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Economics: A Science of Meaning

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1 Introduction

In this paper I will define economics following a different general approach to economic problems, an approach that, because of its emphasis on *meaning*, has been called ‘radical subjectivism’ (Storr, 2017). In the light of this approach, it is possible to develop a *general theory* for the economic system, with the possibility of globally responding to economic questions within a broad paradigm. Moreover, such a paradigm has to incorporate two fundamental elements disregarded by mainstream economics: real people and real time.

2 An original approach to economics

It is well known that the definition commonly used to describe economics is Robbins’ (1932, p. 15), according to which economics «is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses». Robbins reached such a definition after a deep discussion about previous visions, and in opposing them. However, while Robbins’ definition developed in the direction of a static analysis, centred on the fictional construct of *homo oeconomicus* (most probably against Robbin’s original intentions; see Robbins, 1932, p. 89)¹, I will follow a different path. In doing so I will mostly refer to economists belonging the so-called Austrian School of Economics (ASE)².

According to Ludwig von Mises³ (1949, p. 233, emphasis added), the task of economics is «to investigate the market phenomena, that is, the determination of the mutual exchange ratios of the goods and services negotiated on markets, *their origin in human action* and their effects upon later action». He clarifies that it is not possible to distinguish actions that are related to economics and actions that are not, as every «action is motivated by the urge to remove a felt uneasiness. It does not matter for the science of action how people qualify this uneasiness from a physiological, psychological, or ethical point of view» (Mises, 1949, p. 233). For Mises (1949, p. 235), «a comprehensive theory of human action» is the necessary starting point for the analysis of what economics is concerned with, that is, «the determination of money prices of goods and services exchanged on the market».

¹ Robbins (1932, p. 90): «If this were commonly known, if it were generally realised that Economic Man is only an expository device—a first approximation used very cautiously at one stage in the development of arguments which, in their full development, neither employ any such assumption nor demand it in any way for a justification of their procedure—it is improbable that he would be such a universal bogey».

² The Austrian School of Economics took off with the publication of Menger (1871). There is no lack of literature about its historical setting; see, among others, Ebeling (2016), Gloria-Palermo (1999), Holcombe (2014), Huerta de Soto (2000), Schulak and Unterköfler (2011), Vaughn (1994), Yu and Moon-Cheung Shiu (2011).

³ Ludwig von Mises (1881-1973) has been one of the ASE leading figures.

What is human action, then? Mises explains that «[h]uman action is *purposeful behavior*. Or we may say: Action is *will* put into operation and transformed into an *agency*, is aiming at ends and goals, is the ego's *meaningful* response to stimuli and to the conditions of its environment, is a person's conscious adjustment to the state of the universe that determines his life» (Mises, 1949, p. 11, emphasis added).

I emphasized (with an italic font) four expressions in the citation above: purposeful behaviour, will, agency, and meaningful. I will come back later to the last one, while I will now focus on the revolutionary content of the first three. Apparently, that human action is purposeful behaviour is obvious; however, the consequences of consciously recognizing this fact are significant. First, economic analysis cannot be reduced to the allocative problem (economizing); we all act with a purpose, which can be generally described as moving toward a situation that we subjectively perceive as being somehow better when compared to the present status. This means that before economizing we must choose our purpose, arising from our interaction with reality: interaction between people and between them and the surrounding world initiates hermeneutical processes—interpretational moments necessary to identify the ends we think worth striving for. And subsequently we engage ourselves with hermeneutical processes of identifying the means we think suitable in order to reach our ends. Mises' *homo agens* is perfectly described by Israel Kirzner (1973, p. 33), when he argues that instead «of economizing, I maintain, it will prove extremely helpful to emphasize the broader Misesian notion of *human action*. As developed by Mises, the concept of *homo agens* is capable of all that can be achieved by using the notions of economizing and of the drive for efficiency. But the human-action concept, unlike that of allocation and economizing, does not confine decision-maker (or the economic analysis of his decisions) to a framework of *given* ends and means. Human action, in the sense developed by Mises, involves courses of action taken by the human being 'to remove uneasiness' and to make himself 'better off'. Being broader than the notion of economizing, the concept of human action does not restrict analysis of the decision to the allocation problem posed by the juxtaposition of scarce means and multiple ends. The decision, in the framework of the human–action approach, is not arrived at merely by mechanical computation of the solution to the maximization problem implicit in the configuration of the given ends and means. It reflects not merely the manipulation of given means to correspond faithfully with the hierarchy of given ends, but also *the very perception of the ends-mean framework* within which allocation and economizing is to take place»⁴.

Kirzner, belonging to the Austrian tradition in economics, places such perspective on a different level when compared with other streams of the so-called subjectivist revolution, where we find conscious choices emerging from the interaction between people, who possess active minds interpreting their situation. But Mises talks also about will turning into agency: such an expression grasps the dynamic nature of human action (the word 'action' itself cannot but be associated with a dynamic meaning). As we have seen, the identification of ends happens through the interaction between people and reality; hermeneutical processes drive people in choosing means to reach desired ends. But ends and means need to be coordinated by the identification and subsequent implementation of a plan, and such an implementation happens only *in time*⁵.

Before discussing the vision of time associated with this framework, it is necessary to recall a second important consequence deriving from the concept of human action as purposeful behaviour, from the will turning into agency. As explained by Hülsmann (2000), and again in Phaneuf and Ferlito (2014), the concept of purposeful action—that we act aiming to be better off (and aiming does not mean succeeding), radically impacts on the idea of rationality. Mises

⁴ See also Kirzner (1960).

⁵ Kirzner (1973) applied such a framework to entrepreneurial theory. See Ferlito (2016, 2018) for an application to capital theory.

(1949, pp. 18-19) explains that «[h]uman action is necessarily always rational. The term ‘rational action’ is therefore pleonastic and must be rejected as such. When applied to the ultimate ends of action, the terms rational and irrational are inappropriate and meaningless. The ultimate end of action is always the satisfaction of some desires of the acting man. Since nobody is in a position to substitute his own value judgments for those of the acting individual, it is vain to pass judgment on other people’s aims and volitions. No man is qualified to declare what would make another man happier or less discontented. The critic either tells us what he believes he would aim at if he were in the place of his fellow; or, in dictatorial arrogance blithely disposing of his fellow’s will and aspirations, declares what condition of this other man would better suit himself, the critic».

In short, Mises argues that, ex-ante, all actions are rational, since the plans set in motion to achieve certain ends are consistent with the knowledge possessed by the agent at the moment of implementation: no plan would be implemented if it were not suitable to achieve a certain end. However, plan implementation happens *only* in time, and the passage of time changes the available content of information, bringing the possibility that the chosen course action was not the best one with respect to the chosen end. Time, in fact, is a constant vehicle of novelty and the main means through which information is carried.

It is, indeed, regarding time that the ASE developed another original approach, consistent with and necessary for the framework we are discussing. As explained in Meacci and Ferlito (2018), Hicks (1976) introduced the distinction between economics *of* time and economics *in* time. This distinction may still be used to classify models into those where time is either a *container* in which the production process unfolds, or where it is an *ingredient* that goes into this process. My preference is for the concept of economics in time, which focuses on the concepts of human action, expectations, uncertainty, and fluctuations.

As explained by Meacci (2006), different conceptions of time in economics gave rise to different paradigms: the General Equilibrium Theory (GET paradigm) and the Economics of Uncertainty and Expectations (EUE paradigm)⁶. Such a distinction is built on Shackle’s (1965)⁷ and Robinson’s (1974)⁸ attempts to go beyond a spatialized concept of time in economics, used by neoclassical economists, toward a more realistic use of the concept of time. O’Driscoll and Rizzo (1985) distinguish *real time* from *Newtonian time* and link the former to the inevitable ignorance that characterizes the process of human action⁹. What we believe to be the real context for a sound economics is historical time, which is a vehicle of novelty and a source of uncertainty. What O’Driscoll and Rizzo call real time is a further evolution of Robinsonian historical time and of Shackleian expectational time. Mainstream economics, on the contrary,

⁶ The following table, from Meacci (2006, pp. 3-4), clarifies Robinson’s distinction between logical and historical time, as summarized in Harris (2005, pp. 81-108). Regarding the link between Robinson’s approach and the Austrian vision on time see also Lucarelli (2018).

	Logical Time	Historical Time
Directionality of time	Reversibility	Irreversibility
Time intensity of action	Instantaneous	Discreteness, lags; inertia
Expectations	Self-realizing, correct foresight	Falsifiable, future unknowable
Information/Knowledge	Complete, free, symmetric	Imperfect, costly, local learning
Capital goods	Substitutability	Specificity, lumpiness
Investment	Elastic	Inertia, driven by animal spirits
Technical change	Disembodied	Embodied, path-dependent
Money/finance	Barter, passive money, complete futures markets	Active money, liquidity preference, incomplete markets

⁷ Time of mechanism versus time of uncertainty, or expectational time.

⁸ Logical time versus historical time.

⁹ See also Yu (2012).

unfolds its theory in a logical time context, what O’Driscoll and Rizzo (1985, p. 82) define as Newtonian time, a spatialized time, in which «its passage is represented or symbolized by ‘movements’ along a line. Different dates are then portrayed as a succession of line segments (discrete time) or points (continuous time). In either case, time is fully analogized to space, and what is true of the latter becomes true of the former».

O’Driscoll and Rizzo (1985, pp. 82-85) emphasize that Newtonian time has three main characteristics: homogeneity, mathematical continuity, and causal inertia. Homogeneity means that different temporal moments are simply points in space, a temporal position; nothing may happen between one moment and another. This means that homogeneous time is fundamentally static. Mathematical continuity, on the other hand, implies that time is simply a sequence of moments, which may even be different, but no change can take place endogenously. Since time is a sequence of static situations, each change must be exogenous. Causal inertia, lastly, means that nothing happens within the flow of time. There is no learning, there is no change in knowledge or adjustment of expectations. The system itself must already contain all the elements needed for it to function. It is evident that such a concept poorly represents unpredictable and dynamic human actions.

What interests us, on the other hand, is real time, a «dynamically continuous flow of novel experiences. [...] We cannot experience the passage of time except as a flow: something new must happen, or real time will cease to be» (O’Driscoll and Rizzo, 1985, p. 89). As described by O’Driscoll and Rizzo (1985, pp. 89-91), the characteristics of real time are the antithesis of Newtonian time: dynamic continuity, heterogeneity, and causal efficacy. If we consider dynamic continuity, time must consist of memory and expectations, i.e., it is structurally related moments, past and future, through the perceptions of the individual; one cannot imagine a present without memory of the past and expectations for the future; consequently, all moments in the flow of time are intimately linked and reciprocally influenced. Heterogeneity, on the other hand, means that in each successive moment the individual’s perception of the facts may be, and in fact is, different: the past, once it has occurred, becomes memory, enhancing the present and thereby also changing the perception of the future; thus the perception of things changes from moment to moment, making the characteristics of a given moment in time radically different from those of the previous moment. The direct consequence of heterogeneity is causal efficacy; the flow of time modifies knowledge, awareness, and information, thereby expanding the creative potential of human action. Yet this is possible precisely because of acquisitions made ‘beforehand’ in time. It is therefore clear that in a context of logical/Newtonian time nothing happens between the moment in which expectations are formed and the moment in which plans are accomplished. Time is just a fiction to distinguish between two different situations, but no obstacles enter to deviate the course of action. However, reality works differently.

When we allow real/historical time to be part of the analytical framework, then the picture radically changes; we move from a scenario in which nothing happens between two objective events to a new situation in which everything can happen continuously. The interaction between human beings and reality generates hermeneutical processes through which individuals form their expectations. In turn, expectations define ends and corresponding means; human action, then, consists in the implementation of plans thought to be suitable to achieve ends by the chosen means. At the very first moment in which plans are implemented, however, individuals embark on a process of mutual interaction and further contact with the surrounding reality. Such interaction is a discovery process, revealing to economic actors fundamental information about each other, expectations, ends/means frameworks, and plans. Synthetically, information is transmitted. A never-ending flow of novelty comes into play, forcing actors to continuously revise their expectations and their related plans.

But we should not forget that, according to Mises, human action is also «the ego's *meaningful* response to stimuli and to the conditions of its environment». Action cannot be isolated from the meaning it has for the subject who is undertaking it.

3 A science of *meaning*

Following, Storr (2017), we can therefore stress that to be «an [...] economist is to be concerned with meaning. If we hope to understand human action, then we must pay attention to the meanings that individuals attach to their actions, and to the actions of others, and to the various choices that they are considering, and to the possible outcomes of those choices. Ours is at root a science of meaning».

I owe the entire structure of the present paper to the lines quoted above. In reading Storr's lines I found my inspiration. In fact, if it is important to define economics as the science of human action, and if human action is purposeful behaviour, it becomes obvious that the task of the economist is to interpret those actions and try to understand their meaning, since every action is meaningfully connected with the final end it tries to achieve.

Indeed, a study of human action emphasizes that we must deal with the meaning that acting people attach to their actions. Mises (1949, p. 92, emphasis added) clearly stated that economics «is not about things and tangible material object ... [on the contrary] it is about men [sic], their *meanings* and actions. Goods, commodities, and wealth and all the other notions of conduct are not elements of nature; they are elements of human *meaning* and conduct. He who wants to deal with them must not look at the external world; he must search for them in the meaning of acting men».

By introducing the category of *meaning* we enter the world of interpretations, or *verstehen* (understanding)¹⁰, central to the analysis of human action (Antiseri, 2011, p. 7) and which is the most important novelty introduced by the German economist Ludwig Lachmann¹¹ and his followers (Don Lavoie in particular), leading toward what McCloskey (2017) calls *humanomics*¹². Indeed, *interpretation* processes must be seen as the necessary subjective link between different objective facts and events. Human actions are objective facts; they are answers to other objective facts, constituting the elements of reality. However, how such answers are defined is totally subjective, the outcome of interpretation processes, which we can define as hermeneutical actions. As explained by Bellet and Durieu (2004, p. 236), «the relationship between objective economic variables or 'business situations' and expectations depends on the interpretation which the agents give to the former». This is what Lachmann called the subjectivism of active minds. Such a perspective does not deny the objective nature of reality; however, the nature of the response to objective elements is exquisitely subjective and ontologically hermeneutical.

It is now clear how subjective hermeneutical processes constitute the necessary link between objective facts. Without the interpretative moment, reality could not take shape because no action would be decided. As mentioned above, Lachmann built such an approach upon Mises' hints. Storr (2017) reminds us that the importance of meaning, understanding, and

¹⁰ As explained by Di Iorio (2015, p. 178), «[v]erstehen [is] the idea that the ultimate causes of social phenomena must be sought in the meanings individuals attach to their actions and which result from mental interpretative processes».

¹¹ Lachmann (1986, p. 3) reminded us that Austrian research main aim «ever since Menger, has been to *understand*, and not merely give formal express to, what men do in markets».

¹² Following Wilson, McCloskey (2017) suggests that «economists might better walk on both feet. Yes, to be sure: let us also walk on the behaviourist, positivist, quantitative foot [...] But then let us walk also on the other cognitive, hermeneutic, qualitative foot».

interpretation is found in Mises and Hayek: «As Mises (1998, 26) argued in his magnum opus *Human Action*, ‘we cannot approach our subject if we disregard the meaning which acting man attaches to [his] situation.’ And, as Mises (1998, 51) also explained, ‘the task of the sciences of human action is the comprehension of the meaning and relevance of human action.’

Hayek echoed Mises’ position. In *The Counter-Revolution of Science*, Hayek (1952, 31) wrote that ‘unless we can understand what the acting people mean by their actions any attempt to explain them ... is bound to fail.’ If we hope to explain social phenomena, if we hope to make sense of the world, we must be concerned with what people think and feel, with their assessments and valuations, with the way that they see the world and their place within it, and with the importance they place on particular relationships, particular rules, particular places and things, as opposed to others».

What does it mean that economists deal with meaning? Their main task is attempting to understand purposeful human actions, and thus «the emergence of social phenomena, [...] the opinions and beliefs that guide individual decision making» (Storr, 2017). And Storr (2017) himself reminds us how Hayek (1952, p. 27) explained that «the things *are* what the acting people think they are» and that «the facts of the social sciences are merely opinions, views held by the people whose actions we study» (p. 28). This approach, rooted in Menger, Mises, and Hayek, and developed by Lachmann, is called radical subjectivism¹³. Following such a perspective highlights doing economics different from the ‘mainstream’. Indeed, it means, «defining benefits in terms of private valuations, and defining costs in terms of individuals’ perceptions of their foregone opportunities, and recognizing that it is people’s personal interpretations of their past and present as well as their private expectations about the future that impact their actions, and understanding that the rules that guide people’s actions are what people think they are (and not the rules as they are written on parchment)» (Storr, 2017).

What does this mean for doing economics? Firstly, replacing *homo oeconomicus* with *homo agens* and Newtonian time with real time means being conscious that there must be a link between economics and reality, that formal rigor cannot be preferred to a higher degree of understanding reality. Hayek (1974, pp. 43-44) wrote: «I confess that I prefer true but imperfect knowledge, even if it leaves much indetermined and unpredictable, to a pretense of exact knowledge that is likely to be false».

This means also that economics cannot be deterministic; it cannot follow «the idea that everything that happens must happen as it does and could not have happened any other way» (Fullbrook, 2016, p. 1). If our science were deterministic, it would not be a science of human action, but just a science of human reaction, which is precisely what happens when we introduce the fictional model of *homo oeconomicus*. As explained by Madi (2018, p. 202), an «approach to the hermeneutic process rejects the determinism of natural laws and the primacy of the Newtonian time. As a result, the use of the expression ontological uncertainty [...] reveals that the pretensions of absolute certainty are abandoned since real economic relations are not strictly causal and governed by a system of absolute laws. In fact, the ontological uncertainty corresponds to a real world view where the world of economic experiments present novelty in the flow of time».

Our human experience tells us that different persons react differently when facing the same situation, and even the same person can react differently when the same situation presents itself in different conditions of time and space. Time and space¹⁴ matter. Reality is not shaped by reactions whose content is a priori determined by the faced situation. Rather, the future is moulded by how people interpret their reality; the action following such interpretive processes will entail intended and unintended consequences. As stressed by Storr (2017), life is

¹³ Lachmann (1986, p. x) stressed how radical subjectivism is characterized by the extension of subjectivism to «expectations and [...] interpretation of current events».

¹⁴ On the importance of space see Andersson and Andersson (2017).

characterized by open-endedness; we all face choices, determined by the specific content of information/knowledge available (in a unique way for the individual) in a precise condition of space and time. A direct consequence of this is that we cannot look at macro phenomena while ignoring their microfoundations, as masterfully explained by Horwitz (2000) with reference to many aspects of economic theory and policy.

It is therefore clear that, while market players are continuously involved with interpretational processes in an attempt to understand reality, economists themselves must deal with a different type of hermeneutical activity: the understanding of the meaning of human actions in the market and of the unintended consequences which go beyond players' intentions. Therefore understanding is not limited to how players act. Their actions surely involve hermeneutical processes, but we should add, as explained by Prychitko (2018, pp. 162-163), economists' interpretation and the visions subsequently emerging from them. «But the hermeneutical act that we economists engage in does not reduce meaning to original intentions or plans of the actors alone. We see something that goes beyond the actors' views of the matter. That is the Gadamerian element that I cannot find in Lachmann's discussion [...] there is more to the story than simply a purchase plan and sale plan have successfully occurred. And so, of course, we may also draw further lessons (meaning) from this simple purchase at the grocery store that the actual participants do not see – the goods are moving toward higher-valued uses, the overall market is becoming better coordinated by placing the items on sale, and so on. The 'mere' acts of buying and selling (strictly recognizing only the plans of the participants) are part of a process with a more central lesson – meaning – that we emphasize to our students: the unintended coordination of the market order. We wish for our students to take our theoretical interpretation seriously. The economist's lesson, while recognizing 'the plan' of each actor, has something more to say, has something greater to focus on, has a deeper 'meaning,' in fact a meaning that even the individual participants might not understand themselves. The buyer merely speaks of having bought groceries on his way home from work. The seller merely speaks of cutting her price to move some unsold inventory. We speak of a process of greater market coordination and spontaneous economic order».

Such a way of doing economics contravenes the prevailing method in academia, but a rising discontent about mainstream economics is opening more spaces for various heterodox approaches, included the one discussed here.

4 Conclusions

In this paper, placing human action as purposeful behaviour at the core of economic analysis, and following the tradition developed inside the Austrian School of Economics, I have expanded the traditional scope of economics (economizing and equilibrium) to include not only decisions within a given means/ends framework, but the definition of such a framework itself. In doing so, I have emphasized the role of active minds in interacting with the surrounding reality in the realm of real time. This framework brings as a consequence a non-deterministic approach, based on the recognition of the dispersed and ever-changing nature of the knowledge possessed by individuals. The future, therefore, should be understood as radically open-ended.

Working with this perspective in mind, it has to be understood that economics is thus a science of meaning, and «an economics without meaning is incapable of understanding economic growth, business cycles, or many other of our profane mysteries» (McCloskey, 2017). This is not only because individuals under investigation are constantly engaged with interpretative processes about the world around them, but also because economists try to understand and interpret the meaning of the actions under investigation, in order to grasp their wider unintended consequences.

By being exposed to these ideas, economics students will realize the possibility of doing research equipped with a general framework suitable for application to all possible human actions, which lie at the very root of any micro and macro theorizing. Such a framework, moreover, has proved itself able to grasp the nature and meaning of reality, rather than cage it in fictional models.

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