

Appraising Economic Theories

Studies in the Methodology
of Research Programs

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'progress' by the degree to which it applied the subjectivist principle consistently. This is not to say that members of the school have always meant exactly the same thing by the principle. Some of the most important differences among such leading Austrian economists as Ludwig von Mises, Friedrich Hayek, Ludwig Lachmann and Israel Kirzner involve different nuances in their interpretations of the idea.¹ Yet there is more unity to the school than first meets the eye, and the chief contribution to be a matter of extending Menger's subjective value theory to other areas of economics. The subjectivist approach is thought to apply a 'better' theory not only of value and prices, but of interest, cost, the value of money, the process of economic development, the nature and structure of capital, the causes of cyclical fluctuations, and other matters. I will not attempt to summarize all these applications of subjectivism; this has been done well by others.² What I would like to do here is consider what exactly is meant by 'better' in this context. What is it that makes this principle so attractive to Austrian economists that they use it to define their own scientific progress?

To speak of the progress of the Austrian school is already to invite controversy. To many observers what we have here is a spectacular failure. The Austrian school shot into prominence roughly a century ago, as a more or less equal partner with Walrasian and Marshallian versions of the neoclassical revolution against classical economics. It did enjoy a golden age for several decades alongside the other two branches, but some 50 years ago went into severe decline. By now it is scarcely remembered that there once was such a school. The few scattered outposts around today like to call themselves a 'resurgence', but there is a long way to go before the school recovers the reputation it had in its golden age.

Part of what follows will suggest a few possible reasons why the school went into decline, but I want to treat the story not primarily as a tragedy, but as a story which may yet have a happy ending.³ My point will be not so much to explain its undeniably severe fall as to explain what successes the school has enjoyed. When it first arose it did so on the issue of subjectivism. Its golden age involved a series of expanding applications of the subjectivist perspective. When it was 'rejuvenated' in the 1970s it was again over the issue of subjectivism. It was the arrival at New York University of Ludwig Lachmann, and his challenge that the Austrian school was not radically subjectivist enough, that seems to have provoked the school back onto the road to progress. There is something about this idea of subjectivism that seems to fuel the Austrian theoretical imagination.

14. The Progress of Subjectivism

Don Lavoie

Both the successes and the failures of the Austrian research program can be attributed to its central and most cherished idea, subjectivism. The point of this chapter is to re-interpret critically the school's traditional writings on subjectivism in order to separate what is 'progressive' about the idea from what is not.

1 INTRODUCTION

All this stands out most clearly in that among the social sciences whose theory has been most highly developed, economics. And it is probably no exaggeration to say that every important advance in economic theory during the last hundred years was a further step in the consistent application of subjectivism. That the objects of economic activity cannot be defined in objective terms but only with reference to a human purpose goes without saying. Neither a 'commodity' or an 'economic good', nor 'food' or 'money', can be defined in physical terms but only in terms of views people hold about things. Economic theory has nothing to say about little round disks of metal as which an objective or materialist view might try to define money. . . . Nor could we distinguish in physical terms whether two men barter or exchange or whether they are playing some game or performing some religious ritual. Unless we can understand what the acting people mean by their actions any attempt to explain them, i.e., to subsume them under rules which connect similar situations with similar actions, are bound to fail. (F.A. Hayek, 1955, p. 31)

The principle of subjectivism can be put briefly as the idea that what matters is not things themselves, but what things *mean* to people, and the way this leads them to act and interact. It is significant that the word 'subjectivism' in Austrian literature stands for both a central idea within Austrian economics and for the school itself. The specific principle of subjectivity is not merely one among many basic ideas in the Austrian theoretical toolkit; it is the principle that defines the standard by which all the theoretical tools are judged.

From its very inception with Carl Menger's participation in the marginalist revolution, the Austrian school has marked its own

After identifying what I think is the progressive aspect of subjectivism, I will mention some other aspects of the concept which may have contributed to the school's decline. The weaknesses as well as the strengths of the school's notion of subjectivism may be largely due to the same historical influence, that of the *Verstehen* or understanding school in German social thought.⁴ The successes consist primarily in a sharpened ability, in a certain sense, to 'see things as the agents do'. The weaknesses of the school, on the other hand, derive from what is misleading about this very way of putting it.

One contemporary branch of the *Verstehen* tradition, hermeneutics, especially as articulated by Hans-Georg Gadamer, offers some important correctives to the ways of talking about 'understanding' that dominated the *Verstehen* tradition when, early in this century, the Austrian school was borrowing from it. Seeing things from the agent's point of view appears to demand a mysterious sort of empathic ability, and drags the *Verstehen* tradition into historicism. Fear of letting economic theory get tangled up in such difficulties provoked the Austrians into some of their more dubious efforts to separate theory from history, and to construct an objectivist, aprioristic, ahistorical foundation for economic theory. The school may be starting to find a way out of that tangle in its recent turn, under Lachmann's influence, towards hermeneutics.

Difficulties for the school have arisen from the fact that the particular packaging of connotations in these terms, 'objective' and 'subjective', excludes the specific combination of connotations the Austrians were trying to uphold in their economics.⁵ 'Subjective' is taken to refer to meaning, and to be tied to a specific, historical context, which the Austrians wanted for their economics, but also implies the more questionable idea that this meaning is 'internal' to a single mind, that it is essentially arbitrary and that it is inaccessible to, and independent of, other minds. 'Objective' is taken to refer to things that are non-arbitrary, universal and open to public scrutiny, which the Austrians wanted for their economics, but also to imply detachment from the subject-matter and some sort of freedom from all prejudices, which they should not have wanted. The Austrians were trying to develop an economics that was both 'subjective' and 'objective', but only in the 'good' sense of the terms.

The title is intended to suggest the Lakatosian issue of assessing the progress of research programs, although I am not sure to what extent I will be adhering to Lakatos's methods.⁶ I do think that the general approach he recommended, of trying to piece together creatively a 'rational reconstruction' of the progress of a research program, is highly

illuminating in all scholarly endeavours. The history of thought is more productive of insight than our official philosophies seem to allow, and Lakatos's most valuable influence may simply be the impetus he gave to intellectual history. The judgement of whether a research program is progressive can only be made retrospectively, after it has had a chance to try itself out. There is a special vantage-point conferred by historical distance that allows us to make more reasonable judgements about whether a research program was progressive or not, and about exactly what its progress consisted in.⁷ The assessment of rival research programs can proceed on the basis of which one explains, in some sense, what the other cannot.

This chapter will be, at least to that extent, in the Lakatosian spirit. It will present subjectivism as an idea that progressed because it helped Austrians explain – or perhaps the word should be 'understand' – economic phenomena better. It does not aim at recovering what the Austrian authors originally intended, but at offering a sort of rational reconstruction of what was true in what they were saying.⁸ Like Lakatos's approach, it does not shy away from taking some liberties with the author's intention in order to focus more centrally on what can, retrospectively, be discerned to be the progressive aspect of the contribution. It aims at taking a reading – from my own particular vantage-point – of the Austrian school's most important principle.

2 THE MEANING OF SUBJECTIVISM

For a long time men failed to realize that the transition from the classical theory of value to the subjective theory of value was much more than the substitution of a more satisfactory theory of market exchange for a less satisfactory one. The general theory of choice and preference goes far beyond the horizon which encompassed the scope of economic problems as circumscribed by the economists from Cantillon, Hume, and Adam Smith down to John Stuart Mill. It is much more than merely a theory of the 'economic side' of human endeavors and of man's striving for commodities and an improvement in his material well-being. It is the science of every kind of human action. (Ludwig von Mises [1949] 1966, p. 3)

To Austrian economists, subjectivism is the principle that economics is fundamentally about meaning. It began as a narrow issue within value theory and gradually evolved into a broader and more philosophical principle about the nature of the human sciences. As a technical point in value theory, it is widely endorsed by mainstream neoclassical economists. It is because for contemporary Austrian economists the principle represents a whole perspective on the fundamental nature of

human society, and no longer merely a point in value theory, that they see so much more significance in it than mainstream economists do. Subjectivism stands for a way to keep the human in the human sciences. It is not some sort of detached universal principle, but the battle-cry of a specific resistance movement. It resists what Austrian economists consider the dominant mentality of modern times, a mentality we may be well label objectivism, which aims at the removal of human purpose from the human sciences.

Objectivism, at one time, was itself a progressive move. Before the rise of objectivism, pre-scientific world-views had treated everything, whether natural or social, as the result of human or godly purposes. This anthropocentric perspective did leave room for an economics of meaning, but it left no room for what Austrian economists consider an equally fundamental notion, unintended consequences. It attributed the meaning it discerned to the deliberate purposes of kings or gods rather than to the consequences of the process of interplay among the diverse purposes of the participants.

The replacement of such anthropocentric approaches by 'objective' ones was crucial in enabling natural science to achieve its spectacular progress over the past three centuries. Naturally enough, the idea arose of applying this move to the human sciences, and even here it led to progress. It was probably this attempted eschewal of kings' and gods' purposes from explanations that enabled the systematic human sciences like economics to get started. Objectivism forced the recognition that all action, even that of kings and gods, is constrained by systematic forces beyond our control. Reality, as we like to say, impinges. Kings whose policies conflicted most with economic principles, for example, generally found economic circumstances worse than their policies intended.

But this removal of anthropocentrism cannot be taken to its logical conclusion without making complete nonsense of the whole enterprise of economics and other human sciences. While the systematic phenomena we study are not the deliberate product of an all-powerful will, they are nonetheless products of intentions. The phenomena, the prices, money, credit system and so on under study are only recognizable as such by reference to the purposes of the individual human beings who make up an economy.

Classical economics sought to explain markets 'objectively' in the sense that economic phenomena were to be understood as obeying definite laws whose workings could be externally observed, recorded and systematized. The laws of political economy were characteristics of economic phenomena themselves and not the reflection of the purposes

of any political or supernatural beings. By 'objectifying' price phenomena in this way the great classical economists were able to show why intelligent policy making requires a systematic study of political economy. The significance of this accomplishment for mankind can hardly be overestimated.

The objectification of economic phenomena was mainly accomplished through the formulation of a systematic theory of value. Value theory was thought to constitute a device for measuring something like a substance that can be thought of as underlying the surface phenomena of prices. Value represented a kind of centre of gravity around which prices fluctuated. By invoking this idea of an underlying value, one could show that prices bear a systematic relationship to one another in a manner which a superficial observation of prices could not discern.

But introducing this new underlying level raised a difficult problem for classical economics. The units of surface prices were obvious enough, but these money units were unsuitable as the unit of value. If value is a kind of substance whose relative quantities underlie and help to explain prices, then what are the units in which such quantities might be measured? Hints in Adam Smith that labour hours might be considered the measure of value were elaborated by David Ricardo into an impressively systematic theory. There were several complex difficulties of explanation, especially concerning rent, interest and profit, which remained to be cleared up, but the basic thrust of classical economics was clear. Value is not some arbitrary thing which a king could declare to be different from what it is. It is determined by specific economic circumstances and can no more be overturned by legal decree than could the law of gravity.

Yet there was something wrong with this objectification of value. It failed to disclose how economic phenomena are resultants of purposeful activity. Even though it was true that the value of, say, a bushel of wheat, was no arbitrary thing, nevertheless it seemed inadequate to treat value as a quantity of some substance that was somehow 'inside' that bushel of wheat. The bushel's physical characteristics, its colour, weight, chemical composition and so on, are objective in a sense that its value is not. For after all, in a society that has no regular market for wheat, this bushel would lack the value it 'has' in our society.⁹

Carl Menger's critique of the objectivism of classical value theory forms the conventional starting-point of the Austrian strand of neo-classical economics. As Menger put it, value 'is nothing inherent in the good itself' ([1871] 1981, p. 58) but is entirely dependent on the way the good is perceived by acting subjects. What gives economic value to a good is not its own objective characteristics, but simply the fact that

it is thought to be valuable. This move in value theory has gradually come to have broader significance, applying to the whole of economics. It is not directly the way the world is which matters to economics, but rather the way it appears to acting agents.

Menger was struggling to see value as a manifestation of the *meaning* individual subjects attach to objects under definite socioeconomic, institutional arrangements. What value theory is for in economics is to connect observable and superficially 'objective' price phenomena to their true sources of meaning in the 'subjective' purposes of individual human beings in society. Alternative theories of value are different ways of seeing the 'inner' meaning of the outwardly meaningless regularities of market phenomena, of tracing them to the human purposes that underlie them. Value phenomena are not external things like cloud patterns but consequences of meaningful action. Value needs not only to be explained as a regularity that is observable 'from without', but also must be interpreted and understood 'from within'.

Menger's discussion of the relationships among the different 'orders' of production can be understood as an account of the transmission of meaning from lower-order consumer decisions up into the higher orders. A factory in itself is not valuable to anybody; it gains value only by its perceived ability to contribute to the production of consumer goods in the future. If their supporting demand ceases in the lower orders, then once-valuable capital goods can instantly become worthless. In other words prices carry meaning from consumers to producers, informing choices that are situated at points economically remote from consumption.

With Menger's critique, the traditional search for a 'measure of value' and all the intricate difficulties in which classical economics thereby got entangled could be ended. A significant turning-point in economics, perhaps the single most important step of progress in the discipline so far, was here achieved. Quantitative price relationships in the economy could be understood without recourse to some mysterious underlying substance called value, but by reference to qualitative evaluations on the margin of definite amounts of the goods by acting subjects. Cardinal value theory was replaced by ordinal value theory. Cost of production approaches seem Ptolemaic after this Copernican change in value theory.

The success of the Mengerian critique of 'objectivism' within value theory launched the Austrian school, which has ever since been extending the critique to the rest of economics. Böhm-Bawerk wrote a masterful critique of the objectivist, cost-of-production theories of interest and, when he slipped into objectivistic notions himself, Mises

and Fetter radicalized the theory further. Interest represents a time-discount of the future as seen from the forward-looking agent's point of view. Wieser showed why cost is itself subjective, based as it is on the value of forgone opportunities considered by the agent himself at the moment of choice. Mises applied subjectivism to the issue of the value of money, stressing the meaning money balances have to individual agents. Lachmann's work on capital further extends subjectivism to the issue of the capital structure.

The whole emphasis on knowledge and discovery in the contemporary school can be seen as further effort to come to grips with the way phenomena are understood by the agents themselves. Further progress has been achieved by the close examination of the phenomenological situation of the real-world actor, embedded in time, facing uncertainty, but capable of creativity.¹⁰

From early on many Austrians had sensed that the point they called subjectivism was not only broader than value theory, but broader than economics. With Ludwig von Mises's methodological contributions the point was explicitly developed as a general principle of the human sciences. Mises drew for this argument upon the *Verstehen* tradition, directly from Max Weber and Alfred Schütz, and indirectly from Wilhelm Dilthey and J.G. Droysen.¹¹ From the *Verstehen* tradition Mises borrowed his methodological dualism, the idea of knowledge-from-within to describe this level of meaning, as distinguished from the external kind of knowledge thought to be relevant to the natural sciences.¹²

What Lachmann (1977, pp. 48–9) calls 'an economic theory designed to interpret meaning' tries to see economic phenomena as intelligible, even though unintended, products of human purposes. It thereby transcends the extremes of the anthropocentrism of pre-scientific thinking and the anthropomorphism of objectivism. It represents a radical critique of the reduction of the subject-matter of the human sciences to 'objects' that happen to be functionally related to one another. It sees the economist's task as having a greater affinity with that of a humanist scholar discerning the meaning of a text than with a chemist examining the causes of a chemical reaction.

The point is not to abandon the study of causation, but to recognize the fact that many of the relevant causes we are looking for in economics are themselves meanings. The modern split of the natural sciences and the humanities has tended to have the unfortunate consequence of confining causation to the former and meaning to the latter, thereby leaving no philosophical room for the Austrian position. Dilthey's notorious comment that the natural sciences explain while the human

sciences understand is partly responsible for this problem.¹³ Although the Austrians adopted Dilthey's notion of understanding for empirical economics, they never doubted that economics has explanatory ambitions.

Motivated by the aspiration for pure objectivity, many try to explain human activity exclusively 'from without', as if we were biologists observing an ant hill. There is no reason why we should not take advantage of the fact that we are already living in the phenomena we study. We do not need to believe the agents' own accounts of their situation to realize that their beliefs need to be accounted for in ours. We need, in some sense, to get 'inside' their perspective, in order to see how it contributed to, and was shaped by, the overall course of events.

It is important to realize that subjectivism is not only taken in a negative sense, as a limit to our knowledge, a denial of the capacity to attain what would always be preferable, objectivity. The notion of knowledge-from-within is intended to stress precisely that there is a source of knowledge here that the human sciences can take advantage of. As Hayek (1955, p. 26) put the point,

The social sciences . . . are concerned with man's conscious or reflected action. . . . The external stimulus which may be said to cause or occasion such actions can of course . . . be defined in purely physical terms. But if we tried to do so for the purposes of explaining human action, we would confine ourselves to less than we know about the situation.

This, then, is why I think subjectivism has led to progress in the Austrian school. In the philosophical atmosphere of objectivism, it made it permissible for the school to put meaning at the centre of economics. The strengths of the school were due to its use of the *Verstehen* tradition to defend economics from encroachment by objectivistic methodologies.

3 WHAT SUBJECTIVISM NEED NOT MEAN

If to us post-Kuhnians today it seems quaintly old-fashioned to speak of the basic concepts of any social science as 'universally valid prior to all experience' (Schütz, 1967, p. 242), given the ideological dimensions of modern culture, it was quite otherwise in Schütz's circle, wherein defense of this tenet was a criterion of membership. (Christopher Prendergast, 1986, p. 2)

The principle of subjectivism, understood as an economics of meaning,

has served as an engine of theoretical progress for the Austrian school. But there are certain peculiarities of the principle's typical formulations that may be inhibiting further progress. So far I have emphasized the aspects of what the Austrian school has traditionally meant by subjectivism which I believe they should have meant. I would like to turn now to some aspects that they seemed to mean, but need not have, and perhaps should not have. I will not be able to provide a critique of each of them, but only to distinguish them from the point about meaning. I do happen to find these aspects much more open to challenge and suspect they might constitute excess baggage that interferes with the Austrians' ability to persuade other economists of the virtues of the meaning-oriented notion of subjectivism.

It Does Not Have to be Presented as an Objective Science of Subjective Phenomena

It is common for Austrians to contrast the clarity and certainty they thought was attainable in science, including economic theory, with the ambiguities and uncertainties that agents in the economy face. Choices of agents are described as subjective, whereas choices of economic theorists are described as objective. Though the Austrians placed 'subjectivism' at the very centre of their theorizing, their language often exhibits an underlying fear of threatening science by letting subjectivism 'go too far'. The subjectivity of the phenomena observed, one often finds the Austrian insisting, need not 'contaminate' the objectivity of the observation.¹⁴

The traditional Austrian school was situated in a philosophical milieu where the commitment to objectivity, in the sense of detachment from the subject-matter, was obligatory. Science was thought to be a kind of perspective-less perspective, unbiased, untainted by the person, the historical situation, the linguistic mode of presentation and so on. The natural sciences were thought to have made their success by securing a formal separation from their subject-matter. The social sciences were seen as having been poisoned by ideological bias. To gain respect the human sciences needed to rid themselves of all elements of personal belief and attain this lofty standpoint of scientific detachment.

This attitude lies behind the traditional Austrian insistence on the 'value-free' character of science. In their different ways, each of the leading Austrian economists, even as they insisted that the subject-matter of economics was subjective, tried to make the science of economics objective, and insulate it from that subjectivity. The insulation was achieved, in effect, by driving a wedge between theory and history.

Mises's aprioristic methodology can be seen as an awkward move, forced by the need for a declaration of scientific objectivity.¹⁵ Although in an interesting passage he admits the arbitrariness of the move, his move is to treat economic concept formation, that is, theorizing, as a different kind of thing altogether from understanding.¹⁶ History was inevitably 'tainted' with the subjectivity of the historian and his time, but theory could lay claim to a special sort of objectivity, taking it out of history. We need theory to read the historical record, but we can develop theory itself deductively and prior to all historical experience.¹⁷

Both sides of this formula, 'an objective science of subjective phenomena', are misleading, and taken together they might be dangerous. Science, whether social or natural, is not objective in the sense of being ahistorical and perspective-less, nor is the subject-matter of the human sciences subjective in the sense of being private and inaccessible. The attempt to supply a firm foundation for economic theory leads the Austrians to drive another unfortunate wedge, this time between the school's conceptions of scientific and practical knowledge. If the sort of understanding taking place among scientists is something different in kind from that taking place among agents in the economy, then the connection between science and everyday life may become problematic. Austrians like to remark that scientists are human actors too, so that if economics is the general science of action it should apply to scientists' actions too. But they seem to have felt the need to put science on a categorically different footing from the life-world in order to secure its objectivity.

I see no need for the school to make such concessions to the Cartesian conception of object and subject, a conception that has been undermined from all sides of contemporary philosophy. The *Verstehen* tradition, at the time the Austrian school was borrowing from it, was already beginning to see its way beyond these false alternatives, by introducing the ideas of the 'life-world' and the 'inter-subjective'. The inter-subjective refers to meaning, but treats this as 'internal', not to a single mind, but to a linguistic and cultural tradition, a discourse. All human understanding, both everyday and scientific, is rooted, not in the individual brain, but in culture. It is made up of elements of shared understandings which are passed down to us as traditions. The inter-subjective is what makes the mutual communication among scientists possible. Yet it is also descriptive of what Austrians have called subjective choices of agents in the economy. Scientists simply have an extended, specialized and, it is hoped, critical discourse as the basis for their inter-subjective choices, but there is no difference in kind between scientists and people.

It Does Not Need to be Taken as an Excuse for Formalism

In the same places where Mises and Hayek suggest the sense of subjectivism as the need to deal with the level of meaning, they add comments which seem to imply that economic theory, as opposed to history, need not deal with that level much, after all. If the level of meaning is something that is internal to an individual mind, it lies beyond economic science to explain and needs to be taken as given. The economist declares himself neutral on the validity or ethics of the subject's perspective, and needs only to 'plug these in' to his science to clarify the objective consequences of the subjective givens.

One consequence of this way of describing subjectivism 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.¹⁸ Since the subjective preferences that our theory deems so important happen to lie buried inside minds, someone might argue, we may as well treat them formally, rather than as a matter of empirical research. We can at least construct a formal theoretical image of choice, even if it turns out that we have no way of knowing what peoples' subjective preferences really are. We can theoretically conceive of choice *as if* it were based on a consistent, pre-existing, ordinal ranking of all known alternatives. As Mises ([1949] 1966, p. 3) puts it, 'All ends and all means, both material and ideal issues, the sublime and the base, the noble and the ignoble, are ranged in a single row and subjected to a decision which picks out one thing and sets aside another.'

This move to formalism does not appear to follow directly from subjectivism in the sense of an economics of meaning. Indeed it seems to run against the whole spirit of that sense of subjectivism. Arranging alternatives in a single row is not the only way of conceiving choice and, if empirical psychology can show us that actual human choice is done in a more complex way, then why should not economic theory pay attention? Such declarations of firm disciplinary borders have obvious dangers for science and do not derive from the basic point of subjectivism. Subjectivism would do better without them.

It Does Not Have to be Identified with Introspection

Perhaps the main reason for the anti-empirical interpretation of subjectivism is to be traced back to the tendency to identify the investigation

of meaning with introspection. Subjectivism says that the level of meaning is where all the action is, in the sense that the driving force of the economy is what things mean to the participating agents. But some renderings of the idea seem to depict this driving force as itself utterly private and inaccessible, taking place deep inside the private consciousness of individual agents. Since the level of meaning is 'within the mind', individual economists need to rely on introspection to gain certain knowledge of the way their own minds work. They then need to confront what philosophers call the problem of 'Other Minds'. Considering the activities of other human beings as meaningful is taken to be an extension of a prior and more certain, strictly internal source of knowledge. We only know for sure that our own mind works as we internally observe it, and we need to make the pragmatic assumption that other minds exist and work like ours.¹⁹

It seems to me that this view, if taken to its logical conclusion, would make empirical work impossible. After all, penetrating very far into the relevant empirical reality, the thought processes of numerous other human individuals, sounds almost absurdly difficult. What the theory considers the most important thing to study, what is inside human minds, cannot be got at empirically, except indirectly, by analogy with our own introspectively examined mind.

I see no reason to interpret subjectivism in this way. Meaning does not have to be taken in Cartesian fashion as something that is buried deep inside separate skulls, access to which can only be directly gained internally through introspection. Introspection itself is not primary, but completely depends on language, which comes from the intersubjective.²⁰ Meaning can be viewed as something that resides 'within the inter-subjective, and thus is taking place out in the open all the time and all around us. If we still want to talk about knowledge-from-within, we should recognize that what it is inside is not an isolated, individual mind, but a communicative process, a discourse.

The approach of starting from introspection and extrapolating out to Other Minds gets things backwards. As contemporary versions of the *Verstehen* approach have shown, we only understand our world, and ourselves, because we understand one another. We only understand each other, in turn, because we all spent some substantial part of our lives being enculturated into the life-world.²¹

The way in which contemporary versions of the *Verstehen* approach have improved upon such misleading formulations of 'knowledge-from-within' offers hope, I think, for the Austrian school to progress further. Just as past progress has been attributed to successive radicalizations of the principle, I think that further progress requires yet another step of

radicalization. But radicalization requires getting to the roots of the matter, which is to say, in this case, achieving more clarity about just what we mean by subjectivism in the first place.

NOTES

1. For examples of their approach to subjectivism, see Mises ([1949] 1966); Hayek (1955); Lachmann (1971) and Kirzner (1986a).
2. See the recent paper, 'Why Subjectivism?' by Leland Yeager (1987, p. 21). Austrian economists are so fond of the subjectivist principle that, to otherwise sympathetic observers, such as Professor Yeager, they may appear utterly preoccupied with it. Yeager comments that the famous passage from F.A. Hayek which leads off this paper has been 'quoted ad nauseam' by Austrians. Yeager is understandably concerned that the idea sometimes plays the role of a mere slogan for the faithful, a purity test to show that 'I Am More Subjectivist Than Thou', as he entitled one section of his paper. Without denying that such dogmatism can be found in the Austrian school (and every other) I would like to pay exclusive attention here to the views of the major contributors to the school, scholars of the stature of Menger, Mises and Hayek, undoubtedly among the great names in modern economics. I suspect that they had some good reasons for attributing such importance to the principle of subjectivism.
3. The fact that the school fell into obscurity cannot be blamed entirely on the Austrians themselves. Some events, such as the great depression and Hitler's seizure of Austria, were certainly undeserved external blows to the school. Shortcomings in their own formulations, however, might have had something to do with some of the other blows the Austrians sustained in the 1930s. The Austrians' 'do-nothing' response to the great depression, their apparent defeat at the hands of Keynes and Sraffa in macroeconomics and at the hands of the market-socialists, Lange and Lerner, in the calculation debate might have been averted had the Austrian research program overcome its own internal difficulties. And the gradual rise of methodological formalism, which favoured the other two branches of neo-classical economics, might have been challenged more effectively had the Austrian school held a more adequate philosophical self-understanding.
4. By the *Verstehen* tradition I will mean a broad range of scholars, including such classic figures as J.G. Droysen, Wilhelm Dilthey, Heinrich Rickert, Max Weber and Alfred Schütz, who have already influenced the Austrian school, as well as such contemporary thinkers as Hans-Georg Gadamer and Paul Ricoeur, who have only begun to influence it.
5. Although both the words, 'objective' and 'subjective', have specific meanings in economics, stemming from their use in value theory, I think the connotations the words have to philosophers are highly suggestive of the difficulties faced by economists.
6. For one thing, Lakatos studied this question almost exclusively in the context of the natural sciences and mathematics, and it seems to me there are distinctive problems in the philosophy of the human sciences which his work says nothing about. My view is not that of strict methodological dualism, as advocated by the older *Verstehen* approach and Mises, but of a position derived from Hayek and Michael Polanyi that could be called methodological dualism by degree. I discuss the similarities and differences between the human and natural sciences in (1987).
7. Gadamer's version of the *Verstehen* tradition attaches great importance to this productivity of historical distance. 'Time,' he writes, 'is not a chasm which we could bridge over in order to recover the past; in reality it is the ground which supports the arrival of the past and where the present takes its roots.' Instead of considering

temporal distance an obstacle, he suggest we should think of it 'as a fundament of positive and productive possibilities for understanding. It is not a distance to be overcome, but a living continuity of elements which cumulatively become a tradition, a tradition which is the light wherein all that we carry with us from our past, everything transmitted to us, makes its appearance' ([1963] 1987, p. 136).

8. The topic before us is more the spirit rather than the letter of the Austrian texts, the direction in which I think they point, rather than the position they actually occupied. For a useful discussion of this perspective on the issue of authorial intention, see Chapter 2 of Warnke's book on Gadamer's hermeneutics (1987, pp. 42–72).
9. Readers might notice that the way I am wording the Austrian critique of classical economics makes it sound similar to the Marxian critique of commodity fetishism. It seems to me that Menger's value theory solves the problem Marx had identified in classical value theory better than Marx's own rather convoluted value theory can. See especially the work by O'Driscoll and Rizzo (1985).
10. See in this regard the comment Mises makes (in private correspondence, published in Rothbard, 1989, p. 31) about the origin of what I am calling the essential issue of subjectivism, which he describes there as 'the proposition that the reaction depends on the meaning the actor ascribes to the stimulus'. Referring to his essay 'Begriffen und Verstehen' (1933] 1981, pp. 130–45) Mises says he made this point 'in order to refute the crude behavioristic stimulus-response scheme'. He points out that he and Max Weber never claimed authorship for the idea and that 'Perhaps one has to credit Droysen or Dilthey'.
11. Friedrich Wieser had made extensive use of the notion of 'knowledge from within', and it is likely that the whole school, from Menger on, were significantly influenced by the various parts of the *Verstehen* tradition. It is with Mises's work in the 1930s that the Austrian school aligns most closely and explicitly with the *Verstehen* tradition.
12. To be fair to Dilthey, he never took so simplified a view as this famous comment seems to imply, and always thought the human sciences needed to deploy a different type of causal analysis. See Ermarth (1978).
13. For example, the stir Lachmann created that rejuvenated the Austrian school in the 1970s was due, I think, to his provoking this underlying fear. The American Austrian school had thought of itself as having already taken the idea to its extreme conclusions, until it met Lachmann. A heated debate began and continues between more 'moderate' and more 'radical' interpretations of subjectivism. The fear the moderate camp has of Lachmann and his radical followers is that their position leads to nihilism, to the abandonment of science, to historicism. In my view all this alarm only shows how many Austrians had not yet worked out the implications of their own principle of subjectivism.
14. I have argued (1986) that Mises was not entirely consistent in what he said about apriorism, and that there is room for an alternative reading of his message. Mises ([1933] 1981, p. 133) writes:

In and of itself, it would have been possible to include in the definition of understanding every procedure that is directed toward the comprehension of meaning. However, as things stand today, we must accommodate ourselves to the prevailing usage. Therefore, within the procedures employed by the sciences of human action for the comprehension of meaning we shall differentiate between conception and understanding. Conception seeks to grasp the meaning of action through discursive reasoning. Understanding seeks the meaning of action in empathic intuition of a whole.
15. As things stand today, it could be argued, the prevailing usage in the *Verstehen* tradition permits and even insists on this wider notion of understanding. Understanding includes discursive reasoning, logical argumentation, causal explanation, and any other 'procedure that is directed toward the comprehension of meaning'.
16. Mises ([1933] 1981, p. 133) writes:

In and of itself, it would have been possible to include in the definition of understanding every procedure that is directed toward the comprehension of meaning. However, as things stand today, we must accommodate ourselves to the prevailing usage. Therefore, within the procedures employed by the sciences of human action for the comprehension of meaning we shall differentiate between conception and understanding. Conception seeks to grasp the meaning of action through discursive reasoning. Understanding seeks the meaning of action in empathic intuition of a whole.

17. Since Mises admits that theory needs to be applied to history to be useful, and that the topics theory decides to take up are shaped by history, his position is not quite as extreme as it sometimes sounds.
18. Often those who make this argument refer to the famous Lester/Machlup debate, which they interpret as showing why subjectivist empirical research is impracticable. In another paper (1990a) I argue that the lesson of that debate is on the contrary that we need to get more 'close-up' to the subjects' point of view in order to do satisfactory empirical work.
19. Austrian economists have often encouraged this reading of subjectivism as a matter of introspection. The whole language, deployed, for example, by Wieser and Mises, of gaining access to 'knowledge-from-within', which the Austrians got from the *Verstehen* tradition, is highly misleading. Hayek (1955, p. 26) seems to proceed in this fashion when he says that we know certain things 'solely from our own subjective experience' and that we have to 'take it for granted that other men treat various things as alike or unlike just as we do'.
20. In fact as children we learn to understand others before we develop the notion of self. And in general we do not come to self-understanding by treating the self as an object for private examination, but by interacting with other selves.
21. I have elaborated elsewhere (1990b) on the way the difference between a Cartesian and a cultural notion of 'subjectivism' has implications for the theory of entrepreneurship.

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COMMENT ON LAVOIE

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Don Lavoie mentions but does not employ Lakatos's MSRP in describing the progress of subjectivism, and I will not use it in my discussion either. Though one of the purposes of the Capri conference was to establish the following claim as true or false, my strong prior is that the Lakatosian framework is inadequate as a general vehicle for appraising the progress or decline of research programs in economics.

It is not that Lakatos was bereft of insights. The early Lakatos had a number of valuable things to say, and even the later Lakatos got a few things right. For example, every science has a hard core and a protective belt, and all offer advice in the form of positive and negative heuristics. (Can we imagine a program in economics or any other field which did not direct us to look at some problems rather than at others, or one which did not at the outset of an analysis take certain propositions as given?) It is the Lakatosian emphasis on novel facts and progressive problem-shifts that does not wash in the dismal science. Hard cores are ubiquitous, but novel facts are hard to come by, as I suspect this conference will demonstrate.

Since Lakatos is an interpreter of Popper, I will add that there are other interpretations of Popper's philosophy of science which seem to me to make good sense. The Popper I like is Popper the evolutionary epistemologist, whose ideas have been trumpeted by his student and biographer, Bill Bartley. (See, for example, Radnitzky and Bartley, 1987.) It is the Socratic Popper whom we meet on the pages of Larry Boland's *Foundations of Economic Method* (1982), the Popper who is best labelled a critical rationalist or a critical pluralist. It is the Popper revealed 30 years ago in Klappholz and Agassi (1959), perhaps the least appreciated statement of Popperian principles in the methodological literature in economics. And finally, it is the Popper whose ideas sometimes creep into the writings of Lakatos, as when he claims that falsifications should not kill hypotheses too quickly, or that there is no instant rationality, or that all tests are always three-cornered affairs.

The Popper I am thinking about, then, emphasizes criticism and the critical attitude, but does not lay out in minute detail specific criteria of appraisal which must be met by scientific research programs. The weakness and strength of this broader approach is its paucity of specific methodological content, its absence of decision rules. In my opinion, this is as it should be: *there simply is not much content to be had at the meta-methodological level*. One can try to foster the critical attitude and