, and how could the activities required for this be financed?

When the goal of the economy would be *eudaimonia*, it would mean that we should have more than an economy that fulfils our material needs. To realise this goal, the implementation of a just price would be instrumental. A just price would be paid for the *product* of labour, not for labour in itself. It should cover the costs incurred in production, and also cover the efforts of the *Geist*. A just price is more than a remuneration for labour. The just price should enable each person (an individual producer or entrepreneur) to sustain their household and live towards *eudaimonia*. Additionally, the pursuit of growth and profit for the sake of accumulation, would be a thing of the past if the growth of human capacities were recognised as the source and destination of profit. The Aristotelian goal of *eudaimonia*, although very different from current practice, can in fact be reached economically if the purpose of the economy would not be growth or financial gains, but activity in service of *eudaimonia*.

The parts of the (material) economy that have productivity gains beyond the needs of that sector, could fund the development of the non-material aspects of life (including what Wilken (1982) refers to as the *Geistesleben*). That would be not only beneficial for human development, but also for the economy, as is argued in the last section: that the non-material, in combination with the *Geist*, is ultimately where productivity gains have their origin, and there the gains should return.

Whether or not that is economically efficient, can be answered for this chapter too. Intuitively, but more importantly economically, it cannot be efficient, to not let people develop themselves and their capacities. Therefore, if they do develop their capacities, they have a fruitful starting point before entering or participating in the economy. In the legal sphere, there are agreements that the opportunity for development is safeguarded. What would entail a just price can be regulated there. This is in essence the same efficiency that the Neoclassical theory talk about, namely, you make the most of the input in relation to output. The difference is in Aristotelian based thought, there is an

agreement that people must receive a certain level of income in order to be able to develop themselves, a lower limit if you will. With Neoclassical arguments, people could live below the poverty line if it would be economically efficient. With Aristotle, that is not only morally rejectable, but also economically inefficient, because if all are able to participate productively in society and the economy, that would always be efficient towards the overall goal of economic activity: *eudaimonia*.

The next chapter will approach the issues from the business perspective, to envision what the larger conceptions of the economy and the business would look like when operationalized on the micro-economic level.

5 Operationalizing the two conceptions of the business

If *eudaimonia* would be the central goal behind economic activity (instead of utility maximization), the question arises what this implies for labour, capital and land and how this compares to the treatment of the production factors in Neoclassical economic theory that currently shapes our economic system. The ideas are not only discussed theoretically on a micro-economic scale (similar to the theoretical macro-economic discussion of the previous two chapters) but the aim is in this chapter also to explore how the ideas could look like in an operational business setting at the micro-economic level. The research question central to this chapter is the following:

RQ 3. What would be essential elements of a theoretical foundation of business operations towards the economic goals mentioned in the Aristotelian literature as discussed before?

In order to answer it, first operational aspects in relation to the purpose of the business according to Neoclassical economics are discussed in Section 5.1. Section 5.2 explores possible effects of financialization on business operations, and explores whether the effects that are seen today are in any way related to NCE. Section 5.3 explains the three spheres that were introduced in the introduction: cultural-scientific, legal-political and practical-economic, because they shed light on the dynamics that appear present. In Section 5.4, the ideas on the purpose of an Aristotelian business are discussed. The next Section, 5.5, presents the operationalization of an Aristotelian business structured by land, labour and capital (what in NCE are called the 'factors of production'). The last section, 5.6, presents the conclusions.

5.1 The purpose of the business according to NCE

In this section we move, based on the theory of Chapter 3, towards the business level. In Chapter 3, it has been briefly captured what Neoclassical theory has to say about the economic system as a whole, combined with an explanation of the production function. In this section, the situation for a firm will be discussed specifically (micro-economic). Emphasis will be placed on the goal of profit maximization. This is done because from Chapters 2 and 3 combined, there seems to be a connection between profit maximization, cost minimization and financialization.

The theoretical goal (with Neoclassical economics) is profit maximization, and the practical implementation hereof focuses on cost minimization. In order to visualise every opportunity for cost reduction, every aspect of the business is translated into financial values. This allows for identifying and eliminating costs and could explain the popularity of financialization. Firstly, the firm level Neoclassical theory is discussed here.

On the micro-economic level, there is a profit maximization function, whereas at the macro-economic level, there was the production function, as discussed in Section 3.2. The production function no longer suffices because it is based on the factors of production, and an individual producer (the micro level) has no influence on the price of labour, capital or land. In Section 3.2 it has been mentioned that profit maximization follows the rule: $\Pi = R - C$ where Π = profits (maximum), R = revenue and C = cost. Now to elaborate on this profit function, with total revenue and cost (the formulas based in part on Koutsoyiannis (1975)):

Total revenue (price * output) $TR = p * x$

Output expressed as a function of labour L and capital K , where α and β are coefficients: $x = aL^\alpha K^\beta$

Total costs also expressed as (wage rate³⁹*labour, and cost of capital*capital): $TC = wL + rK$

That makes the function for profit: $\Pi = px - [wL + rK]$.

In turn, profit maximisation can then be expressed as: $\text{Max } \Pi = p * aL^\alpha K^\beta - [\bar{w}L + \bar{r}K]$

The wage rate w and the cost of capital r , are determined via the factor markets of labour and capital. So, what can an individual company do to minimize cost? Only factor substitution, or differently put, the choice of production technique by which the ratio of labour to capital or vice versa, depending on the cost of both, changes.

An important claim to support the profit maximizing ideology at the business level is made, which is an assumption in the Neoclassical economic theory: *"The goal of all firms is profit maximisation. No other goals are pursued."* (Koutsoyiannis, 1975, p. 155) Even if other goals were to be pursued besides maximum profit, they are assumed to be reached fastest and easiest by adhering to profit as goal number one (Koutsoyiannis, 1975). There are six assumptions that form the basis of the Neoclassical theory of the firm, as described on page 257 of Koutsoyiannis (1975).

1. The entrepreneur is also the owner
2. The single goal that the company chases, is profit maximization
3. This is done via the marginalist principle of $MC = MR$ (marginal cost = marginal revenue)
4. The world is not uncertain
5. Entry assumptions vary (with either model of perfect competition, monopoly or oligopoly)
6. There is a time-horizon (with time periods being independent)

So, according to the second item on the list, the task for the management of the business is to maximize profit. This has been translated into shareholder value maximization:

"In the 1970s, the so-called Chicago school of economists laid the foundation for a totally new approach to the management of enterprise: the pursuit of shareholder value as the sole corporate concern. They felt this was not only economically correct, but also morally justified as shareholders run by far the largest risk..." (Kalff, 2005, p. 48)

The book by Kalff (2005) captures the hallmarks of a modern business model, which he terms 'the American Enterprise Model'. They are (based on Kalff (2005, pp. 21-22)):

1. Risk taking ('the essence of entrepreneurship') is a central feature in business operations. Only the shareholder is subject to 'exposure' (or risk).
2. Strong and single leadership: the CEO. Shareholders attach compensations to profitability and to the shareholder value maximization.

³⁹ Or cost of labour.

3. Decision making is decentralized, and the companies have a structure of divisions, business units, product/market combinations.
4. Strict control based on finance. Internal units can also be used (bought and sold) to optimize the portfolio.
5. Lean head offices, with minimum commercial and technically skilled personnel, but mainly managers and financial experts.
6. Internal labour markets (used to fill management positions).

Where we can see the financialization in the business operations, is in point 1, 2 and 4: the profitability and shareholder value maximization and the financial controls respectively. Shareholder dividends (the returns they get for putting their money 'at risk') are considered a good thing, as shareholders are supposed to hold some wisdom that makes them perfectly capable of redistributing their dividends in a way that is optimum for the economy.

With this theory in mind, a next step can be taken in evaluating and understanding the relation between financialization (possibly related to Neoclassical theory) and the effects thereof that can be found on the micro-economic business level. This is done in the next section.

5.2 Effects of financialization on business operations

So far, mostly broad effects of financialization have been discussed. In this section the focus will be placed on some changes that are worth mentioning particularly in relation to profits. Because the dominant paradigm prescribes that profit must be maximized, profits are in practice also used to achieve more (purely financial) profits. This happens in the financial markets. However, because the opportunities to make even more profit from profits, are limited, all kinds of inventions were made (derivatives etc). These brought instability into the system, resulting (according to various authors including Mazzucato and Wray (2015); Ruffer and Stracca (2006); Turner (2017)) in the financial crisis of 2007-2008 and an increase in inequality.

In its beginnings, the revenues of a company are used largely to compensate labour and capital. In Keynesian, post-Keynesian, and Marxist literature, these income categories are referred to as the 'wage share' and the 'profit share' respectively. In Neoclassical theory, a large part of profits is used as 'savings', where they effectively wait to be invested (in principle in new or replacing means of production or 'capital stock', see Chapter 3). For some decades the trend has appeared to be to minimize the wage share in order to maximize the profit share, as is visible from Figure 11 below.

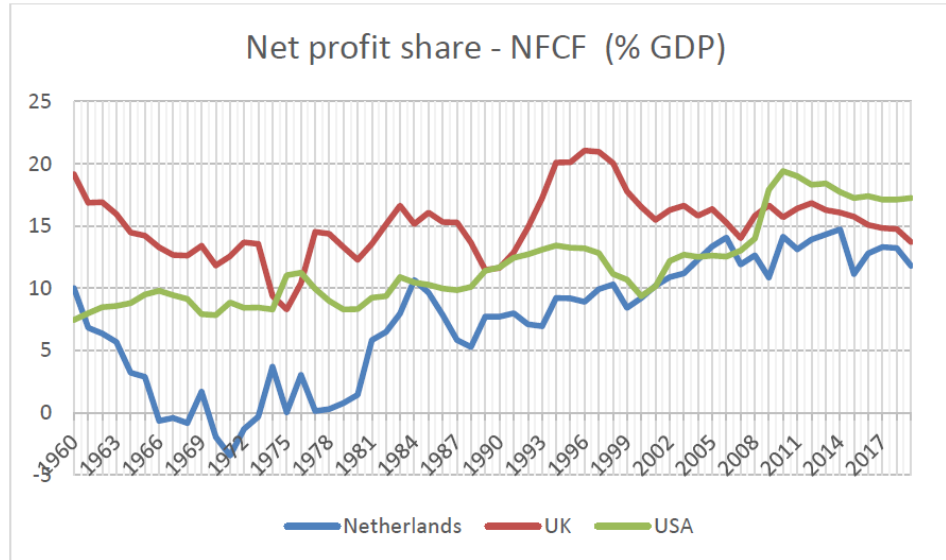


Figure 11 - Net profit share and net fixed capital formation (NFCF) in the Netherlands, the UK and USA from 1960-2019) (Naastepad, 2020a, p. 10)⁴⁰

The figure shows that, especially after the mid-1980s, the net profit share has been rising, on some occasions quite steeply. The fact that this occurs seems to be at odds with the perfect competition model that, according to Neoclassical economics, can be seen as the ‘best’ configuration of the system. Perfect competition means that no single company has market power (or price setting power), because the markets dictate the price. If the profit share is actively manipulated and rising, it can no longer be a case of perfect competition, but rather an oligopoly. In the case of an oligopolistic system, there is a (or few) companies that do have price setting power (in both the labour and goods market). By influencing the wage share, the profit share can be adjusted.

This does not mean that the case of perfect competition, the profit share cannot change. Due to exogenous influences, such as technological advancements, it could, because those influence the function of production. If the productivity of labour goes up (due to technological improvements), but wage w doesn't, the profit share changes, in this case rises. However, what would happen next is that a new equilibrium is reached, labour and profit share will readjust to get back to equilibrium. This can be seen from the ratio of capital to labour (K = capital, L = labour, α and β are coefficients, and w the wage rate, and r cost of capital):

$$\frac{K}{L} = \frac{\beta}{\alpha} * \frac{w}{r}$$

Perfect competition dictates that the prices (w and r) would readjust to preserve the ratio K/L . But as the labour share keeps declining, and the profit share rising (as can be seen from Figure 6 and Figure 8), the argument for perfect competition seems to be difficult to uphold, and the case of an oligopoly is stronger. The fact that this is happening, can perhaps be called an unintended

⁴⁰ Data source: https://ec.europa.eu/economy_finance/ameco/user/serie/SelectSerie.cfm

consequence of the relation between Neoclassical economics and financialization, because the preferred state would be perfect competition, not oligopoly.

Another deviation from the Neoclassical model is the apparent absence of the influence of a rising profit share on investments, which would be expected from the circular flow of income (Figure 4). As Figure 3 of Palma earlier showed no rise in investments, despite the rise in financial assets (possibly from the higher profit share), the question is: what is that part of profits used for if not investments? Perhaps it is related to a shift in paradigm that can be described as follows. Lazonick (2014), talks of the 'retain-and-reinvest' approach (savings from profits are used for investments) that shifted to a 'downsize and distribute' regime (related to financialization in its characteristics). The investments were initially used to develop the company, among other things:

"From the end of World War II until the late 1970s, a retain-and-reinvest approach to resource allocation prevailed at major U.S. corporations. They retained earnings and reinvested them in increasing their capabilities, first and foremost in the employees who helped make firms more competitive. They provided workers with higher incomes and greater job security, thus contributing to equitable, stable economic growth—what I call "sustainable prosperity." This pattern began to break down in the late 1970s, giving way to a downsize-and-distribute regime of reducing costs and then distributing the freed-up cash to financial interests, particularly shareholders. By favoring value extraction over value creation, this approach has contributed to employment instability and income inequality." (Lazonick, 2014, p. 5)

This quote argues that the first approach was also beneficial for the employee, not necessarily for shareholders or financial institutions. The shift towards another regime, in which earnings were no longer retained to finance the investments and general development of the business, began after the 1970s. This more or less coincides with the moment that private investments (in the real economy) began to separate from the size of financial assets as described in the figure of Palma (Figure 3). The new regime is referred to by Lazonick (2014) as 'downsize-and-distribute'. Via cost-cutting, the wage share is reduced, and the profit share increases: (cash) money is liberated and transferred to shareholders in particular, but also other financial interests. An apt description of the situation is that the businesses switched from 'value creation' to 'value extraction' (Lazonick, 2014, p. 5).

One of the measurable effects of this regime switch, is the amount of money spent on share buy-backs and dividends. This might be where the profits that are not turned into savings and investments, are spent on. Lazonick (2014) relates this also to the increased productivity. That means that in time, possibly due to technological progress, companies have become more efficient, technology has advanced etcetera. This means in turn that money is 'freed' (to use a term of Wilken (1982)). Money that was once necessary to pay for example ten employees, was, let's say, a 100. Now, with a machine, no employees are necessary, and the machine only costs 50, so the other 50 is no longer tied to its original destination. Often this is booked as a profit. Apparently, as visible in the figure below, a part of this money has not been reinvested, but is spent on buybacks and also dividend.

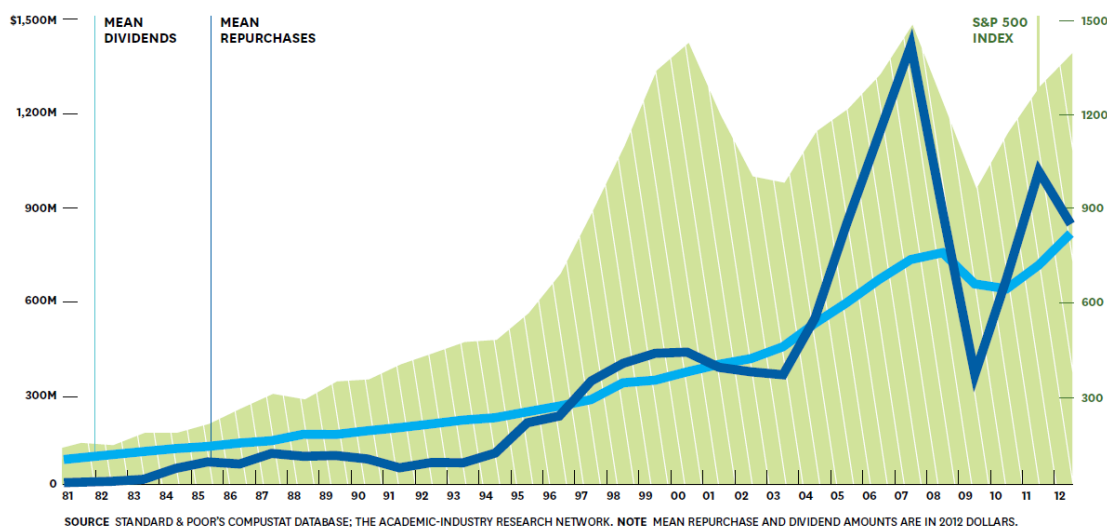


Figure 12 - Dividends and buybacks compared to size of the company (Lazonick, 2014, p. 6)

An article by Baud and Durand (2012), in which they quote Krippner (2005), gives some more insight on financialization at the company level. They say that at a company level, it is: “*a pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and commodity production*” (Krippner, 2005, pp. 174–175).” (Baud & Durand, 2012, p. 243). According to Baud and Durand (2012, p. 253) themselves: “*Financialization (2) of investments and the development of financial services appear to be possible alternatives to the development of the usual operational activities.*”. The way in which this occurs or manifests, can be divided into three dimensions, in line with the article of Palley (2007). The first is the adaptation of certain objectives, which most importantly is the shareholder value maximization focus (with accompanying increased flow of finance from the ‘non-financial corporations to the financial sector’). The second is a change in investment behaviour, which is visible in a rise of financial assets that are bought and owned by non-financial firms, as part of their investment strategy (instead of increasing productive capacity for example). The third and last is that business operations have become financialized, which means that non-financial firms have changed relations they have (with customers and/or employees). The article describes the latter as: “*the search for financial gains by non-financial corporations from the routine transactions conducted mainly with their stakeholders*” (Baud & Durand, 2012, p. 244)

What this would mean is that if the literature shows that we are not in a situation of perfect competition, but in an oligopoly, the policy formation and the apparent influence of Neoclassical economics thereon as discussed in the introduction of Chapter 3, needs to be reassessed. Most importantly, the paradigm of profit maximization is intended for a case of perfect competition. So, if that is no longer present, profit maximization as the goal might very well be the wrong aim.

5.2.1 Critiques

This sub-section presents some critiques on the current economic circumstances. The intention is not to blame, but to showcase what the effects of profit maximization and financialization can be. If

anything, it highlights unintended consequences of what once started out with Neoclassical economics, but arguably is not that anymore.

A first critique presented regards the idea that profit has to be the leading goal: *“The notion that the desirable activities are those that bring a profit has made everything topsy-turvy.”* (Russell, 1932, p. 9) Kalff (2005) questions the shareholder value ideology that is connected to it especially, claiming that it has actually been destructing value rather than creating it, since the 1990s (p. 53). It also has narrowed the investment choices that are made. The narrower investment choices reflect the distribution of profits and could explain why there is a transfer of value from the real economy to the financial markets. Management practice appears to have been influenced as follows:

“A choice for profit per share determined that corporate management would concentrate on five broad areas for improvement as the surest and quickest way to satisfy shareholders: financial restructuring, corporate redesign, mergers and acquisitions, staff reduction and improvement of margins via market leadership. Each is increasingly ineffective.” (Kalff, 2005, p. 63)

Another critique shines its light on possible misallocation of finance. It is of course debatable what exactly would be right and wrong allocation. Neoclassical theory would prescribe good allocation as that which would maximize profit because that would increase growth through investments. Misallocation could be showing itself with a lack of general economic development, which would mean too much money is going to the financial sector (Epstein, 2018; Hudson, 2012). Possible consequences for society are described by Kedrosky and Stangler (2011, p. 8) in the following way:

“In particular, capital misallocation can lead to inflated (deflated) asset prices, lower productivity, less innovation, less entrepreneurship, and, thereby, lowered job creation and overall economic growth. The mechanism that creates each of these effects is, of course, the flow of capital in the economy as exacerbated and distorted by financialization.”

It relates to the notable increase in the size of the financial sector. The growth of this particular sector appears to be tied to the search for yield on financial capital. This can create excess, or surplus, financial capital. Surplus financial capital is often used to acquire even more capital (Naastepad & Houghton Budd, 2015). The change of techniques in order to increase profitability is not only visible in business operations (by redirecting the surplus financial capital), but also in regard to real investments:

“This new behaviour is detrimental to real investment through two kinds of mechanisms (Orhangazi, 2008). First, increased payment to financial markets in the form of interest payments, dividend payments and stock buybacks may hinder real investment by reducing internal funds and shortening the planning horizons of the firm management. Second, increased financial profit opportunities may diminish real investment because firms will prefer to invest in financial assets and activities.” (Baud & Durand, 2012, p. 251)

Some of the critiques are aimed at the growing diversion in wealth distribution. As mentioned before, some people benefit a lot more from the economic system than others. It is arguably the case that this could deprive people of chances of living a fulfilling life, especially when they are not able to develop to their full potential due to deprived economic circumstances (as for example discussed by Sen

(2001) and Nussbaum (2011)). Remarks like this raise the question whether an alternative approach to the distribution of profits could perhaps create more opportunities for human development.

The aim in this section was to explore the possible relation between the growth focus, and consequently the financialization movement, and operations at the business level (or micro-economic level). The first part discussed the purpose of the business according to NCE. The first sub-section shows the effects of financialization on business operations. It appears to be that profits have risen, or better put, the profit share has risen. It would be logical that that would lead to more investments because that is what the theory seems to prescribe. However, that doesn't seem to be the case, instead there is an increase of flows to financial realms. There are several critiques on financialization, mostly regarding the use and allocation of profits. This in turn appears to influence the social efficiency by influencing the distribution of wealth, often in favour of the wealthy. The most important take-aways are that it might be possible that the markets are not necessarily the most efficient way to distribute, if one were to measure efficiency not only in financial returns but also with human aspects in mind. Secondly, the growth motive that gave rise to financialization has brought about an ever-increasing hunger for profit, which might explain speculative behaviour that in turn can negatively influence the economic system as whole. What can be seen also, is the interplay between economy and society, and between business practice and what regulations the business adheres to. These aspects can be grouped according to the three spheres as mentioned in the introduction. The next section will discuss them in more depth, to focus on the dynamics that appear to be present.

5.3 The three spheres

In order to clarify the dynamics that appear to be in play, and at the same time to bring structure into the story, this section explains a division into three spheres: cultural-scientific, practical-economic and legal-political⁴¹. In this section, relationships between labour, capital and land (what Neoclassical theory refers to as factors of production) and the spheres are explained. First, interrelationships between the spheres that appear to arise when the economy is organised according to the assumptions and prescriptions of Neoclassical economics are discussed. Next, the spheres themselves are elaborated on in the second sub-section. The last sub-section explains the interrelationships between the spheres that an Aristotelian paradigm may give rise to.

5.3.1 Observations concerning the spheres in the Neoclassical economic paradigm

In the current system, of both society and the economy, one can see the businesses that operate. They often operate based on a Neoclassical view on the economy (that originates and is taught and further developed in universities, schools, research institutes etc., in short, in the cultural-scientific sphere) and go about their business, with all observations and results as mentioned until now. At the same time, there is, at least in the Netherlands, a strong presence of the state. It is assumed that the state intervenes in order to mitigate some of the less attractive effects of the 'free-market' economic system, through means such as unemployment compensation. The state also largely takes responsibility for education, health care etc.; it funds large parts of the cultural-scientific sphere. Basically, this is an attempt to redistribute the earnings and accumulations that take place in the

⁴¹ How this distinction was made, is explained in a footnote in the introduction.

economic sector, but it also controls to a considerable extent the contents of education and research (for example through the institution of state exams, by subsidising specific research programmes, etc.). Effectively, there is a political system in place, that mitigates effects (or shortcomings?) of the economic system and funds and regulates (parts) of cultural life. There are rules and regulations embedded in the law in order to ensure safety and stability for the citizens. For example, concerning employment arrangements, education, minimum healthcare and insurance issues. Whether that is effective, is perhaps debatable according to the following quote, including its footnote:

“the post-WWII era saw the creation of the welfare state, including unemployment insurance, transfers to the disadvantaged, some form of health insurance, re-training programs, etc. These “safety-nets” were supposed to provide a reasonable palliative to “losers”, but the truth is that we still don’t have effective mechanisms to prevent or ameliorate the costs of major technologically-induced transformations.”

Footnote:

“Typically, these safety nets function reasonably well when dealing with the consequences of not-too-pronounced business cycles, or with small, temporarily deprived groups of the population. Not so when there are major structural transformations, or when the underlying conditions that led to welfare dependency become permanent.” (Trajtenberg, 2018, p. 3)

The economic sector is large, and with size there has come power. In order to secure economic interest, politics are susceptible to influences from large businesses. Not only that, but also cultural and scientific aspects are influenced by the economic sector. This happens for example by arrangements between business sectors and educational facilities to determine how people should be educated in order to fit the needs of the economy. This trend is signalled by van der Linden (2019, p. 208), arguing that it is reversing *“a major cultural innovation of the past: the struggle for freedom of education.”* Additionally:

“Modern thinkers such as Sen (1999), Nussbaum (2010), and Higgins (see O’Brien 2016) speak of a ‘silent crisis’ in education. Instead of completing the journey towards cultural freedom, education is increasingly aimed not at the free development of the capabilities of the young, but, rather, is subordinated to political and, increasingly, financial demands.” (van der Linden, 2019, p. 221)

So, it appears the economy influences the cultural and the scientific aspects of society. For example, the influence of business on curricula, which can lead to universities producing *“graduates for the market”* instead of *“fostering life-enhancing skills such as critical thinking and creativity”* (O’Brien, 2016). A liberal system would promote freedom of thought in the cultural sphere, however, it appears to be that in the current system, the cultural promotes equality, and the freedom is in the economic. What is so striking about this, is that the Neoclassical system in its origin is very liberal. The Neoclassical market system theoretically thrives on liberalization (see for example chapter 1 of Turner (2017)). Influential liberal thinkers such as J.S. Mill⁴² argued that the government (the

⁴² An influential economist and philosopher from the 19th century, who balanced utilitarianism and liberalism. (Filosofie, 2020)

political sphere) should never interfere in the economy nor in the cultural sphere. Neoclassical theory prescribes no state interference in the economic, however, the state should be favourable to private property (which can be accumulated with or in the economy).

In combination with unease about the growing inequality the system leads to, attempts are made to reduce inequality through government intervention, away from the economic sphere. *“The only option to deal with poverty and marginalisation is “after-market intervention”⁴³.”* (Naastepad & van Beers, 2015, p. 122) As a possible result, it appears that Neoclassical economics has brought about a need for a ‘welfare state’, something it should theoretically oppose to:

“Even though they may pretend to preach about idealized free markets, they clearly have not understood the full implications of how an idealized free market would work, i.e. that such a market would provide precisely the type of insurance that they are opposing.” (Korinek & Stiglitz, 2017, p. 7)

In a schematic way, using the spheres, there appears to be a ranking of the spheres, instead of relatively equal interplay which is proposed to be the right view on them. This is depicted in the figure below. As stated by van der Linden (2019, p. 221): *“Paraphrasing Beckert and Streeck (2008) and Beckert (2011), the cultural sphere is politically and economically constructed. In Mann’s terminology, political power and economic power dominate cultural power.”*



Figure 13 - The spheres as they appear to be display themselves in the current system

Now that it is discussed what we seem to currently observe in terms of the spheres, the next subsection will discuss what could theoretically be included in each sphere, and how that affects the interplay between the spheres.

5.3.2 The spheres explained

The spheres, as mentioned before, are defined as cultural-scientific, legal-political and practical-economic. The foundations for this categorization can be traced back even to Aristotle’s time in the form of Plato:

“A common understanding about society – reaching back through Comte and Montesquieu to Plato, and found among some of the most eminent macro sociologists including Alfred Weber, Max Weber, Émile Durkheim, Jürgen Habermas – is that it is made up of three dimensions or spheres: the economy, political life (including law-giving and regulation, parliamentary

⁴³ Original footnote (no. 139): Paul Krugman, *Washington Monthly*, September 1998 (Book review of *The Living Wage. Building a Fair Economy* by Robert Pollin and Stephanie Luce.)

*democracy, etc.), and culture.*²³ (footnote 23 – ‘Lebenswelt’ per Habermas (1981)) (Naastepad, 2019, p. 369)

This fits for example ideas as explained in Wilken (1982, p. 14): “... all three parts of the social organism – in economic life, in cultural life, in the life of the state ...”. In the context of this thesis, the ‘economic life’ is termed the practical-economic sphere, ‘cultural life’ is here called the cultural-scientific sphere and the ‘life of the state’ is the legal-political sphere. The three parts are both independent and influence each other to some extent, and they are a necessary condition for social harmony (Wilken, 1982, p. 166). That they can be seen as a necessity for ‘social life’ is explained as follows (adapted and interpreted from Wilken (1982, p. 166)):

- The basis for social life is the independent and self-managing cultural life or *Geistesleben*. This is roughly comparable to the non-material aspects of life as discussed before, and fits the cultural aspects. It is something that can be said to be present at the level of the individual.
- The second social aspect is the life of the state, or the *Rechtsleben*. This would mean the arrangements and securities that are in place to organize social life according to the idea of justice. It is legal in nature and less personal (or individual). This matches the envisioned interpretation of the legal-political sphere. The political has the ability to shape the view on what is ‘right’, and in turn, the law embeds what is found to represent ‘justice’.
- The last aspect of social life is the apparent self-shaping economic system, the *Wirtschaftsleben*. This is supposedly the peak of social life, as it covers the making and distribution of goods. The important point is that this is to be done from a ‘self-transcending social mode’, which fits the proposed Aristotelian conception of labour very nicely. Not the individual is central, but the collective, the bigger picture. This idea might be instrumental to how the practical-economic sphere could take shape.

The figure below is a representation of the spheres, including the interaction they can have. In relation to the business, the following quote captures how essential cultural life or *Geistesleben* is to the economy and the modern corporation:

“The productivity of the modern corporation depends far more than is generally realized upon astonishingly rare human resources which, when tracked down, often prove to be a species of genius that is difficult to classify as either exclusively scientific or exclusively artistic.” (Houghton Budd, 2004, p. 8)

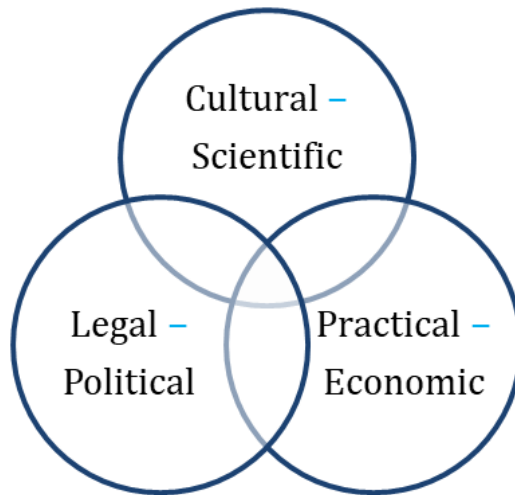


Figure 14 - Three areas of interest

The quote illustrates that the business is dependent on the cultural-scientific sphere, emphasised also by Eells (1967) and Kalff (2005). Wilken (1982, p. 14) argues that in the economy, labour-saving developments originate in the *Geistesleben*, the intellect if you will. The money that is liberated by this practice (referred to as ‘free capital’ by Wilken (1982)) can be in aid of ‘the good life’ (as discussed in Section 4.3). That free capital is the proposed source of funding for the non-material aspects of life, which can be predominantly found in the cultural-scientific sphere. This is echoed in Naastepad and Mulder (2018, p. 310):

“Cultural activities such as education, research and health care, besides being valuable in themselves as a source of reflection and consciousness, also contribute to economic life as the intelligence that invents new products and production processes, educates people, and takes care of justice and people’s health.”

To give an illustrative example of the connection between spheres, is the discussion of Pack and Kern as mentioned in sub-section 4.2.5. They argue over what takes the lead in their discussion on needs: on the one hand that what is currently the case, or currently the state of affairs, and on the other hand that what it could be. The conclusion drawn from their discussion (in Section 4.1) is that before any changes will or can take place, one must think of what needs to change and how. There is interplay between the cultural (thought) and the practical (implementation), or the cultural-scientific sphere and the practical-economic sphere. Another example that shows the interconnectedness of the cultural-scientific sphere and the practical-economic, is captured in the following quote: *“Of all the common purposes pursued by art and corporate enterprise, none is more important than the search for knowledge.”* (Houghton Budd, 2004, p. 81).

In regards to the relationship between labour, capital and land (or the Neoclassical factors of production), they are not directly related to one particular sphere. Rather, they can be found in or have connections to all three spheres, as depicted in the figure below.

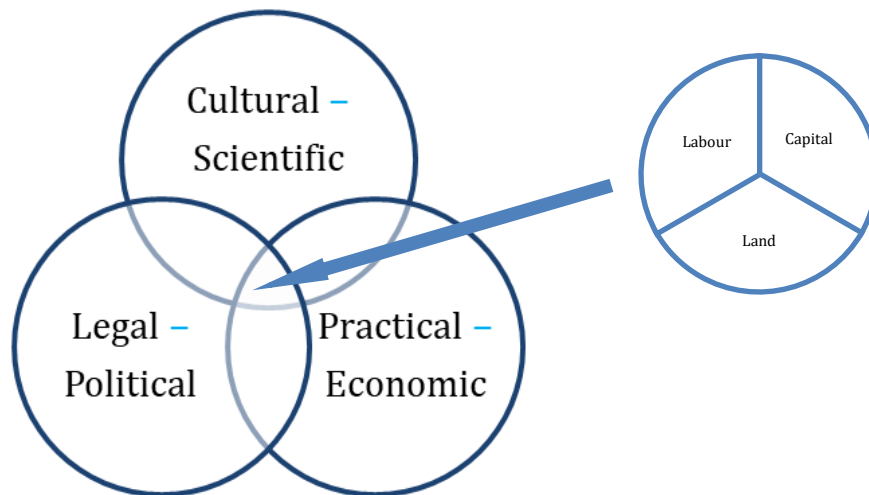


Figure 15 - The factors of production and the spheres

For example, labour is categorised in the economic sphere when it regards production, but there are legal structures in place to protect labour. Furthermore, the ideas that organise labour and improve productivity originate in the cultural-scientific sphere, through what is referred to as the *Geist*.

Financial capital such as money can be placed in the legal-political sphere because there the rules and guidelines on who is the owner or how it could be distributed is decided. The economic aspect of capital is that it can elevate labour productivity (via investments). That leaves the cultural-scientific aspect, and for capital that aspect could best be described by the *idea* that requires the capital. Capital in turn needs to be allocated to ideas, which sparks the question: which ideas (should) receive capital? In Neoclassical theory, it would be those ideas that generate the highest returns (as the allocation is organised out of the economic sphere). But perhaps, more fitting to Aristotelian thought would be to allocate capital not based on laws or profit motives, but based on the needs of society, which would be conceived in the cultural sphere.

Lastly, land is perhaps easiest to envision in the practical-economic sphere, where natural resources are transformed into products. But there is also a legal aspect, for example on ownership of land. And of course, in the sphere of science, research is done into for example climate change, which in turn could alter how we treat land in the practical sphere. A second cultural-scientific aspect is that land enables humans to fulfil their initiatives, because it provides quite literally the groundworks, the ingredients for the livelihood of their choosing (it can contain a house for example, or a workshop).

In relation to the title of this thesis, the spheres can be explained as follows. How we *use* profits is heavily influenced, first of all, by how we *think* about the purpose of profits, which in turn is influenced by the (scientific) concepts and theories that constitute part of our culture.⁴⁴ In short, the three spheres combined encompass some very important aspects of how human activity could be both organized and influenced. There is respectively idea generation, embeddedness in law and real-life implementation in the three spheres. By structuring it in this manner also makes clear in which

⁴⁴ See, for example, Ghoshal (2005).

aspect or sphere more research and potentially development is needed. The next section discusses the spheres in an Aristotelian setting.

5.3.3 The spheres and Aristotle

The use of the spheres in an Aristotelian setting, can be explained based on the idea of *eudaimonia* or spiritual needs (cultural life), which would be what should be central in economic practice. In order to move towards funding non-material needs, there appear to be some steps left to take. For example, in the theoretical literature (which is part of the cultural-scientific sphere), there doesn't yet seem to be a plan or something like a legal structure (the legal-political) of how to channel productivity gains from where they are generated to where they are needed. The practical (practical-economic) side of how to channel the profits from productivity gains towards the desired non-material needs in the cultural-scientific sphere is not yet fully addressed (this is beyond the scope of this thesis).

Perhaps it can be argued that in an Aristotelian setting the cultural-scientific sphere has a more prominent place, because there the ideas are generated. The works of the mind would come first in a system geared towards *eudaimonia*. If the consensus is that *eudaimonia* is the goal, this will influence the other two spheres. The cultural-scientific sphere is where people develop themselves and their ideas, and the practical-economic is where material needs are met, as well as where the funding for the non-material needs is taken care of via the 'free capital' as explained in sub-section 4.3.2. What remains is to address the role of the legal-political sphere. If the purpose of the economy changes as a result of cultural-scientific developments, the perception of what could be arranged through the legal-political will also change. A thought from Eells (1962, p. 244), addresses a change in the distribution of roles regarding the state and the business:

"The changing conceptions of the corporate role in society will have profound effects on business ethics, and therefore on the norms that will enter into the formulation of corporate policies in every functional field of work with the corporate enterprise."

In a later book, Eells discusses the idea of social responsibilities of a business. Because they are part of society, *"A company has certain responsibilities to society, independently of its direct business responsibilities to its customers, its stockholders, its employees, and its suppliers."* (Eells, 1967, p. 181) This quote illustrates what it could entail if the economic is interwoven with the other spheres, instead of something so separate as it appears to be today.

The aim of this section has been to explain the three spheres, and how they relate to each other in both the current Neoclassical setting, and in an envisioned Aristotelian based setting. Currently, in the legal - political sphere, attempts are emerging to, for example, change the business ownership structures. What does this imply for addressing the non-material needs? Could these new legal forms be sufficient to achieve the Aristotelian goal and do they use profit in any way to achieve that goal? This will be investigated later on with the case study of Chapter 6. First, the Aristotelian based theory is operationalised also in terms of the other spheres, in order to be able to assess what operational principles or characteristics could constitute an Aristotelian business.

5.4 The purpose of the business according to Aristotelian economics

The suggestion is that a criterion for good business practice thus would be to what extent a business serves 'society's demands and the public good' (Solomon, 2004, p. 1026). According to the same author, Solomon (2004), in an Aristotelian business approach, the business is (part of) a community, there is a distinctly human aspect to it and it is there to serve humanity. This fits the idea of (proportional) reciprocity, where one depends on the other in order to be able to fulfil the other's needs. It also means that each individual within a business can and should be seen as a 'morally and socially responsible agent' (Solomon, 2004, p. 1026). The book of Eells (1967) relates the community to a company by stressing that without a community, there would be no business, because there would be no suppliers nor customers, for example. The community's welfare is intimately related to the business because without businesses, a society would not survive and *vice versa*, without a community, in particular without the knowledge, intelligence, consciousness, that is, without the arts (in the widest sense of the word) developed within a community, a company would not be able to function. He terms this attention for the community's welfare 'social responsibility' and emphasizes that these are "*...in fact obligations to act responsibly as stewards of the firm*" (Eells, 1967, p. 181). Additionally, it is not only social responsibility "*...but on rights as well as duties – if one must put it in legal – ethical terms – or, more realistically, on a healthy and self-sustaining organic interchange in the ecosystem as a whole.*" (Eells, 1962, p. 235)

Solomon (2004) provides more elaboration on the purpose of a company. The article mentions characteristics such as a long-term perspective and a purposiveness to the business's actions, but also: "*the idea of business as a practice is absolutely central to this approach: it views business as a human institution in service to humans and not as a marvelous machine or in terms of the mysterious 'magic' of the market*" (Solomon, 2004, p. 1024). It is about the people in the business, and how they operate, and about the place of the business within society and the ongoing interaction between people, the business and society.

To conclude this section, if business operations are to be in line with the aim of striving for *eudaimonia* a company should then perhaps not only produce the goods that are demanded but also distribute 'free capital' (from productivity growth) to the non-material aspects of life. In order to translate this into operational activities, the next section discusses several operational elements as well as how labour, capital and land are envisioned in an Aristotelian paradigm.

5.5 Operationalizing Aristotle using labour, capital and land

The section will explore how the treatment of labour, capital and land could look like when they are thought out from an Aristotelian theoretical base. A first major difference is that they are not (all) to be traded in markets. This could indicate that labour, capital and land therefore cannot or should not (necessarily) be the subject of cost minimization. Secondly, attention is paid to needs (as introduced in Section 4.1) in the operationalizations. Each will now be dealt with individually.

5.5.1 Labour

When dealing with labour, the most notable idea would be guided by the question to what extent the individual (the labourer or employee if you will⁴⁵) is able to strive for the 'good life', and to what extent he or she can do so whilst in employment. Firstly, in Aristotelian based economic thought, labour is not a marketable 'good'. Labour in itself has no price, although the output of the labour might have of course. Labour is not a 'thing' one can buy. The 'thing' one has to pay for in a market, is the product; products are traded in markets, not labour. So, what does constitute labour then and how could it be treated when involved in a production process? A start on this has been made in Section 4.2, where it was introduced how labour could be viewed in relation to the just price. A just price would not be a wage, nor the cost of labour. Rather, it would be the covering of expenses made in the production process, both in a material sense and most importantly, also from the input of the *Geist* and with the thought in mind that it should enable producers 'to continue in their trade' (Koehn & Wilbratte, 2012, p. 513). This sub-section elaborates on what constitutes labour.

Aristotle himself appeared more concerned with the skill of a person, and the value attached to it, rather than that he saw the activity of labour as a thing in itself (Soudek, 1952, p. 46 and 60). The ideas of Wilken (1931) provide additional information on the nature of 'labour', primarily that it is wrongfully interpreted in the current concept of labour. In its essence, it can be argued that labour consists of interpersonal and spiritual aspects. It is the 'Geist', the works of the mind (alternatively put, the spirit of the individual), that is embedded in labour. However, that can never be paid for, as it is inherently immaterial. The effort and dedication that someone puts into his or her labour, is immeasurable and therefore priceless. If there is to be a compensation, it is for the physical expression of the *Geist*, for the costs endured by creating the product.

Another important note might be that in an Aristotelian view, people seem to be individually acknowledged, as opposed to, for example, referring to them as 'the labour force' or something similar. This conception of the individual as the 'unit of analysis' fits the thoughts of other authors, for example in Chitty (1993). He discusses Marx's ideas on human needs, and states that Marx explained our needs as actually a need for what the other produces. It appears that an important point of the article by Chitty is that because of the dependence, in which one person has something another person needs, there is an exchange. But the other person might have something for the needs of the first one too. The following quote illustrates that need:

"This "need" of which Albert speaks includes not only my personal need of this particular object but also and more significantly the need which men have of living in society and of exchanging with one another the products of their labor, if human life is to be carried out on a level in any way proportionate to human capacity and dignity." (Dempsey, 1935, pp. 476,477)

In a system where labour is a marketable good, money (in the form of the wage) can obscure this need. When money is used as an intermediary in the exchange process, it replaces an important aspect, which is that of what could be the goal of an exchange, namely fulfilling the needs of the other

⁴⁵ It can be argued that a model in which there is no employer-employee structure, but rather a collection of individual producers, could be a better fit for an Aristotelian business, an idea that becomes clearer further along in this section.

person, as opposed to fulfilling only yours. Or, as Chitty (1993) put it, when money comes into play, the nature of the relation changes, as well as the outcome of the process:

“Once barter has developed into exchange mediated by money, my compulsive need for my product becomes subordinate to my compulsive need for the money for which I can sell it, so that Marx can say that ‘The need for money is ... the true need created by the modern economic system, and the only need it creates’ (EPM 358, MEW 547).” (Chitty, 1993, p. 29)

He claims that because human nature works to, for example, exchange goods in order to fulfil both their and the other’s needs, one can never engage in “ ‘Labour-for-an-income’ ” (Chitty, 1993, p. 27). Labour just to make money cannot exist, as labour is always tied to fulfilling needs (of others and in return of ourselves). (Naastepad, 2020b) Money in itself apparently is never a real necessity, or should not be, as it masks part of the real reward, the fulfilling of needs of yourself and more importantly, the other. It can be only instrumental, an intermediary between needs and never a goal, as also expressed by Nussbaum (2011), who states that the nature of labour has changed, also due to the profit motive:

“Currently, most modern nations, anxious about national profit and eager to seize or keep a share in the global market, have focussed increasingly on a narrow set of marketable skills that are seen as having the potential to generate short-term profit. The skills associated with the humanities and the arts – critical thinking, the ability to imagine and to understand another person’s situation from within, and a grasp of world history and the current global economic order – are all essential for responsible democratic citizenship, as well as for a wide range of other capabilities that people might choose to exercise in later life.” (Nussbaum, 2011, p. 155)

That second group, related to ‘humanities and the arts’ are possibly not receiving enough attention. This begins to lead to more philosophical questions. The following quote makes this transition of what is done today in the name of profit, to what could be done in the name of humanity:

“The individual, in our society, works for profit; but the social purpose of his work lies in the consumption of what he produces. It is this divorce between the individual and the social purpose of production that makes it so difficult for men to think clearly in a world in which profit-making is the incentive to industry.” (Russell, 1932, p. 9)

In addition to the remarks in Chapter 4 on the mismatch between productivity growth in some sectors, and the necessity for further development in others based on non-material needs, it are precisely the non-material sectors where the productivity gains might find its true purpose again, and where the concept of labour can find an expression that better suits the Aristotelian ideas:

“... projections indicate that the bulk of job creation in the decade to 2024 will be in personal services, particularly in personal care. As currently practiced, most of these occupations are at the low end of the scale, and rather impervious to technological advances. However, there are viable options to upgrade these occupations, particularly by setting academic standards and advanced curriculums. If that were to happen then the changing composition of employment (i.e. more personal care, less of many others) would not adversely affect income distribution but perhaps to the contrary...” (Trajtenberg, 2018, p. 9)

To sum up, labour in an Aristotelian based view is not a minimizable cost, it is partly to sustain oneself (and their household) based on needs and partly instrumental in itself to the aim of living 'the good life'. That could mean that there is a presence of freedom or options to develop oneself whilst employed. In combination with a just price it should also enable someone financially to do so. An example of contrasts: what it is not, is working in a certain factory, being underpaid and working maximum hours to avoid punishment. What it could be is working on meaningful technological developments and having an afternoon a week to educate oneself or spend time on projects of personal interest, whilst still being paid. The difference would then be in the experience of the worker. Does someone have opportunity to do meaningful work, being remunerated justly, and opportunity to explore other aspects of life despite of or hopefully because of their work?

All this does perhaps not yet provide a practical alternative with which one is able to sustain oneself. A start for a solution is discussed in sub-section 5.5.4.3, where the idea is introduced of everyone being an individual producer, or entrepreneur, and no longer an employee. A practical implementation of this has been found in the interview in sub-section 6.3.3 with Dr. Houghton Budd and is brought forward here. In response to a question on the treatment of labour if it is not a commodity, the answer was that saying something like that is a very big statement, with many implications. However, some of them can be overcome if everyone were self-employed. More on this can be found in the aforementioned sub-section, because it is more fitting to explore this idea in the context of the interview. The next sub-section covers capital, and the role thereof in a business based in Aristotelian thought.

5.5.2 Capital

Much can be said about capital and the role it could have in the economy and society. It is perhaps the most complex because the term 'capital' is used for many different things, and often used as a general term when it should really be specified. A very encompassing quote is:

"The word 'capital' is used in many ways in the social sciences. ... 'capital' is used in the accounting sense of the debt and equity that finances the fixed and current assets used by an entrepreneur; in the economic sense of the physical means of production ('K', 'capital goods'); in the metaphysical sense of the ideas, knowledge, and ingenuity which, when 'embodied' in production processes, become the source of productivity growth; and in the sense (explained in this chapter) of the savings that arise as a consequences of productivity growth and end up as 'freed capital' on the business balance sheet." Footnote 3 of Naastepad (2019, p. 363)

The aim at present is to make sense of it all and come to a working definition. We have already seen how profit from productivity gains can lead to justified capital formation to finance the road to the 'good life' (in Section 4.3). Capital in that sense refers to money. But that is not its only 'form' so to say. Traditionally, capital refers to means of production in a physical sense. To paint a picture of the complexity, several takes on capital found in Aristotelian based literature are introduced. A distinction has been made between what capital is or could be, and the role it has or could have. The alleged issue with capital today is that:

"But today capital is not predicated on capacities and capabilities, or on trying to see how individuals could develop unto themselves. Instead, it is guided by the principle of individual

profit maximization – or its modern version, maximization of shareholder value (MSV) – on the (yet unproven) assumption that this maximizes overall welfare.” (Naastepad, 2019, p. 371)

The non-material aspects of life, the development of character and the development of a ‘good life’ are currently not included in the possible purpose of capital. As mentioned, what is meant when the term ‘capital’ is used, is often vague and has to become clear from context. A helpful thought comes from Wilken (1982, p. 1): *“Capital is a dynamic complex, changing all the time as it moves from its source to its destination in the economy.”* Although at first sight, this might seem more complex, it actually makes sense. Capital is an enabler and can take the form of, for example, money or of physical means of production. Wilken terms the first (money) ‘money capital’ and the second (means of production) ‘capital in its factual or real form’ (Wilken, 1982, p. 219). According to Houghton Budd (2015b, p. 5) the term capital when used in accounting, thus in financial language, should only be used to indicate: *“the money invested in someone’s initiative”*. This is fitting to the idea of capital as an enabler in pursuit of other things. All other things should be referred to by their specification. For example, physical means of production are ‘fixed capital’. Additionally:

“...quasi-financial terms as natural capital, human capital and social capital belong to a nomenclature that, however unintentionally, is misleading. They refer to what economics means by land, labour and capital, respectively.” (Houghton Budd, 2015b, p. 5)

Marx too sees capital as an enabler. He refers to means of production such as machines, as fixed capital. The fixed capital makes it possible to achieve productivity growth:

“Fixed capital, [...], produces value, [...], by enabling labour, through an increase of its productive power, to create a greater mass of the products required for the maintenance of living labour capacity in a shorter time.” (Marx, 1939, p. 701)

In theory, this is a large benefit for the employee, who can now spend more time on other elements of, in the context of this thesis, a ‘good life’. However, in practice it often is the case that the labour time is still kept the same and thereby more is produced, or labour is obviated and people left unemployed. So, capital in this sense should be in balance with what constitutes labour:

“The development of the means of labour into machinery is not an accidental moment of capital, but is rather the historical reshaping of the traditional, inherited means of labour into a form adequate to capital. The accumulation of knowledge and of skill, of the general productive forces of the social brain, is thus absorbed into capital, as opposed to labour, and hence appears as an attribute of capital, and more specifically fixed capital, in so far as it enters into the production process as a means of production proper.” (Marx, 1939, p. 694)

The two capital options thus far, money capital and fixed capital, can be viewed as two states of being of capital. Once capital accumulation has taken place, it is neutral, it is waiting for a purpose. With a purpose assigned to it, it becomes ‘prospective’ capital. It can be consumed, or spent productively (either economically or non-economically productive). Means of production have a unique position among the forces of economic production, as they regenerate themselves. They earn back their costs. Also, they are able to produce ‘free capital’, money or value that is freed from its previous end (as discussed in earlier sub-sections). (Wilken, 1982, pp. 219-232) An additional idea from Wilken

(1982), is to have financial capital take a similar role as physical capital (means of production). As mentioned, means of production regenerate themselves, but after they have done so, they are (or can be) replaced. The means that are replaced, have died down so to speak. In the opinion of Wilken (1982), as expressed in Appendix 5 on pages 256 to 265, appears to be to have a similar treatment of capital. It would replace the shareholder structure where they receive perpetual dividends, with which speculation is a for them interesting activity, but for society detrimental. Instead, their investment would take the form of a loan. Once that is repaid, the investor is relieved of that particular commitment and the entrepreneur of the liability, and a new financing structure can be put in place, fitting the needs of the business at that point in time.

Money and means of production are not all that is nowadays classified as capital, as mentioned by Houghton Budd (2015b). An interesting concept regarding capital comes from Baetjer and Lewin (2007). They claim that capital can never be anything else but ideas (or is at least tied to ideas). It is the ideas, on for example how to use or combine different (physical) capital components, that give value to the concept of capital. This is an intriguing conception of capital, and especially on how capital gets valued. Capital development occurs because of human intelligence, and it is arguably therefore only right that it should also be related to it.

“A problem arises only if we view freed capital merely in the context of the satisfaction of physical needs and fail to grasp the wider nature of capital, especially how it relates to the development of capacities.” (Naastepad & Houghton Budd, 2019, p. 122)

“This, however, requires us to acknowledge that capital, as indeed economic life as a whole, has two dimensions, material and non-material, tangible and intangible, calling in turn on homo economicus to learn, as regards economic life, to circulate rather than accumulate capital.” (Naastepad & Houghton Budd, 2019, p. 126)

With these quotes, we move from what capital is or could be, towards the role it can have in our economic system but also in our society. The role capital could have in an Aristotelian inspired economy, relates closely to the purposes assigned to the economy and the business. The dual purpose of fulfilling material needs and enabling the fulfilment of non-material needs, gives capital a dual purpose and role, as stated in the article of Naastepad and Mulder (2018, p. 319 and 327):

“Thus, capital would be recognised as serving two purposes rather than one: financing the means of production for providing material welfare, and funding the growth of non-material welfare, or ‘the real values of life’ (Keynes 1930).³⁸”⁴⁶

“capital is permitted to take on a dual role - as ‘financier’ of physical production and enabler of further non-material human evolution”

To summarize, capital in an Aristotelian view can be described as the following. What it *is*, differs in different views, but consensus seems to exist on it being either one of two things. The first is money, a state of capital before it is put to use (not an end goal!). The second is it being invested in something,

⁴⁶ Footnote 38: *“An idea also explored in Houghton Budd (2011), Wilken (1982), Naastepad and Houghton Budd (2015).”*

such as physical means of production. The difference with traditional views on labour lies, in Aristotelian thought, in that capital is inherently tied to the *Geist*.

“One dimension of capital is to serve the production of goods (as tangible capital). But another, arguably more important, dimension is to enable capacities to flourish and have effect. And since the source of all capital is human ingenuity, creative intelligence or spirit – intangible capital – it is to the latter, surely, that capital freed from production should be devoted.” (Naastepad & Houghton Budd, 2019, p. 13)

The quote illustrates that the role capital could have, is thus threefold (in the words of Naastepad and Houghton Budd (2019): ‘intangible, tangible and freed’ capital). On the one hand, it is a tool that allows for physical production (when money becomes a means of production). On the other hand, it is (the expression of) the *Geist*. And lastly, it is the funding that contributes to the aspects of human life that would allow for aiming towards ‘the good life’: *“When money does business on its own account, we can be sure humanity has reached a stage where we could, if we would, act in economic life out of our higher nature, out of our nobler selves.”* (Houghton Budd, 2004, p. 55) If we are in a stage where money ‘does business on its own account’, which the data presented earlier seems to suggest (see Chapter 3 and Section 5.2), we could (and perhaps should) devote our efforts in a different manner.

Now that the roles of labour and capital in an Aristotelian based business have been discussed, land still needs to be addressed. It is separated by the use of it, and the ownership, which becomes clear in the next sub-section.

5.5.3 Land

The last to be discussed is land, in which nature is also included. One can imagine that in the early days of civilization, land was freely and plentifully available, and one could take what was needed or desired. But through the course of history, almost all land has been claimed. This, in combination with speculative trade, has driven up prices and appears to have made land into a resource that needs to be dealt with efficiently (in the way that costs are minimized and yield maximized) in the current economic system. In an Aristotelian conception of land, there is a distinction to be made between ownership and use, but one does not appear more important than the other.

5.5.3.1 Use of land

The book of Wilken (1982) takes the use of land as the starting point. He distinguishes three different ways to use land, which then give rise to three different types of ownership.

“The wealth of the earth can be seen in three ways: as the natural mineral resources therein, such as coal, oil, gas, metals, etc; as the living cultivable land; and as space, as areas which people can occupy.” (Wilken, 1982, p. 19)

“The different kinds of land use mean in practice that three different types of land ownership are to be developed, for agricultural cultivation of the surface, for building ground and for sources of industrial raw and auxiliary materials.” (Wilken, 1982, p. 66)

Apparently, each type of use requires different management of the land, and should therefore have different ways of ownership. Wilken states: *“Much depends on circumstances, but the principle is*

economic rationality combined with the desire for social justice." (Wilken, 1982, p. 73) This quote suggests that there is both an economic component, and perhaps an element of justice. The economic aspect regards the question for what productive purpose land is used. The element of justice, can perhaps best be explained as that it prevents (in a moral sense) that land could be used in an exploiting manner, where not only the land itself, but also people would be treated unjustly.

The last thought on land use comes from Skidelsky and Skidelsky (2012, p. 140), where it is suggested that 'harmony with nature' is an essential element of being able to reach 'the good life'. It is argued that this is a universal desire, being in harmony with nature is vital for a fulfilled human life. This could give a clue as how land ought to be treated. When it is so important, damaging or using nature without replenishing is, does not seem a path towards a sustainable 'good life'.

5.5.3.2 Ownership

According to Luoma (2010), if you would ask Aristotle on how to treat land ownership, there are three reasons why private ownership of it is the right form for it as opposed to, for example, state owned land. It is important to note that this is different from how we view the notion of 'private property' nowadays. It is better explained as a form in which there is an owner, but (part of) the land is still available for use by others (for something in return, as for example in times when feudal land ownership was the norm). The first reason why private would be better than communal or state is that private property is supposedly better cared for than communally owned property. This probably has to do with a sense of responsibility. The second reason is '*Aristotle's understanding of what he names natural exchange*'. A natural exchange would be to trade products one has produced, with those of someone else, and with privately owned land one would be able to possess the resources to do so. The third is that Aristotle supposedly saw more merit in '*the equalization of desires rather than the equalization of wealth through communal ownership*'⁴⁷. (Luoma, 2010) Equality between people is supposedly based on abilities and fulfilling mutual needs, rather than possessions.

It is important to note that although land could be privately owned with some supportive arguments, the land should not be used to create wealth in excess of the amount that is needed for a certain level of comfort. (Luoma, 2010) Speculation and extreme profits on land-based trade are thus not what is intended for the ownership nor use of land. In line with labour, which is proposed to be based on a mutual relationship between people, so too could privately owned land be seen.

"Private ownership is, therefore, valuable because of what it allows owners to do for others, not, as in more modern accounts, what private ownership allows owners to do for themselves"
(Luoma, 2010)

But of course, not all ideas on the treatment of land are in favour of this view. There is perhaps much to be said too in support of other ideas, for example as can be found in the foundations of the Monopoly game. In that time (around the end of the 1800's), when poverty was clearly visible, there was opposition to wealthy landlords. The author Henry George, an anti-monopolist who, unfortunately perhaps, later on unintentionally inspired the creation of the game Monopoly, believed that: "*individuals should own 100 percent of what they made or created, but that everything found in*

⁴⁷ Both ideas of Aristotle are also discussed in Chapter 4.

nature, particularly land, should belong to everyone." (Pilon, 2015) The land should thus probably not be privately owned. In the view of Henry George, land would also be the asset that would be taxed (which would work as long as the land is in fact in private hands), as that is supposed to reduce inequality (Neklason, 2019). This is because land can generate wealth without the owner really doing anything. For example, rising house prices in a city that becomes more popular. It can therefore be argued that it *'generates wealth not through individual effort or ingenuity, but instead as a result of societal change'* (Neklason, 2019). There are pros and cons to the idea, some argue that it would never generate enough revenue to fund governmental costs, but others think it would be a fair way of reducing inequality.

To conclude, land in an Aristotelian view can be separated in terms of ownership and use. There are arguments in favour of and against private or communal ownership, but the common idea seems to be that no one should ever be able to capitalize disproportionately on land. In its essence, land seems to be more of a universal good and although it may be used (perhaps even efficiently) by one party, it should not be deprived of its richness without compensation. The three sub-sections discussing labour, capital and land, do not yet provide a full operational picture for a business. The next sub-section adds some other operational elements found in the literature thus far.

5.5.4 Essential operational elements

With the information on labour, capital and land, not all is clear about operations in a business with Aristotelian-like foundations. The book of Kalf (2005) not only discussed a traditional 'American' (Neoclassical theory based) business format as described in Section 5.1, but also proposes an alternative form that might in fact fit the Aristotelian ideas. He calls it the 'European Enterprise' and explains the alternative idea according to the following elements:

"the European Enterprise model, defined with: "ownership, control and distribution of economic benefits; governance; organizational management and structure; the strategic agenda; organizational development; performance planning, evaluation and remuneration" (Kalf, 2005, p. 126)

Several of these elements contain applicable ideas, which can be categorized according to the three spheres as explained earlier, and will be discussed accordingly.

5.5.4.1 Cultural - Scientific

To start, in the cultural-scientific sphere, there is the formation of visions on ownership. In the book of Kalf (2005, pp. 127, 128) ownership is placed with *"those who have conceived, developed and implemented its underlying business idea"* (Kalf, 2005, pp. 127, 128) and other parties cannot lie a claim on the ownership. The quote (and the book) appears to address the (Aristotelian idea) that it is the cultural sphere, and works of the *Geist*, where businesses originate. Shareholder structures as we know it, and thus also shareholder value maximization, would not suffice: *"An obvious problem with the stock corporation is that its use to further only the interests of capital providers (shareholders) can lead to considerable externalizing of costs and privatizing of gains."* (Houghton Budd, 2004, p. 10) Both aspects are visible, the first in the minimization of the factors of production and the second in the shareholder value maximization strategies. However, in principle the ideas of a stock corporation

can be valuable: *“It is also an embodiment of consciousness.”* (Houghton Budd, 2004, p. 33) This thought is further explored in the case study and the interview in Chapter 6.

5.5.4.2 Legal - Political

If indeed the source of the business lies within the cultural-scientific sphere, the question arises what that implies for ownership, which is arranged in the legal-political sphere. Who is the owner of an idea, or who owns labour, capital and land, or better put, who should? That is, who can claim to own the fruits of the *Geist* if *“improvements in the production process originate in the general development of knowledge, intelligence, ideas, i.e. in cultural progress in general”* (Naastepad & Houghton Budd, 2019, p. 123)? The most obvious consequence of an answer to the question of ownership, is the follow up question: who secures the (financial) rewards? If one agrees with the quote before, as would be fitting with the ideas presented in this thesis thus far, it would be both morally and economically right, to redistribute at least part of it to the cultural-scientific sphere.

5.5.4.3 Practical - Economic

In a practical-economic sense, not necessarily ownership, but also the issue of governance can be addressed. For governance (in relation to the treatment of labour, capital and land), Kalff (2005) identifies three areas besides (or alternative to) financial values for the judgement of performance (p.133): functioning and integrity; structural enhancement of the value the company is creating with the current portfolio; the effects of efforts to add value by changes in the portfolio. The management of this idea of a business is based on trust, and in relation to it, on the ‘social virtues’ of the managers (for example ‘openness, honesty and authenticity’) (p. 139). In that respect, a virtuous manager would be better, in relation to Aristotle that might be someone who is somewhat further along in the search for *eudaimonia*. Good governance would also be the following:

“‘Right’ governance is all about ensuring that when an individual takes responsibility for an activity and thus requires exclusive right of use (ownership) of land and or capital, his use of them is transparent and responsible.” (Houghton Budd, 2004, p. 69)

The quote refers to responsible behaviour regarding labour, capital and land. In the previous section, these have been addressed on a conceptual level. On a practical level, the implications for labour are perhaps the most impactful. If the only proper compensation for labour is not a wage as we know it, but a just price for the product of the labour, that would imply that viewing and treating ‘labour’ as a unit and a factor of production, cannot hold. It would instead be individuals, that each contribute to, shape and create business. Labour would then be an activity of individuals. Kalff (2005) states that *“If a company is first and foremost a community of workers who create an economic surplus, managers and employees cannot be considered ‘human resources’ comparable to other means of production...”* (p.149), which fits the ideas that labour should not be a minimizable cost; it is not a factor of production but a creator of value.

Another author who has provided guidelines for a different perspective on conducting business in a practical sense, is (Eells, 1962). Amongst other ideas, his thoughts regarding profit are of interest. He proposes that profitability might be a valid metric of some aspects of the business, but that it ought to be further specified:

“Profit making” as a business purpose today needs qualification. How much profit, how calculated, for whom, and whether “long-range” or “short-range” profitability – the answers to these questions may so modify and qualify the “profit making” purpose as to convert it into a very different one.” (Eells, 1962, pp. 96, 97)

He proceeds to propose that profitability can (perhaps should) be secondary if the purpose of the business is *“not maximization of profit but rather the avoidance of loss”*. It would be important to specify in the ‘profit making’ what parts can be considered ‘free capital’. It would also be important to redefine profit to accommodate for the idea of a just price of Section 4.2, steps that are not explicitly addressed within the scope of this thesis (but are recommended for future research).

This section has explained how the treatment of labour, capital and land could be operationalized in an Aristotelian business paradigm. It appears that labour would not be traded in a market, and not treated as a minimizable cost. A just price should be paid in order to allow someone to develop their capacities, in order to be able to live a ‘good life’. Capital could benefit from a clear definition on what it is, and in what forms it is present in the economy, as it is currently used for many different things. In its core, it refers to means of production (as tangible and intangible capital), in a wider sense also to being an enabler in pursuit of other aims (as free capital). Lastly, the treatment of land could be separated into the ownership of it, and the use of it. Several additional operational aspects have been discussed. The next section presents the conclusions of this chapter as a whole.

5.6 Conclusions

In this chapter, the aim has been to discover how economic literature defines the purpose of the economy and the business on a micro-economic level from a Neoclassical and subsequently from an Aristotelian point of view, and what this would mean for labour, capital and land. The research question for this chapter has been:

RQ 3. What would be essential elements of a theoretical foundation of business operations towards the economic goals mentioned in the Aristotelian literature as discussed before?

In short, the treatment of labour, capital and land would be quite different from Neoclassical ideas. In the Neoclassical paradigm, the goal for a firm is to maximize profit, or shareholder value maximization. This has led to observable phenomena such as an increasing profit share, a declining wage share and an increased transfer of capital to the financial sector. In an Aristotelian setting, it appears that labour could not be traded in a market, and should not be treated as a minimizable cost. The just price should allow someone to be able to live a ‘good life’. Capital, in its core, refers to means of production, but in a wider sense it is an enabler in pursuit of other aims. Lastly, the treatment of land could be separated by usage and ownership, but speculative activities could not happen.

The next chapter (Chapter 6) contains explorations of practical ideas on how to further implement these ideas into reality. It contains a single-case study to investigate a (legal-political) idea of using ownership structures as a method of bringing about change in the economic system. It also explores the idea of using accounting as a method for implementing the ideas.

6 Empirical research: single-case study and interviews

This chapter presents the empirical part of this thesis. The first element consists of a case study on the company Purpose, which includes an interview and literature examination. The second element is an interview with Dr. Houghton Budd on accounting. Both are to investigate whether they bring forth applicable, practical ideas for an Aristotelian business as envisioned in the previous chapters. In the previous chapters, both a Neoclassical and an Aristotelian approach towards the economy and the business have been discussed. The theoretical Aristotelian goal of *eudaimonia* differs from the Benthamite utility maximization. In a practical sense, there are differences too. This chapter investigates two initiatives that could have a transformative effect on the economy, and their possible application in a practical, operational sense for an Aristotelian business form.

The first part of this chapter, Section 6.1, explains the methods used. Section 6.2 contains the single-case study including an interview, on the company Purpose, who focus on the structure of ownership of a business. It is an example of an initiative in the legal-political sphere, and it provides an opportunity to investigate whether it shows applicable, practical ideas for an Aristotelian business as envisioned in the previous chapter. This section also provides the base for answering research questions four and five:

RQ 4. What is the theoretical foundation (implicit or explicit) of steward-ownership as defined by the German Purpose initiative, and what is the purpose of the separation of economic and voting rights, that is central to steward-ownership?

RQ 5. To what extent would steward-ownership be necessary and sufficient to realise a business model in practice based on Aristotelian literature?

The third part is Section 6.3, where a semi-structured interview with Dr. Houghton Budd is presented. The section explores the applicability of his thoughts on profit and several accounting aspects, to the ideas proposed in this thesis on what has been referred to as an Aristotelian business. In terms of the spheres, this relates ideas (originating in the cultural-scientific sphere) to the practical-economic sphere. In Section 6.4, a reflection is done on the ideas and implications of the ideas brought forward in this chapter. Lastly, Section 6.5 presents the conclusions.

6.1 Method

In this section, the methods used for the empirical part of the thesis are described. In sub-section 6.1.1, the method for the case study is presented. The second sub-section (6.1.2) explains the steps that have been taken for both the interviews. Lastly, sub-section 6.1.3 introduces the propositions that have been formulated for the empirical part.

6.1.1 Method of the case study on Purpose

The goal of the empirical part of the thesis is to build on the concepts and theory that have been developed in the previous chapters (rather than, for example, hypothesis testing). The aim is to evaluate real-life situations and to learn from them in order to find operational elements that would help to make concrete what an Aristotelian business form could look like in practice. The research method used is based on the book of Yin (2018), and to a lesser extent on Sekaran and Bougie (2016). The method is explorative in nature (a research purpose defined in Yin (2018, p. 38)) and comprises

a single-case study of a company called Purpose (including an investigation of secondary material and an interview) and a second interview. The results can be used for what the book calls 'analytic generalizations' (instead of 'statistical generalizations'): "...*case studies, like experiments, are generalizable to theoretical propositions and not to populations or universes.*" (Yin, 2018, p. 53) So, the aim is to explore practical ideas that could help to 'operationalise' the Aristotelian business as conceived in previous chapters and, vice versa, to further refine the (theoretical) model of the Aristotelian business. For a case study, five elements are of particular importance according to Yin (2018, p. 60):

1. A case study's questions;
2. Its propositions, if any;
3. Its case(s);
4. The logic linking the data to the propositions; and
5. The criteria for interpreting the findings.

Although the order has been adapted to best suit the thesis, all elements are present in this chapter.

Data triangulation (Yin, 2018, p. 172)⁴⁸ is used in this case study. There is a mix of interviews and documents, in terms of both method and data collection (Sekaran & Bougie, 2016, p. 106). An important part of research is reliability, which is defined as the "...*consistency and repeatability of producing a case study's findings.*" (Yin, 2018, p. 353) In this thesis, reliability is explained as whether the different sources on Purpose, combined with the interview, provide a clear and consistent picture. The information that is given in the interview, is checked with other sources, to see whether they consistently promote the same ideas. Additionally, the reliability of the interview results is checked by giving the interviewee the opportunity to check and revise the transcript, so that the answers that are given by the interviewee and written down by the interviewer, can be considered to be interpreted correctly by the interviewer. In this study, the sources (such as newspaper articles, internet pages, electronic documents and the interview) are included in the reference database. There, the most recent date, source, authors and key findings or arguments are stored, as well as other information if relevant. Additionally, the search terms that have been used are mentioned below. In this way, although the information base might change (with new literature and sources), the steps that have been taken in this thesis can be traced.

The search terms that have been used to find information on Purpose are the following: Purpose, Purpose economy, Purpose foundation, Purpose economy organisation, Steward ownership, Steward ownership purpose, Policy paper purpose steward ownership. The goal of this search is to retrieve information for the questions of the former section, and also to gain an understanding of the company. The most elaborate (and informative) sources are two documents (booklets) that have been produced by Purpose themselves, called: 'Steward ownership' (Canon et al.) and 'State of alternative ownership in the US' (Canon, Reitman-White, Razo, & Danaher, 2019).

⁴⁸ For this thesis, that means that different sources of information are used, to determine whether they on the same topic or in answer to the same questions, provide similar information to paint one coherent, and reliable picture of the topic that is researched.

Now that several aspects of the methods used have been discussed, the next sub-section describes the procedure that has been followed for the interviews.

6.1.2 Method of the interviews

Interviews are a commonly used method to obtain information (Sekaran & Bougie, 2016, p. 113). In this situation, the interviews are used to obtain insights. The interviews were semi-structured and aimed at collecting qualitative data. In terms of method, the interviewees were contacted via email. A brief introduction on the research topic and the objectives of the interview were given. The following questions were posed to the interviewee

- What is the preferred method of communication: email, telephone or (something like) Skype?
- What kind of (personal) information would you like to be included or excluded?
- Would you like the interview to be recorded?
- Would you like a full transcript of the interview?
- Would you like to edit the transcript and/or the results of the interview?
- Am I allowed to edit the transcript and/or results of the interview?
- Do you have any objections to the results of the interview being published in the thesis? And the transcript? (For example, I could include a full transcript in the version for the graduation committee, but exclude it for publishing in the database)

The procedure adopted was as follows. The interview took place via Skype. The interview was recorded, and the file was deleted by the interviewer immediately after approval of the transcript by the interviewee. The transcript was sent to the interviewee for revision. The interviewees agreed that relevant parts might be included in the thesis or referred to. The transcript of the interview is not included in the thesis. Any information or personal opinions about third persons are not included in the transcripts. One of the interviewees (Dr. Houghton Budd) had read (a draft version of) Chapters 1 - 6 before the interview. The next section presents the propositions.

6.1.3 Propositions

The function of the propositions is to guide the search, to identify what topics should be paid attention to whilst conducting the case study and the interview. The basis for this section is the following, taken from the book on case study research by (Yin, 2018, p. 61), namely that: “...each proposition directs attention to something that should be examined within the scope of study...”. Additionally, Yin (2018, p. 70) provided important elements, included in this paragraph, such as: “some theory development prior to the collection of any fieldwork is desirable.” The propositions should address key issues from the findings in the literature chapters, in this case they are based on the literature study from Chapters 4 and 5, where the theoretical aspects of an Aristotelian business are explored. Also, they should contain more practical or operational aspects, that might be applicable to the case study. As this thesis is explorative in nature, the focus has been on the theory development before testing ideas. The propositions are theorized ideas on what might be detectable in practice, based on the previous chapters. Additionally, the main research question has been leading in formulating the propositions:

What kind of business form would be compatible with an Aristotelian conception of the purpose of the economy and the business?

The propositions are:

1. The objective of an Aristotelian business would be to produce goods that people need. The goal behind providing for material needs is ultimately to meet the non-material need of the pursuit of *eudaimonia*.
2. The remuneration of labour is not determined in a 'labour market', but in the legal-political sphere.
3. An Aristotelian business would, in their business operations, pay a just price. The source of profit is the general growth of knowledge, which obviates labour in the economy, leading to profits. If profit is used to support the free growth of knowledge, this would help individuals to achieve *eudaimonia*.

Proposition 1 is based largely on Sections 4.1 and 5.4, where the purpose of the economy and the purpose of the business respectively, according to Aristotelian literature, are discussed. The purposes have been defined as follows. The overall goal of human life, would be to achieve *eudaimonia*. The economy and the business contribute to this goal by meeting the material needs of people. When the material needs of people are met, this will enable them to carry out their tasks in life, of which the ultimate goal is, according to Aristotle, to practice virtue and thus achieve *eudaimonia*. This proposition, which concerns ideas that have been derived from Aristotelian thought, fits the cultural-scientific sphere.

Proposition 2 concerns the legal-political sphere and based on Sections 4.2 and 5.5.1 which discuss the just price, and labour in an Aristotelian setting respectively. In an Aristotelian setting, labour is seen as a value-creating factor, rather than a cost. The product of labour, not labour in itself is what would be paid for (with a just price).

Proposition 3 concerns the practical-economic sphere. In a practical sense, defined in the purpose of the business, one of the most notable ideas is that of the just price. Through economic activity (individuals produce goods for each other) everyone pays a price that enables the producer to cover production costs. If everyone pays a just price, everyone would be enabled to see to their (individual) household needs that would allow them to strive for *eudaimonia*. This is in contrast to the Neoclassical labour market, where labour is treated as a commodity and is subsequently minimized as a cost. Proposition 3 also draws on Section 4.3 on ideas on profit allocation, and on the general topic of this thesis, the purpose of profit. The profit that is mentioned here, refers to a part of 'true profit' as defined by Wilken (1982), namely productivity gains. Wilken argues, as explained in sub-section 4.3.1, that it is the *Geistesleben*, or in the context of this thesis the cultural - scientific realm, where this profit originates (as a product of productivity growth that in turn is the result of applied collective knowledge or ideas if you will), and where it should return. This is applicable to the practical-economic sphere.

The next sub-section presents the questions that have been formulated in order to guide the search for information on the company Purpose.

6.2 Single-case study on Purpose: ownership structure as a possible 'building block' for operationalizing Aristotelian business ideas

This section contains a single-case study of a company called Purpose. The case study consists of two parts: a survey of secondary material, and an interview. The intention here is not so much to investigate what they do while managing their business themselves, but more importantly, to investigate the philosophy, if you will, that they promote, which is also their main 'product'. This section contains an introduction to the company (sub-section 6.2.1), questions to guide the examination of secondary material (sub-section 6.2.2), questions to guide the interview with one of the founders of the company (sub-section 6.2.3), and a combination of excerpts of the interview and secondary material (in sub-section 6.2.4).

6.2.1 Introducing the company

The company is briefly introduced here, more information on why and how they do things will become clear throughout the answering of the case and interview questions in sub-section 6.2.4. The self-stated goal of Purpose is to promote sustainable development by re-envisioning corporate ownership: *"A more equitable and sustainable economy is possible. We enable the pioneering founders, business leaders, and investors who are building it, by re-envisioning the nature of corporate ownership."* (Purpose, 2020b) The alternative they promote regarding ownership, is called 'steward-ownership'. They describe this as follows:

"The concept of "steward-ownership" harnesses the power of entrepreneurial for-profit enterprise while preserving a company's essential purpose to create products and services that deliver societal value and protecting it from extractive capital." (Purpose, n.d.-a)

What that means is that the control of the company lies with a group of people called 'stewards', who are connected in an operational sense to the business so that the decision-making process can be both shaped, and the consequences of the decisions experienced, by the stewards. It is an alternative to, what they refer to as, the 'shareholder primacy' model. Purpose has divided their efforts in three categories: firstly, non-profit research and advocacy, secondly advisory consultancy work and thirdly, investments: *"Our work combines non-profit research, field building, and resource development with for-profit consulting and investment. All our legal entities are structured as steward-owned businesses and any proceeds generated by our for-profit activities are reinvested in steward-ownership and steward-owned companies."* (Purpose, n.d.-b) So far, they have guided multiple companies to implement a form of steward-ownership. Because of the differences in legal systems, the exact form depends on the circumstances of the location of the company. Because they found that in their own country, Germany, no suitable legal structure was in place, one of their efforts is directed at installing a law that makes steward-ownership one of the legal forms a business can take (before, one would have to resolve to work-around options). So, one of their activities is the legal proposition. Another aspect of this is the research on steward-ownership in combination with advocacy activities. The second is their consulting practice, where they advise companies all over the world on steward-ownership and how to implement it if they want in their local legal system. The third and last pillar so to speak is their investment fund, to enable and support steward-ownership companies in

practice. The first two questions of the case study go more in depth on what steward-ownership is, and what the legal proposition entails.

The questions for the survey and the interview, are presented in the next two sub-sections. They will provide the guidelines to further investigate what exactly the aim is of Purpose, and how they think they can realize that.

6.2.2 Questions for the survey of secondary material regarding Purpose

In this section, the topics that are aimed to be researched about Purpose, are posed in the form of questions. The underlying idea is not to come to a verdict on whether or not Purpose can be deemed Aristotelian. It is rather to explore whether Purpose's initiative contains applicable, practical ideas for an Aristotelian business as envisaged in the previous chapter. Purpose provides an example of a business with an idea in the legal-political sphere, and the question for the case of Purpose is whether this idea could be relevant for the further development of a business based on Aristotelian economics. The questions are formulated based on the research and theory building from previous chapters and are as follows. Firstly, regarding the legal-political ideas of Purpose:

- 1) What is steward- ownership and where did it originate?
- 2) How does the legal structure look like that is proposed by Purpose?

Secondly, regarding further compatibility with Aristotelian ideas in this thesis:

RQ 4: What is the theoretical foundation (implicit or explicit) of steward-ownership as defined by the German Purpose initiative, and what is the purpose of the separation of economic and voting rights, that is central to steward-ownership?

- a) What is or could be the purpose of the economy according to Purpose?
- b) What is or could be the purpose of the business according to Purpose?
- c) How does Purpose view shareholders (in terms of role and remuneration)?
- d) How are profits regarded and subsequently to what aims are they distributed (what is their purpose)?
- e) What is the theoretical foundation of the business when its goal deviates from the shareholder value maximization goal?
- f) In relation to the vision the business promotes, how are the factors of production viewed, or, is there a theoretical stance towards them?
- g) Regarding labour in particular, is it seen as a burden, as a cost that needs to be minimized?

RQ 5: To what extent would steward-ownership be necessary and sufficient to realise a business model in practice based on Aristotelian literature?

The questions are answered with desk research, as explained in sub-section 6.1.1, and with an interview with one of the founders of Purpose. The next subsection presents the interview questions.

6.2.3 Questions for the interview with Purpose

In order to obtain additional information, several questions have been formulated and presented to one of the founders of Purpose. The goal of the questions is to gain more insight into the rationale

behind the initiative, and to obtain additional information for the case study as well as for the larger question behind it, namely could their ideas be applicable to an Aristotelian business form. The questions that have been posed to the interviewee, one of the founders of Purpose, are the following (including several that have been formulated in Section 6.2.2):

1. What, in your opinion, is the essence of steward-ownership?
2. What is (or could be) the purpose of the economy according to Purpose?
3. What is (or could be) the purpose of the business according to Purpose?
4. In relation to the vision the business (Purpose) promotes, how are the (in Neoclassical terms) factors of production (labour, capital, land) viewed, or, is there a theoretical stance towards them?
5. What is the theoretical foundation of the business when its goal deviates from the shareholder value maximization goal?
6. It is mentioned in your information that 'profits serve purpose', however what that purpose is, needs not to be pre-defined. Why do you not deem that necessary and how do you make sure that it aligns with the values of Purpose?
7. Why do you think the path that you have chosen with your company, is the right one in order to obtain your objectives (I have understood the objective as changing the legal structure (at least in Germany) to enable companies to separate ownership in terms of power from ownership in terms of dividends). Do you see alternative routes you could take?
8. In my research, I address the importance of non-material human needs, and that those could be facilitated via culture (education, science, art etc), and that culture in turn should be enabled (funded) through (all forms of) economic activity, for example with a part of profit. Do you see value in (this definition of) culture? Do you think Purpose addresses non-material needs or is it in its origin aimed at conducting business in the traditional sense?
9. In your booklet, there is reference to an article [Thomsen (2017)], could you provide more information on this source?
10. Some sources make reference to a law proposal, could you give some additional information on what is in that proposal and why?

The information that followed is combined with the other forms of inquiry into Purpose, and taken up in the answers to the case-questions in the next sub-section: 6.2.4.

6.2.4 Answering the questions

This section presents information found on the internet and in other sources in relation to the questions formulated in Section 6.2.2. The information has partly been found online, with the additions from the interview. The first two questions, regarding the legal-political ideas of Purpose, are presented under the heading of the underlying ideas of the initiative of Purpose, before delving into questions more directly related to the topics in this thesis from question 3 onwards.

1) What is steward- ownership and where did it originate?

Steward-ownership, according to Purpose, is an alternative to 'shareholder-primacy ownership' (Purpose, n.d.-a) The initiators appear inspired by literature on firms owned by industrial

foundations⁴⁹, who follow steward-ownership principles, and in the case of Purpose they define it as a separation between control of a company and economic rights. They add, after further enquiry, that financial rewards are still possible, but it is not possible to privatize the wealth or profit of a company. The two main principles of steward-ownership as defined by Purpose are (Canon et al., p. 11):

1. Profits serve purpose (which means that the mission of the company is front and centre, and profit is never the primary motive).
2. Self-governance (which means that the business can only be controlled by stewards, who are motivated by the company mission, rather than personal financial rewards (because in principle, they can't receive anything, in contrast to other forms of shareholders (who have control and financial returns) can).

They do this because they “*believe that rethinking ownership through steward-ownership is central to creating a society and economy that works for people and planet.*” (Purpose, n.d.-b). Their aim is wide, they want to provide this alternative not just at a company level, but “*to entrepreneurs, business leaders, investors, and politicians, who want to move away from the extractive model of shareholder primacy and profit-maximization towards stewardship and purpose.*” (Purpose, n.d.-b)

It is not a new concept, as they explain themselves, the underlying ideas are long-existing but have not really been adapted to practice in more recent times, as other paradigms had become dominant. Purpose presents the company Zeiss as one of the earliest cases of their proposed ownership structure (Canon et al., n.d., p. 10) For further information on the historical origin one has to explore ownership by industrial foundations, rather than steward-ownership:

Historically, foundations (or at least non-profit entities) are far older than corporations. [...] However, what we think of today as industrial foundations apparently emerged along with companies in the second half of the 19th century (after 1850). We have case studies of some of these entities like the Carlsberg or Tata foundations which were established by inspired high-minded entrepreneurs, but we lack a systematic account of how so many companies can to be owned by foundation. We suspect that not all owners were motivated by lofty philanthropic goals and that at least some of them saw the foundation structure as a convenient way to escape wealth and succession taxes, while at the same time keeping the family in control. (Thomsen, 2012, p. 13)

The quote illustrates that although it is a concept that can be traced back, exact numbers or starting dates are hard to pinpoint. Additionally, the motives for adhering to that ownership structure would not necessarily be any altruistic goals, but sometimes for more fiscally convenient reasons.

What the ownership structure means for Purpose in the current day and age, is based on their two main principles. It means that profits are firstly in aid of the mission of the company, not any shareholders. The second principle means that control of the business, lies within the business, and not with external shareholders. Alternatively formulated, it is the separation of economic rights and voting rights (Canon et al., p. 16). Additionally, they aim for a structure with a long-term perspective.

⁴⁹ The literature focusses on industrial foundations in Denmark by, for example, Thomsen (1996, 1999, 2017)

The ownership structure is different in the sense that the power lies not with disconnected owners but within the business, because the owners cannot be external. Instead: *“control over its management, strategy, and key operational decisions, is held by people inside or closely connected to the organization.”* (Canon et al., p. 9) So, the owners are either inside or closely connected to the business. This is done because those people are considered to be better connected to the operations of the business. On distant owners, focussed on maximizing profits, they state the following:

“These “absentee owners” are rarely directly involved in the business’ operation. They cannot feel responsible or accountable to the business, because they don’t directly experience the needs of their customers or employees. They don’t feel the impact of choices that maximize their financial gains at the expense of employees, suppliers or customers. This system removes responsibility and accountability from organizations, and relies on governments to regulate corporate norms and behavior.” (Canon et al., p. 9)

With steward-ownership, the power to steer the business, as well as the responsibility for it, lies with the stewards. The proximity to consequences of actions that are taken, appear an important effect of steward-ownership. Before speculating on possible relations with Aristotelian ideas, the aim in the next section is to try and answer the questions that have been formulated for this case study. There, additional information is presented in doing so. As one might have guessed, the driver for these types of businesses is not the aim of profit maximization, but rather to serve ‘a purpose’. What that purpose is exactly, is not defined (nor is that necessary, according to the initiators), as it can be different for different businesses. For example, it can be internally or externally focussed, on the treatment of employees or on markets that are served. But, always with the two main principles in mind: separation of self-governance and profit that serves purpose. From the interview, the following answer was given in response to the question ‘What is the essence of steward-ownership?’:

“I would say that the essence of steward-ownership is two things. The first thing is putting the purpose of a company, so the problem it is trying to solve, or the product that it’s trying to provide to other people, over the secondary purpose of profit maximization. [...]

... the decision-making power should always lie in the hands of people who are deeply connected to the company and truly in a position to take responsibility for the decision that are being made, and know the company well.”

2) How does the legal structure look like that is proposed by Purpose?

It is important to note that the legal initiative or Purpose, to actively change the law on ownership structure, is applicable mostly to Germany, where they are based. However, the idea behind using existing legal structures to accommodate the two principles of steward-ownership is applied worldwide. Although they already propose several examples of legal entities that make the objectives of steward-ownership possible, even when no directly suitable legal form is available. There is no ‘one-size-fits-all legal entity’ and it is of course dependant on local legal jurisdiction (Impact Terms Team). Purpose wants to create and enable legal structures that will ensure that the mission (without defining what that should be) of the business, as well as its independence is safeguarded at all times (Canon et al., n.d., p. 9). Their aim is wider than this task: *“Our mission is to build the field of steward-ownership and create the necessary legal, financial, and educational infrastructure to make steward-*

ownership easier and more accessible." (Canon et al., 2019, p. 4) From the interview followed a bit more elaboration:

"We have petitioned German law makers to allow a form of limited company in Germany that is steward-owned by legal definition. Where currently you need to use one of these work-around models like having a foundation or a majority of shares, or a veto, or a golden share... they are work arounds if you will. They use certain parts of foundation law to make something possible that isn't really possible with a normal company."

The quote refers to some examples of structures they currently implement, such as a foundation or veto share. To give one example⁵⁰, the Golden Share: voting rights are separated from economic rights. The voting rights are in the hands of the stewards, and remain there, so they cannot be passed down or sold (Canon et al., n.d., p. 17). The transfer between generations, if you will, of stewards happens when they give them to 'capable successors', alternatively, they are taken back by the company. The role of the 'Golden Share' is to safeguard this structure: "...a "golden-share," which has the authority to veto any attempts to unwind the structure or undermine the company's public commitment." (Canon et al., n.d., p. 17) In this type of structure, there are four types of shares in total, of which the exact mechanism varies to suit the specific jurisdiction. But, the idea behind especially the 'golden share' is the same:

"This share class may comprise 1 percent or less of the company's normal voting power. The Golden Share holds veto rights on all decisions that would effectively undermine the company's commitment to steward-ownership. This veto-share is held by a "veto-service" foundation such as the Purpose Foundation. To be a veto-share provider, a foundation must be self-owned and have clear provisions in its own charter that enable it to use this veto right to protect the provisions of steward-ownership." (Canon et al., n.d., p. 18)

This latter idea, of giving a veto to a specially designed foundation, appears quite unique. Of course, now remains, are any of the ideas of Purpose applicable to this thesis? In order to answer that properly, the second set of questions will now be answered, which deal with the compatibility with Aristotelian ideas in this thesis. The research question in this part is:

RQ 4: What is the theoretical foundation (implicit or explicit) of steward-ownership as defined by the German Purpose initiative, and what is the purpose of the separation of economic and voting rights, that is central to steward-ownership?

The answers of the interviewee in combination with the examination of secondary material to questions a up to g are briefly summarized to answer this question, and more elaboration on what is said here can be found in the aforementioned questions (a up to g) that are presented on the upcoming pages.

Purpose believes that businesses should have their mission as the primary goal, and not profit. This would apparently have little to no negative effects for the business (at least non have been presented), compared to conventional structures. The benefits can perhaps be interpreted as a better

⁵⁰ More are explained in Canon et al. (n.d.)

treatment of the labour, capital and land. However, a complete theoretical foundation could not be found, rather there are theoretical elements that they recombine.

The second part of this question, the purpose of separating economic and control rights, is to counter the effects of what they refer to as 'absentee' owners, meaning people that receive profit and make decisions, but are not truly connected to the business. With steward ownership, the decision-making power lies with the stewards, who can therefore control the business but at the same time will experience the consequences of their decisions. The voting rights of the company cannot be speculated with. Distribution of the profit is guided by the mission of the business (and mostly donated or reinvested). The full explanation of this statement is included in the various relevant parts of the sub questions below.

a) What is or could be the purpose of the economy according to Purpose?

Purpose claims that an economy driven by a purpose, a mission, instead of the profit motive, is fundamentally different from the current state of affairs. What that mission is or should be, is not defined. One of the main arguments appears to be that it would keep responsibility for the outcomes of actions closer to the business (also due to the second principle of self-governance), which would promote better corporate behaviour. (Canon et al., p. 9) This is meant in terms of labour, allocation of capital and attention to the conservation of land-based resources. It would be so because if businesses were to be driven by their chosen mission, and could remain free from short-termism of profit seeking investors, that:

"Steward-ownership can resolve the shortcomings of neoliberalism and its profit-maximization paradigm, while preserving the dynamic power of entrepreneurship and for-profit enterprise. It enables businesses to pursue purpose while acting in the interests of a broad range of stakeholders, from employees and consumers to the environment and society." (Canon et al., p. 109)

The interview provides a more nuanced answer, which is a personal opinion rather than the stance of Purpose. Very briefly put: *"At the core I would say, satisfying the needs of people is the purpose of the economy and what the economy does. Starting with the material needs and then maybe going beyond that in some cases."*

b) What is or could be the purpose of the business according to Purpose?

Purpose suggests that if ownership were a responsibility instead of an investment, it could ('in good conscience') not be used for maximizing shareholder value and increasing personal wealth (Canon et al., p. 6). They believe that instead of personal gains, a business could be a force for good on a wider scale. They also believe ownership is the tool to achieve that objective. (Canon et al., 2019, p. 7)

Additionally, the practical purpose of the business would be to *"fulfil their intended missions"*, something they ought to be better able to do if they are *"no longer legally defined as "things" (Canon et al., p. 7)*. Alternatively put, businesses would commit to *"long-term mission preservation and independence"*, instead of being used as a *"wealth-building engine for an individual or for speculative investors"* (Alternative Ownership Advisors). The aforementioned is a vision on a large scale. On the micro-economic level, what the company actually does, the interview gave some additional insight.

“I think that what Purpose tries to ensure is that the purpose of the business, whatever it is, is more important in the priority hierarchy of the business than profit, the profit of the shareholders. But Purpose doesn’t try to define what that purpose should be. So, it’s totally up to the business to decide, or up to the customers.”

An unscripted question was asked, to elaborate on the implications of not defining boundaries to the purpose of a business, because it might seem at odds with image (true or not) of trying to make the world a better place. The answer was elaborate, but the main point concerns the motivation of the entrepreneur. If the motivation lies not with making profit, but on solving a problem, the expectation and the experience is that it seldom concerns businesses that are arguably less good for the world.

“It takes a leap of faith to take this position, you kind of have to... people like to make moral judgements all the time, and we are very used to doing that. Everybody has in their heads ideas about what is universally good, and what is universally bad... but I don’t think these are particularly helpful in this goal that we have of transforming the economy by rethinking ownership.”

To sum up, the purpose of a business on a high level is to fulfil their mission (and not to generate profit for shareholders), but on a lower, more practical level, that mission does not need to be constrained.

c) How does Purpose view shareholders (in terms of role and remuneration)?

One of the foundations for a business based on Purposes philosophy, is called ‘self-governance’:

“Steward-ownership structures keep control with the people who are actively engaged in or connected to the business. Voting shares can only be held by stewards, i.e., people in or close the business, and the business itself can never be sold.” (Canon et al., p. 11)

By separating control from ownership, possible perverse incentives for personal gain are removed from management practices. Additionally, the control is placed in the hands of people that really care about the mission. (Gravemaker, 2020) This is in contrast to current practice: *“In many national legislations, it is stated that unless changed in the bylaws of the company, shareholder profit should be the north star guiding the decisions of its management.”* (Makkonen, 2018)

The idea of splitting control from economic returns, does raise the question of the people in control might not find ways to return to the shareholder value maximizing strategy, if they for example lose sight of the businesses true mission. However, *“To remedy these issues, steward-owned companies often cap the returns they offer to shareholders.”* (Makkonen, 2018)

d) How are profits regarded and subsequently to what aims are they distributed (what is their purpose)?

The statement of Purpose is that steward-owned businesses never have profit as a primary goal. (Canon et al., p. 9) Instead profits are used as the instrument to develop the company and further the mission by reinvesting them rather than privatizing them (Canon et al., p. 7). By removing financial gains as a primary target for the business, and by restructuring the ownership and thereby altering

the primary destination of profits, it should “*resolve the inherent conflict between profit maximization and mission preservation*” (Canon et al., p. 12). In one quote:

“For steward-owned companies, profits are a means to an end, not an end in and of themselves. All the profits generated by the company are either reinvested in the business, used to repay investors, shared with stakeholders, or donated to charity.” (Canon et al., p. 11)

According to Luimstra (2020), this solves an issue of ‘shareholder capitalism’, because it prevents a business from depleting its own resources by maximizing shareholder value.

In the interview, the distribution of profit was also discussed:

“In our definition of what companies should do with their profits, there are several options. One is reinvesting them in the business, which I think is fair and a good idea. And the other is donating it. So that would be giving it to the cultural or science education, Geistesleben sphere.”

Whilst it still remains possible that for example, a very small percentage goes to a family (as in the example of Bosch as depicted in Canon et al. (n.d.)), these two options are contrary to giving everything to individual shareholders (individual people), which would not happen in a steward-owned business.

e) [What is the theoretical foundation of the business when its goal deviates from the shareholder value maximization goal?](#)

So, although maximizing profit is never the main goal, profitability is not an issue. Additionally, “... *these companies typically generate many kinds of societal benefits that extend beyond their owners and customers*” (Makkonen, 2018). Of course, that could also happen with other types of companies.

Purpose states that ‘although’ no one can take advantage of the business, of society nor the planet, the companies who adopt steward-ownership can be just as profitable as businesses with more mainstream configurations. (Gravemaker, 2020) One of the sources, Thomsen (1996), that Purpose refers to discusses this, and shows that it can be true in some instances and configurations, so caution is advised when taking such a stance. Purpose states themselves:

“Without short-term pressure from financial markets and investors, steward-owned companies can focus on what is best for their organizations, employees, customers, investors, and society at large in the long-term. This leads to more innovation, as companies are able to reinvest more of their earnings into research and development (Thomsen, S. 2017).” (Canon et al., p. 13)

In case of steward-owned businesses, in whatever form, there appears to be the shared idea that: “*a company is not simply an asset, but a group of people working together for a purpose.*” (Ownership Conference 2018, 2018) Another foundational aspect is that they believe “*Responsibility comes with the proximity of decision-making, execution, and consequences*” (Jiang, 2017). Because of their proposed structures, Purpose states: “*The results are governance and management systems that are better and more productive for employees and management, and more successful in fulfilling the purpose of the company.*” (Canon et al., p. 13)

The response in the interview to this question, although slightly rephrased, was as follows. On the one hand, there does not appear to be "...a theoretical foundation from the same perspective as the Friedman doctrine..." On the other hand, there is work being done that can be a step in the right direction. For example, by Steen Thomsen, who shows up in the literature on foundation owned firms. Additionally: "...there is something called 'stewardship theory of management'. But that is a micro-economic theory. It is basically a different management and management incentive theory." That management theory lays focus on intrinsic motivation of the managers, who would be "intrinsically motivated to follow the best interest of the business", rather than extrinsic motivation such as monetary incentives.

"And I think that's a very important part of our model. Or of our view of the economy, because we fundamentally have a different view of what motivates entrepreneurs than the classical model. We are convinced that entrepreneurs are intrinsically motivated, and that intrinsic motivation is much stronger than the kind of extrinsic motivation that comes from rewards, schemes and bonus payments."

He proceeds to support this argument with a reference to psychological research on responses to incentives. Further enquiry provided the addition that they see intrinsic motivation as motivation stemming from the entrepreneurial activity. The entrepreneur identifies with, and is connected to the business and what the business does.

f) In relation to the vision the business promotes, how are the factors of production viewed, or, is there a theoretical stance towards them?

There appears to be no mention of factors of production explicitly, but there can be found implicit references to the subject. For example, in discussing the current state of ownership, they address control over property:

"By default, the majority owner of anything is the ruler of that thing, whether it be a company, land, or an object. The owner of this book can sell it, rip it, burn it, or read it. They can use it however they see fit – that's the legal premise of property." (Canon et al., p. 6)

One might agree with this quote, or not, but what is of interest to this thesis is the reference to land, one of the Neoclassical factors of production. Another interesting, rather boldly stated, quote argues that the shareholder value maximization model is incapable of addressing the needs of the planet, another reference to the treatment of land.

"The dominant shareholder-value-primacy paradigm, in which profit-maximization is the ultimate goal and corporations are void of responsibility to stakeholders, will never foster an equitable economy that respects the needs of the planet, nor will it ever enable us to create a society based on cooperation and interconnectedness." (Canon et al., 2019, p. 7)

Towards capital and labour, Purpose observes a current trend in shareholder capitalism structures, of favouring capital over labour and land: *"The drive for market-rate returns also often shifts wealth to shareholders at the expense of employees, community members, and the environment It continues to serve capital over other value creators, like labor and the environment."* (Canon et al., 2019, p. 16) The fact that the latter two are addressed as 'value creating', rather than costs is interesting, which could

show disagreement with a Neoclassical approach that sees them as costs. Again, the interview gives more information, and the following quote explains how the relationship or apparent hierarchy between labour, capital and land is addressed with steward-ownership:

“This classical question of returns to labour versus returns to capital, and how the return to labour... the labour share has been decreasing basically, is a fair one. I think it is indirectly addressed by steward-ownership because we are basically reducing return on capital massively, by saying it has to be restricted in some sort of way. We are challenging the idea that capital should have indefinite returns.”

Labour in specific is discussed in the next question.

g) Regarding labour in particular, is it seen as a burden, as a cost that needs to be minimized?

Labour is more explicitly discussed in the material on Purpose. Remuneration of ‘employees’ is a frequently mentioned topic. From the second to last quote can be seen that labour is considered a ‘value creator’, so most like it is not considered nor treated as a cost that needs to be minimized. A very clear statement on the matter is:

“Compared to conventionally owned companies, steward-owned companies also pay employees higher wages with better benefits, attract and retain talent more effectively, and are less likely to reduce staff during financial downturns.” (Canon et al., p. 9)

In fact, they present further statements (apparently also supported with scientific research), that enforce the centrality of the position of mission-driven employees:

“Steward-ownership is a legally binding commitment to employees, guaranteeing that their work benefits the purpose of the company and not just its financial owners. This creates a psychological basis for deeper motivation. Additionally, workers experience increased job security, better representation in corporate governance, and fairer pay (Thomsen, S. 2017). This results in increased productivity (Kuhn, J and Thomsen, S., 2015) and social cohesion, which enables firms to attract and retain top talent.” (Canon et al., p. 14)

This quote implies that there is a lot of attention for employee welfare. The next question to be answered is to discuss what the compatibility is of steward-ownership and an Aristotelian business model.

RQ 5: To what extent would steward-ownership be necessary and sufficient to realise a business model in practice based on Aristotelian literature?

Steward-ownership, when defined narrowly as separating economic and voting rights in a business, appears to fit several concepts from relevant literature as discussed in this thesis. More importantly perhaps, questions that Purpose asks itself and their clients, appear very fitting to Aristotelian thought. For example: *“What’s really of value? and also; How much do I really need, and what am I willing to “leave on the table””* (Canon et al., 2019, p. 14) This relates to the discussion on needs and wants of Chapter 4. Also, the following questions are arguably fitting to an Aristotelian paradigm:

“If we truly understand businesses to be vehicles for ongoing value creation, rather than merely profit- returning commodities, how do we value them and what should our return and timeline expectation be? And who should share in that value?” (Canon et al., 2019, p. 16)

Especially the last question expresses a worldview that includes a level of sensitivity to fellow human beings, and perhaps the earth. Especially the ideas on labour as something that creates reciprocal satisfaction by fulfilling the needs of others (as in sub-section 5.5.1) seem fitting.

Additionally, the book of Koutsoyiannis (1975, p. 325) discusses several managerial management theories. Although not from Aristotelian based literature, it does provide an argument on the separation of ownership and management (control). It is stated there that:

“The divorce of ownership from management permits the top management to deviate from profit maximisation (which maximises the utility to the owners) and pursue goals which maximise their own utility.” (Koutsoyiannis, 1975, p. 325)

What remains unaddressed is the goal or higher purpose that would replace utilitarian happiness. What that would be the goal behind promoting steward ownership, is fundamentally important if it is to be an improvement from the profit maximization aim. For Purpose, the goal for the managers and for owners would be the company’s mission, but the goal of the business is not explicitly defined.

What could also not be explicitly found from the information on Purpose, is the inclusion of non-material aspects of life, as discussed in Section 4.3 as a possible destination of free capital (from Wilken (1982) as described in Section 4.3.2, namely profit from productivity gains). In the businesses that Purpose presents as cases of steward-ownership companies in their information, there are numerous examples of companies who make donations, but where to exactly would need to be investigated. So, they do not provide many explicit suggestions applicable to an Aristotelian inspired business model, apart from their steward-ownership model. The latter could be instrumental to avoid profit maximizing practices, but does not address the ideas in this thesis regarding for example the just price or the efforts of the *Geist*. The idea of not distributing all profit to shareholders, by separation of ownership in terms of control and financial rewards, could be useful for an Aristotelian business model. Most notably would be to, in the example of Purpose even legally, protect mission over profits. The next section aims to complement the idea posed by Purpose.

6.3 Interview: accounting and entrepreneurship as possible 'building blocks' for operationalizing Aristotelian business ideas

This section presents an interview with Dr. Christopher Houghton Budd. He provided the following introduction: *Dr. Christopher Houghton Budd is an economic and monetary historian with a doctorate in banking and international finance (Cass Business School, London). The founding director of the Centre for Associative Economics, he works independently in many contexts ranging from mainstream to 'green', central banks to organic farms. He has made a special study of the economics works of*

*Austrian philosopher, Rudolf Steiner. He writes frequently on economic affairs, and has published several books.*⁵¹

Accounting appears to be a possible route to take in order to reshape how we perceive profit and what role we attribute to it, which is explained in the first sub-section 6.3.1. Additionally, the aim of the interview is to showcase possible elements applicable for an Aristotelian model. The questions are presented in sub-section 6.3.2. The results are discussed in sub-section 6.3.3.

6.3.1 Why accounting?

A major development in economic practice today is the increased use of international accounting standards and the automation of bookkeeping. In accounting standards, economic practice meets economic theory and concepts, as well as legal (regulatory, statutory) convention.⁵² The cultural-scientific sphere hereby shapes the practical-economic, and if it becomes embedded in law, similar to current accounting standards, it also incorporates the legal-political sphere. Accounting is argued to be like a mirror, reflecting economic reality without judgement or prior interpretation, and it can be used to provide insight into the state of a business and the way it operates, if it is used as ‘an instrument of perception’. (Houghton Budd, 2015a, p. 3)

Accounts have proven to be both instrumental, and sometimes detrimental, to the success of nations: *“Accounting is at the basis of building businesses, states and empires.”* (Soll, 2014, p. xi), and *“The study of accounting and accountability allows us to understand how institutions and societies succeed and fail at their most basic levels”* (Soll, 2014, p. xiv). At a national level, national accounts have ‘transformed macro-economic policy-making’ (Atkinson, 2009, p. 801). Not only that, but accounting has also played a significant role in economic events, such as financial crises:

“At crucial moments, accounting and the mechanics or accountability break down, adding to financial and political crises, if not creating them. The success of a society, at least financially, is, in great part, the mastery of accounting, accountability, and the ensuing struggle to successfully manage them.” (Soll, 2014, p. xiv)

One can view accounting as a language, *“beyond ideological capture and that provides the practical ground for any serious change, especially change in the world of finance.”* (Houghton Budd, 2015a, p. 2). The shift that should take place, is to move from focussing on ourselves, to recognizing the importance of others, in line with the ideas of the business essentially serving others. Accounting does not need a full overhaul, but it needs to be better understood in terms of its ‘other-serving nature’ (Houghton Budd, 2015a, p. 2). It is the use of it, by ‘self-centred economic actors’ (p.8) that currently obscures the opportunity of a mirror-like effect.

⁵¹ Including *Prelude in Economics* (1979), *Of Wheat and Gold* (1988), and *The Metamorphosis of Capitalism* (2003) and *Rare Albion – a Monetary Allegory* (2005), available from cfae.biz/publications. *Finance at the Threshold, Rethinking the real and financial economies*, Gower, 2011

⁵² For example, in ‘Accounting as the master metaphor of economics’, Klamer and McCloskey (1992) provide an exploration on the relations between economics and accounting, as well as mutual influences and the effects thereof.

“The result is that we account for our self-centredness, when we could be accounting for our other-centredness. For this is the true nature of economics, to which division of labour, the fact that one produces for others, and that capital loses value when not lent to others, all stand testament.” (Houghton Budd, 2015a, p. 11)

When these ideas would be applied to the practice of accounting, *“Accounting, then, becomes one of the institutions that frame and shape the business activity of the firm, its field, especially its ways of generating and allocating special business incomes”* (Biondi, 2008, p. 528) Accounting could then be the tool to use for both reconsidering the role of profit, and the practical implications thereof.

The writings of Houghton Budd (2015b) express a need for ‘financial literacy⁵³’, as this will put consciousness in our dealings⁵⁴, and also enables people to understand the economy better. This knowledge and understanding will enable individuals to hold others accountable, based on their accounting statements, as they can no longer be used as a means to obscure and twist the facts about their activity, as they will inevitably be uncovered through accounting. A quote by Soll (2014) illustrates what effects it can have if people don’t understand this, linking it to financial instability:

“Why, one may ask, don’t democratic governments do more to stabilize the world of finance, from the most sophisticated leveraging of Wall Street to the dime-a-dozen mortgages of Main Street? One reason is that the public is as disengaged from these hard questions as it is unknowledgeable in even the most basic principles of accounting or political economy.” (Soll, 2014, p. 206)

So, accounting, when perceived and explained properly, could provide an opportunity to reconnect individuals with the economy. The next section goes more in depth on the opportunities and practical implications of accounting as a tool, via an interview with one of the authors that is often cited in this thesis in connection to the topic.

6.3.2 Questions for the interview

Questions have been formulated based on the thesis thus far, while taking in mind the connection with accounting. The aim is for the questions to be non-normative, so that the responding party can answer freely and the information that is retrieved is less prone to (this particular) form of bias.

- 1) How did you arrive at the idea of accounting as a possible instrument for change in the economic system?
- 2) You have mentioned that it is not so much the accounting methods that need alteration, it is how we use and perceive them. Financial literacy is then instrumental, but how do you imagine that will lead to large scale changes in a practical manner? (For example, if everyone is financially literate, would that create automatically more consciousness or would it simply enable more people to misuse accounting in their own advantage?)

⁵³ Financial literacy means educating people on accounting: *“to know how finance works, to know where one is financially and where one is going”* (Houghton Budd, 2015b, p. 9)

⁵⁴ *“There is no theory, no policy, no code of practice, no technique and no transaction that will be left unaffected by financial literacy. It puts consciousness into our dealings”* (Houghton Budd, 2015b, p. 9)

- a) What does it imply if financial literacy would be widely adopted? (That people will behave and act better if they understand the possibilities of the mechanism?)
- 3) I believe you are familiar with the concept of the 'just price'. Do you see a possibility to express this concept in (or with) accounting?
- 4) You have identified five elements in accounting (see footnote ⁵⁵). If accounting would accommodate the concept of a just price, which of the elements would change and how?
- 5) These sub questions address the idea of labour and capital⁵⁶ being 'value creators' instead of 'costs'.

Regarding labour:

- a) How is labour accounted for in the conventional Income – Expense account?
- b) Do you think that this has any implications for how labour is perceived and treated?
- c) How would labour and capital (as value creators, not as costs) have to be expressed in accounting terms (for example on the balance sheet or the Income – Expense account)?
- d) Regarding an idea that is discussed in this thesis, that labour as such cannot be paid for, only the product that follows from that labour can be paid for, could that be expressed with accounting?

Regarding capital:

- e) Do you think there is a possibility of using accounting as a means to visualise what you have named 'freed capital'? If so, how?

The next sub-section discusses the results of the interview, in the form of a report of the conversation and some initial reflection on possible applications for this thesis.

6.3.3 Results of the interview

This section presents a brief summary of the most relevant findings from the interview in relation to the topics of this thesis, and highlights two very promising ideas. All quotes, expressed in italics, are from Dr. Houghton Budd. The number in brackets refers to which question the answer was given to.

Accounting initially came to Dr. Houghton Budd self-taught and via practice rather than through a formal education. Combined with his interest in the works of Rudolf Steiner, makes accounting an influential concept for him. *“When I was ‘inventing’ bookkeeping, I also came across Steiner’s powerful*

⁵⁵ Houghton Budd (2015a, p. 6): five elements of accounting: General ledger (with five types of accounts), Day book or journal, Trial balance (which leads to the Balance sheet), Income and Expense account, Cash flow statement.

⁵⁶ Land is not included separately here because, according to the interviewee as for example discussed in Houghton Budd (2016), nature (or land) is included in labour and capital (because it is through labour and capital that land becomes valuable). Capital in this instance refers to it being an enabler of capacities, rather than means of production.

concept, that money is bookkeeping.” [1] This provides the basis for Dr. Houghton Budd’s view of accounting as an ‘instrument of perception’.

In relation to this thesis, one of the aims of the interview was to investigate whether accounting can be used to bring about changes in the economic system, and if so, how accounting would have to be changed to accommodate such a use of the construct. It turns out that, according to Dr. Houghton Budd, it is not so much the methods behind accounting that need to change, but rather how we use them. Mostly because bookkeeping in itself is neutral, it is how it is used that colours the effect it has (on which later more). In his terms, ‘financial literacy’ is instrumental to this idea of using accounting as a mechanism of change. Accounting, or more precisely put, bookkeeping, should be widely taught at a relatively young age. “*...inside bookkeeping is double-entry bookkeeping, the foundation of the modern financial system” [2]*

Although a solid foundation, it appears today that people have taken advantage of the system to tweak it in their favour. There is a difference between deliberate and honest mistakes, such as confusing two numbers. “*Those I call innocent mistakes. But when you get that clear, if it still doesn’t balance, now you’re going to make a deliberate mistake. So off-balance sheet stuff, the whole shadow economy is largely because people are making deliberate mistakes. But they have a problem, they can only get away with it until the counterparts to those transactions show up.” [2]* It could mean that when bookkeeping is widely understood, the fact that there are missing counterparts can more easily be identified, because almost everyone understands that they must be there, because all can speak the language of accounting. “*...it works against dishonesty if you like, because it just removes all the hiding places. Slowly but surely, they all disappear. And therefore, in my view, it is the way to get rid of dishonesty in the world economy.” [2]* There is a side note, “*it is important not to moralize this issue. A lot of people just have a lot of money, but they haven’t been told there is a concept of ‘too much money’.” [2]* The latter topic will come up again later on in the interview. The question is, when everyone is financially literate, why would their behaviour change? “*Would people behave differently? Well I’ve already indicated, if you do proper bookkeeping, it’s like just holding up a mirror to yourself.” [2a]* It is the mirror analogy, that shows the power of accounting. It is not a rulebook imposed on you; it is you yourself that uses accounting. It visualizes what is happening, for example in a business. “*You need to be the mirror watching yourself. This is important because speculation then takes on a different meaning. Much of today’s speculation is people not perceiving the counterpart to their actions.” [2a]*

If we move from the interview to what it would mean for this thesis if the mirror of bookkeeping is widely understood through financial literacy, several things can be said. The idea of it, and the theoretical implications (how we perceive what we see in the mirror) arguably belong to the cultural-scientific sphere. When accounting is applied, this activity belongs to the practical-economic sphere. If everyone knows the system of accounting, everyone is able to hold one another accountable. It would empower people to see the flaws, deliberate or not, in the accounts of others (be it of a business or even the government). More reflection on the ideas can be found in the next section.

Now to move back to the interview, the topic being whether the ‘just price’, something that is quite important in economic ideas based on Aristotle, can be expressed by changing one of the five

elements⁵⁷ of accounting. The answer is that here too, change is not necessary. *“There’s no point fiddling with accounting, the only thing to do is to become really clear how it works. That’s my answer. Before we need any structural change in the economic universe, first we need to deal with the misrepresentation of it. [...] ...most of the change is motivational. You know, people going into business to make money for themselves, and that colours everything.”* [4] Even though the latter part of the quote can almost be seen as a side note, at least in the whole conversation, it expresses the essence of this thesis. It is how people think about the purpose of a business, or profit, that subsequently defines their actions and shapes the economic system.

The conversation shifts to the questions about labour and capital⁵⁸ being ‘value creators’ instead of ‘costs’. The first question is about how labour is currently accounted for. *“It’s an expense before result.”* [5a] Often nowadays, ‘result’ is a laden term, because people immediately think about a positive result (a profit), and how to maximize it. But in its origin, *“Result is a very neutral thing”* [5a]. And in turn, labour is defined as a cost by the amount of the wage that is paid, and it is, as mentioned, an expense before result. *“That’s how it’s dealt with, because it’s thought to be a commodity, something I am buying. That’s why it goes on the expense account; I bought it. Whether one really bought anything, we can discuss, but as long as one thinks labour is for sale, that’s where it goes in the accounts. It’s given by the structure of accounting if you think labour is a commodity.”* [5a] This has implications, but while the question posed was ‘Do you think that this has any implications for how labour is perceived and treated?’, it appears now that it is the reverse. Labour is perceived and treated in a certain way, and that defines where it has its place in accounting. This is followed by a bold statement: *“Whether they think it consciously or not, the epistemology of that is they’re thinking of it as a commodity. Secondly, if you buy and sell labour, that is normally known in English as ‘wagery’: the last form of slavery. And the most worldwide form of slavery.”* [5b] Although not necessarily in terms of physical oppression, then for the spirit of the individual. *“If you have a problem with that, then you would have to stop buying and selling labour.”* [5b] It appears to be a case of ‘easier said than done’. *“When people say labour is not a commodity, most of them have no idea of the policy implications of what they say, or the historical implications”* [5b]. Later on, an idea to address this is presented, namely that everyone would be self-employed.

First, we continue the conversation on how to express labour and also capital, when they are not viewed as costs, but as creators of value. Here arises a, for this thesis, very valuable thought. It would solve the issue that remained in the section on labour (Section 5.5.1), where the conclusion was that in an Aristotelian based business, labour as such cannot be paid for. But, simply said, then how would one make a living? The answer appears to lie in the roles and definitions of employment, and places more responsibility on the individual. The idea is illustrated with the implications for taxes if it were the case. *“My default is always a self-employed person. And a self-employed person either takes 100 percent and does his own tax accounts, or he makes a contract with his employer to do that for him. But*

⁵⁷ Houghton Budd (2015a, p. 6): five elements of accounting: General ledger (with five types of accounts), Day book or journal, Trial balance (which leads to the Balance sheet), Income and Expense account, Cash flow statement

⁵⁸ Land is not included separately here because, as for example discussed in Houghton Budd (2016), nature (or land) is included in labour and capital (because it is through labour and capital that land becomes valuable). Capital in this instance refers to it being an enabler of capacities, rather than means of production.

it's important to recognise that when you do that your employer might make a mistake. So, the onus is on the employee to be conscious, because the employer could take more tax than necessary. And you can't just say it's his fault, because he is your agent." [5c] Additionally, *"Self-employed persons never have the notion they are buying or selling their labour. They only have the notion that, whatever their revenue is, it covers their expense. I have never met a self-employed person who says. "I am selling my labour." Never. They never have a theory about what they are doing; they do just do stuff and send an invoice. They know it has to be above their expense. Accounting already has all this in it; there's nothing to invent. There are a lot of concepts to get rid of. And a lot of stepping up to one's responsibility. That has to happen. But you can't blame that on accounting."* [5c] Of course, when this would be the case, the responsibility to pay one's taxes lies with the self-employed individual, and it can be debated whether they will step up to that task. Because in turn, (at least currently) the functioning of the government is dependent on revenues from taxation. *"That's the driving thing why income taxation was reinforced in 1913 when it should have been dropped, historically speaking. And why, I think it was, Franklin Roosevelt linked it to the central bank system in the 1930s so the government had a secure revenue. All this historical stuff which we take for granted. When I say these nice little things, I am very clear that I have just completely changed the macro policy situation, big time."* [5d] In the second part of the interview, some additional remarks are made on this: *"...the reason why I place such an emphasis on accounting is because it provides completely solid ground. There's no theory of accounting, but if you enter into accounting there's no issue which it hasn't already covered. The only change needed is to ask, when will people stop being employees? That's a change – though not in the structure or nature of accounting."* [5e]

To step away from the interview to reflect on what is said thus far, it is now clear that accounting is a construct applicable to the ideas in this thesis, although it is how we use and interpret it rather than the method itself that needs to change. What could the implications be if everyone was a self-employed entrepreneur? As mentioned by Dr. Houghton Budd, the macroeconomic policy situation would be significantly different, as in the past this was largely based on the idea of a labour market, which would no longer be there. But there are not only practical implications, the psychological effects might also be substantial. If labour is not traded in markets, but rather everyone is an individual, self-employed, that does not have to mean that in the day-to-day practice much has to change, the product of everyone's labour remains the same if they wish. However, there is an increase in responsibility that the individual has. One of the major implications is perhaps that then, in the economy, people can no longer be forced to do anything because they are told so by an employer, because currently it is arguably the employer who decides to pay for the labour which gives him or her power over the employee. If that falls away, everyone is able to decide themselves what the product of their labour is to be, in which economic activities to engage, which in turn would mean a significant increase in freedom of thought, or perhaps an end to, as Dr. Houghton Budd put it earlier, 'wagery', in the form of oppression of the spirit of an individual. More reflection can be found in the next section.

The conversation shifts to profit. *"People today make a distinction between a social profit and a financial one. For me, that's a false debate. What you need to be sure of is that when you made a sale, you weren't underpaid or undervalued, and when you bought something you didn't underpay or*

undervalue people or the planet or whatever. You can make an audit of all your income and expense transactions and ask that question. And if you were never undervalued, and you never undervalued anybody (because they wouldn't have entered into the contract; you can't make an expense to someone who doesn't want that as income) you can audit yourself. And then you will know that your profit is both social and financial." Taking this idea further, the next step is "... To whom does this profit belong?" For profit, the question is how is the profit put to use, and by who. *"I am concerned what the entrepreneur does. It's the use entrepreneurs make of internally generated capital which for me is critical."*

The conversation comes to an end, but not without addressing one of the fundamental topics in this thesis, *eudaimonia*: *"My understanding of eudaimonia is 'blessedness'."* And, it is made rather concrete based on Aristotle's idea of use value and exchange value, and the addition of surplus value⁵⁹: *"...for me use value and making things go together, but quality of life is linked, not to exchange value but to surplus value. That's the economic counterpart to quality of life."*

In the next section, the ideas that arise in this conversation are reflected upon, such as what it would mean if everyone is self-employed, or whether the ideas are achievable.

6.4 Reflection

Several practical building blocks have been proposed in the single-case study on Purpose and in the interview with Dr. Houghton Budd. Because although they might sound feasible, the question is, are they? What implications and consequences can these ideas have? To address these type of questions, three elements of this chapter have been chosen to reflect upon, namely steward-ownership, financial literacy and self-employment. Each will be discussed in turn, and the discussion will address the three spheres to complement the structure of the thesis.

6.4.1 Steward-ownership

For the legal-political idea of steward-ownership, a question might be, is this idea generalizable to the current business environment, where profit maximization appears to have such a prominent role? The short answer in the sense of whether it is possible to implement this form of ownership, would be yes, it is possible. That can be said because Purpose already brings this idea into practice. In their literature, a high-profile example is the company Bosch. Of course, one should remember that steward-ownership does not mean that there is no profit. There is normal profit, to cover necessary costs of capital for example. But the profit above that level (or in Neoclassical terms, supernormal profit), cannot be used for personal gain of owners.

The other half of the answer, will companies be willing to implement it, is a different one. That would depend on the willingness of the owners, perhaps it depends on what the goal is for them behind owning or operating a business. It is possible, that when they understand the rationale behind it, support for the idea might rise.

The interview with Dr. Houghton Budd provided two important ideas that are also related to how we understand and perceive things. The first to be reflected upon is financial literacy.

⁵⁹ According to Houghton Budd (2004, p. 23), surplus value is the following: *"...surplus value (that is, value created over and above what is needed to meet investors' dividends and ongoing capitalization needs)..."*

6.4.2 Financial literacy

What would it entail to have everyone become financially literate in a practical sense? The rationale of why it would be a good idea has been discussed. The idea can be instrumental in the cultural-scientific sphere, because it allows people to reflect upon their economic actions. That could contribute to Aristotelian virtue development and thereby *eudaimonia*. But how could it be achieved? As discussed earlier, and also in Houghton Budd (2015a), the constructs behind accounting do not need to be changed. What does need to change, is how we view and use them: *“The approach taken here to financial literacy is conventional as to accounting, but not as to the paradigm in which its understanding of accounting is nested.”* (Houghton Budd, 2017, p. 42). A practical step could be to implement financial literacy in educational programs, but the same article raises the questions: who will teach, and what will be taught? Accounting and bookkeeping in itself are already being taught, so it is imaginable the wheel does not need to be reinvented there. The challenge perhaps, lies with: *“...teachers and students alike meet the challenges of figuring out, not the usual paradigm of how to use the economy to one’s own advantage, but how to create authentic economic space in which people can socially innovate...”* (Houghton Budd, 2017, pp. 42,43)

What could help to have this alternative outlook on the opportunities of accounting become embedded in society, is when everyone would do their bookkeeping. It is then “a process of development in itself” and it would be “participatory” (Houghton Budd, 2015a, p. 13). An illustrative quote: *“It may help to envisage to oneself that with this technique one is able to go behind the mirror, as it were, and see (i.e. experience) one’s actions as the world sees (i.e. experiences) them. In essence, therefore, in addition to our ability to look from ourselves out to the world, double entry bookkeeping reflects an equal, but seldom-considered, ability to perceive ourselves from the world’s point of view. In other words, the accounting process allows one to perceive the effects of one’s actions and so, hopefully, to ensure that they are benign.”* From footnote 41 of Houghton Budd (2017, p. 51)

It would likely also be an essential capability so to say, to be financially literate, if everyone became self-employed. This is the next idea to be discussed, as it raises many questions and perhaps concerns.

6.4.3 Self-employment

How would an economy where everyone is essentially an entrepreneur look like in an operational sense? In terms of cultural-scientific aspects, some implications have been mentioned. For example, it could lead to increased freedom for the development of the human spirit, the development of virtues towards *eudaimonia*. The individual has to consider what need they can address with their capacities, what product to deliver. Could this alternative approach, where all individuals are a producer, be the end of large corporations for example, where labour is collectively organised? Perhaps yes, in the way we understand them today. It is imaginable that when everyone decides for themselves what product or service they will deliver, that this increased autonomy could lead to businesses resembling associations of producers for example.

Next to this, being self-employed would not mean that everyone becomes an entrepreneur in the sense of founding businesses here and there. Rather, it would place certain responsibilities that currently are outsourced to employers back on to the individual. The self-employed individual can still choose to once again outsource these tasks to whoever wants to work with him/her, but it takes

a different perspective. It also once again gives freedom to the self-employed to choose pension for example in a way they deem right, which might have implications for how pension funds are currently organised. (The interview with Dr. Houghton Budd addresses some of these issues by an example on taxes).

If everyone would be self-employed, that would not mean that 'the economy' would grow, nor the influence of it. People would be free to choose to work (to apply their labour) in a way they deem fitting or desirable. Rather than thinking 'more economically' in the conventional sense, we would think differently about what 'economic' means, and change its meaning in theory as well as in practice. If anything, it could remove the alienated feeling of the elusive 'the economy' where things appear to happen without our consent or knowledge.

In legal-political terms, a concern arises when one looks at current circumstances with self-employed people in relation to social securities. What happens when someone gets ill for example? Or when the product of someone's labour is no longer demanded? It will need to be examined whether the current system of social securities can accommodate such implications, and what kind of regulations would have to be installed or reconsidered. However, this idea of self-employment would have to be considered in a setting where also a just price is implemented, and where free capital (as defined by Wilken (1982)) flows to the cultural-scientific sphere. When a just price is paid and received, it would allow for the self-employed to make provisions for uncertain times. More research on this topic is advised.

Self-employment will require a step-up in the responsibilities people need to take, and perhaps a step-up in education on how to do so. A concern might be that people are not willing or able to see to their own pension for example, and push this task forward in favour of an increased spending pattern currently. This could be a challenge. It does not necessarily have to be, because you still could outsource the task of taking care of this (and of for example certain taxes, as in the example given in the interview with Dr. Houghton Budd) to whoever you supply with the product of your labour, and you can agree on this in contracts. In that way, little has to change in the day-to-day practices of people.

The aim of this section has been to try and identify some possible implications and concerns in relation to the building blocks that followed from the empirical part of this research. Further implications and recommendations are discussed in Section 7.3 and Chapter 8.

6.5 Conclusions

In this section, the conclusions from this chapter are discussed by means of a reflection on the propositions. Research questions 4 and 5 are addressed by the single-case study on the company Purpose and have already been answered in sub-section 6.2.4. Each proposition is discussed in turn and will provide insight on the compatibility of the ideas expressed in the case-study and interview on Purpose, and the interview with Dr. Houghton Budd, in relation to an Aristotelian business. The three points taken from Chapter 6 are: separation of management and ownership (legal-political), self-employment (in the practical-economic sphere) and financial literacy (as an instrument in the cultural-scientific sphere).

1. The objective of an Aristotelian business would be to produce goods that people need. The goal behind providing for material needs is ultimately to meet the non-material need of the pursuit of *eudaimonia*.

The initiative of Purpose in itself (self-governance and purpose before profit) appears not explicitly related to this proposition. They refrain from defining what the purpose of a business (to which the profit should be in service according to them), has to be or could be, and so whether they would serve (only) needs is not clear. Additionally, on what the goal of the business is can be determined by the business or its customers.

The interview with Dr. Houghton Budd relates to the proposition with the idea of using accounting as a mirror. Accounting in itself would not have to change to accommodate that, but rather how we use and interpret accounting (and bookkeeping in particular). That in turn can be achieved through financial literacy. By doing so, our understanding as to exchanges that are being made, and whether you under- or overpaid for example, can be reflected upon. Because nearly everyone understands accounting and thereby can validate the accounts of others, that would counter dishonest behaviour because it would be nearly impossible to get away with unseen. There would be more clarity, and more accountability, because the mechanism is better understood. Through reflection, one can develop their virtues, which will contribute to *eudaimonia*.

2. The remuneration of labour is not determined in a 'labour market', but in the legal-political sphere.

This proposition cannot be explicitly identified in the case study on Purpose. The interview with Dr. Houghton Budd relates to this proposition by the idea that everyone would become self-employed (or differently put, be an entrepreneur). It would release individuals of the control of the labour market and of the control by an employer, and not view labour as a collective commodity. Everyone delivers (or produces) something according to their particular capacities, which makes that it is not labour, but the product of labour that is the key thing. Someone would be enabled to organise their labour in the way they feel best suits their preference or purpose. At the same time, this requires increased responsibility from the individual, to handle aspects of labour that are currently collectively organised or regulated.

3. An Aristotelian business would, in their business operations, pay a just price. The source of profit is the general growth of knowledge, which obviates labour in the economy, leading to profits. If profit is used to support the free growth of knowledge, this would help individuals to achieve *eudaimonia*.

The goal of Purpose can be said to be that by going against the dominant profit or shareholder value maximization aim for personal benefit, they want to step away from the negative effects that this can have. They do this by putting profit second to purpose and keeping voting rights within the company rather than with 'absentee owners'. In turn, they promote to distribute profit only with the goal of

reinvestment or donation, by which they show a different perspective on the purpose of profit. Additionally, the changed ownership structure allows for the decision to use the profit differently than with the shareholder value maximization aim. So, if the goal of this thesis is to challenge the purpose of profit, the structure of steward-ownership at least enables an entrepreneur to decide on the destination of profit, and could be an instrument in the process referred to in the proposition.

Out of not only the interview with Dr. Houghton Budd, but also literature written by him (or with his contributions) it can be argued that at least the second sentence of the proposition can be agreed upon. Take for example: “...surplus value (*that is, value created over and above what is needed to meet investors’ dividends and ongoing capitalization needs*) should not be privatized, but should go to the benefit of cultural life.” (Houghton Budd, 2004, p. 23) Additionally, he mentions that the surplus value is “*the economic counterpart to quality of life*”, so it would enable practically to strive for *eudaimonia*. Stimulating innovation is also addressed in his contribution to Houghton Budd (2017), when, through financial literacy, the economic system is understood in a new paradigm, in which we create economic space to foster social innovation.

The next chapter discusses the conclusions of the thesis as a whole, including implications of the ideas that have been brought forward.

7 Conclusions

This chapter contains the conclusions that have been built up throughout the research. Broadly put, the main inquiry underlying this thesis regards the purpose of profit and how it relates to the purpose of economic activity. The path that led to this topic, originated in an interest in the phenomenon of financialization, combined with an interest in the origin of some of the issues we encounter today related to the economic system (such as inequality and instability). Firstly, financialization was investigated (Chapter 2) to try and establish what it entails exactly. It is compared to the growth focus that has prevailed in economic policy for some decades. Although growth can be a valuable economic tool in certain circumstances, it is questionable whether the conditions in which it was installed, still apply today, and whether it therefore is something economic activity should focus on. Financialization appears to be related to, if not a consequence of, the growth focus. When economic growth slowed down, financial growth was still possible. This sparked increasing attention for financial performance and caused a change in how profits were distributed (to the financial sector rather than the real economy). Although there is a relation between growth and financialization, the question remains if perhaps this was in turn related to economic theory, because intuitively, a phenomenon shows up because of, or leads to, theory.

One of the major economic theories, Neoclassical theory, was chosen in order to examine its possible relation with financialization, which is expressed in the first research question. A literature study into some basic principles of the theory at a macro-economic level was conducted (Chapter 3). If these basic principles lead to (or describe) certain behaviour as encountered in the economy, and if that in turn is related to financialization, the idea arose: what would happen if there were different economic principles? Or better put, what could an alternative theory look like that perhaps can solve some of the economic issues of today. Because Neoclassical theory has a connection with the Benthamite idea of utility maximization, a philosophical undertone in the theory, another philosophical idea was chosen to offset to this. It became Aristotle's explanation of *eudaimonia*. Literature inspired by or based on his thoughts was examined (Chapter 4) with the second research question (all questions are repeated and answered in the next section). To move from theory to practice, to operationalize the concepts, Chapter 5 deals with the third research question. This was done based on literature. In order to add an empirical element to the developed ideas, a single-case study on the company Purpose and an interview on accounting with Dr. Houghton Budd (Chapter 6) provide examples of initiatives that could be useful as building blocks in the further development of an Aristotelian business model. Both discuss the role of profit and profit (or shareholder value) maximization.

These steps combined answered the research questions posed in the thesis. Section 7.1 includes conclusions in the form of answers to the research questions. Section 7.2 reflects on the main research question, and Section 7.3 discusses some implications of the ideas expressed in this thesis.

7.1 Answers to the research questions

All the sub-research questions, as well as the other topics and information from this thesis combined, provide the groundworks to be able to answer the main research question:

What kind of business form would be compatible with an Aristotelian conception of the purpose of the economy and the business?

In order to answer this question, several sub-questions have been formulated after an initial examination of relevant literature. The first three are answered by conducting an in-depth literature study. The last two are answered by conducting a single-case study, and the interview on accounting complements the empirical part. For clarity, each sub-question is discussed in turn, before composing an answer to the main question. The first question asked was:

RQ 1. Can the emergence of financialization be explained as a (possibly unintended) consequence of the Neoclassical conceptualization of the goal of the economy, in particular of the theoretical emphasis on the importance of profit maximization?

First, some elements of Neoclassical theory that are important for the answer, are repeated and depicted in the figure below. There is utility maximization as the philosophical goal, and that can be done theoretically by fulfilling the insatiable wants of the consumer. The means to do so, are assumed to be scarce. Therefore, in the practical-economic sphere, the factor markets are instrumental. With the market mechanism, costs can be minimized, and thereby the profit maximized (which leads to more savings, investments, growth and thus utility). State interference (or legal-political) in the economy is unwelcome, except when it comes to the protection of property rights.

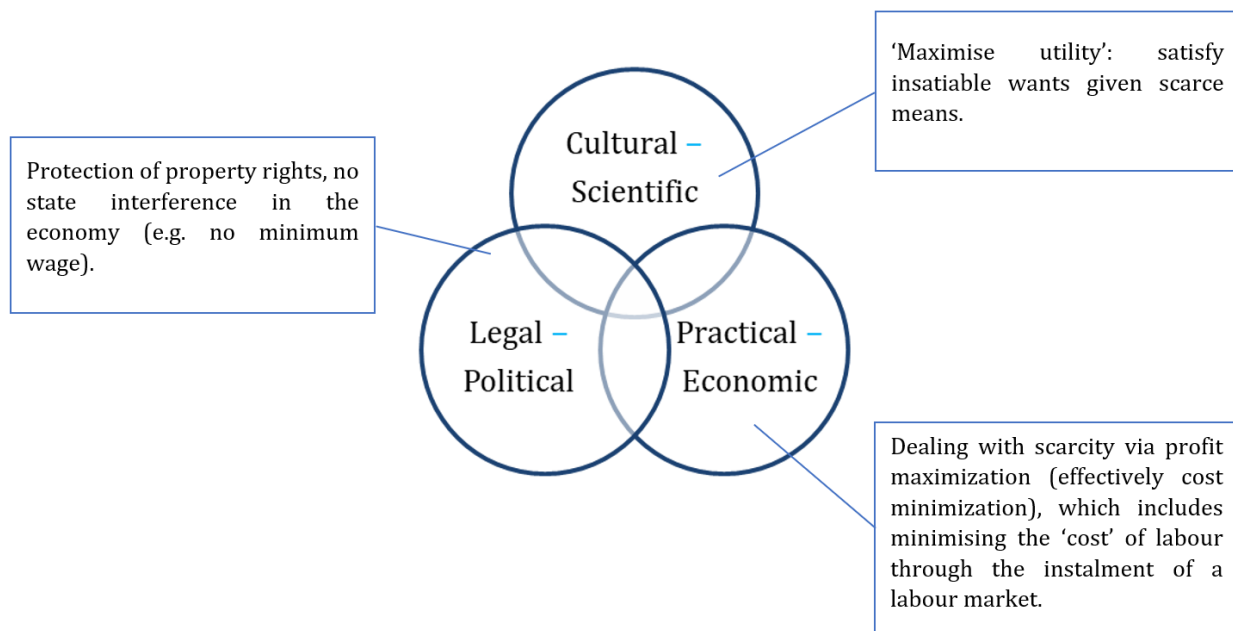


Figure 16 - The spheres in a Neoclassical setting.

The short answer to the research question is yes, it appears plausible. The search for financial gains (or maximum 'returns on capital') in the financial markets seems to be related to the prescription of profit maximization in Neoclassical theory. The increase of capital flow to the financial sector, combined with the implementation of financial performance as the only measure for all aspects of the business, is the foundation of financialization.

However, the ideal Neoclassical model that in the theory accompanies the profit maximization prescription, that of perfect competition, where maximum profits are in fact zero, often does not hold

in practice. Rather, it appears we find ourselves in a more oligopolistic setting. That is not a desirable state according to Neoclassical economics, because here companies do have price setting power, and maximum profits can be above zero. If reality is not fitting to the ideal model circumstances, the goal that is being chased (that of maximizing profits) is perhaps not the right one, because it leads to practices that are not intended by the original idea (hence the term 'unintended' in the question). Therefore, the idea came up to look for alternative goals for economic activity. This is captured in the second research question.

RQ 2. According to an emerging macro-economic and business organization literature, the ultimate goal of economic activity is not to achieve Benthamite-utilitarian 'happiness' or 'utility maximization', but to achieve Aristotelian '*eudaimonia*' (or 'the good life'). What could this goal look like when operationalized, how could this goal (according to this literature) be achieved economically, and how could the activities required for this be financed?

The activities required for *eudaimonia* can be reached economically if the shareholder value maximization goal would be removed, and the needs of society would take its place. The latter would have two main implications. First, labour would not be treated as a 'production factor'. In Aristotelian theory, labour is not treated like a commodity to be traded in a 'labour market' but remunerated according to needs (a solution to the issue that then arises is presented later on). Second, profit would have a different purpose. Profit arises as a consequence of the general growth of human capacities such as knowledge, which tends to lead to labour-saving innovations in the economy. The purpose of profit would be to support the further growth of human capacities, especially capacities that lead to *eudaimonia*.

This is economically efficient, in two ways. Firstly, in the sense that in the economy, a just price would be paid which covers production costs, and inefficient producers would be outcompeted by more efficient producers. The difference with the Neoclassical price is that, in an Aristotelian model, the remuneration for labour would not be determined in a 'labour market'. Secondly, in the sense that, when the remuneration for labour would not be determined in a labour market but based on needs, people are able to develop themselves in a way that they deem worthy, meaning that they are better prepared to contribute to the economy. They will be able to fund their development in the *Geistesleben*, because they receive a just price and because 'free capital' is made available for this.

RQ 3. What would be essential elements of a theoretical foundation of business operations towards the economic goals mentioned in the Aristotelian literature as discussed before?

This question is answered in Chapter 5. The elements are explained in depth, grouped according to the spheres and compared to corresponding elements in Neoclassical theory. For an Aristotelian theory-based business, the theoretical elements as based on the literature discussed in this thesis, could look like the figure below.

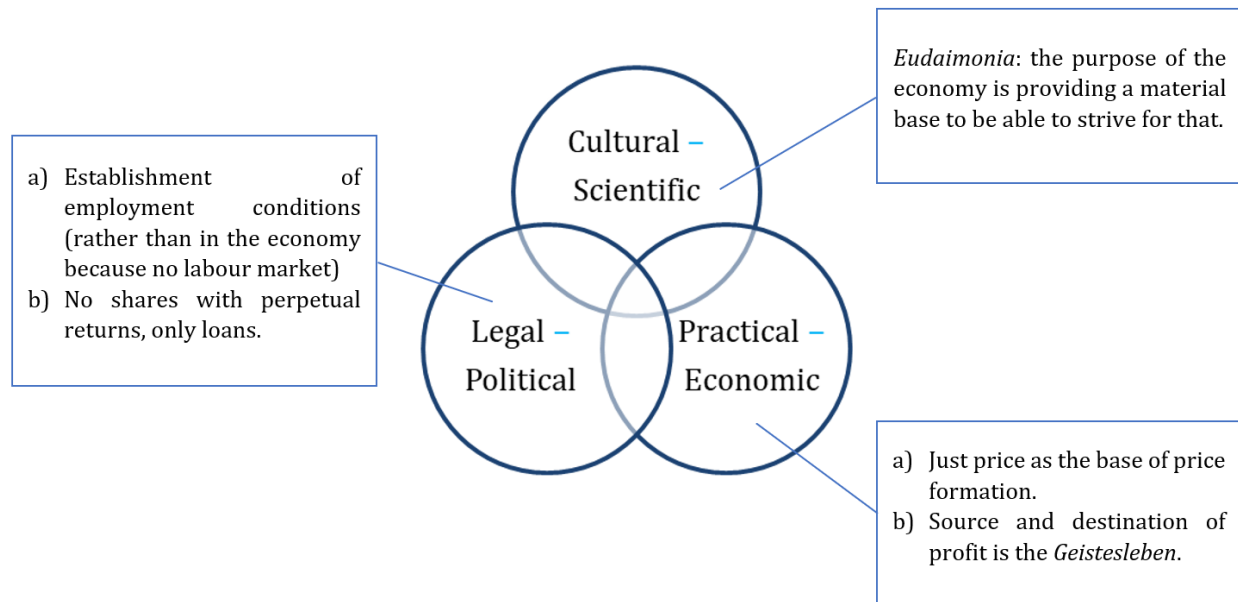


Figure 17 - The spheres as defined based on Chapter 5.

To start with the cultural-scientific sphere, the philosophical goal is ‘the good life’, or *eudaimonia*. This sphere would be free (the ‘free *Geistesleben*’ of Wilken (1982)), meaning that people are free to develop themselves according to their own needs and values. The *Geist* obviates labour in the economy (through productivity growth) and this creates ‘free capital’ (effectively saved labour) which needs to circulate to fund the further development of the *Geist* (in the cultural-scientific sphere).

A legal - political suggestion of Wilken (1982) is to let the capital invested consist of loans rather than stock of shares with perpetual returns. That way, the financial capital in a business can grow and ‘die’ in line with the physical means of production they finance.

In the economy, the business would, in line with the economy as a whole, take a different stance regarding labour, capital and land. Labour in particular would not be treated as a minimizable cost, but rather recognized as a value-creating factor, that ought to be remunerated properly. This would allow individuals to strive towards *eudaimonia*. A just price would be paid, and ‘free capital’ (Wilken, 1982) would be used to fund a free *Geistesleben*, because this enables people to fulfil their needs (not unlimited wants), both material and non-material. Thus, the economy provides the material base from which people can develop themselves.

In order to provide some practical, empirical building blocks to apply the theoretical ideas, a single-case study on the company Purpose has been conducted. Additionally, an interview with Dr. Houghton Budd on accounting and profit has been done to complement the building blocks. The fourth and fifth research question are formulated with the case study in mind, and complemented with the interview when appropriate.

RQ 4. What is the theoretical foundation (implicit or explicit) of steward-ownership as defined by the German Purpose initiative, and what is the purpose of the separation of economic and voting rights, that is central to steward-ownership?

The answer to the first part of the question (regarding the theoretical foundation) is that no formal theoretical foundation appears to be in place (see question e) in sub-section 6.2.4). There is literature on foundation-owned companies (which they claim is comparable and usable to some degree). Implicitly, the theoretical foundation appears to be based on intrinsic motivation of an entrepreneur, and of the stewards. That would mean they are connected to the mission of the company, and that can function as the base for motivation.

The answer to the second part of the question (regarding the purpose of the separation of economic and voting rights) is that the separation is put in place to ensure that the mission of the company is safeguarded (because the manager is freed from control by an owner's desire for maximizing his/her personal value). They believe that if decision-making power lies not with people closely connected to the business, but far-away shareholders, the profit motive will prevail and that can (or even will) be detrimental to the mission. To re-iterate, steward-ownership separates ownership in terms of monetary gains from management in terms of decision-making. By doing so, the idea is that the mission of a company becomes the leading goal of business activity. Instead of viewing the business as a means for investments and returns, it can now be a vehicle to achieve the mission of the business.

RQ 5. To what extent would steward-ownership be necessary and sufficient to realise a business model in practice based on Aristotelian literature?

It appears that the most notable contribution to an Aristotelian business model would be the implementation of steward-ownership. It could contribute to the decision-making power of the entrepreneur, who would be freed from the control of shareholders, instead he would be guided by a mission that has been defined for the company. Purpose does not define what that mission should be, nor do they explicitly address non-material needs or a different implementation of labour. However, Purpose does address the distribution of profit, by proposing different destinations for it, for example reinvesting or donating.

For an Aristotelian business model, steward-ownership would not be sufficient, because important theoretical notions such as the just price are not addressed, nor is there explicit attention for the non-material values in life that (as explained in Chapter 4 of this thesis) is deemed so important for economic development (and of course personal flourishing) in Aristotelian economics.

The interview on accounting with Dr. Houghton Budd provides additional insights to deal with some important Aristotelian ideas on the economy. The first is the idea of financial literacy to spread the idea of accounting as a mirroring instrument. Bookkeeping in itself is neutral, yet it allows us to reflect on the actions and results thereof, for others. That would promote honesty in accounting, because the flaws can be detected because the mechanism is widely understood, and the mechanism is not obscuring anything, it is the person using it. The second idea highlighted here can provide an alternative to the 'labour market'. If everyone were self-employed, labour can no longer be traded as

a 'thing'. It empowers the entrepreneur, but also places more responsibility on them. The figure below captures the highlights from both the case study and the interview.

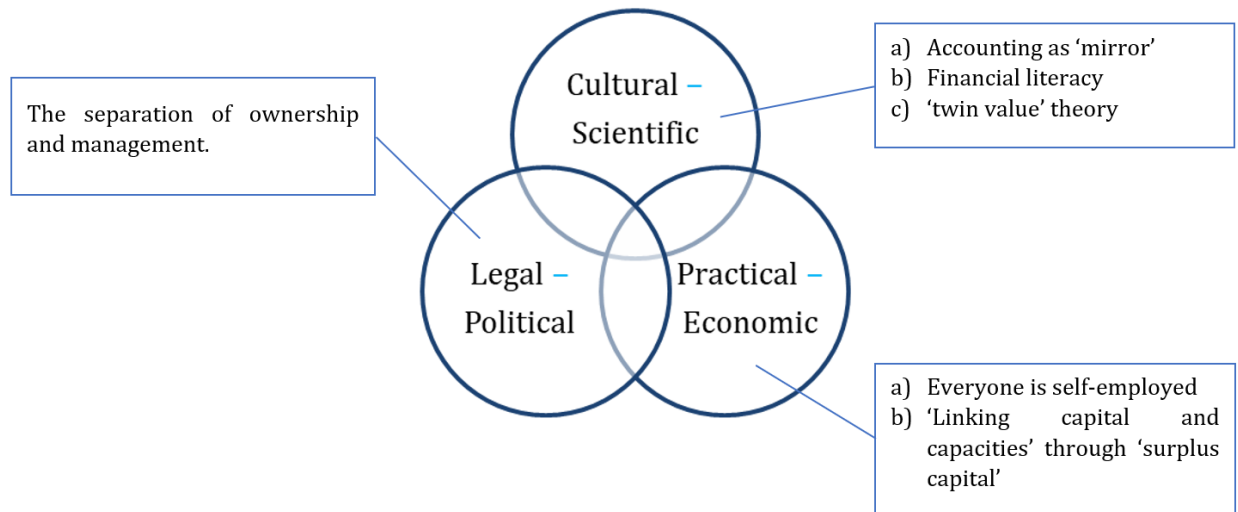


Figure 18 - The spheres with practical building blocks from the case study on Purpose, and the interview on accounting.⁶⁰

In the cultural-scientific sphere are three elements, that all come from the interview with Dr. Houghton Budd. Accounting, and especially bookkeeping can be an instrument for reflection and responsibility. Financial literacy would make this possible. Besides the ability to understand and recognize the actions of business practice, it could be used as a tool towards *eudaimonia* (via Aristotelian 'character' / 'other-interest'), when the 'mirror' function of accounting is used to reflect and improve oneself. Additionally, there is the 'twin value' theory, where labour and capital are considered value creators, rather than costs (Houghton Budd, 2016).

In economic activity, people would be self-employed, effectively making everyone an entrepreneur (so there is no labour market). All transactions are based on a just price. According to Houghton Budd, 'surplus capital' is used via lending or giving for enabling the initiatives of the entrepreneurs.

In line with the initiative of Purpose, there would be a separation of management and ownership, as depicted in the legal-political sphere. It removes the shareholder-value maximization bias from decision making, because the entrepreneur is free to decide what is best in order to achieve the company's mission.

The next section answers the main research question and presents the combined ideas on what exactly could constitute an Aristotelian business.

⁶⁰ The 'surplus capital' referred to in the pictures is defined by Houghton Budd (2004, p. 23) as "...surplus value (that is, value created over and above what is needed to meet investors' dividends and ongoing capitalization needs)..."

7.2 The Aristotelian business, reflecting on the main research question

This section discusses the conclusions of this research regarding the main research question, and in particular some reflection on the findings of the research. To repeat the main research question:

What kind of business form would be compatible with an Aristotelian conception of the purpose of the economy and the business?

Some hallmarks based on all previous chapters are formulated as building blocks of an Aristotelian business form. They do not yet provide a clear roadmap, rather they can be used as elements should one wish to build a business with foundations in Aristotelian based ideas. They are:

1. The human goal would be *eudaimonia*, and that would (ultimately) be the goal of the business.⁶¹
2. There is awareness of a difference between needs and wants, the business focusses on satisfying needs rather than creating wants.⁶²
3. The just price is fundamental in all transactions.⁶³
4. Productivity gains are freely transferred to the cultural-scientific sphere, that is, without conditions attached.⁶⁴
5. In its most advanced form, there would not be employers and employees, but rather only entrepreneurs: everyone is self-employed and takes responsibility for the product of their labour and for their own development.⁶⁵

Together these give the outlines of an Aristotelian business, both in theoretical form and practical implications. Of course, when these elements are present, that does not need to mean the business is Aristotelian. Rather, the opposite; when you want to build up a business based on Aristotle, these elements are necessary. Some reflection is done on the elements in relation to the three spheres.

The human goal, in an Aristotle inspired economic theory, would be *eudaimonia*. The task of the business would be to meet the material needs of people, because when those are met, people can devote themselves to their objectives in life. Therefore, *eudaimonia* is indirectly the goal of the business, because the business enables people to pursue *eudaimonia*. One can achieve *eudaimonia* by developing one's virtues, or morality, or responsibility for example, as discussed in Section 4.2. For this, one would have to be free in the cultural-scientific sphere. That means individuals can develop themselves according to what they deem worthy. A just price and self – employment can be instrumental, because it would provide the foundation from which someone can choose to not be self-centred in the economy. One can choose to pay a just price, and transfer, as per Wilken (1982), 'free capital' to the cultural-scientific sphere. Thereby, it is from cultural activity that this sphere can be financed, because cultural activity contributes to the development of the *Geist*, and application of the *Geist* in the economy leads to productivity gains (as explained in sub-section 4.3.2.), which in turn can be used to fund cultural activity. At the business level, the realisation that productivity growth occurs because of collective efforts in the cultural-scientific sphere could contribute to the decision to make productivity gains freely available to fund the cultural sphere. From the interview with Dr.

⁶¹ Based on Chapter 4 and 5.

⁶² Based on Section 4.1.

⁶³ Based on Section 4.2.

⁶⁴ Based on Section 4.3.

⁶⁵ Based at large on the interview of Section 6.3 and sub-section 5.5.1.

Houghton Budd we can learn that accounting can be a useful instrument for reflection. If especially bookkeeping is widely understood, it will enable us to understand what actions and transactions are undertaken, and it is our interpretation of those that allow us to make judgements on what is right and wrong.

Self-employment is also a cultural-scientific issue. It requires more effort from the individual regarding the responsibility they need to take, but at the same time it empowers them. They are now free to divide their time and efforts as they see fit.

In the practical-economic sphere, a just price would be paid because each would see to it that the needs of the other are met. Further practical-economic implications would arise in regard to profit. Most importantly, how we perceive the purpose of it will affect its distribution. It is argued in this thesis that it is human development rather than profit in itself (through savings and investments) that enhances the economic system (see sub-section 4.3.1 but also 3.1). That would mean that all true profits (to use a term of Wilken (1982)) should be distributed to the cultural-scientific sphere. In the context of this thesis, this should be so because true profits, arise because of productivity gains in the practical economy. And those productivity gains, arise because of our collective *Geistesleben*, and there they should return to further human development, which in turn results in economic progress (see sub-section 4.3.1).

Paying a just price in all transactions, requires first and foremost the realisation that it is, simply put, the right thing to do. Out of free will, or Aristotelian character, one would be willing to pay a just price (rather than that you demand one). It is about meeting the needs of the other (not about ensuring your own). This is a fundamental difference with Neoclassical price determination, where individual (personal) utility maximization is leading.

The legal-political sphere could be instrumental in the formation of policy that would allow this to happen, or even to enforce this. The idea of separating ownership and management can be instrumental for a business if they want to move away from the shareholder value maximization paradigm. The remuneration of labour (as well as other labour-related measures regarding, for example, safety and working hours) would be determined in the legal-political sphere when labour is no longer considered a commodity. If the operational suggestion of Dr. Houghton Budd were to be taken up, to have everyone become self-employed, corresponding measures would need to be taken in the legal-political sphere. Of course, these conclusions have many implications. The next section will address that.

7.3 Implications

To reiterate, the idea behind this thesis is not to promote a complete overhaul of the economy. It is recognized that such suggestions would be too ambitious, if not foolish. It is rather to provide people with alternative building blocks, should they wish to build their business with different objectives than prevail today. Additionally, it is to provide a theoretical foundation for those building blocks. In this section the implications of such ideas are discussed and reflected upon.

There are both macro-economic and micro-economic implications, as well as effects for society. To start with the first, one thing brought forward in this thesis is the absence of perfect competition, and

the presence of oligopolistic conditions in most markets. That would mean that the current dominance of Neoclassical economics, which is built around the presence of perfect competition, might no longer be the best fit. One solution could be to return to perfect competition. One might well ask whether this would be possible. Alternatively, one could implement elements of the Aristotelian ideas. It could mean policy reform in order to accommodate the implementation of these elements in the economic system. Legal and statutory changes might be necessary to liberate businesses from pressure to maximize profit (or to maximize shareholder value).

At the micro-economic business level, if the entrepreneur does not feel comfortable with the traditional shareholder value maximization approach, he or she could adopt a different approach, such as steward-ownership. If a company is already in business, a shift in the business objective might be more directed towards recapitalizing or restructuring the business. That way value extracting, short term capital might be replaced with long-term investments that support the mission of the business, rather than aim to seek the highest return on investment possible. This would be in line with the comments on the capital structure of a business made in the interview with Dr. Houghton Budd.

The implications for society are more prominent when it comes to self-employment and the implementation of a just price in transactions. It would require quite some effort to have everyone become self-employed, because some people might not want to take on those responsibilities. There might well be a need for additional measures in the legal-political sphere to, amongst other things, protect and support the self-employed. Judging by the current attitude towards people who are self-employed, it would likely not be wise to have everyone become self-employed overnight. It would require a fundamental change in how we view the nature of our economic actions, especially the focus on 'the other' would have to be well understood. However, the benefits could be substantial. Besides asking for responsibility, it also provides freedom. One can free oneself from the power that employers can have over employees. Secondly, when combined with the just price and the giving away of free capital to a *free* cultural-scientific sphere, it enables you to live a life that is meaningful to you. It would enable someone in a transaction to receive what they need to cover the expenses endured in the production but including the efforts of their *Geist*. It goes beyond covering immediate expenses, because it facilitates the future development of the producer (as it should enable someone to *keep* accommodating for the needs they have). How exactly that could be realised, is not answered in this thesis, but is included as a suggestion for future research. For further reflections on self-employment, please see Section 6.4 (to avoid repetition).

To sum all that is reflected upon in this section, it appears that a lot is depended on the willingness of people to change their ways. That may be achieved when the objectives are properly, simple and clearly explained. More research is required in order to assess the consequences of the ideas as proposed in this thesis. To repeat, the proposed ideas are not meant as 'the solution' for economic issues we face today. They are suggestions that might address several of the economic issues of today, born out of an interest in why we do the things we do in the current economic system. The possible implications also induce more questions for future research, and possibly show some limitations of the research that is done. The next chapter will address both those topics.

8 Discussion

This chapter discusses the limitations of the research carried out for this thesis in the first section, as well as ideas for future research in the second section.

8.1 Limitations

In this section, the aim is to challenge the ideas that have been proposed thus far on an Aristotelian economic paradigm as well as limitations of this thesis in general. To start, a limitation is that the farther one gets in doing research, the more it is obvious there is still much to learn and much to be refined. In that regard, the research would benefit from additional time and a larger selection of literature.

The purpose of the economy according to Aristotle-based economic literature, proposes a different economic ideal, which appears to be more encompassing of all aspects of human life. There is space for the material and the non-material. There are also more practical questions. Using productivity gains, a part of profit, as funding for the cultural – scientific sphere raises some challenges. Of course, when there is funding made available, this needs to be allocated. If the goal of the funding is clear, then remains the question of how it can get there. Who (either in person or institution) is to collect the funding and subsequently distribute it? Currently the state (or government) redistributes some value to society, mostly to counter growing income inequality (the role of the state is discussed more in Section 5.3), but it is perhaps not the only way. A concern that is voiced by Baumol (1993) considers the practical side of a transfer process, as he foresees difficulties for both a public and a private approach when around ‘half the economic output’ will have to be redirected⁶⁶. Could there be private initiatives that focus on the individual level, more in line with Aristotelian thought? Perhaps trusts would be a possibility, but before the practicalities can be properly addressed, the theoretical foundations have to be clear.

Another point for this thesis might be why initiatives like the ‘Capabilities Approach’, as presented by most notably Nussbaum (2011) and Sen (2001) and of which Aristotle is considered to be an original source, are not more prominently addressed in this thesis. The answer is that although the Capabilities Approach provides valuable contributions on developing ideas for a different theory of people achieving the life that they value (for whatever reason), it does not yet appear to provide concrete actions or steps to take in order to get there. The attempt in this thesis has thus been to provide operational aspects that could serve as a practical template. Future research could perhaps address this in more depth.

The last limitation to be discussed, is the fact that this thesis breaks open many large economic issues, and that it proposes some alternative ideas. However, those ideas do not provide all the answers, and perhaps even raise more questions than they answer. The possible societal implications could arguably be very large. Would it even be possible to bring the ideas into practice? What can an individual entrepreneur achieve in the current, competitive business environment? We are currently

⁶⁶ In Baumol (1993), he estimates around ‘half the economic output’ will have to be redirected from the physical economy (the production of goods) to the non-physical part (which includes health care, education etc.), if the development of the latter sector is to be in line with the productivity growth that occurs in the former.

embedded in the structures of an economic system we appear to have little influence on, nor do we fully understand how it came about. This thesis has aimed to begin to understand some of the things that took shape in recent years, such as financialization and the possible relationship with a dominant economic paradigm. The thesis aimed to challenge how we think about happens in the economy. Alternatively put, is the practical – economic sphere a result of activities and developments in the cultural – scientific sphere? By trying to grasp phenomena, awareness and understanding increases. When we understand how prevailing structures have come about, and how they are continually re-created by the way we think and behave, we can think of what would be required to change them. How could we increase awareness? In terms of the spheres, in the cultural – scientific sphere, the idea of financial literacy could be an instrument, when bookkeeping is understood as an instrument of reflection. If people understand the system and they understand what is happening, they can give informed opinions. Or even hold someone else, or a business, accountable when they illegitimately hide certain aspects or leverage others to increase the profit. In the practical – economic sphere, one could ask oneself whether a just price is paid in the transactions one partakes in. Lastly, in terms of the legal – political sphere, initiatives like the company Purpose proposes, and also protection of freedom of thought (for example, limit the influence of business demand on education), are possible prerequisites.

All this does not have to mean a complete overhaul of the economy, no sudden implementation of a ‘new and improved’ paradigm overnight. Every individual, and every business, has the choice to make an adjustment. This could mean that in bookkeeping, you do not note labour as a cost, but rather as an added value (as ‘labour allowance’ for example, not ‘wage costs’). The conclusion to this section is that there is uncertainty on how the economy would look like if Aristotelian ideas are included in its theoretical foundation. But that should not discourage, as the possible upsides and especially the possibility of a ‘good life’ sound quite promising. The next section presents some suggestions for future research.

8.2 Future research

This thesis consists mostly of theoretical, explorative and qualitative research. When compared to the Neoclassical paradigm, there is much to be researched in order to formulate a theory as complete and encompassing. Therefore, a valuable next step would be to further develop a more complete operational framework of an Aristotelian business, by looking for more building blocks or by elaborating on the ones brought forward in this thesis. Also, to test or evaluate some of the ideas in practice, to establish quantitative support for the ideas. For example, to research the number of businesses that already adopt a different ownership structure, and then perhaps also the effects on profit distribution. Not in the least, the implications of the ideas in the thesis are potentially substantial, and require further research on what exactly the consequences would or could be. For example, what measures would be needed in the legal and cultural sphere to support self-employment (as discussed before)? How would or could an Aristotelian based economy look like in operation, meaning what could effects be on day-to-day operations in a business? Or perhaps what exactly would someone have to do to become a self-employed, Aristotle-based entrepreneur (what would such a business plan look like)? And in which way would his or her accounts be different,

because if labour is not a cost, where would it be placed and how does it affect the balance sheet for example?

Additionally, the impact of the just price has to be researched. On the practical side of things, one important question is *how* to implement the just price in transactions. It would enable someone in a transaction to receive what they need to cover the expenses endured in the production but including the efforts of their *Geist*. It goes beyond covering immediate expenses, because it facilitates the future development of the producer (as it should enable someone to *keep* accommodating for the needs they have). How exactly that could be realised, is not answered in this thesis, but is as a suggestion for future research.

What could it imply for prices? A concern might be that they would rise. Why could it rise, and is that really so? Possibly because a price has to cover more than in its Neoclassical definition, which at least for labour is likely to be higher. However, at the same time that might lead to labour-capital substitution in a practical – economic sense, thereby making the price for a consumer not necessarily higher.

Could prices also be lower? Perhaps yes, for certain sectors at least. With Aristotle based ideas and a just price (as developed by Thomas Aquinas), speculation could not happen. There could be no excessive profits like they can occur today, which will affect the position and influence of profit – maximizing shareholders greatly. A notable example would be transactions in land. Without speculative activities, the skyrocketing prices we experience currently, could not happen. If the system for land is based on need, the distribution of land, including nature-based resources could be fundamentally different. Without speculating on land, that could mean lower prices for housing and farming for example, because people and farmers do not have to bring up excessive rents. But is that really so, and if it is true, what would that mean for the price of, for example, health care, if perhaps the real estate it is housed in, is not as expensive anymore?

Additionally, the current economic environment is focussed on cost-cutting. The establishment of 'markets' for land, labour, and capital are related to the Neoclassical assumption that these resources are scarce. But are labour and capital scarce in the current day and age? For land, the answer would likely be yes because there truly is a limited amount. But does a land market alleviate or aggravate the problem (by making land too expensive)? For capital at least, there is arguably no limit anymore (compare the Neoclassical to Keynesian ideas for example, where there is no savings constraint because money is endogenous). What happens in reality, how can we interpret it and deal with it?

To give some examples of phenomena in reality that could be studied, are for example the stock buy-back strategies, as discussed in Chapter 2 of this thesis, and again highlighted in the article of Lazonick, Sakinç, and Hopkins (2020): “*The 465 companies in the S&P 500 Index in January 2019 that were publicly listed between 2009 and 2018 spent, over that decade, \$4.3 trillion on buybacks, equal to 52% of net income, and another \$3.3 trillion on dividends, an additional 39% of net income.*” In short, the money that is spent on the buybacks, is not being invested in the real economy. Is it then not necessary to invest, or are the incentives for personal gain stronger than the will to contribute to the development the economy as well as society? How could the use of this mechanism be discouraged, or better yet, how could the money be spent on the funding of the cultural – scientific sphere, which will ultimately benefit the economy, instead of making it increasingly unstable through speculation?

Alternatively, according to a recent IMF-publication, in 2017 about 6.5 percent of GDP (or \$5.2 trillion) was spent on fossil fuel subsidies (Coady, Parry, Le, & Shang, 2019, p. 5). What is almost incomprehensible about this, is that the economy (and the world) appears to have been better off without them:

“If fuel prices had been set at fully efficient levels in 2015, estimated global CO2 emissions would have been 28 percent lower, fossil fuel air pollution deaths 46 percent lower, tax revenues higher by 3.8 percent of global GDP, and net economic benefits (environmental benefits less economic costs) would have amounted to 1.7 percent of global GDP.” (Coady et al., 2019, p. 5)

Why then, if the calculations show that an efficient price could have major benefits, is the subsidizing still present? Where do these subsidies come from (how are they funded), and if they support an economically *inefficient* situation, why are they allocated there instead of being directed to value creating opportunities? In other words: what would be a just price for energy?

Additionally, there are other ideas which can be compared to or added to the theory in this thesis, for example regarding the three spheres. An issue similar to this point is that this thesis has paid attention to the Neoclassical paradigm in particular to compare to Aristotelian thought, but there are of course other influential economic paradigms in existence. It would be of interest to place those next to Aristotelian ideas too, in order to evaluate if there might be overlap or lessons to be learned. Additionally, perhaps this presupposes that Aristotelian is superior to all the other paradigms, but that is not the suggestion. It is merely an alternative, and it is always wise to evaluate from time to time if the paradigm in practice still fits the needs of society, for which it was ultimately implemented.

The last opportunity for future research to be mentioned would be regarding the ‘free capital’ of Wilken (1982), which is the profit arising from productivity gains enabled by the obviation of labour by the *Geist*. It would firstly require a definition on what they are exactly. When we understand that technological progress, that creates productivity gains (the free capital, booked as profit), is a consequence of the growth of knowledge in the *Geistesleben*, it is only logical that the free capital should benefit the *Geistesleben* (rather than a shareholder). Why this is so, is explained in the thesis. It needs to be clear what exactly is included in it, and how it would be decided what is included in it. Is it all of the productivity gains, or perhaps only the part that is left after costs of capital have been covered? It also requires attention for the possibility nowadays of creating money by banks ‘out of thin air’ so to speak. Of course, also the process of transferring productivity gains to the *Geistesleben* needs to be addressed, as mentioned before. If they are to be directed on a macro-economic level to the cultural – scientific sphere (including healthcare, education, the arts etc.), how could that be realised? More research on this is advised.

A hurdle could be current shareholders, who do not want to give up part of their income. A large part of the ‘shareholders’ referred to are not individuals, but rather pension- or insurance funds. If it is the case that currently they can only fulfil their task when they venture in speculative transactions, it is necessary to reconsider how they operate. Perhaps they do not receive enough income. Transactions based on a just price could perhaps provide a (partial) solution, but research is necessary.

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