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Anti-Perfectist perspectives in political economy

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La peste de l'homme c'est l'opinion de savoir
Montaigne

Abstract

The **Anti-Perfectist** is a philosophical perspective conjugating the view of man as an imperfect and non-self-sufficient being and the scientific epistemology based on imperfect knowledge. From the epistemological perspective, it has roots in Socrates and, more recently, in the post-empiricism of Giovambattista Vico, up to Pragmatism and cognitive constructivism. From the anthropological perspective, it is a philosophical tradition based on the awareness of the constitutive dependency of individual performance and fulfillment of man from his interaction with others. It is conceived in opposition to the individualism and perfect rationality of the majority of social theories. The paper analyses both the philosophical and the epistemological premises of *Anti-Perfectism* as well as its consequences in terms of economic methodology. In this part it will focus particularly on the Continental understanding of empiricism as in the case of Giovambattista Vico and in the post-Enlightenment anthropology of Antonio Rosmini. It will be argued how, in sight of studying micro-economic processes, this epistemology supports contemporary developments of symbolic interactionism and the hermeneutical approach to economics. In a second part of the paper, some economic theories emerging from the Austrian milieu are analysed in as much they embody this epistemology. In particular, the consequences of the central role of knowledge in economic processes is discussed in the case of Löwe and Schütz. How much Anti-Perfectist philosophy implies a demise (or not) of the role of collective action in favour of free markets is studied in relation of Italian liberalism.

JEL: A13; A14; B52; D46; D83; Z10

Key words: anti-perfectism; economic knowledge; shared values; constructivism

1. Conceiving economic man

The development of Political Economy has seen a continuous change in the way man is conceived, ending with its modeling as a predictable calculative unit. Actually, there has been little agreement on how man is to be conceived, but mathematical reasons have produced a simplified representation, pushing all previous attributes beyond the boundaries of other disciplines.

The conception of man that we can trace in the history of economics is based or related to a number of variables: ends, desires, preferences, information, knowledge, sentiments, relation to others, measurability and knowability of these variables as well as their stability and predictability. Each of these variables has been differently conceived in the many theorisations, finding support in different philosophical approaches.

After *Humanism* the tendency is for a reduction in the complexity of the model of man and a shift of focus to the predictability of the consequences of actions. The theorisation of Political Economy required a more manageable unit of decision and more ease of relating decisions to context variables. The fundamental idea of Samuel Pufendorf (1632-1694) was to define self-interest logically before sociability, an idea incorporated in all modern thought (Saether, 2017).¹ David Hume (1740) dismantled the complex role of reason defining it as slave of passions. His “ambitious but conflicting attempts at a moral science of mind... was then given a mathematical structure by Bentham and the utilitarians” (Hollis and Sugden, 1993: 2). Bentham based rationality on the principle of utility, which translates in a single dimension any human evaluation of goods or any possible future event. An action promotes the interest of an individual when it increases the total of his pleasures (Bentham, 1789, Ch. 1). Human complexity is reduced to simplified mental states resulting from actions and rational choice implodes in an exercise of maximisation (Hollis and Sugden, 1993: 4). The further mathematisation of processes of human choice that occurred with Pareto and, later, with Samuelson and Savage is based on strong hypothesis of consistency between choices. That supplied not simply a decision model, but constituted the ground for a general economic theory that became dominant. Unfortunately, the emerging *homo oeconomicus* clashed with the view of man supplied by all the other social sciences and even with that assumed in business economics.

In short, present day economics: 1) borrows its logics from mathematics to achieve a maximum consistency; 2) is based on instrumental modeling; 3) shows a reluctance to get into actual cognitive processes; 4) renounces to any form of anthropology, privileging a teleological role of man in the economic order; 5) it is geared to provide limited instruments of measurement and control of specific situations, although textbooks usually extend that logic to a general interpretative framework of the political economy.

The shortcoming of the translation of economic models of choice into mathematics is that we obtain a *perfectist* view, pushing important variables into the category of disturbances, into the context, or into the errors categories. In this way, most of the interesting variables for applied science (e.g. marketing, organisational planning, development economics...) have been excluded from the core of the inquiry. That causes a divide between economic and business studies as well as it is responsible of misconceptions in policymaking.

¹ According to Saether (2017), the 1672-1688 edition of *De Jure Naturae et Gentium* includes most of Pufendorf's modern economic studies.

2. The philosophical background: Perfectism vs. Anti-Perfectism

In order to understand the philosophical framework of present-day economics, I would rather shift the focus on the role of what Sergio Ricossa (1986) more than thirty years ago called *perfectism*.² This label was referred to a broad view of philosophy, more specifically referring to gnoseology or epistemology as central to the way of considering the relationship of man and social outcomes. Ricossa (1986) used this philosophical notion to divide theories based on spontaneous order from positivistic approaches opening to rational regulation and planning activities.³ The actual set of epistemological presuppositions of the various economic theories is rather complex and does not allow such clear-cut separation. Nonetheless, this aspect of *perfectism*, that Ricossa (1986; 2005) criticises in economics is of an extreme philosophical interest. Piero Bini (2012) discussed this aspect in relation to Italian liberalism of Ferrara, Pareto, Pantaleoni, Einaudi and Ricossa, with a particular attention to theories of entrepreneurship. Francesco Forte (2012) and Paolo Silvestri (2012) have considered this idea in relation to the *good government* approach to policy-making of Luigi Einaudi.

Considering perfection, the fundamental reference is Plato's classic ontology of perfection and the idea of perfect forms as well as his theory of knowledge, which was a fundamental element of justification of the government of the enlightened few. Actually, two fundamental dimensions are crucial in social sciences: how much the knowledge of human affairs is achievable and how to define the fulfillment of socially organised human needs. In particular, the problem of how much man can be objectively understood and satisfied is the central issue for Ricossa (2012), but in general, he was concerned with the latter condition. Nonetheless, the fundamental epistemological point is knowledge and the conception of man in social sciences.

Medieval (European) Christian philosophy displaced the idea of perfection to God, consequently considering existence as imperfect and limited. With modernity we assisted to a second major shift of this idea by modern science incorporating *perfectism* in its method. The method of Descartes was geared to the *perfection de l'esprit* (de Warren, 2001). The geometrical interpretation of the world thanks to the scientific method of *Port Royale* constitutes a modern utopia and the ground on which positivism developed in the XIX century (Vasoli, 1977). On the other hand, also the myths of perfect societies as in Thomas Campanella and Thomas Moore, who got inspiration from Plato, have been important steps in the development of modern social science. Also socialist utopias partially incorporate this element of reference to a perfect social situation granting human fulfillment.

Relaying on mathematics to achieve perfection, led to an instrumental and "as if" role of theory. The role that maximisation and equilibrium play in microeconomics is that of making all perceptions of facts functional to their operation. That impresses a shape to the processes that is not neutral. That tends to underestimate the actual difficulties in which

² He took inspiration to a book of Romeo Crippa (1977) publishing the acta of a conference.

³ Sergio Ricossa (1986) argues that perfection would be oppressing because in *perfectism* man or humanity sooner or later can and have to reach perfection. He is critical to absolute truth or good be found in Aristotle and Thomas providing the illusion of an absolute foundation. Also Jusnaturalism is *perfectist* in as much it believes to have settled some fundamental rights, deriving them from the nature of man (Ricossa, 1986: 178).

social and economic action takes place. In particular, as brilliantly conceived by Schumpeter (1911; 1947), it neglects the efforts and the consequences of innovation.

Perfectism means that the true essence of things is conceivable and knowable, sometimes achievable. That inevitably implies that *perfectism* tends to impose everybody its truth. Ricossa clarifies that *perfectism* as all scheme of salvation includes three ideas: 1) the existence or possibility of perfection, 2) the diagnosis of evil separating it from perfection, 3) the possibility of working out a rimedio solution (Ricossa, 1986: 178). Actually, true things are often not reachable in practice, but at least they represent a point of reference to understand the non-perfect world.⁴ Fixing a reference of perfection means understanding reality as a *minus*, in relation to the distance to the ideal form. In the latter case, perfection becomes instrumental. Nonetheless, when combined with simplified conceptions of man and human fulfillment, it can suggest wrong actions or policies, at least in Ricossa's (1986) view.⁵

The problem is not simply that any model of reality is always a reduction of the complex issues studied. It is that our perception of reality is shaped by our theoretical framework, which in turn, crucially depends on how we conceive the information used in theory. That affects the reference points we take to evaluate actual situations as well as the possible ends of our actions. Relying on a-priori views of an ideal state regarding abstract variables and their relationships pushes the selection and categorisation of phenomena in rigid standards impressing a form to reality.

Consequently, when perfection of man (and the relative knowledge) is conceived possible, it can be defined as a reference point to shape theorisation and measurement. Non-perfection, loses this anchoring and is inevitably subject to path dependency and variety of perspectives, with a more visible impact of the choice of categories, giving an unpleasant sense of uncertainty and relativity. *Non-perfectism* takes reality as it can be perceived by our common sense and studies its changes, taking no absolute reference besides past observations and evaluations or our past hopes.

3. The unfolding of the *Anti-Perfectist* view

According to Sergio Ricossa (1986) the *non-perfectist* view holds that man is imperfect, plural, mortal, ignorant, mistaking and conflicting. The *anti-perfectist* position holds that such imperfection prevents him being independent and autonomous, his knowledge is uncertain, founded on *doxa*, and has to define his ends and not only his optimal means. This points at a heterogeneous philosophical tradition considering the constitutive dependency of individual performance and fulfillment from his/her interaction with others. Also our limited and imperfect knowledge can improve only by inter-acting with others. That has consequences both at the epistemic level and on the definition of the object of study.

This tradition of thought goes from Socrates' awareness of our ignorance to the *verum factum* of Giovambattista Vico. In Italy the Vichian tradition in the XIX century affected Rosmini (1846) non self-sufficiency of man and Carlo Cattaneo (1859; 1961) study of the

⁴ Actually, often in *perfectism*, evil is functional to the good.

⁵ In Ricossa (1986) the nature of man is that desires cannot be fulfilled. Human nature does not allow for satiety.

role of knowledge in civilisation and economic growth. In the XX century the theory of knowledge of Dewey and symbolic interactionism of George Mead had a relevant impact on social sciences. More recently, the social philosophy of Charles Taylor has developed further the practical perspective that considers man's self-sufficiency a total misconception of our being (Taylor, 1989a), meaning that there is no life out of society. We constantly need to engage in communities to perform our work or consumption activities. The reason is that there is a division of knowledge and that knowledge is socially coordinated by communication. In economics, these insights have been incorporated in part in Austrian economics thanks to subjectivism, a future-projected decision-making with scarce knowledge and to a process view (Schütz, Hayek, Lachman and Lavoie - partially also in Italian liberalism as we have seen in the previous paragraph). It has less clearly been incorporated in institutionalism which nonetheless maintains a positivistic stance.

Crippa (1977) argued that a major change in the history of philosophy is the shift from perfection conceived at the ontological level in the classical philosophy as an idea, to the Christian view of perfection as confined at the divine level. The result was an acknowledgement of human misery, of being a sinner. St. Augustine conceived human nature as a mixture of good and evil (*natura lapsa*), a view that would be further developed by St. Anselm. Christian philosophy admitted the possibility of a process toward relative perfection, following the ascetic way indicated by the gospel (*perfice te ipsum*), which determined the development of monasticism (Riva, 1977). In Thomas Aquinas' view, human reason can perceive the good, but the will is insufficiently strong. Therefore, Christian philosophy cancelled human perfection, but kept an open door on perfecting as a process. In any case, humans are not self-sufficient and need community interaction to fulfill their needs as well as to improve their situation.

An important step in the development of *anti-perfectism* in social sciences is the work of Giovambattista Vico, who reacted to Locke and to the relative methodological debate on empiricism. In *De Antiquissima Italorum Sapientia* (1710) he refused the rationalistic epistemology of certainty and argued in favour of a scientific inquiry based on imperfect knowledge. First of all, man does not need perfect knowledge in his activity because thanks to habits and institutions *homo non intelligendo fit omnia* (Vico 1744/1948: 57). In any case, practical and specific knowledge is constantly used and corroborated, becoming more reliable compared to knowledge of wider social phenomena. Second, in social science we progressively improve our knowledge relying on what is *certum*, that is to say a social consent on the interpretation of facts (peer evaluation).⁶ Therefore, knowledge emerges by interaction, anticipating social constructivism of Schütz and Luckmann. Nonetheless, man socially improves his education and institutions change accordingly to achieve better levels of coexistence (*incivilimento*).

This emphasis on improving civilisation became a central feature of late Enlightenment and of Continental political economy. This led many scholars as Verri (1771) to see education as the fundamental instrument of economic policy. This idea was preserved in Cattaneo (1859) who elaborated an *history and philosophy of intelligence* and argued that progress (*incivilimento*) is possible only in organized societies. Cattaneo (1859), who got inspiration also from German linguistics, proposed a model of *associated minds* according to the principle of division of knowledge that is the mirror image of the principle of division of

⁶ Communication and civil society bonds are essential because *religio* is seen as a meta-political foundation of civil life.

labour. Similarly to Vico, Cattaneo (1861) considered the city as the blueprint of progress because it is the place of closer human interaction.

This idea of the imperfect nature of man and of the central role of community and communication is maintained in the philosophy and anthropology of Antonio Rosmini (1846). This scholar was not an economist, but he conceived a moral and legal framework for a liberal society. In his view, human perfecting is tied to morality and to concrete action and social interaction (Rosmini, 1846: 851).⁷ According to Perlini (2004) Rosmini criticized Enlightenment for a too optimistic vision of human nature. Rosmini *non-perfectist* position is not only due to the fact that evil is rooted in man, but to the non separability of the good from evil. The fundamental aspect here is that Rosmini's *non-perfectism* assumes that man can improve his situation by collaborating with others (Baldini, 2004). According to Antiseri (2004) this is a fundamental aspect of the social nature of man. The person is intelligent and willing but also a fallible being needing external support. His improvement can take place only in a moral framed social interaction. This defines the social nature of man (Antiseri, 2004) without dissolving the person in the community, because man is an intelligent and willing individual. The fact that man is a *fallible being* has consequence in the fact that social reality will never be in our hands. But this does not imply that man cannot improve through social intercourse (Rosmini, 1838-42: 540).

Also the political philosophy of Pierre-Joseph Proudhon (1840) expresses a non-perfectist perspective. Discussing epistemology, he affirmed that certainty is not needed, we rather need practical knowledge helping to solve problems. As underlined by Solari (2012), his position is remarkably comparable to pragmatism expressed in the *Quest for Certainty* of John Dewey (1929). Also Michael Polanyi (1941), who wrote that “the outcome of human endeavour is mostly uncertain and is often worth while only to the extent to which it is uncertain” (Polanyi, 1941: 433) follows this interpretation of the useful knowledge. All these scholars considered that long, public, free discussion helps the development of standards of knowledge and that communication is fundamental for any human achievement.

4. Contemporary *Anti-Perfectism* in philosophy of social sciences

Non-perfectism today can be found in constructivist theories of knowledge as well as in theories affirming the necessary sociality of the individual. Partial non-perfectist issues have found expression in various economic theories, prevalently in business and organisational studies (Weick, 1969). It has found philosophical expressions in pragmatism, in phenomenology in symbolic interactionism and in the philosophy of Charles Taylor (1989; 2016). These approaches can be used to question standard micro-economics because they pose the fundamental epistemological distinction between knowledge as precise representation vs. knowledge as dialogical construction (Taylor, 2016). The former admits perfection or takes it as a reference, the latter remains open-ended (although not open to anything).

John Dewey (1915) emphasised the role of *practical judgment*, that is to say, judgments involved in a situation demanding action (Dewey, 1915: 505). It usually concerns uncertain situations in which the judging actor is the one affected by the consequences of the

⁷ According to Rosmini, “la persona non può dirsi che si perfezioni se non allorquando riceve incremento e perfezionamento il più alto e nobile dei principi attivi che sono nell'individuo nel quale ella risiede” (Rosmini, 1846: 527). He proposed a kind of cybernetic interpretation of conscience.

judgement itself. The object of judgment is a change to be brought about. Moreover, Dewey underlined the reciprocal character of the practical judgment in its bearing upon the statement of means (no net separability). The practical proposition concerning end-means of an activity remains hypothetical until the results of action are perceived (Dewey, 1915: 511). This characterisation of decision-making includes value judgments, having goods and bads as their subject-matter (Dewey, 1915: 514). Differently from standard microeconomic choice framework, he argues that “we do deliberate... about aims, about ends-in-view, a fact which shows their radically different nature from ends as limits to deliberation” (Dewey, 1915: 518). Any opportunity of action to be taken is always a projection into the future. Therefore, experience of past consequences of similar decisions have an important role in practical decision-making. Contrary to standard microeconomic theory, practical judgement involves discussing about tastes, likings, biases, interests and desires (Dewey, 1922: 336). Hutter and Stark (2015) affirm that Dewey demonstrated that value is a quality that has to be performed because valuation is a contested process.

Dewey develops his theorisation of practical judgement based on an individual in isolation. Dialogue and interaction remain in the background. George Mead, instead, explicitly based his approach on symbolic interaction, that can express the organic interdependency of human knowledge and the non-sufficiency of the isolated man. Mead affirmed that the self has a conversational nature (Mead, 1912). Moreover, “inner consciousness is socially organized by the importation of the social organization of the outer world” (Mead, 1913: 406). Reflecting means entering into social relations with other selves because the self acts with reference to others (Mead, 1913: 375-6). Similarly to Dewey, knowledge is the result of dialogical interaction concerning practical issues. Mead (1925) interprets cognition as a process of mastering something that is problematical, not of entering into relation with a world that is there (representation) (Mead, 1925: 255). Therefore, “selves exist only in relation to other selves” (Mead, 1925: 262). There is no knowledge in isolation. Shared symbols do not only allow communication, but they also contribute to the definition of the self, to the sharing of social institutions and of a common economic space. That contributes to the understanding of complex social organisation.

Mead proposes some economic example using property as a shared institution. Property is not only acquired, but also respected and legally protected, and this “complex so innervated” is an essential part of the act by which men buys something (Mead, 1925: 267).

“Exchange is an act in which a man excites himself to give by making an offer. An offer is what it is because the presentation is a stimulus to give. One cannot exchange otherwise than by putting one's self in the attitude of the other party to the bargain. Property becomes a tangible object, because all essential phases of property appear in the actions of all those involved in exchange, and appear as essential features of the individual's action” (Mead, 1925: 267).

The individual in such an act is a self “taking the attitudes of the others who are involved in his conduct that he becomes an object for himself” (Mead, 1925: 268). The idea of a “right” is another social construct requiring that we assume the attitude of assent of all members in the community: the “generalized other” (Mead, 1925: 268). In this way, communication allows the definition of the self as well as of social infrastructure important for economic interaction. It is also relevant for the definition of value.

“the man who buys controls his purchase from the standpoint of a value in the object that exists for him only insofar as he takes the attitude of a seller as well as a buyer. Value exists as an object only for individuals within whose acts in exchange are present those attitudes which belong to the acts of the others who are essential to the exchange” (Mead, 1925: 274-5).

These processes assure *social control*, which depends on individuals’ ability to assume the attitudes of the others involved in any common endeavor. Institutions serve to control individuals “who find in them the organization of their own social responses” (Meade, 1925: 275).

The notion of *generalized other* explains individual interaction in a broad context. The idea of *relevant others* used by Charles Taylor (1988; 1989) supplies an idea of an effective dialogue in specific communities, generating a particular local sense. That could be a family, a working group or any community. Taylor (2016) holds that language makes reflective consciousness. In that work, he helps distinguishing the consequences of a *designative* interpretation of language from those of a *constitutive* approach. The former inevitably calls for perfection while the latter is open to a process view of society.

Similarly to Meade, Taylor holds that we are formed through our relations to *significant others* (Taylor, 2016: 64). Communication allows the development of articulations of human meanings (Taylor, 2016: 91). He argues that life meanings are defined by objectively recognizable patterns of need and action, which concern goals, purposes, and discriminations between better or worse. A complex of “key human phenomena, norms, footings, institutions, social orders, political structures and the offices that figure in them are constituted and transformed in discourse, often in rhetorical speech acts which purport to refer to established values, or invoke existing structures, but which in fact bootstrap” (Taylor, 2016: 283). A value is not simply a thing being more or less desired. Individuals develop a sense of this thing be worthy of this desire (Taylor, 2016: 33). They develop out of emotional bonding with *relevant others* (Taylor, 2016: 54).

Communication requires joint attention frames in a way that dialogue helps structuring and giving an order to values according to different contexts and to action strategies. Taylor distinguishes some fundamental (strong) evaluations that concern appropriate patterns of behaviour from more specific (weak) evaluations within a specific context. In his essay on *agency and the self* (Taylor, 1985a: 3), Taylor argues that people exist in a space defined by *distinctions of worth* which are shared at least with the *relevant others*.

These approaches in the philosophy of social sciences best express today the non-sufficiency of man and the constitutive role of communication. They express an open-ended framework to study the development of knowledge used in the economy. However, the problem is which approach in political economy has been interested in these issues and is able to incorporate such understanding of man.

5. Non-perfectism of knowledge in political economy

The most relevant aspect of the fundamental nature of man relevant for economics is knowledge. Often economists discuss the consequences of the limitation of knowledge and information, but few abandon a reference of *perfection*. In this sense, the literature on

uncertainty and on radical complexity presupposes a *non-perfectist* understanding of man. Frank Knight emphasized that uncertainty characterises much of the social world, distinguishing it from risk that can be probabilistically treated: “It is a world of change in which we live, and a world of uncertainty” (Knight [1921] 2014, 199). John Maynard Keynes agreed that on many matters “there is no scientific basis on which to form any calculable probability whatever. We simply do not know...” (Keynes, 1937: 213–14). Shackle admitted that economics is a study of ideas about the economy that shape economic activity rather than simple outcomes of objective forces. Therefore, economics is about thoughts and interpretations (Shackle [1972] 1992).

Adolph Löwe (1965) turned his attention to economic knowledge and individual meaning, taking inspiration to the work of his friend Alfred Schütz (Foraster, 2001). In his *Economics and Sociology* (1935), which is a methodological book, he affirmed the non-separability of economic analysis from the social context.⁸ The main interest of Löwe’s latest studies is the spontaneous conformity of individuals’ behaviour into social structures and the use of information in economic policy (Löwe, 1965). However, Löwe paid a constant attention to the problem of individual freedom in society, holding that it needs interventions and controls to be fostered. He called the *great riddle* the problem of the compatibility of free individual choice and social order (Löwe, 1942). He consequently analysed the problem of order from a systemic perspective, with a particular attention to the problem of knowledge. He found the unlimited and spontaneous individual autonomy of the classical liberal theory inadequate (Foraster, 2000). The relevant notions developed in this framework are *spontaneous conformity* and *critical self-consciousness*. As concerns the former, the set of individual choices compatible with stable macro-outcomes is limited by the social infrastructure and constraints. Nonetheless, individuals can *decide* whether or not follow social rules. A continuous critical evaluation of our habits is necessary in order to wipe out those no longer workable or desirable (Foraster, 2000). Social structures, in this way, can be dismantled by changing behaviour and this is possible as a result of the interrelated subjectivity of knowledge.

Löwe distinguished three levels of subjectivity: the *subjective*, the *intersubjective*, and the *trans-subjective*. The *subjective* refers primarily to the singularity of the self. *Intersubjectivity* refers to the interdependent nature of knowledge and of the system of meaning because symbols and meanings are socially constructed (referring to Mead and Schütz). *Trans-subjectivity* “refers to the relation between technical, economic, environmental, and institutional structures and the subjectivities of individuals and social groups” (Foraster, 2001: 214-15).⁹ That means that there is a complex self-reference in society that includes various dimensions of the social order. He argued that “Knowledge is the result of the fragmentary experience and information, of speculation and hunches, and ... of communication with others... Such knowledge culminates in expectations, the nearest equivalent to *predictions* on the common-sense level” (Löwe, 1965: 17). He studied these

⁸ Löwe argued that “civilization and social order are inseparable constituents in the history of mankind” (Löwe, 1935: 30).

⁹ Foraster explains that “Transsubjective structures define and are defined by individual (inter)subjectivity, and both produce and are the product of such (inter)subjectivity (Foraster, 1997: 164). Foraster noted how Löwe refers on the work of Michael Polanyi, Charles Peirce, and Norwood Hanson to study aspects of the policy-making employing tacit knowledge, retrodution, and other heuristic problem-solving techniques (Foraster, 1997: 169).

issues in sight to improve policy-making, hoping to develop a “scientific approach in which observation and cognition are supplemented by participation (actual intervention)” (Löwe, 1965: xviii). The most interesting aspect here is that he considered the interaction of demand and supply a communication system. Moreover, he considered the role of education as a form of long run control as in the post-Enlightenment Italian school (Löwe, 1965: 154).

6. Austrian market process hermeneutics and Schütz as its source

The *non-perfectist* epistemic perspective, joint with the social nature of man, has characterised Continental European liberalism (Solari, 2022). In particular, Austrian economics, initiated by Carl Menger’s subjectivism, was geared to bypass all imperfections of man thanks to the principle of marginal utility, expressed in the ideal-type of exchange. Menger’s interpretation of institutions has deep similarities with those proposed by Vico (Solari, 2022). Interestingly, Menger retarded the second edition of his *Grundsätze* (never finishing it) because he was looking for a cognitive ground to economic choice into psychology, but he was never fully happy with what he could find (Campagnolo, 2011). Later, the interest for the limitations of knowledge have particularly characterised the work of Hayek in his critique to objectivism and positivism (Hayek, 1952a), as well as in his view of how markets work with limited local knowledge (1941; 1945).¹⁰ They can also be found in Wieser’s (1956) study of value. Later, this approach was taken up by Alfred Schütz, who took part to Ludwig von Mises seminars in the 1920s, studying the cognitive element in economic decisions and particularly inter-subjectivity (Kurrild-Klitgaard, 2003). In the early stage of his career he worked on economic rationality and subjectivity (1928; 1943) keeping reference to the Austrian approach. In this context he developed the communication aspects interesting here. The research of Lachmann (1971; 1982) fundamentally maintained this perspective.

In the late 1980s and early 1990s some Austrian economists produced a programme of research on hermeneutics (Berger, 1989). Madison (1990) underlined the intersubjective nature of knowledge and the fact that even statistics are interpretations of reality and not brute facts. He underlined how in the philosophy of Heidegger, all understanding is basically of a circular nature. Madison explained that hermeneutics is meaning’s analysis and that the fundamental contribution of Austrian economics is to start from subjective value to theorise the level of intersubjectivity, in which meanings become objective and de-psychologised (Madison, 1994: 42). Also Hayek’s view maintained a practical dimension in the sense that economic meanings are the result of human action and actors can make no sense of economic reality without action. This contextual and practical knowledge, although lacking certainty, has good probability of success; on the contrary, Hayek did not trust abstract knowledge which is not the fruit of action, as that of theorists and bureaucrats. Finally, Madison underlined that economic value is a form of meaning (Madison, 1994: 42).

Other economists of this project paid an explicit tribute to Schütz. Don Lavoie (1990b) laments that there is a systematic undervaluation of the interpretive dimension of economics. Economists would have to become more anthropological, pay more attention to the life-world, that is the world of everyday meanings (Don Lavoie, 1990b: 167-168). He

¹⁰ Madison (1990), examining the Intersubjective dimension in Hayek, points out that in his approach also statistics are interpretations, certainly not objective facts. He also finds some connection between Hayek and Heidegger in the circular nature of all understanding.

argues that the Austrian school was part of the *Verstehen* tradition of philosophy of science (Don Lavoie, 1994). Ebeling (1990) considers the philosophy of Dilthey fundamental reference for Austrians because the process of interpersonal understandings is not undertaken directly, rather through the external manifestations of human action (Ebeling, 1990: 179). Also Don Lavoie considered Alfred Schütz's *inter-subjectivism* as a development of Austrian economics because it disclosed the domain of meaning (Don Lavoie, 1994: 55).

The price system can be seen as a system of communication connected to what Dilthey called *structures of intersubjective meaning* and that Schütz framed through *ideal-types*. Intentionality is reflected in prices, even if market prices are indicators and not signals (Ebeling, 1990: 187). Don Lavoie argues that this is an approach to avoid atomism. Markets can be seen as a special kind of discourse, as an extension of linguistic interaction (Don Lavoie, 1994: 58). Don Lavoie highlighted three cognitive functions of markets: computation, incentive, and discovery (Don Lavoie, 1990c: 72). The discovery aspect is typically Austrian, although this function can be traced back to Vico (Solari, 2022). The market is seen by Don Lavoie as a dialogical learning process, which goes beyond the entrepreneurial function of Schumpeter. It is a generalised dialogical process of interpretation. The discovery approach considers markets' cognitive function as the process of human discourse in language, an intrinsically social process. Like verbal conversation, the market dialogue "depends on the specific give-and-take of interaction, a creative process of interplay in which the knowledge that emerges exceeds that of any of the participants" (Don Lavoie, 1990c: 78). It depends on background understandings shared in a speaking or trading community (Don Lavoie, 1990c: 78). Therefore, competition is a creative learning process among communicating minds, a "kind of social intelligence that depends on, but goes beyond, the individual intelligences of the system's participants" (Don Lavoie, 1990c: 78).

This branch of Austrian economics enlarged the perspective from the individual to the interacting individuals. Unfortunately, this impulse of developing the communicative view of markets has mostly exhausted its push and the participants have not developed the approach beyond the surface, even if it survives in Boettke (2002). Still, the work of Alfred Schütz, completed by Peter Luckman, remains the main research in this field.¹¹

7. Schütz's constructivism

Schütz had an interest in knowledge developed in everyday world life, used for acting: how individuals come to understand and make sense of their social world (Pietrykowski, 1996: 221). The Phenomenology developed by Schütz is primarily based on Husserl (who did not develop much social sciences but appreciated the work of Schütz), Bergson, Scheler and later James (Prendergast, 1986). But the aim of *Der sinnhafte Aufbau der sozialen Welt* was integrating and developing the epistemological standpoint of the Austrian school of economics. He took part to Mises' seminars and related to the group of scholars interested in the methodological problems of the social sciences (Prendergast, 1986: 3). In particular, he developed the psychology of individual choice that Carl Menger failed to master and that Mises (incoherently) rendered in axiomatic way. Schütz took the work of Max Weber as a methodological reference to develop the intersubjective understanding of Austrian

¹¹ Actually, this approach has inspired the cognitive approach to organisations by Weick (1969).

economics (Prendergast, 1986: 4).¹² In particular, Schütz's reformulation of the ideal type along the lines of Menger's (1871) isolating abstraction, slightly different from Max Weber historicized types, gave new opportunities of developing the Austrian approach (Prendergast, 1986; Kurrild-Klitgaard, 2001).¹³

Schütz adopted a phenomenological approach to study how individuals come to understand and make sense of their social reality. However, while Husserl assumes that *the other* is constituted transcendently by the consciousness of the self, Schütz considered *the other* as empirically given and preceding the self.¹⁴ Therefore, his phenomenological study directly begins with intersubjectivity and not with the subject (Knoblauch, 2013). Intersubjectivity is based on an empirical encounter with others. The life-world is intersubjective from the very beginning as it presents to us as a subjective meaning-context (Schütz and Luckmann, 1973: 15). That determines a fundamental *we-orientation* that allows to see knowledge as a social construction, without abandoning individualism. Intersubjectivity is solved by a sequential concatenation of actions which, due to reciprocity, allows for the synchronization of motives and the coordination of actions (Knoblauch, 2013: 332). Consequently, communication and social bonds are fundamental for symbolic development and for ordering knowledge.¹⁵ The sedimented group experience is seen as the continuously changing stock of knowledge within the life-world. Knowledge is something functional and to be mastered according to particular interests, projecting action plans into the life-world (Schütz and Luckmann, 1973: 18). Interest determines our attention (awareness) of the life-world and is the fundamental regulative principle of our conscious life (Schütz, 1945: 535). The individual has a stock of past interpretations performed in interaction with others and is constantly projected in the future, making conjectures and plans (Schütz, 1959). The consequence is that knowledge is fundamentally projected towards the future, forward looking and conjectural in the tradition of Menger (Menger 1871, §3.2), but taking Bergson for philosophical inspiration (Schütz and Luckmann, 1973).

Early writings on economic rationality are particularly interesting here. Schutz (1943) argues that the categories of interpretation used by the scientist seldom coincide with those used by the observed actor (Schütz, 1943: 131). Beside being geared to practical action, categories are contextual and therefore fragmented and discontinuous. People tend to

¹² Prendergast holds that while "he leaned toward Weber's solutions to these problems, Schütz never questioned the core elements of the Austrian tradition (Prendergast, 1986: 4). However, Austrian marginalism (the Neo-classical even worse) had no explanation of inter-subjective understanding; it could not understand how actors knew action motives of others. It also lacked a theory of concept formation (Prendergast, 1986: 11).

¹³ Actually, Austrians abandoned this method of research. We would find ideal-types again in the work of Walter Eucken (1950) who had an important root in Max Weber and in this methodological debate of the 1920s.

¹⁴ Moreover, following Kaufmann's ideas (his master) Schütz substituted Husserl's theory of generalization and formalization for direct intuition. Contrary to Husserl's epistemology grounded in the individual mind, Schutz's frames behavior as an interpretive process based on social interaction (Pietrykowski, 1996: 221). Prendergast argues that in Schütz "real essences are replaced by heuristic principles of great generality placed at the head of a deductive chain. They are a priori by virtue of their formal-logical position, and they merit such status by virtue of their deductive fecundity" (Prendergast, 1986: 12).

¹⁵ Schütz did not explicitly adapt Mead's concept of communication based on symbolic interactionism (Knoblauch, 2013: 326), rather he developed his own.

follow habits, rules, and principles, as pragmatists hold (he refers to James, less frequently to Dewey). But the rules we apply are *rules of thumb* and their validity is hypothetical. He argues that “the principles we start from are partly taken over uncritically from parents and teachers, partly distilled at random from specific situations in our lives or in the lives of others without our having made any further inquiry into their consistency” (Schütz, 1943: 137). Our knowledge of daily life is based on hypotheses, inductions and predictions, it is approximate and based on typical schemes. Schütz cites James to support his view that focussed selection is a cardinal function of human consciousness. It derives from our interests, but it does not necessarily imply “conscious choice between alternatives which presupposes reflection, volition, and preference” (Schütz, 1943: 141). Therefore, he argues that we cannot speak of an “isolated rational act, if we mean by this an act resulting from deliberated choice, but only of a system of rational acts” (Schütz, 1943: 143). Consequently, Schütz deals with a weak rationality and a non ergodic context of choice, due to the non complete ordering of the knowledge of the life-world. In this way, knowledge cannot ever become perfect, nor we can assume any reference to a perfect knowledge of reality. We nonetheless can achieve a progressively certain local confidence on specific domains.

Schütz and Luckmann underline the relevance of the intersubjective dimension for individual knowledge. In their view, this means that meaning contexts are socially determinate. That allows them to define a social stock of knowledge, related to the socially objectivated results of sedimented people’s experiences and explications (Schütz and Luckmann, 1973: 243-44). This stock is diversified and structured according to the processes of acquisition of knowledge. It also varies in the degree of credibility, familiarity, consistency and accuracy. Incorporating new knowledge implies the intersubjective process of objectivation and the expression of social relevance. It depends much on institutionalised processes of transmission (Schütz and Luckmann, 1973: 304-05). The single individual cannot have but a partial access to this knowledge.

Bruce Pietrykowski underlined how also the knowledge involved in exchanges is intersubjectively produced. Economic actors involved in production and exchange are also often interacting face-to-face, which cannot be considered anonymous (Pietrykowski (1996: 227). Meanings and intentions are interdependent and also the individual meaning of a commodity can be altered by interaction. As the exchanges are embedded in a specific context, market experience is subject to typification based on socially acquired expectations of the way others would or should treat me (Pietrykowski, 1996: 239). This knowledge has no perfect reference, it is just a stock that changes in time.

Schütz wrote in 1951 a paper on choosing among projects of action which compares different views of human choice by phenomenologists. It represents his view of the theory of choice and could be seen as quite close to Menger (1871). The latter affirmed that economic goods could be both material commodities as well as actions and omissions, unconventionally extending economic choice to the whole human behaviour (Menger, 1871: §1.1). Also Schütz argues that “action may take place-purposively or not-by commission or omission” (Schütz, 1951: 161). His aim is to underline how choice presupposes a framing of the situation by an *anticipated state of affair*. The time structure of action is fundamental as it requires an anticipation of consequences and a consequent selection of the time perspective. The time structure is therefore related to the the knowledge of the actor (taking inspiration from Bergson). A further problem is motivation, because there are “in-order-to” motives, used by the life-world man projecting his approximative expectations in the future, and there are the “because” motives, often an ex-post objectivised explanation - enjoying a

more or less adequate rationalisation (Schütz, 1951: 163). Projecting performances requires weighting chances and risks in accordance to present knowledge of possible occurrences. Man identifies *typical* situations to reduce complexity and make action practicable (Schütz, 1951: 166). Doubting, questioning, choosing and deciding are part of deliberation. The latter is related to interests (often interrelated), that affect our framing of the situation. Schütz cites Dewey (*Human Nature and Conduct*) pointing that “choice is not the emergence of preference out of indifference. It is the emergence of a unified preference out of competing preferences” (Schütz, 1951: 170).¹⁶ The problem is not choosing between different given objects, but defining the situation using questionable knowledge. Options do not coexist. On the other hand, in a very Mengerian way, Schütz confirms the validity of the marginal principle, even if applied to pre-given problematic possibilities (Schütz, 1951: 174). He also analyses the position of Bergson, his interpretation of time and his critique to the assumption of given problematic possibilities, while choice involves open possibilities (it is a construction).

“Bergson, too, points out that the ego in self-interpretation of its past acts has the illusion of having chosen between problematic possibilities. But he fails to add, that it is the accomplished act and not the action which is anticipated *modo futuri exacti* in the project. Projecting as we have seen is retrospection anticipated in phantasy” (Schütz, 1951: 176).

He also considers Leibniz’s vision of freedom in relation to action motives. He finds it contradictory, if in relation of given possibilities, because action would be fully determined.¹⁷ So, much of our freedom is in the framing of situations. Schütz mostly sympathises with Bergson’s view that “deliberation can only be conceived as a dynamic process in which the self, its sentiments, its motives and goals are in a state of continuous becoming until this development leads to the free act” (Schütz, 1951: 180). Leibniz also excessively simplifies the weighting of possibilities. According to Schütz, so-called weights cannot be other than interests, which, however, are interrelated in a complex way and changeable. Therefore, rational choice is impossible (1951: 182): we do our best with a shaky knowledge in an uncertain environment. All this fits well to the Austrian perspective of markets as a process of continuous momentary discovery.

On the other hand, in 1952b Hayek published *The Sensory Order*, which is a book on the connection between reality, the neural system and the mind. It develops a cognitive constructivist position arguing that the mind is an emergent order, approaching systems theories (at the time just beginning with Ashby and von Bertalanffy). In a certain sense, the approach of the two books is similar and the object is complementary. It is remarkable that Hayek never opens to the sociality of mind and therefore his construction is completely based on the individual. Before that, Hayek published his two papers on the role of dispersed information in the market (Hayek, 1937; 1945) closing the debate on planning

¹⁶ Schütz confronts his approach to choice with Husserl’s *problematic or questionable possibilities*.

¹⁷ Schütz criticises Leibniz setting of clear alternatives, lack of complexity, the starting equilibrium and constance of will. Moreover, Leibniz shares with Locke the idea that the mind of man is “inclined to make misjudgments in comparing present pleasures and displeasures with future ones, disregarding that this future will become a present and then appear in full proximity” (1951: 178-79).

(begun by Mises), which may be seen as highly compatible with this view of economic knowledge expressed by Schütz. However, Hayek never cites Schütz and *vice versa*.

8. Concluding on Liberalism, *Anti-Perfectism* and the economic system

Coming back to Italian liberalism, there is a certain common epistemology with Austrians. The vision of Verri and Cattaneo based on the study of knowledge and the sociality of mind have been mostly lost, but some common vision of man probably remained. Such view is well reflected in *anti-perfectism*, which adopts an epistemology not allowing to figure out pre-given ends or any project of controlling man and society. Moreover, it doubts perfect representations of actual situations as the mathematical theorisation of economics (if not for the simple aim of reasoning).

Sergio Ricossa (1986) used the reference to *perfectist* philosophy to criticize an attitude to develop projects of ideal economic states characterized by a fairer distribution of income, as well as the “stabilization of human desires and/or their ennobling towards civilian, collective or even high culture style consumption” (Bini, 2013: 118). Ricossa considered English liberalism within the bourgeois *non-perfectism*, while Continental liberalism was seen as tending to an aristocratic *perfectism*. This could be correct for Ordo-liberalism, aiming at juridically controlling competition. But it is certainly wrong for Austrian economics, based on an *anti-perfectist* epistemology (Solari, 2022) as well as for some exponents of the *Social Market Economy* as Wilhelm Röpke, who simply put social integration at the top of economic priorities (Resico and Solari, 2018). On the other hand, Keynes as well as John Stuart Mill before him cannot be said adhering to *perfectist* epistemologies even if hoped to maintain some control on the economy to achieve fairer social results. *Perfectism* can instead be found in all welfare economics as well as in the macroeconomic thought that developed Keynesian ideas in the direction of an optimal control of the economy. A more difficult judgement concerns North American Institutionalism, which was based on a pragmatic approach but aimed at achieving social control.

It is difficult to see theories of Pareto and Pantaleoni as based on an anti-perfectist philosophy. Their microeconomic theory had all the characteristics of a *perfectist* kind of inquiry. Moreover, their political attitude (supporting fascism) is quite far from a liberal spirit.

On the other hand, Luigi Einaudi was a genuine social liberal with a true *anti-perfectist* spirit. As pointed out by Paolo Heritier (2012), Einaudi’s is an anthropology of freedom (Heritier, 2012: 280). In *Prediche* Einaudi affirmed that the “science of economics is subordinate to moral law and that there can be no conflict between what farsighted interest counsels men to do and what awareness of their duty to future generations orders them to do” (Heritier, 2012: 295). Einaudi’s theory of knowledge is anthropological and non-theoretical in character (Heritier, 2012: 309). This approach produced his view of the *good government* that, as argued by Francesco Forte, operates according to *imperfectist* principles (Forte, 2012: 19). Einaudi’s vision of the *good government* can be conceived as an urban, social and political architecture presupposing an imperfect nature of man. “It represents a variegated society, allowing the possibility of social ascent but free from excessive social inequality, in which the middle class plays a fundamental mediating role” (Heritier and Silvestri, 2012: XIII).

But *Anti-Perfectism* is in no way implying a renounce to policy-making. It does not necessarily lead to a total laissez-faire kind of attitude. The production of fundamental public goods is certainly not in contradiction with that conception of limited knowledge. The idea of progress implies the continuous attempt to identify better ways of living or, at least, to prevent major disruptions. It would not ask for deregulation or for a minimal state. If *anti-perfectist* approaches may provide some good argument against planning, it has no argument against collective action or to economic organisation (Sugden, 2018). The Schumpeterian entrepreneur is an organiser and his creative role on the supply side of the economy requires foresight, organising abilities and prudence. These are virtues that are not precluded to other men. Therefore, men organising to coordinate their actions in sights of any collective end is a necessary aspect of our society.

Conflict of Interest Statement

The author declares that there is no conflict of interest.

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