Toward an Interpretive Economics: Some Hermeneutical Issues

David L. Prychitko
State University of New York at Oswego

Economics is generally considered the science of choice, or the science of human action. We attempt to explain the operation of social institutions such as money, families, enterprises, and commodity exchange on the basis of choices made by rational, utility-maximizing individuals. In other words, we follow a principle of methodological individualism.

We also strive to follow the scientific method. It is no surprise that economists have been quite impressed with the achievements of the natural sciences. Physics, for example, has long stood as an exemplary model of scientific method and accomplishment, and by the turn of the century economists appropriated both the formalist and positivist prejudices of the natural sciences.

William Stanley Jevons wrote in 1879 that "all economic writers must be mathematical so far as they are scientific at all, because they treat of economic quantities, and the relations of such quantities, and all quantities and relations of quantities come within the scope of mathematics." By 1900 Leon Walras claimed that "the establishment sooner or later of economics as an exact science is no longer in our hands and need not concern us. It is already perfectly clear that economics, like astronomy and mechanics, is both an empirical and a rational science .... [M]athematical economics will rank with the mathematical sciences of astronomy and mechanics; and on that day justice will be done to our work."

Throughout the twentieth century the mainstream of the economics profession has been self-consciously positivist and formalist. Economists generally agree that the social world consists of measurable, objectively given facts. Our purpose is to use the brute data of reality to test the predictive power of our theory. We generally support the rhetoric that "The ultimate goal of a positive science is the development of a "theory" or "hypothesis" that yields valid and meaningful (i.e., not truisic) predictions about phenomena not yet observed." The positive economist wants to believe that facts, if not independent of theory, are at least independent of personal judgement. They simply exist. Neither interpretation nor understanding is the goal of positive economics. The goal is prediction.

This raises some problems.

First, it seems fair to ask how successful are economists’ predictions. After decades of development, we still cannot predict with anywhere near the degree of precision and accuracy as that of the physicist. To do so would at least require that economists operate within a consciously designed system. But because most real world social institutions are complex, unintended products of human actions, they cannot be used as part of a "social laboratory" in which to conduct controlled experiments. Indeed, recognition of spontaneity and order is what made the social sciences possible in the first place. Yet, as in the case of the new experimental economics with animals, this general spontaneity of social institutions must be assumed away. The prices, constraints, and overall system are an imposed design of the experimental economist.

Furthermore, there are no constants in the social world. Economists have not developed quantitative laws such as an $F = MC$ upon which to make exact predictions. At best, we can only "predict" general patterns of events. We can point out general directions of change. An economist can anticipate, for instance, that an increase in the demand for gold will tend to raise its price. But exactly how high the price will rise is anyone’s guess, and at the margin a Quia Board may be just as helpful as data concerning supply and demand elasticities. The bottom line is this: if the economist could make systematically better predictions, she would be a rich person. That we all know too well.

Second, why should predictability be our primary concern anyway? In other words, we have tended to equate science with prediction, but there are other natural sciences that fail to provide quantitative laws nor offer exact predictions. Evolutionary biology offers something of an example.

Third, because economics is said to be a
science of human choices, it is fair to take a step back and assess our philosophy of science and our understanding of what it means to be human. This, I believe, is where we might want to consider the hermeneutics literature.\(^4\)

Hermeneutics has a long and respectable tradition. It first appeared as a way to systematically interpret and understand an author's meaning in biblical and legal texts. Hermeneutics arose, in other words, to help resolve the problem of meaning in textual interpretation.

Consider, for example, Adam Smith's discussion of the invisible hand. Smith writes that individuals within society, although they typically intend to satisfy their own desires, are "led by an invisible hand to promote an end which was no part of [their] intention." Just what does this statement mean? Shall we be fundamentalists and conclude that Smith really claimed that there is an invisible hand that transforms self-interests into public benefits? Should we be solely concerned with what Smith himself intended to mean? Is it possible to generate a final, objective meaning of the text independent of time and place?

Hermeneutics claims that the text is separated from the author. Adam Smith may be dead, but his text has survived to this day. Unfortunately, we have no method that guarantees an objective, detached reading of the text. Nevertheless, understanding the text is possible if we can bring it back to life again. As Schleiermacher said, the reader's goal should be to understand the author's text better than he understood it himself. Perhaps Smith did have a somewhat mystical notion, and maybe our modern notions of cybernetics and spontaneous order theory would baffle him. Nevertheless, the hermeneutics literature asserts that we can gain truth and understanding by "fusing our horizons," by asking what the text means to us today, given the growth in our knowledge since the time it was written. Some economists, particularly historians of thought, have been saying this for quite some time, even though they have had little or no formal exposure to the hermeneutics literature as far as I know. Kenneth Boulding's delightful piece in *History of Political Economy*, written two decades ago, is a prime example.\(^5\)

Hermeneutical issues of meaning, interpretation, and the relevance of history should engage more than historians of thought, however. Near the turn of the century, the German philosopher Wilhelm Dilthey argued that hermeneutics should include not only historical texts, but all meaningful human actions.\(^6\) The writing of a text is but one type of purposive human activity that requires interpretation. So, too, do driving an automobile, making love, depositing cash in a bank, running for governmental office, executing a laboratory experiment, and so on. The human sciences are, in other words, inescapably hermeneutical. We cannot help but interpret the actions of the people we study. No matter how hard positivists may try, scientific method still does not allow them to break away from interpretation and personal judgement. If anything, a fetish with traditional scientific method probably hinders one's ability to reach true understanding.

If positivism, or, more broadly, formalism, is all but dead in philosophical circles, and dying among much of the social sciences, -- as I believe it is -- then economists must come to terms with a host of issues. Let me point out four of them. (There are, I am sure, many more than this. But, for the purpose of this brief essay, these would hopefully encourage enough reflection and/or healthy disagreement.)

1. Assumptions matter. If economics is the study of human actions, then we better have a reasonable idea of what it is to be human. Our operational assumptions not only contradict reality, but the conclusions we derive from them have not appreciably increased the success of our predictions. We must come to terms with the fact that human beings are situated in concrete historical contexts, and we must try to understand society itself as being constitutive of meaningful human actions. As the hermeneutical philosopher Paul Ricoeur writes: "In the same way that a text is detached from its author, an action is detached from its agent and develops consequences of its own. This autonomization of human action constitutes the social dimension of action. An action is a social phenomena not only because it is done by several agents in such a way that the role of each of them cannot be distinguished from the role of others, but also because our deeds escape us and have effects which we did not intend."

2. It follows that our notion of methodological individualism is questionable. We reduce social institutions to the level of atomistic, isolated individuals. Moreover, we reduce the individual to an explicitly given utility function. As Pareto said, "The individual can
disappear, provided he leaves us this photograph of his tastes.”10 Hahn goes so far as to say “Traditional equilibrium theory does best when the individual is of no importance – he is of measure zero.”11 These statements come from a discipline that purports to be a study of human beings!

Following Ricoeur, hermeneutics suggests we develop what I have elsewhere referred to as a “sophisticated” methodological individualism.12 This would account for social institutions as unintended consequences of human actions, as well as the fact that historically situated, social individuals, rather than atemporal, isolated individuals, are the ones doing the acting.

3. We should reconsider the value of case studies in relation to econometrics. As it stands now, the former has little, if any, value. By grouping historical events into classes and establishing a functional relationship between them, econometrics does succeed in simplifying the analysis of human interaction over time, and as such it may provide valuable insights into relationships hitherto unexpected. But this is not enough. History consists not only of measurable “outside” events – data – but also of the thoughts and meanings that surfaced the data. Hence, by the same token that “the statistics of words can tell us nothing of the structure of language,”13 so too econometrics alone cannot produce intelligible knowledge of past actions and meanings. The hermeneutical question is not merely how one class of data functionally relates to another, but rather what are the circumstances, intentions and influences that give rise to the data in the first place.14 The best approach to this question must involve rich, well documented studies of concrete historical cases. This would demand a greater emphasis on scholarship and less on regression technique.

4. The distinction between positive and normative economics, between the facts of economic life and the economist’s judgement of those facts, is questionable. Facts are interpreted through theory. And theory itself is based upon implicit ethical assumptions and value judgements.15 Our method has not estabished value freedom in the past and I believe it will continue to fail in the future.

Perhaps a different understanding of value freedom is now in order. It may be more productive to think of it in ethical, rather than epistemological, terms. Ethically, the economist should be an honest person who seeks truth and shuns lies and falsehoods. In this sense we should be no different than any other reasonable, good person. This is the “value freedom” worth striving for. It seems to be the best ground for truth that we have.

Epistemological value freedom appears to be a dead end. It is somewhat amusing that the positivist who argues that economics should be value free in an epistemological sense (which is implied in the positive/normative dichotomy) is a positivist who is caught in his own oxymoron. The claim that we “should” be positive, value free economists is a value in itself, and thus unscientifically defendable within the positivist framework.

One final comment. A hermeneutical, post-positivist, or post-modern philosophy of science – whatever one may wish to call it – does not seek to replace the scientific method with an alternative method. Instead, it appreciates the fact that formal method is not what it was once cracked up to be. It calls for scientists to critically self-reflect on the nature of their discipline. It suggests that science is not that which follows scientific method. Rather, science is an interpretive enterprise in which concepts and truth-claims compete against each other in an arena of honesty, openness, and mutual respect.

Notes


12. These two different approaches to historical research, which may generally be called quantitative and qualitative, are nicely debated in Robert W. Fogel and G.R. Elton, *Which Road to the Past?: To Views of History* (New Haven, CT: Yale University Press, 1983).