

Marcus Shera

PHIL 333

Christopher DiTeresi

5/13/2018

Pragmatism and the Economic Way of Thinking

Introduction

Ask ten economists what gets studied in economics departments, and you'll get eleven different answers. Many economists like to talk as if their most recent paper is the consensus in the field, but it's often only the consensus in the small ideological bubble they've created. The methodological fragmentation of economics is often due to unacknowledged philosophical grudges. Most economists seem to be stuck with a set of axioms that appear necessary to a "good science". Such include a distinction between the normative and the positive or to being an impartial spectator. These scientific beliefs more often than not constrict economics from offering understanding into human life. Many are afraid that if criticisms of the standard practice are taken seriously than economists will lose their endeavour all together to chaotic uncontrollable forces. In the following two short essays, I hope to show how the school in philosophy known as American Pragmatism offers a way forward for economists to address such problems while retaining the insights that have been collected throughout the grand tradition of political economy.

Smith and Dewey on the Role of the Philosopher

I've always felt a philosopher's project to be incomplete if she does not reflect on her own role as a philosopher in the new system she has created. This misstep can breed a particularly pernicious form of ignorance. An inability to recognize your own role in the creation of an idea leads one to mischaracterize the idea and treat as if it was an entirely different object. Both the pragmatists and a man who some characterize as a proto-pragmatist, Adam Smith, reflected on the proper place of the philosopher and the dangers of those who mistreat their role as thinkers. Their philosophy of the philosopher informed both their work and the way that they conducted themselves as philosophers. The pragmatists saw ideas as tools. The "truth" or "goodness" of an idea is judged by its use in the world. If an idea fails at alleviating one's doubts, then it has failed as an idea. Adam Smith did not explicitly commit to a form of pragmatism, but the way that he describes the philosopher's role in the the division of labor fits the school of thought very well. They both see the philosopher as a **manufacturer** of ideas. She is not a disinterested observer, but rather acutely interested in developing good answers to genuine problems.

Like a carpenter, the philosopher attempts to make an object for other's use. The level and saw are tools like logic, self-reflection, the scientific method, and public debate. These intermediate tools produce a product which is then judged by its efficacy in practice. The tools that produce it are similarly judged by their efficacy in producing a good quality product, and may be dropped, adapted or harnessed anew as the carpenter sees fit.

Adam Smith is most well known as the godfather of economics. *An Inquiry into the Nature and Causes of the Wealth of Nations* very much sounds like a hard-nosed natural science attempt to state cold hard facts about the way the economy runs, whether you like it or not. His earlier book, *The Theory of Moral Sentiments*, makes one see the *Wealth of Nations* in a different light. Smith is doing much more than blackboard economics. The most widely respected insight from Smith is known to us as the theory of the "Invisible Hand" or the division of labor that is the product of human action, but not of human design (a phrase taken up by spontaneous order theorists like Hayek). Smith marvels at the creation of a coat. How many workers efforts and actions were necessary to produce this coat despite the fact that few of them directly communicated with one another nor even knew that their labor would end up in a coat. Smith offers three major reasons why he thinks the division of labor is so effective. "...first, to the increase of dexterity in every particular workman; secondly, to the saving of the time which is commonly lost in passing from one species of work to another; and lastly, to the invention of a great number of machines which facilitate and abridge labour, and enable one man to do the work of many." (WON 17)

The first two reasons are interesting in their own right and say much more about Smith's ideas in economics, but it is the third reason that he uses to explain his thought on the role of the philosopher.

"Many improvements in machinery, however, have by no means been the invention of those who had occasion to use the machines. Many improvements have been made by the ingenuity of the makers of the machines, when to make them became the business of a peculiar trade; and some by that of those who are called philosophers or men of speculation, whose trade it is, not to do anything, but to observe everything; and who, upon that account, are often capable of combining together the powers of the most distant and dissimilar objects." (21-22) WON

In other words, the philosopher's role is at the same level as any other craftsmen, but is only different in the scope of its topics. A carpenter may realize that certain measurement and technical practices having to do with the shape of the wood with which he works. A philosopher, since she is in the economic position where she doesn't have to be producing new products everyday, can observe the carpenter's practice and apply it to what the artist or builder is doing, thus becoming a philosopher of geometry. "The

difference between a philosopher and a common street porter, for example, seems to arise not so much from nature, as from habit, custom, and education.” WON 28-29

Dewey describes his concept of common sense inquiry and its distinction from scientific inquiry along similar lines. “Such inquiries are, accordingly, different from those which have knowledge as their goal. The attainment of knowledge of some things is necessarily involved in common sense inquiries, but it occurs for the sake of settlement of some issue of use and enjoyment, and not, as in scientific inquiry, for its own sake.” (60-61) Common sense inquiry is the issue of searching for a solution to a problem. He describes it in terms of biology. Common inquiry is what allows an organism to respond to its environment, survive, and reproduce. Much like the simple craftsmen, creating tools allows him to produce quality products, sell these on the market and continue his business. All questions are towards that end.

Scientific inquiry is thus a slave to common sense inquiry. Its goal is in the creation of bodies of facts and theories for use in common sense issues. Just like answers to common sense inquiry, scientific inquiry is judged by its ability to solve problems. Science’s goal is not to give us what Hilary Putnam would call a God’s eye view, but to provide solutions to genuine conundrums. Good science achieves that goal. In Smith’s conception of the philosopher, the division of labor would be more productive if the products of the philosopher’s observations proved beneficial those who end up using it. Science and practice are not two different endeavours.

Some, perhaps they could be called common sense, conceptions suppose that practice is impossible without knowledge. The goal of science, philosophy, or any inquiry is to access true facts that tell the actor what, how, and why to do what they’re doing. Practice always comes second. There is here an ontological difference between book smarts and street smarts. The knowledge produced according to scientific methods are facts, and the various musings and insights of the street porter are just opinions. This ontological chasm has had a degree of harm on the ability of individuals to solve issues.

“In the region of highest importance to common sense, namely, that of moral, political, economic ideas and beliefs, and the methods of forming and confirming them, science has had even less effect. Conceptions and methods in the field of human relationships are in much the same state as were the beliefs and methods of common sense in relation to physical nature before the rise of experimental science. These considerations fix the meaning of the statement that the difference that now exists between exists between common sense and science is a social, rather than a logical, matter.” (The Logic of Inquiry pg. 77)

Science has its victories, but it has failed to solve the vast majority of human issues. Neither should we expect it to, if we just treat it in its role as subservient to the greater realm of common sense inquiry.

Dewey attempts to show examples of the social distinction between the forms of inquiry appearing in history. In ancient cultures, labor was often divided into higher and lower faculties. The lower faculty was the direct labor of the artisans. The higher faculty was also for a particular practice, but it involved cultivating a good relationship with the gods, or organizing the whole of society from the top. These types of labor were so different from one another that they developed social distinctions, and their labor took very different character. Similarly in Ancient Greece, philosophy became associated with rational thought while practical work was associated with empirical knowledge.

Lastly, I want to mention a character brought up in Smith's *The Theory of Moral Sentiments*, known as the man of system.

“The man of system... is apt to be very wise in his own conceit; and is often so enamoured with the supposed beauty of his own ideal plan of government, that he cannot suffer the smallest deviation from any part of it. He goes on to establish it completely and in all its parts, without any regard either to the great interests, or to the strong prejudices which may oppose it. He seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chess-board. He does not consider that the pieces upon the chess-board have no other principle of motion besides that which the hand impresses upon them; but that, in the great chessboard of human society, every single piece has a principle of motion of its own, altogether different from that which the legislature might choose to impress upon it. If those two principles coincide and act in the same direction, the game of human society will go on easily and harmoniously, and is very likely to be happy and successful. If they are opposite or different, the game will go on miserably, and the society must be at all times in the highest degree of disorder.” TMS 233-234

We can imagine that a mis practitioner of scientific inquiry could easily be characterized by the man of system. A scientist can fall in love with their own discoveries. If a biologist falls in love with their genetic discovery, they may treat others as potential breeding partners in a mad experiment. More pertinently, if an economist falls in love with their model of the economy, they may treat policy as a series of cogs and levers to be manipulated regardless of the real effects. The problem here is not that the scientists attempted to answer questions or develop useful theories, but that they did so in a way that divorced them from the proper role of scientific inquiry. Their discoveries were no longer judged by their efficacy in practice, but rather the opposite. The world was judged by whether or not it accrued to their

theory. If a philosopher is granted a position where her word is taken as truth, then she is no longer tied to the efficacy of her ideas. In a very Smithian sense, the sentiments here are misplaced. The philosopher's role is to cultivate and develop in the abstract what is to be exported to and judged by the concrete.

The Fixation of Belief and Institutional Change

Economic and institutional structures have explicit and implicit relevance for all aspects of life. Two problems faced by any economic order are radical uncertainty and non-ergodicity. Radical uncertainty is the simple idea that there are certain relevant factors to our decisions of which we have no ability to foresee. Non-ergodicity is when some institutions that are truly optimal at one time fail to remain optimal as their environment changes. Douglass North's life project attempted to explain how humans have dealt with such issues in the past through institutional development.

“A bare-bones description of the process of economic change is straightforward. The “reality” of a political-economic system is never known to anyone, but humans do construct elaborate beliefs about the nature of that “reality” - beliefs that are both a positive model of the way the system works and a normative model of how it should work. ... The resultant institutional matrix imposes severe constraints on the choice set of entrepreneurs when they seek to innovate or modify institutions in order to improve their economic or political positions.” (North 2005, 2)

If a group of individuals holds the belief that humans have free will, their justice system will tend to reflect that. Divine right monarchy held itself up on the belief that the king was justified in his position by God. When that belief began to waver, so did the institutions. To North, the first and foremost thing in the creation and function of institutions is the beliefs of the people under such a structure.

North's understanding of the process of institutional change can be summarized as such, “The process works as follows: the beliefs that humans hold determine the choices they make that, in turn, structure the changes in the human landscape.” (North 2005, 23) Reality is not the goal or object of human thought, it is just the backdrop against which institutions succeed or fail. The creation of and subsequent experimentation with institutions is like an external mode of thought. Institutions, by their failures and successes, do part of the thinking for us as they test against Reality. Reality here is not the set of facts that we borrow from to hold true beliefs. It acts more like a hard limit on our actions. You can tell yourself you can do anything, but as soon as you act on that belief, Reality will let you know you're wrong. North also characterizes certain institutions a kind of adaptive efficiency, a quality he

particularly credits for the economic success of the modern West. Adaptive efficiency are the form of institutions that allow malleability to radical uncertainty and non-ergodicity.

Charles Peirce describes a process in his paper *The Fixation of Belief* that squares very well with North's understanding of both the function of beliefs and the relevance of "Reality". It also provides us with a deeper understanding of how the beliefs that are at the foundation of an institutional structure change. Peircian belief is inseparable from the habits which they form. The beliefs are not judged up against an apparent correspondence to an unknowable reality, but they are judged by the success of the habit themselves.

"The habit is good or otherwise, according as it produces true conclusions from true premises or not; and an inference is regarded as valid or not, without reference to the truth or falsity of its conclusion specially, but according as the habit which determines it is such as to produce true conclusions in general or not. The particular habit of mind which governs this or that inference may be formulated in a proposition whose truth depends on the validity of the inferences which the habit determines; and such a formula is called a guiding principle of inference." (Peirce 1877)

Beliefs continue to persist until they are attacked by doubt. Doubt does not always succeed, however, as there are various methods of fixating one's beliefs. Peirce calls the attempt at resolving doubts, inquiry. Some methods are better or worse at resolving doubts. Tenacity, a willful force against a doubt, is one simple method of defending beliefs. Another would be the appeal to authority. An innovation of the Enlightenment was the appeal to a priori truths; the method of doubting everything except that which you find impossible to doubt. Finally, Peirce champions the method of science. In science, all beliefs are necessarily held tentatively, pending further evidence. If further evidence shows a belief to be faulty, the method of science itself is not shown wrong. If the Catholic Church were to be shown to have created a false belief, then the method of authority itself would be in question, not just the belief. If Descartes believes God is an undoubtable a priori belief, he may question his method when he learns of the number of people who easily doubt their theism or never develop it at all.

A sort of faith that comes along with the method of science is the prospect of Reality. Reality is the source of the "pending further evidence". Reality is what the beliefs get tested up against. The hypothesis of reality is that if a community is practicing unbounded inquiry, only restricted by the method of science, they would eventually reach Reality. There would then be a set of beliefs of which there are no doubts that are not easily resolvable. The faith is not a claim that the blessed event will occur in our or anyone's lifetime, but that the faith in the convergence of beliefs towards reality is inherent in the concept

of science. Reality is the postulate that we should shed our beliefs to cohere to something mind-independent, and that there is an actual value to doing so.

At this point, the parallels between North and Peirce are clear. Peirce is trying to answer epistemological questions akin to the economic conundrums that North has. There is a sense of radical uncertainty in that we cannot predict ex ante where all of our doubts will come from or how we might deal with them. Institutions cannot predict the anomalies and genuinely novel situations that they may face. The beliefs and methods of fixation also suffer from non-ergodicity as one method may work perfectly in one period, and utterly fail after some disruptive event. Peircian habits and North's institutions perform a very similar role. They are inseparable from the beliefs which condition them, and act as the antennae for testing the beliefs. The institutional structure evolves along with our beliefs of where it has and has not succeeded.

The four methods of fixation in Peirce are essentially forms of institutional constraints for the fight between doubt and belief. We can call them "intellectual institutions." When doubt attacks they are constrained by one's tenacity, their appeal to authority, apriori notions, or their commitment to science. The methods are themselves then subject to radical uncertainty and non-ergodicity for when they are applicable. Similar to how North champions adaptive efficiency among economic institutions, Peirce champions science for holding that exact type of efficiency. It is able to stand bay against the tides of doubt for longer, and satisfy our desire for solid beliefs in the same way that a liberal democracy or other more adaptively efficient institution can satisfy our desire for political order while the beliefs of the people challenge each instantiation of that order. When beliefs are understood in their essence as habit creating machines then institutions appear much more alive and responsive. Peirce's methods of fixation tie very neatly with the way that North and the New Institutional school of economics thinks about beliefs and cognition. I believe more institutional economists would benefit from adopting a pragmatist philosophy, and more pragmatists would benefit from studying what may already be a wealth of examples of the pragmatic method working in institutional economics.

References:

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