

The Subjectivist Methodology of Austrian Economics and Dewey's Theory of Inquiry*

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Abstract

The aim of this paper is to elaborate on the Austrian school's methodological orientation, which they named "subjectivism," in a way that shows its affinity with the main thrust of John Dewey's notion of the logic of inquiry. It is trying to make two distinct but related points. First, it is trying to clarify what "subjectivism," the central methodological principle of Austrian economics, really means, or at least what we think it should mean. It can be understood as a challenge to the "objectivistic" attitude of mainstream economics, the attitude that the Austrians argue is what is keeping economics too disconnected with the everyday world. Second, the paper is trying to show that the confusions that have arisen around the Austrians' own method might be cleared up if we were to draw from Dewey's work.

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The environment in which human beings live, act, and inquire, is not simply physical. It is cultural as well. Problems which induce inquiry grow out of the relations of fellow beings to one another, and the organs for dealing with these relations are not only the eye and ear, but the meanings which have developed in the course of living, together with the ways of forming and transmitting culture with all its constituents of tools, arts, institutions, traditions, and customary beliefs.

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Man, as Aristotle remarked, is a *social* animal. This fact introduces him into situations and originates problems and ways of solving them that have no precedent upon the organic biological level. For man is social in another sense than the bee and the ant, since his activities are encompassed in an environment that is culturally transmitted, so that what man does and how he acts, is determined not by organic structure, and physical heredity alone but by the influence of cultural heredity, embedded in traditions, institutions, customs, and the purposes and beliefs they both carry and inspire.

John Dewey ([1938] 1991: 48-9)

Many scholars have questioned the ability of economic science to deliver on its promises of logical determinacy and predictive power. The American cynic Will Rogers once described an economist as someone who can tell you what will happen under any given circumstances and his guess is liable to be as good as anyone else's. It is not so much the jargon of economics that brings on the wrath of the public and other social scientists nor is it the abstract nature of economic reasoning. All specialized disciplines rely on jargon and abstract reasoning. We believe the problem is multi-dimensional. First, some people simply resent the success that economics has had because it calls into question their cherished policy beliefs. Second, there is a perceived arrogance among economists, most obvious in the "economic imperialism" that has emerged since the 1960s where the economic method is exported to the fields of politics, sociology, and even philosophy. However, for the purposes of this paper we propose that economics falls into disrepute because economics discusses matters which touch on everyday life, yet it seems that economists are talking about something so remote from the world within which we dwell in our everyday life.

As Ronald Coase stated the problem in his original address to newly founded International Society for New Institutional Economics: "Economics, over the years, has become more and more abstract and divorced from the events in the real world. Economists, by and large, do not study the workings of the actual economic system. They theorize about it. As Ely Devons, an English economist, once said at a meeting, 'If economists wished to study the horse, they wouldn't go and look at horses. They'd sit in their studies and say to themselves, 'What would I do if I were a horse?'" The implication for Coase, if economics is going to advance it must stop doing blackboard economics exclusively and actually look out the window and study the economic system in detail – the underlying property rights structure, the nature of contracts, the operation of firms, etc.

The problem with economics as an academic discipline, then, is that instead of trying to understand the problems of everyday economic life, economists have largely satisfied themselves with playing logical games and solving imaginary puzzles. Over the last few (at least seven) decades, economics has become more and more formal, more and more instrumental, and more and more precise about areas that are of less and less importance to anybody else. Over the last few decades, economists have increasingly specialized in the production of “kelly green golfing shoes with chartreuse tassels” (McCloskey 2000a: 150). The problem, however, is not that they specialize. Specializing, “sticking to your last” as Smith put it, is sound economics. The problem is that “kelly green golfing shoes” are not in demand (except amongst other economists). Economics as a discipline, thus, seems caught in an institutionalized trap of ‘conspicuous production’ and has come perilously close to becoming “precisely irrelevant.”¹

The more interpretive sub-disciplines of economics have long been complaining about the “puzzle-solving” mentality that infects the mainstream. The *new institutionalists*, for instance, have argued that the mainstream inadequately appreciates the formal and informal institutions that constrain the (actual) choices of individuals (North 1990). Similarly, the *economic sociologists* have criticized the mainstream for representing individuals as atomized, under-socialized creatures, that is, for failing to embed the individual in a context of “ongoing social relationships and structures” (Granovetter 1985). And, the *subjectivists* (those working in the tradition of Weber, Mises and Hayek) have attacked the mainstream for not being about “purpose”, “intentionality” and “meaning” (Weber 1922, Lachmann 1971, Kirzner 1992 and 2000, Lavoie 1991a).

An economics of the world, the *subjectivists* have asserted, must be thoroughly focused on the meanings that individuals attach to their actions and their situations. Man lives in a world of radical uncertainty yet he must orient himself to his fellow men if he is to succeed (Mises [1949] 1966). To understand how he accomplishes this, that is, to understand how he orients himself to his fellows and how he overcomes the problems of time and ignorance, we have to construct an *economics of meaning*. If economics is to be relevant, if it is to serve the everyman, we have to take seriously the ‘subjective perspectives’ of the individuals we study.

The idea of “subjectivism” appeared, at first, to be only a narrow, technical issue within the field economists call “value theory.”² But, as Carl Menger suggested from the beginning, and as Ludwig Mises came to emphasize

¹ See Boettke (1996) for an examination of what is wrong with neoclassical economics and what problems remain within the Austrian school of economics. See also Boettke (1997). It is important to note, however, that we in no way intend to implicate *economists qua practitioners* in this critique. Indeed, we recognize that there are a host of applied economists who cannot be accused of being divorced from the world or of being irrelevant. Instead, we are referring to *economists qua academics* and to the discipline of mainstream economics.

² Value theory encompasses the conceptualizations economists have developed to make sense of price phenomena of all kinds, including the nature of accounting cost, capital, wages, investments and profits.

explicitly, the real significance of the idea is much broader. Subjectivism is not limited to a particular technical problem within a field inside of the discipline of economics; it represents a fundamental approach to social theory in general (Mises 1957).

The idea of “subjective value” in economic theory, Mises realized, is a specific application of a more general **verstehen** or understanding-oriented approach to the human sciences, that is, the influential tradition of German social thought that is associated with which the names Wilhelm Dilthey, Heinrich Rickert, J.G. Droysen, Max Weber, and Alfred Schütz.³ Mises came to understand Menger’s revolution in value theory as amounting to a turn to the **verstehen** approach, which is to say, it is an attempt to find meaning in prices. What Carl Menger was really saying when he undertook a critique of “objectivist” approaches to value theory was that prices provide market participants with a meaningful reading of the economic situation, in terms of the relative scarcities of different, subjectively-valued goods.

Before the so-called subjectivist revolution in value theory, the classical economists’ attempts to find the meaning of prices in terms of the historical objective labor hours embodied in them were unsatisfactory. Prices are not arbitrary constraints, representing merely the outcome of some sort of capitalist warfare, as some Marxists would argue. Similarly, Ricardian value theory, in all its variants, mistakes the fundamental nature of price phenomena. What underlies the quantitative ratios we call price phenomena is not something objective, a quantitative property of the goods themselves, but is a quantitative reflection of a set of diverse qualitative judgments. Prices express the relative intensities of diverse “subjective” assessments of value, assessments that are based on radically diverse perspectives on the world. They are unintended resultants of purposeful plans tugging and pulling in different directions. The point in value theory, according to Mises, is that prices are *guideposts* that help us to orient our plans to one another.

But the traditional Austrian account of subjectivism, like the **verstehen** school with which it was linked, never completely overcame the subject/object dichotomy. It retained a tendency to think of the subjective as in some sense an inaccessible realm, buried inside of individual human minds. We will argue that although subjectivism improved upon mainstream economists in that it was able to at least *start* from the world of meaning, because of the

³ We will use the term **verstehen** tradition to refer specifically to the older hermeneutical tradition, not the tradition after it absorbed the radical phenomenological critique of objectivism that was to come later in the Heideggerian tradition. The larger sense of the tradition including its phenomenological versions, we will call the “understanding” tradition. The distinction between the narrower and broader senses of the tradition is important for two reasons: (1) only the earlier version is susceptible to the Deweyan critique of the subject/object dichotomy that we will summarize later in this paper. And (2) only the first one made its full impact on the Austrian school. The Austrians had already shaped their sense of the meaning of **verstehen** before the full impact of phenomenology had the chance to transform it.

manner it which it understood “understanding” it was still unable to fully return. One way in which the Austrians could escape from the psychologistic limitations of the *verstehen* approach, we contend, would be for it to take seriously John Dewey’s point: inquiry needs to both begin and end in meaningful human experience, in culture.

A. Objective Economics and the Austrian Challenge

Much ails mainstream economics. It “cannot explain satisfactorily the dynamics of market activity, let alone the recurrence of macroeconomic crises, the problems of interventionism and regulation, the fiscal crises of democratic welfare states, the failure of development planning and the collapse of socialist regimes in the late 1980s” (Boettke 1994: 603). Amazingly, despite the severity of its illnesses, the mainstream has chosen to ignore the root causes of its problems, preferring instead to treat or rather to mask the symptoms.

Consider, for instance, the problem that entrepreneurship posses for mainstream economics. As Kirzner (1979: 3) pointed out in one of his early salvos against mainstream’s model of economic activity, the market is a “process” and not a mere “configuration of prices, qualities, and quantities.” The mainstream, however, models market activity as a series of instantaneous moves from one equilibrium situation to another. For markets to clear in the mainstream model, that is, for the quantity of a good demanded (desired) in a market to be equal to the quantity of that good supplied to the market, prices must adjust. If the price happens to be below the market clearing price, for instance, the amount of the good people will be willing to buy in the aggregate will be greater than the amount that people are willing to supply to the market. There will be an impending shortage and, consequently, prices will be pressured upward. Nothing, however, within the model explains how this requisite process of adjustment will occur.

Anyone who has tried to teach the textbook economics has run head on into this very problem with the standard approach. Most economists compensate for this shortcoming by telling tales of businessmen recognizing the opportunities created by prices being too low or too high to clear markets and acting to exploit those opportunities. Attempts by the mainstream to transform their classroom tales into theoretical improvements, however, have been largely unsuccessful. Most mainstream textbooks barely mention the entrepreneur and little serious work has done by mainstream economists since Knight’s treatment in *Risk, Uncertainty and Profit* (1921).⁴

Why the neglect? Why has the entrepreneur been unable to find a place in mainstream theory? Swedberg (2000), in his volume on entrepreneurship across the social sciences, offers at least three possible reasons for the mainstream’s neglect of who should be one of their main characters. First, he contends, “some economists [simply] assume that

⁴ Knight begins by distinguishing between *risk* (uncertainties for which a probability can be calculated) and genuine *uncertainty* (for which no objective measures can be calculated) and then goes on to describe the entrepreneur as “a residual, non-contractual income claimant [who] may make a windfall gain if actual receipts prove greater than forecasted receipts” (Blaug [1986] 2000).

economic process is automatic or that economies will advance without the help of an entrepreneur.” “Others,” he continues, “claim that there is simply no place for the entrepreneur in an equilibrium system; and finally there are those who state that input and output in the firm have to be determined as well as be identical for the theory to work – even though this unfortunately means that the entrepreneur is eliminated” (21). The entrepreneur is essentially a gadfly, annoying mainstream theory and theorists, which they prefer would go away.

Economic historian Mark Blaug concurs with Swedberg’s analysis. As Blaug ([1986] 2000: 81) contends,

. . . the growing popularity of general equilibrium theory [in the middle of the last century] set the seal on the possibility of theorizing about entrepreneurship. . . . Despite valiant attempts to dynamise microeconomics large parts of modern economics remain trapped in a static framework. Worse than that is the fact that modern economics lacks any true theory of the competitive process; what it actually possesses is the theory of the outcome of that process in an equilibrium state. In short, it emphasizes equilibrium at the expense of disequilibrium. By assuming that all economic agents have free access to all the information they require for taking decisions, decision-making in modern economics is largely trivialized into the mechanical application of mathematical rules for optimization.

This is extraordinary, particularly, since most who study entrepreneurship recognize the entrepreneur as the *sine qua non* of the economic process, as the principal agent of change in the market.

The *subjectivists* (those working in the tradition of Weber, Mises and Hayek) are at the fore of the effort to elevate the entrepreneur to his rightful place of prominence. Austrian economist Israel Kirzner (1973: 30), for instance, has recognized that the entrepreneur plays the “crucial role in the market process.” As Kirzner argues, “there is present in all human action an element which, although crucial to economizing activities in general, cannot itself be analyzed in terms of economizing, maximizing, or efficiency criteria.” The allocative role of the market process cannot be understood, he claims, without reference to this “extra-economic” entrepreneurial element of human action. “A market consisting exclusively of economizing, maximizing individuals,” Kirzner continues, “does not generate the market process that we seek to understand. For the market process to emerge, we require in addition an element which is itself not comprehensible within the narrow conceptual limits of economizing behavior.”

Profit opportunities indicate that either sellers or buyers have been too pessimistic; buyers have either paid more for their goods than they would have had to pay elsewhere or sellers have sold their wares at a price lower than what they could have charged. For Kirzner (1999: 6) then, the entrepreneurial role in the market process is that of “alertly noticing (‘discovering’) [earlier] errors” in the course of market exchange and “of moving to take advantage of such discoveries, and thus of nudging the market systematically in the direction of greater mutual awareness among market participants . . . the entrepreneurial discovery process is one whose tendency is systematically equilibrative.”

More recent treatments of the entrepreneur within the Austrian camp have sought to embed him even more firmly in the real world. Lavoie (1991: 36), for instance, has recognized (along with Kirzner) that the entrepreneur is not merely a calculative, mechanistic character and has argued (moving beyond Kirzner) that the entrepreneur is primarily a cultural creature. Lavoie (*ibid.*):

Entrepreneurship . . . is primarily a cultural process. The seeing of profit opportunities is a matter of cultural interpretation. And like any other interpretation, this reading of profit opportunities necessarily takes place within a larger context of meaning, against a background of discursive practices, a culture.

Chamlee-Wright (1997, 2000a, 2000b), taking her cue from Lavoie, has discussed how Ghanaian (Ga) and Zimbabwean (Shona) cultures have impacted the entrepreneurial practices of market women in those contexts. Similarly, Storr (2000a, 2000b) has examined how the experience of colonialism and slavery has impeded and impaired entrepreneurial efforts in the West Indies.

The mainstream which does not even register the entrepreneur as a blip on its theoretical radar is simply unable to appreciate the crucial role of the entrepreneur in the market process let alone the cultural character of entrepreneurship. Another failing of mainstream economics is their inability to make sense of the collapse of the soviet system and the failure of the former soviet countries (particularly Russia) to transition from the rent-seeking system that was communism to an efficient market system. Boettke (2001 and 1993) argues that the techniques of aggregate economics masked the underlying structural failings of the Soviet system, and the preoccupation with static efficiency analysis at the microeconomic level also blinded economists to the realities of the political economy dynamics of the Soviet economic system. In the post-communist period, as result, the reform proposals introduced have often been seriously flawed precisely because they failed to account for the *realities* of the system actually being reformed, rather than the textbook theoretical image people thought they were reforming. If the transition process is analogous to taking a trip, you need a roadmap to go from “here” to “there”. Boettke counters the “shock therapy” versus “gradualism” debate, by arguing that the problem is not so much speed, as misspecification. If we ill-define the “here” and leave undefined the “there” we how to arrive at, then why should we be surprised when we get lost on our trip? By focusing on the *de facto* operating principles of the real existing Soviet economic system (rather than either the textbook depiction of a centrally planned economy, or the comparison of aggregate economic statistics), Boettke argues that we can gain a better understanding of why the actual system suffered from the systemic failings by exploring the everyday economic life of the people and highlighting what political economy factors must be incorporated into the analysis in order to reform the economic system and eliminate those systemic shortcomings.

Why then, we now ask, have the *subjectivists* been able to understand the problems of entrepreneurship and transition while many in the mainstream have not? That the *subjectivists*, in seeking to construct an *economics of meaning*, have focused on the ‘subjective perceptions’ of the individuals they study and the “real world” (the actual contexts) in which individuals live, act and inquire is, we contend, at least part of the reason. But, there is still something not quite satisfactory about the ‘subjectivist position,’ at least as traditionally articulated

B. Philosophical Traps: Subjectivism, Objectivism, and the Loss of the World

The idea of subjectivism has been interpreted, by some friends as well as foes, to point to the inaccessibility of the crucial data of the market; it is thought of as buried in the minds of the participants. As traditionally elaborated, subjectivism often sounds like psychologism. It often sounds like what is required is that we (somehow) get “into the heads” of our subjects or that we retreat into our own heads (constructing an economics purely through ratiocination). As traditionally articulated, it seems to be only about a mental world, the ‘subjective perceptions’ of (atomized) individuals, and not about the real world. But, ours is a world of interconnections and interactions. Human beings are social and political animals. Any science that is to study them must, therefore, study human experience-in-the-world.

1. Subjectivism and Objectivism in Philosophy

When economists talk about something in the economy being “subjective” they are only intending to make reference to the historical debates inside economics over value theory, not rehearsing the debates within post-Cartesian philosophy about the subject/object dichotomy. The economists aren’t debating with Descartes, Kant, or Hegel, they are only working on a narrowly technical point in the theory of value, the part of economics that tries to coherently explain price phenomena such as rent, profit, and interest rates. So, one might well suppose that the philosophical connotations of terms such as “object” and “subject” and their derivatives are utterly irrelevant to the economists’ uses of these terms. To be called a “subjectivist” is a term of praise among many economists, who understand the term to refer to a particular achievement that marked the transformation of classical into neoclassical economics. The subjectivist or marginalist revolution is widely thought by economists to constitute a major advance in thinking within the field of value theory, an advance through which economists clarified an issue that the previous “objectivist” assumptions in value theory had obscured. It seems to only involve several technical questions in the theory of price, interest, cost, rent, and so forth. To fail to be subjectivist is to revert to a largely discredited viewpoint in value theory.

By contrast, in philosophy to be a “subjectivist” is to somehow be turned inward, in the sense of Descartes’ *cogito*, and disconnected from reality. It is almost never deployed as a term of praise, and tends to connote epistemological relativism and solipsism. While the philosophers have had in mind fundamental questions about the nature of knowledge, the economists at least appear to have had in mind only an issue local to certain corners of their own discipline, involving technicalities in value theory within microeconomics.

It is certainly true that when the economists deployed this language they were not exactly trying to do philosophy, and that philosophy and economics have had distinct questions in view when they use this language of subjects and objects. A closer look, however, suggests that the philosophical issues are more relevant to the economists’

discourses in value theory than at first appears. Philosophical problems are often deeply lodged in the culture, embedded in the connotations of words that carry meanings that may go way beyond the self-conscious intentions of the authors. Both classical political economists and neoclassical economists, as they went on imaginative flights aimed at explaining value phenomena, were dragging along more philosophical baggage than fits, so to speak, under the seat in front of them. The philosophical baggage of both terms, subjective and objective, is burdensome. The Austrian school's efforts to shake off some of the negative connotations of an objective economics were nevertheless failing to escape from the philosophical hazards of this misleading dichotomy. The connotations of words like subjective and objective, in the economists' discussions of the theory of value, point beyond value theory to larger questions of the nature of economics and of knowledge.

Perhaps economists should take heed of the kinds of critiques of the dichotomy which the pragmatist philosophers (along with several versions of post-modern philosophy) have developed. If one attends closely to the language economists use to discuss value theory one can hear the echoes of the philosophical arguments of writers such as John Dewey that challenge Cartesian thinking. The same danger philosophers have seen in the dichotomy shows up here. The notion the Austrians were trying to carve out of "an objective science of subjective phenomena" is misleading on both ends; subjective value phenomena are made to appear too arbitrary, too disconnected from reality, too inaccessible buried in the realm of the mental. The objectivity of science that the whole *verstehen* tradition including the Austrians, tended to endorse as some kind of value-freedom, is today thought of by many philosophers as a false ideal. And because of these difficulties, the difference between scientific and everyday knowledge is exaggerated.

The philosophical literature's entanglement with the subject/object dichotomy goes back at least to the work of Descartes, Kant, and Hegel, some say all the way to Plato. We will not rehearse the different versions of this challenge here. Suffice it to say that among contemporary philosophers there is now wide agreement that the dichotomy causes more trouble than it is worth, that both claiming the strict objectivity of science and claiming the subjectivity of non-science (the humanities, practical experience) are highly misleading sorts of claims. Across various otherwise diverse philosophical traditions, from continental, to contemporary analytic, to American pragmatist traditions, philosophers agree that the metaphysical and psychologicist presuppositions behind this way of talking are best left behind. The contemporary analytic tradition has made this point in terms of undermining the presuppositions of the whole mind/body distinction. Likewise one of the main developments of continental philosophy, phenomenology, makes a very similar challenge to this artificial separation of the subject from the object.⁵ Virtually all the major figures in philosophy in the twentieth century have come to be wary of the

⁵ Though Edmund Husserl in a sense saw himself as trying to save the Cartesian project, he was already in 1900 beginning to challenge the notion of scientific objectivity as it is routinely used in everyday language. Since then in the work of his followers the challenge to the dichotomy has been deepened in the work of Heidegger, Merleau-Ponty, Gadamer, and others.

misleading connotations of the dichotomy.

One of the fundamental points of American pragmatism in general, and Dewey's work in particular, was the notion of reconnecting subject and object by turning to the kind of practical knowing involved in the everyday world. The pragmatist John Dewey ([1949] 1989: 287-8) summed up the problem with the dichotomy this way:

...[I]t was assumed that ...knowledge ... is dependent upon the independent existence of a **knower** and of something **to be known**; occurring, that is, between mind and the world; between self and not-self; or in words made familiar by use, between subject and object. The assumption consisted in holding that the subject matters designated by these antithetical terms are separate and independent; hence the problem of problems was to determine some method of harmonizing the status of one with the status of the other with respect to the possibility and nature of knowledge.

That is, the dichotomy tends to artificially separate the notion of (subjective) meaning from the (objective) world. It lays traps from which the Austrian school never fully disentangled itself.

2. Subjectivism Radicalized: Lachmann and the Danger of Solipsism

Within Austrian economics there has been only a gradual clarification of the principle of subjectivism. It has gone from a narrow, technical point to a larger message involving a fundamental transformation of economic theory, and even social theory in general, and from a psychological or “mental” matter to a broader, philosophical issue about understanding, the nature of meaningful action, and of the mutual orientation of plans. This widening amounted to a linking up of the Austrian work in value theory with the **verstehen** tradition of German social thought, a group of philosophers and social theorists from whom the Austrians borrowed, and with whom they fought. This linkage brings both some strengths and some weaknesses to the Austrians’ work. The main strength in the **verstehen** approach was that it turned the emphasis directly to the study of the meaningful world. But how did it characterize this world? The difficulties in the Austrian school’s methodological principle of subjectivism trace to difficulties in the early **verstehen** tradition’s own work on the nature of human understanding.

These difficulties are nowhere more evident than in the Austrian school’s understanding (and misunderstanding) of Ludwig Lachmann’s contribution to the tradition. The Austrian school began with the subjectivist revolution, and had always taken the word “subjectivism” to be a term of unambiguous praise. Until, that is, Ludwig Lachmann arrived. Of course he used the word as the term of praise **extraordinaire**, the main mark of distinction of the Austrian school, of which he counted himself a proud member. But it was Lachmann who prodded the school into having second thoughts about the possibility of “going too far” with subjectivism. When he arrived at Israel Kirzner’s Austrian economics program at New York University he challenged the American Austrians by suggesting that they were not thorough-going subjectivists, a charge they couldn’t take lightly. Lachmann broadly understood himself as subjectivist in the same sense Mises did, but he was not just subjectivist, he was a self-proclaimed “radical.” He was to say that subjectivism advanced as it went from a modest subjectivism of value (Menger) to a broader subjectivism of action (Mises) to a more radical one of knowledge and expectations (Shackle). Whereas Mises linked subjectivism with the **verstehen** school, while insisting on a fundamental

distinction between theoretical conception and historical understanding.⁶ Lachmann ([1966] 1977: 59-62) rejected the need for this arbitrary distinction, and explicitly called for a “‘verstehende,’ or ‘interpretative’ economics.” But what differs between Mises and Lachmann is more their sense of the nature of *verstehen* as their understanding of economics.

Lachmann’s “radical subjectivism” was challenged in turn by other Austrians for leading to relativism, or solipsism, or nihilism, that is, the very dangers philosophers think of when they hear the word “subjectivism.” In effect he provoked a debate within the American Austrian school that seemed to pit his “radical” version of subjectivism with the more modest version of Kirzner. Within the Austrian school Lachmann has been criticized for having allegedly gone too far in his radicalized version of subjectivism. Radicalizing subjectivism, then, for the more traditional Austrians, seems to mean turning radically inward, and thereby losing touch altogether with objective reality.⁷ We argue that this charge is misplaced, that the danger of solipsism goes way back to the psychologicist formulations of Lachmann’s predecessors in the Austrian school, and that the radicalizing direction toward which Lachmann pointed us, if followed to its radical conclusions, is actually a way to avoid the danger. Subjectivism when radicalized doesn’t have to mean turning to introspective self-examination, or in any way turning away from the real world. It can mean turning to the “context of inquiry” of market participants within the economy, and also the inquiry of economists who are systematically studying such actors, without having to label either one subjective or objective.

This is how Lachmann (1994: 246) sums up the progress of an increasingly radical subjectivism:

Subjectivism of the first stage in the 1870s was a subjectivism of wants. Different men had different wants and thus were inclined to attribute different values to the same object. Wants were regarded as personal attributes in much the same sense as other attributes, such as weight, body temperature, etc. There was no question of judgements of utility being utterances of the mind, hence problematical.

In Mises’s work we reach the second stage. Subjectivism is now a matter of means and ends. ‘In this sense we speak of the subjectivism of the general science of human action. It takes the ultimate ends chosen by acting man as data, it is entirely neutral with regard to them. The only standard which it applies is whether or not the means chosen are fit for the attainment of the ends aimed at’ (Mises 1949: 21). In a world of change the mind of the actor must continuously ponder the adequacy of the means at his disposal, but not the ends themselves which are ‘given’ to it.

But this does not go far enough, he says. Since ends lie in the future and are thus always problematical, we have to go beyond the subjectivism of means and ends to the subjectivism of expectations. “We have now reached the third, and thus far highest, stage, the subjectivism of the active mind, and George Shackle, the master subjectivist, has been our mentor.” Perhaps owing to the sometimes powerfully evocative language in which Shackle (1972) writes, Lachmann’s radical move to emphasize expectations has been controversial. It is widely taken to be the place where

⁶ See Mises’ *Theory and History* (19??).

⁷ Lachmann was impressively knowledgeable about and interested in institutional details of the economy.

the, until then, progressive extension of subjectivism “went too far,” stepped over the line, and now, only now, invites the danger of solipsism.

On the contrary, we want to argue that there has always been something unsatisfying about the traditional formulations of the principle of subjectivism. Many statements of the principle, including some of Lachmann’s own, but more prevalent in the work of earlier Austrians, exhibit an unfortunate tendency to interpret subjectivity in psychological and/or mentalistic terms, terms that seem to place meaning out of reach of any empirical research.

If what really matters, according to subjectivist theory, is the internal contents of individual minds, then how is it possible to undertake relevant empirical work? Some supporters of subjectivism, such as James Buchanan, confess that they cannot. He tells us we need two branches of economics, an objective empirical science that deals with measurable, observable price phenomena, and a subjective theoretical science that depicts economic phenomena as resulting from the inaccessible contents of minds.

Similarly, Friedrich Wieser (one of the early contributors to the school) referred to the Austrians as the psychological school and contrasted economics from the natural sciences with the notions of knowledge “from without” and “from within.” Similarly, Mises and Hayek explicitly pointed to introspection as the method for getting at subjective phenomena. To the extent that subjectivism goes in this direction, there are some serious difficulties here. Laslo Csontos (1998: 86) in an article on Lachmann but actually directed at the whole school, has a point when he charges that this focus on “a kind of a priori and internal knowledge” sounds like it amounts to a form of solipsism. Csontos sums up the classical Austrian position on subjectivism (and offers some of the key citations) when he writes:

How do we learn about our own mental states and thus how do we get to know the mental states of other people? According to one of the fundamental epistemological postulates of methodological solipsism, we can learn about our own mental states only by way of introspection (Hayek 1955: 44-5, 50, 75-6; Mises 1933: 41, 122). Introspection is a kind of inner perception, independent of any bodily organ of sense, through which we can acquire (so the theory goes) a singularly reliable form of self-knowledge. This introspectively gained self-knowledge, as a result of the basic similarity of the human mind and the commonalities of our mental structures, gives us direct access to those thoughts, concepts, and objectives with the help of which we can understand individual and collective attitudes and actions observable in the world around us.

Moreover, Csontos (1998: 83) says, the subjectivist approach treats the interacting individuals in the market process as if they were isolated atomistic individuals whose only contact with one another is through market signals.

In their view society is made up of independent and isolated individuals (Hayek 1952: 50-1) who not only lack a common social knowledge or common experiences but who are made even more isolated by their existing knowledge because the latter is scattered, imperfect, specific knowledge based on familiarity with particular circumstances (Hayek 1952: 29-30). Isolated individuals organize into societies as a result of utilitarian considerations, although the emergence of organized societies can be an unintended by-product of their actions. According to the proponents of methodological solipsism, the exchange relationship is the social relation *par excellence*...

Some of the earlier Austrians described subjectivism in a manner that certainly invites this reading of subjectivism.⁸ The fact that at the time the Austrian school encountered the *verstehen* tradition it, along with most philosophy of the time, was still struggling with the subject/object dichotomy, forced the Austrians into some awkward methodological positions in order to defend the idea of a science of meaningful human action. The main thing the Austrians were trying to do is provide a general (objective) theoretical framework for the meaningful (subjective) study of economic phenomena. The traditional philosophy of understanding seemed to leave no room for this project. Though sympathetic with the *verstehen* tradition's defense of the study of the world of meaningful action, the Austrians could not (and should not) accept its denial of universality. The way out Mises took was to artificially divorce theory (the general) from history (the particulars) assigning the *verstehen* method only to the particularistic half of the human sciences, in order to hold on to the objectivity that was thought required for science. Economic theory could be a body of objective, logical, scientific reasoning, and only history needs to be "tainted" with the personal, with the subjective.

When mainstream economists criticize the Austrians for "going too far" with the idea of subjectivism, or when some more traditional Austrians defend themselves from this charge but criticize Lachmann in turn, for doing so, their concern seems to be expressed in terms of the very dilemmas to which the philosophical literature on the subject/object dichotomy draws attention. Many economists may think they are "subjectivists" in a philosophically harmless sense, but when they voice their concerns about the radicalization of subjectivism they bring out exactly the kinds of difficulties the philosophical literature points to. They fear a loss of what they think is a necessary kind of objectivity; they misread the fundamental nature of subjectivity as some kind of solipsistic, inward, inaccessibility.

C. Questions Arising in the World: Dewey as a Remedy for What's Ailing Economic Inquiry

The *subjectivists* need not remain trapped in the philosophical quagmire of the subject/object dichotomy. Indeed, several different branches of philosophy, including the pragmatist tradition, evolved away from the Cartesian way of

⁸ Although to be fair, they could be read as simply trying to say that while in the natural sciences we study external things in the physical world, that do not already have meaning for us, while in the human sciences we study phenomena that are already given meaning by human actors. The way they typically put the point, however, was that we are talking about things that are going on within the *minds* of men and women. With the concept of "knowledge from within" they were trying to suggest that in this sense we have an advantage in the human sciences, we are already inside the world of meaning but never really clarified their language on the subject.

thinking we have found in the Austrian and *verstehen* traditions.⁹ Philosophy has gradually managed to free itself from the dichotomy and most of its metaphysical baggage. If the phrase “knowledge from within” is still used, the thing human knowing is “inside of” is no longer taken to be an individual person’s mind. Rather the point is that in the study of human action we are located within language, within the world of meaning.

As we have argued, in the Misesian assertion that the human sciences are “the objective study of subjective phenomena” both of the subject/object terms are problematic, when viewed from the standpoint of contemporary pragmatist philosophy. That is, though we can agree with what seems to be the basic point of this formulation, that something like a science of humanly meaningful phenomena is possible, we agree with writers like Peirce and Dewey that we should give up on the misleading dichotomous language. Perhaps a better way to put it is that economics is a *systemic intersubjective study of intersubjective phenomena*. The difference, then, between the sort of knowledge achieved in science and everyday life is not a difference in kind.

The study of human action is not objective. It can be systemic, scholarly, open to criticism, etc., but it really can’t be objective, in the sense of detached, impartial, or impersonal. Mises, as we have suggested, fudged on this by arbitrarily separating theory from history, claiming objectivity for the theory half, even while admitting that the two halves were inseparable, so that the situatedness of the historian inevitably taints the overall work of the human scientist. In effect, he admits that all knowledge is connected to the phenomena it is about, that applied work in the human sciences is necessarily from the point of view of the researcher. This point of view is not an objective, disconnected representation of the world in itself, but an orientation from a particular context that arises from the articulations of the community of researchers.

The subjective side of this dichotomy is just as misleading. Human action is not subjective in the sense of arbitrary, or private. The “subjective preferences of individuals” sounds like something inaccessible, buried within the skulls of separate atomistic agents. It sounds like it requires a focus on the individual mind, as if it points us to the method of introspection.¹⁰

⁹ In the later developments of the understanding tradition the subject/object dichotomy is being gradually overcome. As Alfred Schütz put it, what we are inside of is an intersubjective communicative process, a culture whose texts are publicly available to be interpreted. Or as Hans-Georg Gadamer argues in his critique of Dilthey, understanding is to be seen as a phenomenon of mediation between a reader and a “text,” a spoken or written expression that is publicly available for interpretation. It is not a matter of the divination of the original intention of the author.

¹⁰ Mises inherited this way of talking about the idea of knowledge from within, and on this basis sometimes seems to privilege the method of introspection. We are supposed to build up the fundamentals of a theory of human action by starting with the introspective examination of our own minds. We come to appreciate basic concepts of the theory of action through this inward observation. Then, from this point of view, one needs to make the additional

But what they are getting at when we refer to the subjective point of view of the agent is really the meaning things in the world have to him, which involves us not in the private, inaccessible world of an individual mind, but rather in the public, social world of language. The point of subjectivism is really the one that sociologists call the social constructivist viewpoint, the recognition that our knowledge is conditioned by the questions we ask, the language we use, the shared meanings within which our meaningful actions take place in the world. Meaning is not buried in individual minds but is publically available in cultural artifacts.

The traditional Austrians were trying to get a perspective on knowledge that doesn't have to accept what philosophers call the subject/object dichotomy. Traditional epistemology has trapped our thinking within the confines of this dichotomy. It forces us to break apart considerations of human meaning, called "subjective," from considerations of "objective" reality.

Can't the underlying message of the "subjectivist" approach to economics be clarified, be made more coherent, and more productive of useful insight, by shaking off this philosophical baggage? How best to make this move away from the (at least apparent) psychologism of Max Weber and the Austrians toward an appreciation of the "real" human experience-in-the-world? How best to make economics be about the meaningful world? How best can it deliver something of value to the general public? These remain open questions. One way to proceed, we conjecture, is by utilizing the philosophy of John Dewey.

1. Dewey and Human Experience

Dewey is perhaps the most influential American social theorist. Over his more than seventy-year academic career, he has made significant contributions to everything from the philosophy of education, art and religion to metaphysics and politics. With *Experience and Nature* ([1925] 1929), he humbly set out to repair philosophy. According to Dewey (1929: 8-9), the problem with philosophy and, indeed, with all the philosophical sciences (like economics) is that they are non-empirical or not empirical enough. As a solution, he proposes what he terms the 'empirical method.'

The attractiveness of the 'empirical method' for Dewey (1929: 7) is that it is pragmatic. It forces us to construct philosophies about the world we live in. It forces us to consider actual problems instead of imaginary puzzles. Rather than pushing us to be more precise, the 'empirical method' insists that we become more relevant. With the 'empirical method,' as Dewey correctly asserts, questions arise in the world, that is, they flow from experience. Understanding what Dewey meant by experience-in-the-world is, therefore, critical to understanding the 'empirical

assumption that Other Minds must exist, and that they must work like our own. This whole way of talking seems backwards, to me. We come to understand ourselves only through our entering into the intersubjective world of language.

method' he is promoting.

As John McDermott (1973: xxvi) pointed out in his introduction to a two volume collection of Dewey's writings, experience stands in Dewey's work for what we might today call culture. In a letter to Arthur Bentley he made some interesting remarks about the misleading connotations of the word experience.

Commenting on his preparation of a new edition of *Experience and Nature* in 1951, Dewey wrote that he decided to change the title to *Nature and Culture*: "I was dumb not to have seen the need for such a shift when the old text was written. I was still hopeful that the [philosophic] word 'Experience' would be redeemed by [being] returned to its idiomatic usages—which was a piece of historic folly, the hope , I mean..." The many critics of Dewey's prose style should be more aware that the gnarled character of some of his writing traces to a determined effort to articulate the character of our experiences in a language faithful to our way of having them and in as rich a descriptive version as possible.

This notion of articulating our experiences "in a language faithful to our way of having them" is not a bad way to sum up what the Austrians have been trying to do in their subjectivist method. Experience, for Dewey (1929: 2), "is no infinitesimally thin layer or foreground of nature." It is not, if you will, *mere* experience. Rather, "it penetrates into [nature], reaching down into its depths, and in such a way that its grasp is capable of expansion". "It tunnels," as Dewey asserts, "in all directions and in so doing brings to the surface things at first hidden – as miners pile high on the surface of the earth treasures brought from below." Experience, for Dewey, is thus not only the experience of nature but is also experience in nature. As Dewey (1929: 4) notes, "it is not experience which is experienced, but nature – stones, plants, animals, diseases, health, temperature, electricity, and so on." It is "not experience which is experienced" but chairs, tables, computers, friendships, business relationships, factories and offices. It is "not experience which is experienced" but advertisements, money, prices, transaction costs, goods, services and markets. "Things interacting in certain ways," as Dewey remarks, "*are* experience; they are what is experienced . . . they are *how* things are experienced as well." Indeed, as Dewey contends, experience is experience-in-the-world; "experience reaches down into nature; it has depth. It also has breadth and to an indefinitely elastic extent". Anything in the world can, thus, be added to Dewey's list of "electricity" and "stones" without obscuring what he means by experience.

The contrast between the *verstehen* tradition's subjectivist mind-reading approach to a Deweyan logic of inquiry approach, leads to a profound change in the way we describe the differences between the natural and social sciences, and also the differences between the kind of knowing achieved by any scientists and the practical knowing of persons in the society. Deweyan approach need not insist on the focus on particular circumstances, but can include a discussion of general patterns, or structures. It need not insist that the social scientist's knowing is different in kind from practical knowing of everyday persons. Ultimately it need not cling to either the standard of detached objectivity the earlier *verstehen* tradition thought was required for science, nor the solipsism and arbitrariness of the notion of subjective meaning that it thought surrounded practical human understanding.

Lived experience, to be sure, “is multidimensional, complicated, laden with memory, emotion, and qualitative judgment” (Boisvert 1998: 17).¹¹ Dewey recognizes that individuals are church members, employees and employers, husbands and wives, brothers and sisters, friends and acquaintances, community members and outsiders, artisans, civil servants and entrepreneurs.

Like crops in a garden, individuals in Dewey’s thought are embedded in a “network of interconnections” (1929: 21).

The crops [in a garden] are rooted *in* the soil, which is aerated by earthworms. Insects provide the means of pollination *for* the plants. Rain falls *on* them, and energy is received *from* the sun.

Similarly, individuals in the world live in homes, commute to work in automobiles, buses and trams, watch television, listen to the radio, shop for books on the Internet and talk to their friends on the telephone. Mainstream economics, as we have said, routinely ignores the social and institutional context in which all economic activity takes place. It routinely treats individuals as disembodied (re)actors motivated only by pecuniary motives. It routinely pretends that individuals have “no families, are citizens of no countries, are members of no communities and are believers in nothing at all except the pursuit of ‘hedonistic’ utility. Individuals, in the hands of economists, are typically *undersocialized*, isolated creatures, unaffected by [the] society or [the] polity” (Boettke & Storr 2002). When it does take social forces seriously, individuals get treated like social automatons; they are *oversocialized* creatures (Granovetter 1985). Mainstream economics does not even pretend to portray (real) individuals (interacting) in the world.

Like Dewey and unlike mainstream economics, however, Weber and the Austrians are able to conceive of actual humans. Actors, they insist, are social characters, “*affected* by, *influenced* by, even *directed* by social structures and relations but not *determined* by them” (Granovetter 1985). They are neither disembodied nor atomistic. As Boisvert (1998: pp??) reminds us, “a genuinely inclusive empirical method does not uncover isolated, discrete entities. Ordinary experience reveals entities in varied, multifarious forms of interrelationships.” Similarly, a “genuinely inclusive empirical method” recognizes that these “varied” and “multifarious” interrelationships all have a temporal dimension (Boisvert 1998: 22).

2. Real Time

Lived experience takes place in a temporal context. As Boisvert (1998: 20) contends, humans in Dewey’s thought “are not primarily disembodied sorts of cogitators. They are embodied individuals, participants in multifarious sorts of interactions with the world that encompasses them.” Change, we might say *real change*, is possible and

¹¹ As Dewey ([1925] 1929, 10) remarks, “‘experience’ is what James called a double-barreled word; Like its congeners, life and history, it includes *what* men do and suffer. *What* they strive for, love, believe and endure, and also *how* men act and are acted upon, the ways in which they do and suffer, desire and enjoy, see, believe, imagine.”

interactions, varied and multifarious interactions, occur in time. As Dewey argues, temporality is a “quality of experience” (Boisvert 1998: 23). Dewey (1934: 214) argues that “Time as empty does not exist; time as an entity does not exist. What exists are things acting and changing . . . a constant quality of their behavior is temporal”. As Dewey (1929, 83) asserts, “nature is an affair *of* affairs.” Acknowledging that “nature [is] a scene of incessant beginnings and endings,” he continues, “enables thought to apprehend causal mechanisms and temporal finalities as phases of the same natural process.”

O'Driscoll and Rizzo (1985) offer both a critique of the superficial manner in which mainstream economics incorporates time into its theories, and an appreciation of the temporality of all action as is displayed by the Austrians. Like Dewey, the subjectivists stress the importance of *real time*. Time as lived, time as experienced-in-the-world, is not static or inert but is instead, as O'Driscoll and Rizzo (1985: 60) suggests, “a dynamically continuous flow of novel experiences.” Genuine surprise and serendipity is possible in the world. In the world, today's experiences necessarily make “tomorrow's perceptions of events different than [they] otherwise would be” (1985: 3). In the world, time is irreversible. The subjectivists, like Dewey, do not, therefore, assume away these characteristics of *real time* but instead take them seriously, emphasizing the radical ignorance that necessarily conditions human action and, thus, the indeterminateness of human action-in-the-world.

The mainstream, on the other hand, very rarely takes *real time* seriously (1985: 53-59). Indeed, mainstream economists have preferred to analogize time to space (something to be allocated) rather than incorporating time, as it is actually experienced, into their theories. They have preferred a Newtonian conception of time where time is causally inert, homogeneous and only mathematically (not dynamically) continuous. In mainstream economic theories time can elapse “without anything happening” (54). As O'Driscoll and Rizzo (55) assert, “a Newtonian system is merely a stringing together of static states and cannot endogenously generate change.” Each period (or point) in time is isolated and so time becomes static. In other words, mainstream economists have a radically different conception of time than Dewey and the subjectivists. While the mainstream tries to assume away the problems associated with *real time*, Dewey and the subjectivists, as we have seen, have no wish to escape “the temporal dimension within which interrelations takes place” (Boisvert 1998: 22). Why is this? Why are the Austrians aware of the problems of *real time* and radical ignorance while many in the mainstream aren't? The answer, we conjecture, is that both Dewey and the subjectivists begin their analysis in the world while the mainstream doesn't.

Indeed, both Dewey's ‘empirical method’ and the subjectivists take as their starting point the life-world where time passes and change is not only possible but inevitable. They take as their starting point the world where learning takes place and radical ignorance conditions all human action. As Dewey ([1925] 1929, 7; *emphasis added*) asserts, “the subject-matter of primary experience *sets the problems* and *furnishes the first data* of the reflection which constructs the secondary objects.” Experience-in-the-world sets the problems that our theories try to solve. Questions arise in the world and are answered (through reflection) in the “laboratory” (or in the philosopher's mind). It is not ratiocination that supplies the questions; the ‘empirical method’ does not tolerate logic games or mere

puzzle solving. Rather, experience-in-the-world “sets the problems” and “furnishes the first data” for philosophical inquiry. ‘How many angels can fit on a pinhead’ is thus not a valid line of inquiry, as Dewey asserts, unless “primary experience” sets us that question and unless the answer offered allows us to grasp (to better understand) the experience-in-the-world that launched that line of study. As Dewey writes, “the test and verification of [our philosophies] is secured only by return to the things of crude or macroscopic experience – the sun, earth, plants and animals of common, everyday life.”

3. Getting Back to the World

Our inquiry should not only begin in the world but should contain a path back to it. The “secondary objects” produced by reflecting on our experiences, should “define or lay out a path by which return to experienced things is of such a sort that the meaning, the significant content, of what is experienced gains an enriched and expanded force because of the path or method by which it was reached” (*ibid*, 8). Philosophy (and the philosophical sciences) should illuminate aspects of our experience-in-the-world that were hitherto unseen. It should organize isolated details of some everyday experience and impart new meanings. It should search for the keys where they are likely to be not just under the lamppost (McCloskey 1990b, 73). It should try to serve the everyman.¹²

McCloskey (1990a) makes a similar point when she speaks of the relationship between metaphors (economic theory) and stories. “It has doubtless been noticed before,” McCloskey (1990a: 61) says, “that the metaphorical and the narrative explanations answer to each other.” As McCloskey puts it, “a story answers a model. Likewise a model answers a story.” If we allow our primary experience-in-the-world (our non-analytical narratives) to inspire our inquiries, we will, as a result, begin to write better poems, develop better theories and tell better narratives.

Mises ([1949] 1966) concurs, making a similar claim about the point of scientific inquiry. “The end of science,” Mises (1966: 65) asserts, “is to know reality. It is not mental gymnastics or a logical pastime.” As a result, Mises continues,

. . . praxeology restricts its inquiries to the study of acting under those conditions and presuppositions which are given in reality. It [only] studies acting under unrealized and unrealizable conditions . . . if such an inquiry is needed for a satisfactory grasp of what is going on under the conditions present in reality.

¹² As Klein (1999) points out, there is “a major difference between political economy and such disciplines as physics, chemistry, engineering, and medicine. For the latter, experts are appointed to make important decisions . . . In political economy, however, the practitioner is not the expert economist, but every public official and ordinary voter -- the Everyman.” Economics, Klein (*ibid*) argues, should, thus, serve the everyman.

Experience, for Mises, thus, “directs our curiosity toward certain problems and diverts it from other problems. It tells us what we should explore.”

Unfortunately, both the neoclassical and the *verstehen* traditions (in spite of McCloskey’s and Mises’ chiding) have remained non-empirical or not sufficiently empirical philosophical sciences. While the problem with the mainstream is that it is only superficially empirical, opting for precision over relevance, the problem with the *verstehen* tradition (at least as often articulated by the Austrians) is that it shuns any sort of empirical verification. While the blackboard economics of the mainstream does not even pretend to begin in nature, the *verstehen* tradition refuses to return to it. “The charge that is brought against the non-empirical method of philosophizing,” Dewey ([1925] 1929, 8) declares, “is not that it depends upon theorizing, but that it fails to use refined, secondary products as a path pointing and leading back to something in primary experience.” While mainstream economics is essentially about angels on pinheads, the *verstehen* tradition is enamored with ratiocination and introspection. The non-empirical methods of the neoclassical and the *verstehen* traditions fail on several fronts.

Regrettably, as Dewey asserts, “there is no verification, no effort even to test and check” in the non-empirical sciences. As hinted at earlier, those in the *verstehen* tradition shun empiricism. This is true, even though “an economics of meaning” would seem to force empirical study. How else can you get at the meaning that individuals attach to their situations and their actions except through empirical study? For many in the Austrian camp, however, getting at meaning seems an intractable problem. So, although they insist that experience “set the problems” of inquiry and that it serve as the “primary data” for study, they then all but retreat into their skulls once they begin their inquiries.

Many in the Austrian tradition “strangely” view meaning as something “internal to an individual mind;” speaking frequently about the importance of knowledge-from-within. As Lavoie (199?: 481) complains, meaning in this view, thus, “lies beyond economic science to explain and needs to be taken as given.” One consequence of describing subjectivism (their economics of meaning) in this way, Lavoie contends,

. . . may be a permissive attitude towards abstract theorizing that stays aloof from empirical work. The common opinion of subjectivism is that its importance is strictly theoretical, that if one were to take it seriously in empirical work one would become mired in the problem of how to read people’s minds.

Rather than reading people’s minds, an absurdly difficult task, Austrians typically recommend that we interpret the actions of others “on analogy of our own mind: that is, that we group their actions, and the objects of their actions, into classes or categories which we know solely from the knowledge of our own mind” (Hayek 1948: 63). As Lavoie (199?, 482) points out, however, meaning is not in our skulls but in the world; “it is not [to be found in] an isolated, individual mind, but [in] a communicative process, a discourse.” Retreating into our heads, thus, ends up

giving up on accessing the world.¹³ Does the mainstream avoid this problem? Does the mainstream tests its theories in the world?

On the surface, it seems almost laughable to charge the mainstream with being non-empirical. While many would concede that the mainstream does not begin in the world, most would argue that falsification, testing, checking and verification are the lynchpins of mainstream positivism (the method advocated by Friedman (1953)). As stated before, however, the mainstream is only superficially empirical; by failing to contemplate actual experience, it does not enrich our experience in the world. It does not serve the everyman. Although econometrics (aiming at statistical significance) can be used to “test” economic theories, “the things of ordinary experience do not get enlargement and enrichment of meaning as experience” from most econometric tests (Dewey ([1925] 1929: 8).¹⁴

Remember that ordinary experience is interconnected and embedded in a temporal world. Econometric models, however, necessarily aggregate and always abstract from the temporal dimension of human interaction.

Aggregation, as is often pointed out, abstracts from the heterogeneous and context-specific character of individual interactions. Ordinary experience, on the other hand, takes place in certain places at specific times. And, even time series analysis treats time statically; “time is . . . deprived of efficacy and if it *does* nothing, it *is* nothing” (Bergson cited in Rizzo 1994: 115). Relationships are (necessarily) not allowed to change and units of time are (typically) treated as discrete. The mainstream by failing to begin in the world is simply unable to return to it.

Perhaps the most unfortunate failure of the non-empirical and the superficially empirical methods, as Dewey ([1925] 1929: 9) notes, however, is that they come to view ordinary experience as either “arbitrary” or “aloof.” As Dewey contends,

The objects of reflection in philosophy [and the philosophical sciences], being reached by methods

¹³ The Austrian’s often-expressed and often-chastised insistence that economics is universally certain and non-falsifiable, similarly, gives up on the world. This is ironic since it was Mises who insisted that we let experience direct our curiosity and drive our inquiry. Unfortunately, Mises ([1949] 1966: 65) also insisted that, “this reference to experience does not impair the aprioristic character of . . . economics.” The “statements and propositions” of economics, Mises (32) contends, “are not derived from experience. They are, like those of logic and mathematics, a priori. They are not subject to verification or falsification on the ground of experience or facts.” Much of the Austrian school, since Mises, has been convinced by these and similar passages in ***Human Action*** and so have shunned empirical work. Although the Austrians begin with our experience-in-the-world, they frequently do not return to it.

¹⁴ McCloskey (2000a, 220), for instance argues that although the “main empirical rhetoric in economics” is statistical significance, “statistical significance is bankrupt; all the ‘findings’ of the Age of Statistical Significance are erroneous and need to be redone.”

that seem to those who employ them rationally mandatory are taken to be “real” in and of themselves – and supremely real. Then it becomes an insoluble problem why the things of gross, primary experience, should be what they are or indeed why they should be at all.

Economics, for instance, makes the world, which is always in disequilibrium, problematic. It cannot explain it but leaves us, in fact, perplexed by it. By beginning with atomized, isolated individuals, by failing to appreciate man’s condition in the world, the non-empirical method gives rise to problems, which are, as Dewey complains, “blocks to inquiry, blind alleys; they are puzzles rather than problems, solved only by calling the original material of primary experience, ‘phenomenal,’ mere appearance, mere impressions, or by some other disparaging name.”

The mainstream thus needs a dose of pragmatism; their inquiry needs to be grounded in reality. Similarly, many Austrians are clearly in need of a path out of their heads and back into reality. How can we insure that our questions arise in the world and that our answers return us to it? Again, we turn to Dewey and, in particular, his theory of inquiry.¹⁵

4. Where in the World is the Economy?

Dewey in *Logic: Theory of Inquiry* ([1938] 1991) outlines what he calls “the pattern of inquiry.” Inquiry, as Dewey (105) asserts, “in spite of the diverse subjects to which it applies, and the consequent diversity of its special techniques has a common structure . . . that is applied both in common sense and science.” It is,

. . . the controlled or directed transformation of an indeterminate situation into one that is so determinate in its constituent distinctions and relations as to convert the elements of the original situation into a unified whole. (*ibid*)

By “controlled” or “directed”, Dewey simply means that inquiry aims at something. What it aims at are answers to questions that arise in the (indeterminate) world.¹⁶

¹⁵ To be sure, Dewey is not the only path forward. See, for instance, Lavoie (1990, 1991) and Lavoie and Storr (2001) and Storr (2001) where philosophical hermeneutics is offered as a possible path. See also Boettke (1998a) and Boettke & Storr (2002) where “a more consistent application of the theories of Weber” is proposed as a fruitful path out of the abyss of economics.

¹⁶ Dewey’s theory of inquiry belongs, like Gadamer’s philosophical hermeneutics, to the dialectic of question and answer. As Grondin (1994: 116-117) summarizes, “to understand something means to have related it ourselves in such a way that we discover in it an answer to our own questions . . . Every act of understanding, even self-understanding, is motivated, stimulated by questions that determine in advance the sight lines of understanding. A text is given voice only by reason of the questions that are put to it today. There is no interpretation, no understanding, that does not answer specific questions that prescribe a specific orientation.”

To say that the world is an indeterminate situation is simply to concede that it is open to inquiry “in the sense that its constituents do not hang together” (109). In the language of Gadamer, the world presents us with a hermeneutical problem. Our experience-in-the-world is not always unambiguous. Rather, it often needs to be *grasped*, it often needs to be *understood*, it often needs to be *organized* and *interpreted* (Gadamer 1986: 65). Experience-in-the-world, as Dewey laments, is frequently “disturbed, troubled, ambiguous, confused [and] full of conflicting tendencies.” That experience-in-the-world is frequently disturbed is what impels inquiry.¹⁷

As suggested earlier, the situation that impels inquiry are not only “troubled” in some superficial sense. Indeed, radical, inescapable, inherent uncertainty pervades. Uncertainty that, “cannot be straightened out, cleared up and put in order, by [mere] manipulation of our personal states of mind,” exists in the world (110). Action-in-the-world, experience-in-the-world is necessarily conditioned by the problems of *real time* and radical ignorance.¹⁸ As Dewey writes,

If we call [interactions in the temporal world] *confused*, then it is meant that its outcome cannot be [fully] anticipated. It is called *obscure* when its course of movement permits of final consequences that cannot be clearly made out. It is called *conflicting* when it tends to evoke discordant responses. Even were existential conditions unqualifiedly determinate in and of themselves, they are indeterminate in *significance*: that is, in what the import and portend in their interaction with the organism.

One question that now arises is how are individuals able to cope with these problems of time and ignorance? Stated another way, how can inquiry proceed in a world that is confused, obscure and conflicting?

As Dewey (11) contends, the first steps of inquiry are realizing that a situation requires inquiry, that it is problematic, and then formulating (instituting) a problem. Knowing, as they say, is half the battle and a problem well put is a problem half-solved. As Dewey (112) asserts, “to find out *what* the problem and problems are which a problematic situation presents to be inquired into, is to be well along in inquiry.” Defining the problem is all-important. If it is mistaken or incorrectly specified it will send inquiry off into bogus or irrelevant directions; “without a problem, there is blind groping in the dark” (*ibid*). If it does not arise out of experience-in-the-world it

¹⁷ Mises makes a similar point when he notes that action is always impelled by a feeling of uneasiness. As Mises ([1949] 1966: 13) notes, “we call contentment or satisfaction that state of a human being which does not and cannot result in any action. Acting man is eager to substitute a more satisfactory state of affairs for a less satisfactory. His mind imagines conditions which suit him better, and his action aims at bringing about this desired state. The incentive that impels a man to act is always some uneasiness.” In the same way, inquiry is only necessary when a situation is disturbed.

¹⁸ As O'Driscoll and Rizzo (1985, 2) argue, “a world in which there is autonomous or creative decision-making is one in which the future is not merely unknown, but *unknowable*. There is nothing in the present state of the world that enables us to predict the future state because the latter is underdetermined by the former.”

will start us on a wasteful course; “to set up a problem that does not grow out of an actual situation is to start on a course of dead work . . . dead because the work is ‘busy work’”. The problem suggests which answers (which hypotheses) should be entertained and which should be dismissed, what data should be investigated and what should be ignored, which paths should be pursued and which should be left unexplored. If the problem is profitably specified and arises from our experience in the world it might lead to the *determination of a problem solution*.

According to Dewey (112), the next step in the pattern of inquiry is to grope for an answer, that is, to figure out the parameters of the problem situation, to gather data and to formulate and refine our hypothesis. As Dewey notes, to say that a situation is inherently and inescapably doubtful is not to suggest that it is completely doubtful. Action in a completely indeterminate situation would be impossible (Mises ([1949] 1966: 105-119; Lachmann 1971: 37). Similarly, inquiry is not possible in a situation where all the given constituents are uncertain. Recognizing this, the first step in finding an answer to a problem is, therefore, “to search out the *constituents* of a given situation which, as constituents, are settled” (Dewey [1938] 1991, 112).

Dewey uses the example of a fire alarm being sounded in a crowded auditorium to illustrate this point. As he suggests, there is much that is indeterminate in this situation; “one may get out safely or one may be trampled and burned.” But there is much that is stable (at least regarding the immediate problem). The fire, for instance, is somewhere. The chairs, the aisles, the exit doors are fixed. “Since they are settled or determinate in *existence*,” as Dewey suggests, “the first step in institution of a problem is to settle them in *observation*.” Similarly, the behavior and movements of other people in the auditorium, “though not temporally and spatially fixed,” are still observable. “All of these observed conditions taken together,” as Dewey (113) contends “constitute the terms of the problem, because they are conditions that must be reckoned with or taken account of in any relevant solution that is proposed.”

Lachmann makes a similar point when discussing the role of institutions in enabling human action. Like Dewey, Lachmann (1971: 37) argues that “human action is not determinate, but neither is it arbitrary.” Indeed, action is bounded. It is bounded “by the scarcity of means at the disposal of actors.” It is bounded “by the circumstance that, while men are free to choose ends to pursue, once they have made their choice they must adhere to it if consistent action with a chance of success is to be possible at all.” It is bounded by institutions; these circumscribe “the range of action of different groups of actors, buyers and sellers, creditors and debtors, employers and employees” (Lachmann 1994: 285). And, action is bounded by obstacles. That action is bounded by ends, means, institutions and obstacles and so must be oriented to them in its course, as Lachmann (1971: 37) asserts, is what makes both action and causal explanation possible. The future, as Lachmann frequently asserts, is unknowable but it is not unimaginable.

North agrees with this characterization. Institutions, in North’s (1990: 3) schema, reduce uncertainty by structuring everyday life, by limiting the range of possible activities and by defining and delimiting the opportunity sets individual’s face. “They are a guide to human interaction,” as North asserts, “so that when we wish to greet friends on the street, drive an automobile, buy oranges, borrow money, form a business, bury our dead, or whatever, we

know (or can easily know) how to perform these tasks.” Accounting for the institutions that constrain and so shape and enable human (inter) action in a particular problem situation is, therefore, a critical stage in pursuing an inquiry.

As more and more of the settled constituents, the points of orientation, the institutions that bound action are observed, that is, once they “come to light in consequence of the being subjected to observation, the clearer and more pertinent become the conceptions of the way the problem constituted by these facts is to be dealt with” (Dewey [1938] 1991: 113). As more and more is learnt (perceived) about a problem situation, more and more “determinate” (clearly articulated) answers are conceived and a working hypothesis is proposed.

Dewey (1991: 115-116) calls the next stage of inquiry *reasoning* because after proposing a working hypothesis, we test its (internal and external) logic. We see how it holds together. We ensure that it is consistent with the other things that we “know” about the world. We examine its implications. By subjecting our working hypothesis to this sort of critical examination, by engaging in this sort of discourse, we refine and develop our propositions. Finally and critically, we take the “theory” that emerges from this process and attempt to verify it (in the world).

Remember, central to Dewey’s thought is the proposition that inquiry should not only begin in the world but that it should also give us a path back to it. He ([1925] 1929: 9) has proposed that we apply the following test to our inquiries,

Does it end in conclusions which, when they are referred back to ordinary life-experiences and their predicaments, render them more significant, more luminous to us, and make our dealings with them more fruitful? Or does it terminate in rendering the things of ordinary experience more opaque than they were before, and in depriving them of having in “reality” even the significance they had previously seemed to have? Does it yield the enrichment and increase of power of ordinary things which the results of physical science afford when applied in every-day affairs? Or does it become a mystery that these ordinary things should be what they are; and are philosophic concepts left to dwell in separation in some technical realm of their own?

If our theory passes the test, if we conclude that it serves the everyman, then we should accept it. And, in accepting it, we complete our transformation of the “indeterminate situation” we began with into a “determinate” one.¹⁹ Inquiry, as Dewey argues repeatedly, should neither begin nor end in our skulls. Dewey’s pattern of inquiry, thus presents itself as a mode of study that increases the likelihood that we produce profitable philosophy by insisting that we both begin in and end in the world.

¹⁹ By “determinate,” Dewey does not mean to imply that the question is answered once and for all. Instead, the situation is only “cleared up, unified and resolved” with respect to the problem at hand; the answer, to be sure, is a tentative one. Since inquiry ends in the world, the settling of one question may (indeed necessarily) leads to new concerns and questions.

D. Conclusion

Unfortunately, most economics stopped being about the goings on in the economy a very long time ago. This is bizarre, since the practitioner of political economy is and has always been the everyman (Klein 1999). The practitioners of political economy are and have always been ordinary people. If economics does not aid in our understanding of human (economic) interaction, therefore, it can only be viewed as a logical pastime, as mental gymnastics. It can only be seen as producing “kelly green golfing shoes with chartreuse tassels” (McCloskey 2000a, 150). It cannot be thought of as science.

The Austrians seemed to have been trying to place the emphasis on the issue of meaning, but they didn't quite have a language to do this in without dragging along some baggage in the form of the subject/object dichotomy. They were called the “psychological school” but their primary concern was never the psyche as such, but the way consumers attach significance to final goods, and the way this significance or meaning is imputed up the structure of production to give us a meaning of producers' goods. Their concern was in fact to make all the value phenomena that are familiar in the world of business (prices, rent, interest, cost, profits, etc.) meaningful in terms of human purposes and plans. Their aspiration was to link the world of meaningful economic action with the world of economic science, but their language trapped them in difficulties familiar to contemporary philosophers.

We have proposed Dewey (and particularly his theory of inquiry) as a path out of this abyss because he pressures us to begin with our experience-in-the-world and to test our theories by returning there. It is quite clear, given Dewey's critique of the non-empirical methods, that a way out is desirable. Economics has lost the world which is particularly bad and, as a consequence, it has also managed to lose the economy.

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