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**Rationality, hermeneutics, and communicational  
processes.  
On L. Lachmann's approach of hermeneutical economics**

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Für den Inhalt der Papiere sind die jeweiligen Autor verantwortlich.

## **Rationality, hermeneutics, and communicational processes. On L. Lachmann's approach of hermeneutical economics.<sup>1</sup>**

Only a few economists knew about hermeneutical economics.<sup>2)</sup> But my request is to confirm hermeneutical economics only for the reason to make it criticable. Without any doubt, hermeneutical economics is worth to be criticized; but it is an incomplete approach. The first part presents Ludwig M. Lachmann's version of hermeneutical economics. Lachmann is picked up from the scenario of hermeneutical economists (i.e. Ebeling, Berger, Lavoie, some authors of Kirzner 1986, etc.), because he is the most prominent one of this small group. His approach is more typical than original, but a profound basement for our handling with the rationality-problem in economics. The second part analyzes some critical issues of this approach, touches some methodological problems, and ends with some helpful reasoning on the relation of hermeneutics and economics.

### **The hermeneutical approach of Ludwig M. Lachmann**

1. Man make plans (Lachmann 1990, 135). Plans "are based on, and oriented to, means available and ends free chosen" (135).

In his definition Lachmann makes a difference to the usual theory of rational choice, wherein "action is ... confused with mere reaction. There is no choice of ends. Given a 'comprehensive preference field' for each agent, what is there to choose? The outcome of all acts of choice is here predetermined. In response to changing market prices men perform meaningless acts of mental gymnastics by sliding up and down their indifference curves. All this is far removed from meaningful action in our 'life-world'"(135; see also 144).

Lachmann's critical meaning about the usual theory of rational choice depends on the assumption of a given preference order, which has to be established in the individual before starting the genuine act of rational choice. If each agent has such an order, his potential choices are indeed predetermined. He only has to adapt his preordered preferences to the 'given' respectively available alternatives in a situation. In this perspective the rational choice is nothing else than an actualization of preferences regulated by the appeared alternatives.

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<sup>1</sup> Dieses Manuscript ist älteren Datums (1995), und wird veröffentlicht als zitabile Ressource für das Forschungsprojekt ‚Nichtwissen‘ am Exzellenzcenter der Universität Konstanz.

<sup>2)</sup> There is a new discussion about hermeneutics in economics (Berger 1989, 1990; Ebeling 1986, 1990; Lachmann 1990; Lavoie 1990a; Lavoie 1990b; see also the defence of Madison 1988 and Gordon 1990 against Albert 1988 and Rothbard 1988. Other propositions for hermeneutical social sciences see: Hart 1961; McCormik 1981; Taylor 1985; (with certain restrictions) Buchanan 1987; Kliemt 1990, pp. 107 ; McCloskey 1990; Esser 1991; Hollis 1991).

Lachmann, a scholar of Mises, was confident with the older hermeneutical influences on economics - especially those of M. Weber. We can add F. Machlup (1978) and F.H. Knight (1940), nobody still knows about their hermeneutical tendencies. Lachmann prominently was influenced by A. Schütz, who came from the Husserlianian phenomenology (but see also the influences of Husserl on Mises (Smith 1986)). So we have to know about two philosophical influences on economics - the hermeneutical one and the phenomenological one -, which flow together in the so called 'Modern Austrian Economics'.

Indeed, this view is incompatible with the Lachmannian "voluntaristic theory of action", wherein "man is ... a bearer of active thought" (136; see also Buchanan on "active choice" (Buchanan 1987, 69)).

2. "Actions guided by plans causes economic phenomena" (136).

Plans can be fulfilled or not, but they are results of a free will. Lachmann explicitly labels his conception "a voluntaristic theory of action" (136) to stress the radical subjectivistic component of Austrian Economics. He uses the word "will" not in his main arguments, but he intends its use by contrasting his "voluntaristic action theory" with the mere 'behaviouristical' one of the neoclassical standard. His theory is based on the will of the individuals to do that, what they want and nothing else, restricted only by the available means.

But this is just the first step; in a second step Lachmann gives another restriction: the individual's will has to be meaningful. And in a third step the second restriction becomes restricted: Lachmann embeds the individualistic meaning in the Schutzian 'life-world' ('Lebenswelt'). The individual's meaning is founded in "our commonly everyday world" (138).

3. "Action consists of a sequence of acts to which our mind assigns meaning" (136).

It is this definition which opens the door for hermeneutics. Lachmann makes a difference between the scientist's and the actor's interpretation of the situation. "As social scientists we have to no right to substitute our own arbitrary design for those which are implicit in action shaped by the human will - 'designs' here lending expression to it's intrinsic meaning" (136; see also Kliemt 1990, pp. 113). To get to know the actor's meaning is to interpret them by the scientist: "phenomena of human actions, ... , display an intrinsic order we dare not ignore: that which the human actors assigned to them in the making and carrying of their plans" (136). In this sense hermeneutics means nothing else than to be able to interpret the situation of action by getting to know the interpretation of the situation by the actors themselves (or to take the participant's attitude (Strawson 1974<sup>3</sup>)). And not by a normative scheme of rational choice, which is not in the meaning of the actors, but attributed to them by the meaning of the economic scientists.

4. "Most economic phenomena are observable, but our observations need an interpretation of their context if they are to make sense and to add to our knowledge" (138).

Here Lachmann changes his position: from first demonstrating the relevance of the individual's interpretation and meaning, now he goes back to the scientist's (or observer's) position, asking how to make correct observations. In arguing again against the neoclassical theory - "its level of abstraction is too high" and "the paradigm casts no light on everyday life in an industrial world" (both 135) -, Lachmann puts forward the "interpretative turn" (138):

"Our empirical knowledge of economic phenomena obtained by observation must in any case be interpreted as embedded within this context. Elucidation of their meaning cannot here mean that the economist as outside observer is entitled to assign to them whatever

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<sup>3</sup>) To give another definition - by a legal theorist: "By a hermeneutic approach I mean one which seeks to explain human actions, practices, etc. through an interpretation of the meaning they have for those who take part in the actions, practices, etc." (McCormik 1981, 29). And H. Kliemt adds: in a hermeneutic approach "human actions are to be explained by referring to the intentions and perceptions the actors have in the action situation" (Kliemt 1990, pp. 107).

meaning suits his cognitive purpose. It must mean elucidation of the meaning assigned to them by various actors on the scene of observation within this context of intersubjective meaning" (139).

'Meaning' is the central category in Lachmann's hermeneutical approach; another one is 'orientation' (140, 141). No acceptable observation of economic phenomena can be done without any regard on the meaning of the various actors. In a passage analyzing institutions, Lachmann explains his approach with greater details:

"Although we can observe their operations, our observations cannot disclose to us what meaning their objects have to those enmeshed in them, a meaning that varies from group to group and over time. It is impossible to elucidate such meaning until we realize that the mode of existence of institutions corresponds to, and varies with, the mode of orientation of those who participate in them. Such a mode of orientation is an element of culture, a web of thought - open to interpretation but not measurable" (140).

Two terms of both last citations are significant: "the web of thought" (of culture) and "intersubjectivity". Both terms are not explained; for Lachmann they both seem to be rather evident. The "web of thought" is correlated with the "context" stressed before. Nobody's meaning, if presented in interaction, is absolutely private; to mean something is to make it understandable for the others. It is a public good. Insofar 'meaning' is generally a meaning in the context of the semantics of language.<sup>4)</sup> "The web of thought" itself contains a certain kind of "intersubjectivity". In remembering the Schutzian concept of "life-world", Lachmann interprets "intersubjectivity" as "our commonly everyday world" (138). In the reversal "intersubjectivity" also is a certain kind of "context": "all human action takes place within a context of intersubjectivity" (138).

This is nothing else - and now I am starting my own interpretation of the Lachmannian hermeneutical approach - but Wittgenstein's "language game". From this point of view the 'meaning', stressed by Lachmann, is no private or individualistic meaning but a cultural or intersubjective one. It is "our commonly everyday world (the Schutzian 'life-world') in which the meanings we ascribe to our own acts and those of others are typically not in doubt and taken for granted" (138; for Schütz see: Schütz 1973, 1976). All actors are members of the language game with its commonly shared intersubjective meanings. The result differs from the usual rational choice conception, **because the 'interpretative turn' assigns a massive interdependence of the individuals actions by their common meaning of life-world.**

Problems will arise when life-world change, and the language game too. Changing semantics are not observable in a crude empirical manner, but easily to communicate.

The term "communication" fails in Lachmann's hermeneutic approach. This failure is significant for the construction of his approach; but of which significance? On the other side, "communication" can solve some of the unsolved problems of the hermeneutics of economics; but what is leaved unsolved by the hermeneutic approach?

The step from "intersubjectivity" to "communication" Lachmann was not able to go, because of certain restrictions in his hermeneutical theory. Evidently **the first restriction we find in his passive form of intersubjectivity.** There is no active form of interaction, but only a back-

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<sup>4)</sup> In another interpretation see also: Taylor 1985, chap. 10, pp. 258. And: Berger 1990, pp. 268.

ground scheme of a common "web of thought", Mary Douglas has called (in the tradition of Durckheim and L. Fleck) "styles of thought (Denkstil)" or "collectives of thought (Denkkollektive)".<sup>5)</sup>

The "web of thought" works like an intellectual mirror, the economist has to look in to see what the individuals would like to behave. Lachmann's plea for the analysis of the different meanings and orientations of individuals and groups - especially in market theory and price formation (145), in institutions (139 ff.) and there specially in financial institutions (139) - ends with the plea, to start to analyse it. The rest is mere empirical work. But are we content with his theory?

In some parts Lachmann's interpretative turn is senseful; in point (4) we read about that "our observation need an interpretation of their context" (138). This is a classical hermeneutic topic: we have to analyse the problems of interaction as historical, local problems - in their 'context'. Contextual solutions differ from schematic or general one's. From this point of view the individual's action is no answer to a situation in the manner of schematic rationality, but a form of "expressive rationality"<sup>6)</sup>, which is expressed by the individual's meaning, to wish to do this and nothing else, weighted by the available means: his 'plan'. I would like to use the term 'expressive rationality'; it is a mere adequate translation of the meaning of 'meaning' in action theory, because the expressive element represents the aspect of meaning, and the rationality-element represents the individual's reflection about how to realize the ends of the plan with the available means. The term 'meaning' interpreted as 'expressive rationality' contains both - the emotional aspect of the free will and the rational aspect of the actor's allocation of means and ends. Let us have a short look on Lachmann's interpretation again:

"The fundamental flaw of neoclassical methodology lies in the confusion of action with reaction. Man in action is seen as a bundle of dispositions and not a bearer of thought. What difference does it make if we observe rather than ignore these distinctions? In action we reflect on means and ends, trying to fit the former to the latter, make plans and carry them out. As our ends lie in the unknowable (albeit not unimaginable) future, we have to exercise our imagination in reflecting upon them, and such exercise is incompatible with mere 'response to stimulus' or even the 'decoding of signals' (144, citing Shackle (see: Shackle 1972)).

The economic man is seen as a reflective person, making his plans by his own will, not by a quasi-behaviouristic behaviour. It is another view of economic man, pointing out his active or free handling of the issues of the world - even more a homo creator than a homo oeconomicus. To work with this view of economic man, economists have to model even more elastic economic theories, with regard of the circumstances of any actioning. Hermeneutical economics is a wide-spreaded complex of theory, describing a multitude of markets and market situations, interpreted by the concrete meanings of the concrete actors. That is all; but is it enough?

## **Further evidences on hermeneutical economics**

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<sup>5)</sup> Douglas 1986.

<sup>6)</sup> Hollis 1991, 34 f.

Let us have a little more evidence about the differences of the so called neoclassical methodology of rational choice and Lachmann's hermeneutical approach:

I. the rational choice approach is characterized by

**free choice between determined alternatives;**

II. the hermeneutical approach - as a 'voluntaristic theory of action' - is characterized by

**choice of (available) means, determined by the free choice of ends.**

There is a real difference: in (I) the ends are not choosable, but in (II).

What are 'ends'? 'Ends' are not identical with preferences. Preferences are the individual's wishes and wants, ordered in a profile of preferences before they can be actualized in a specific situation by corresponding alternatives. A situation is defined as the appearance of alternatives which can be chosen by the individual's criteria of preordered preferences. These preordered preferences are the "bundle of dispositions", Lachmann is critical of in regarding the rational choice conception. In this view only those preferences of the preordered set are relevant criteria for the rational choice, which corresponds in a certain way to the alternatives given by the situation. Lachmann is right, when he denies this process as a free choice; there is only a restricted choice of one best alternative from a set of pre-given ones ('given' by the situation). The actor only can choose this best alternative, which is among the pre-given ones. Insofar the horizon or the frame of his choice is determined by the situation's supply of alternatives. This supply of alternatives (by the nature of the market process), its 'givenness', works like an objective condition for the subjective choice of its best alternative. In this way, the subjectivity of the 'methodological individual' is half-determined by the situation.

In difference to this theory of passive action Lachmann operates with a radicalized theory of subjective active action<sup>7)</sup>, wherein the actors are able to realize all plans, they want to realize. To choose the ends is a free act of the individuals (II). What is gained with this activated theory of action?

The theory of rational choice is a realistic model (in an epistemological sense). The 'givenness' of the alternatives, their objective existence as a supply of the situation, excludes all imagined alternatives. Corresponding to the realism of alternatives also the preferences are 'given'. It is without any doubt, that the individual has preferences (as a fact of life), we have to interpret the rational choice model. And the rational choice as the bridge between preferences and alternatives of the situation has only to bring together two different facts: the internal fact of wants and wishes of the individual and the external fact of some given alternatives in a situation. The rational choice procedure itself is nothing else but a kind of actualizing the potential preferences by the chance of the appeared alternatives (- a rather metaphysical conception).

In contrast, the Lachmannian hermeneutic model has no realistic assumptions. It operates with imaginations (144, cit. above; but see also Buchanan 1987, 78). The Austrian actor of the

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<sup>7)</sup> J.M. Buchanan uses the same arguments: "The person who initially imagines some postspecialization, postexchange state and who acts to bring such a state into existence must engage in what I shall here call 'active' choice. He must do more than respond predictably to shifts in the constraints that are exogenously imposed on him" (Buchanan 1987, 69). On 'active choice' also: Kliemt 1990, pp. 101.

Lachmannian type has an idea, he wants to realize. To have an idea is an act of thinking, before the actor can reflect any situation. The reflection of situations is another word for 'to interpret the situation'. The free chosen ends are the criteria for the interpretation of the situation. Situations - in contrast to the neoclassical definition - here are defined by interpretable alternative means. Interpretations are not 'given', but to make.

Not every situation is accepted for the proof of adequate means for the individual's end. Ends are not, like preferences, disposed for finding best alternatives in every situation. Choosing ends is a free act. Some of these ends may be given by the situation, many of them not; they are created by thought or imagination independently. To look for or to interpret means for the end is an active process of evaluating the available means. This process can fail. Not so the rational choice process, who is normatively organized to realize in every situation a best choice.<sup>8)</sup> As there is no other criteria as the alternatives, given by the situation and the pre-ordered preferences, the rational actor is necessarily needed to choose in every situation his best. Not to choose in a situation is only allowed by the absence of any preference or by the non-giveness of any alternative. Otherwise the rational man acts irrational.<sup>9)</sup>

Now we are prepared to make a fundamental distinction between the two theories of action stressed before. The rational choice approach (I) is assigned by 'bounded perception', the hermeneutical approach (II) by 'free interpretation'. In (I) the rational actor has to choose that alternative (as the best one), which he can perceive as the unique correspondence of his (in principle unlimited) preferences and one of the given alternatives. Perception - of this sort - is a passive or bounding mode of man's behaviour: **a form of reception of something given, and not a free choice of ends.**

For the hermeneutical approach of human action (II) there is nothing to be given, but the imagination of the end, the individual wishes to realize. This is to give a meaning to an potential action. The evaluation of the right means for the defined end is an act of interpretation. The availability of the means is in no way comparable with the givenness of alternatives of a situation, because it is not possible to come into existence for the means without the intention of the free chosen end. Availability is positively correlated to the intention of the action, its end. Without any directed intention<sup>10)</sup>, nobody knows, what should be available for the end. Insofar the interpretation of means is an active procedure, weighting some alternative means by looking for its availability.<sup>11)</sup> The choice of means, we can conclude, is determined only by the ends, not by a certain givenness as in the rational choice approach.

This fundamental distinction between 'perception as reception' and 'end-guided interpretation' has some consequences for the workability of the approaches. **The rational choice approach**

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<sup>8)</sup> Priddat 1994.

<sup>9)</sup> On rational choice as a normative theory: Priddat 1994.

<sup>10)</sup> Directed intention ('gerichtete Intention') is the Husserlian term for that, Lachmann has called 'meaning' ('Bedeutung').

<sup>11)</sup> Indeed, the term of 'availability' is misunderstandable. There could be an interpretation, which persists on an objective meaning: to speak about 'available means' is to speak about an objective restriction of means. But who interprets the objective restriction of the means? Nobody else than the actor himself. He is not able to say, this mean is available, this not, if he does not know, what he wants. A mean only is available in the light of the orientation of the end.



**is fixed on cognitive processes (and opens economics for psychology), the hermeneutical approach on interpretative processes (and opens economics for communication).** 'Interpreting the situation' by the choosing individual is not an isolated cognitive procedure by the individual itself, but interwoven in the language's semantical network. A hermeneutical interpretation of the 'interpretation of situations' in decision-making shows the influences of 'common-sense'-semantics. Insofar, the individuals rational choice-process is no process separated from the society's public meanings.<sup>12)</sup> To reconstruct an adequate understanding of interpretational processes in decision-making may be the chance to open the economic theory for communicational processes.

## **Some epistemological problems**

We are remembering from above, that Lachmann gives his hermeneutical approach an intersubjective turn. We are remembering too, that his idea of 'intersubjectivity' was of a kind of interrelated meaning of all actors. Insofar Lachmann here stands in the tradition of A. Schütz. All men are born into an ongoing social world "already containing commonly shared structures of intersubjective meaning".<sup>13)</sup> They define objects and situations, relationships and feelings.<sup>14)</sup> "This commonly shared world enables individuals to understand both themselves and others as manifested in various words and deeds".<sup>15)</sup> Without using this term, Lachmann operates with a Schützian 'ideal type'. "The 'ideal types', as developed by Schütz, serve the role of explanatory schemata for the purpose of interpretative understanding in the concrete social world of everyday life; ... Similar 'ideal typical' explanatory schemata tacitly exist in the minds of social actors and serve as the basis upon which individuals are able to form expectational judgements as to the meanings of others with whom they interact. They enable each individual to both understand and anticipate to varying degrees the likely conduct of others in alternative circumstances".<sup>16)</sup>

It is easy now to understand better the kind of intersubjectivity, Lachmann has meant: it is identical with the "commonly shared structures of intersubjective meaning". In being able to interpret the others as 'ideal types', the economic actor participates in social knowledge without knowing the others personally. He is able to understand, that is to anticipate their behaviour in an average meaning by knowing the design or pattern of the behaviour of the 'ideal type'. Insofar 'understanding' is a standard element of individual behaviour: we classify the others as 'ideal types', and, with a certain degree of confidence, we are enabled to predict their typical movements - as quasi-laws of action. It is like to know what the others intend to do.<sup>17)</sup>

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<sup>12)</sup> See also: Berger 1990, in interpreting Ch. Taylor (Taylor, 1985, paper 10)

<sup>13)</sup> Ebeling 1990, 187, in interpreting A. Schütz.

<sup>14)</sup> Schütz 1973.

<sup>15)</sup> Ebeling 1990, 187.

<sup>16)</sup> Ebeling 1990, 187; see: Schütz 1976.

<sup>17)</sup> Another approach of hermeneutical economics does not operate with 'ideal types', but with rules (Kliemt 1990, pp. 107), which have the same function as the 'ideal types'. They work as objective references for the subjective meanings.

In this way, hermeneutical economics becomes more concrete than neoclassical economics. Hermeneutical economics has to analyse the relevant 'ideal types', which are commonly used in the economy to understand the behaviour and the possible action of the individuals. Hermeneutical economics tends, systematically, to become closer with the realm of sociology. Above we made an analogy of Lachmann's intersubjectivity with Wittgenstein's language games. Obviously both conceptions are interrelated. In Wittgenstein's theory 'understanding' is the analytical reconstruction of life-worldly bounded rules, which result of the obligatory practice of language. The factual use of language is an expression of an obligatory and intersubjective language game, which represents at the same time a form of life - or life-world - adequately. In reconstructing the language game, we are able to 'understand' the form of life (and their actions). That is why the rules of the use of language represents at the same time the rules determining the meaning in the practice of life. Here the hermeneutical method becomes relevance for the social sciences. The patterns of action and behaviour produced by the rules of the intersubjective use of language are to understand by analyzing these rules. The 'ideal type' (in the Weberian and Schützian sense) are substituted by 'rules'. Rules are the central category of games. The language, interpreted as a game (in the Wittgensteinian sense), is a social institution, evolved by the intersubjective practice of life of the members of society. If we would analyze the rules of the language, we would be able to understand the patterns of behaviour. This is obviously relevant for the economic theory. For every market, i.e., we have to analyze the use of language of the participants, in other words: **we have to analyze, how they do communicate together.**

If we would do so, we would be astonished about the result: in every market the actors have another vocabulary, other orientations, other criterias to behave. In every market are other phenomenona to understand, other meanings. Let us take an example. The only disturbing element are the young men and women, which were trained in economics at university. They use an unified vocabulary, mostly of the neoclassical standard, which guides them to translate all the specific phenomenona of the different markets and their different problems in the language of 'economics' - often enough with bad results: they do not understand, how the market operates, because they are blinded by their normative approach to see only the 'economic laws' of highly abstract quality. And they are not able to communicate with the other actors easily, who do know the market and their specificities. So they have to learn the meaning of these specific phenomenona, that is they have to learn a new language, which is only partly identical with their 'economic language'. This fact is the reason why many firms train their young beginners in an way, they have to forget their 'economic language' und to begin to understand the real world phenomenona of economics. They do learn to tell another story about economics, to be able to communicate with the real actors (and to become one of them). "We must study economic agents attending to their worlds, not economists".<sup>18)</sup>

If we do agree with this, we are in the midsts of the interpretation of "economics as rhetorics" of D. McCloskey.<sup>19)</sup> McCloskey gives the hermeneutical debate in economics another, methodological turn: the belief of scientific methods in economics is nothing else as storytelling, as well as in literature.

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<sup>18)</sup> Berger 1990, 274.

<sup>19)</sup> McCloskey 1985, 1990.

This line of methodological argumentation is a result of some philosophical debates on the problem of *erkenntnis* (cognition) - as a problem, and not as a solution.<sup>20)</sup> These critical ideas on *erkenntnis* are consequently developed from the Fleck/Kuhn/Feyerabend-line on the conditions of truth in science: there is no truth of scientific sentences but by the consent of the scientific community. In R. Rorty's work on this issue, having some pragmatistic roots too, every theory of society belongs to a contingent consent, which is not based on a certain kind of 'collective choice' or anything else, but on a well told story of some evidence.

Hermeneutics, in Rorty's meaning, is no strategy to discover hopefully an already existing basement of knowledge like the programm of *erkenntnis*-theory (the philosophical theory of cognition), but a bare hope for consent or at least for interesting and fruitful non-consent.<sup>21)</sup> The *erkenntnis*-theory regards the hope for consent as an indicator of the existence of a commonly basement, which is not needed to be known by the scientists, and which unite them to common rationality. For hermeneutics it is rational to be willing to omit *erkenntnis*-theory - that is not to mean that all contributions to a conversation are to be made in a specific notion or code -, and to be willing to learn to understand and to use the jargon of the partner of conversation instead of translating the jargon in the own one. In contrast, for *erkenntnis*-theory it is rational to find the right terminology, all contributions to the conversation are to be to translate into for making consent possible. Every conversation implicately is for the *erkenntnis*-theory a scientific contribution. Inversely, for hermeneutics science is conversation by routine.<sup>22)</sup>

What is new in McCloskey's Rortyan interpretative turn?

Economists, like poets, tell stories about things which become economic phenomena by the story itself. Many stories can be told. The methodological implication of this approach bases on a philosophical idea that there is no truth but by stories evidently told. Personally McCloskey is convinced of the evidence of neoclassical theory (as a 'Chicago-boy'). But it is unimportant for methodology. Evidences can change.

McCloskey interpretes the construction of theory as a poetic act which produces a coherent story. Coherence is no attribute for science exclusively. Inversely, science is coherent because it is a well done story. To say: 'this scientific sentence is true' is to ascertain oneself as an auditor, who beliefs in the story (and not in others). To belief in a (scientific) story is to understand it. To make a story understandable is to tell it in a commonly shared language game (with it's intersubjective meaning) - but with a little, but significant difference.

To tell a story evidently is to tell a new story, which changes the seemingly codified semantics in a certain way.<sup>23)</sup> This is the essential of the attributed poetic mode: to invent some new

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<sup>20)</sup> Davidson 1980; Rorty 1979.

<sup>21)</sup> It is a difference to J. Habermas' hermeneutical conception of 'communicative action': a rather normatively constructed approach which tries to show that consent has it's own rationality (see Wisman 1990). Habermas' and Rorty's idea of 'communication' are not compatibel. We will show that at the end of this article, discussing another communicative approach: the system theory of N. Luhmann.

<sup>22)</sup> Rorty 1979, chap. VII, 1.

<sup>23)</sup> Suber 1991.

rules of commonly shared semantics, giving chances for new actions and new interpretations of situations.

Economics is a twofold phenomenon: (A) there are rules and the behaviour of 'ideal types', like in the hermeneutical conceptions of Weber, Schütz and Lachmann i.e. But we also have (B) to deal with un-typical actions, specially with actions concerning innovative investments, but principally with all types of actions confronted with uncertainty.

Part (B) describes the phenomenon of 'novelty'. 'Novels' are stories nobody has ever heard before. It is not the place here to analyze the problem of novelty more profoundly. But one aspect of it is important for hermeneutical economics: something what was never before thought or spoken, cannot evidently be a part of the existing language game. Insofar innovations are novelties without any conventional meaning. It can be done under the rule, but also it can change the rule itself, nobody knows before. Real novelties are new stories, one actor is able to tell us. McCloskey's methodological contribution for the construction of theories now enables us to look at the actors as creative or inventive men, which behave as scientists in developing a new theory: they develop a new practice of actioning, and a new rule of language.<sup>24)</sup>

This result is a contradiction to Lachmann's definition of 'intersubjectivity', we cited above as "our commonly everyday world ... in which the meanings we ascribe to our own acts and those of others are typically not in doubt and taken for granted".<sup>25)</sup> This definition of intersubjectivity is an institutional definition; it is necessarily needed for the existence of 'ideal types' and rules of conduct and language. But it is a problem to assign markets as institutional arrangements of rather high stability in rule and conduct. Lachmann's definition of 'intersubjectivity' may be specially constructed for his intention to analyze institutions. But as he counts 'firms and markets' as institutions<sup>26)</sup>, he must be aware of the fact of novelty.

Principally we have to concede the presence of novelty in Lachmann's approach. In his definition of "plans ... based on, and oriented to, means available and ends free chosen"<sup>27)</sup>, the free choseable ends are the methodological entrance of novelty. The individuals are allowed to choose all ends they are convinced of; "we have to exercise our imagination in reflecting upon them".<sup>28)</sup> But only those 'imagination' get practical value which are reflected by 'available means'. This is the bridge from novelty to conventionality in the form of 'commonly shared structures of intersubjective meaning', we had interpreted Lachmann's approach in terms of Ebeling's hermeneutical approach. New or innovative actions are to understand by the others only by making a connexion with their existing language game.

But in this conclusion the existing semantics and meanings are allowed to 'interpret' the new meaning (which cannot be an element of the existing one), a rather conservative operation,

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<sup>24)</sup> Or, as P. Suber says: they change the norm (of the use of language) by injuring the norm (Suber 1991, pp 191).

<sup>25)</sup> Lachmann 1990, 138.

<sup>26)</sup> "Firms and markets, after all, are institutions" (Lachmann 1990, 139).

<sup>27)</sup> Lachmann 1990, 135.

<sup>28)</sup> Lachmann 1990, 144.

which does not promote the market (and the individual) forces of innovation. Lachmann's hermeneutical economics are designed ambiguously: with the free choiseable ends innovations are possible, but with the intersubjectivity of a rather conservative mode they are restricted.<sup>29)</sup> There is only one solution by making the Lachmannian intersubjectivity more elastic. We have to forget the very idea of intersubjectivity as an institutional 'stock of meaning', accumulated by the society (or it's subdivisions), and to promote another idea which is able to show intersubjectivity as a changing institution of economic life, specially of it's meanings. It's changeability is a central category for markets as institutions (if we want to operate with innovations and other novelties). Perhaps Lachmann is aware of this problem, but he does not speak about in his essay of 1990.

Hermeneutics, in the sense of Rorty, is to try to understand the understandable, but with a certain, but significant restriction: hermeneutics is the study of non-normal discourses from the standpoint of normal discourses. That is to try to connect something with a good sense in a state of uncertainty of this sort, we are still not able to describe or explain yet.<sup>30)</sup> Insofar hermeneutics is even better to use for innovative processes than for the stable rules of conduct, society has developed in past to presence. But if it is so, we have to become critical against the very process of understanding in the Lachmannian version, because Lachmann is concentrated on the meanings of a "commonly shared world".

### **Some critics of hermeneutical economics**

At the presence of innovative actions, we are not able to predict anything. The future is unknown. "We neither can know what we once will know nor can we know what a golden innovation could be like and how it may change expected payoffs. Could we know, we would know the innovation already and it would cease to be one".<sup>31)</sup> Having observed an innovation, and having observed it's acceptance by the market respectively by the other actors, we are only able to interpret it ex post in a right manner. Only guided by the idea of 'ideal types', often we may be surprised by their un-typical behaviour in the case of innovation. So we have to be aware of a 'potential surprise' in any action, we would like to predict. But if this is right, how can we belief in understanding the actors behaviour by interpreting them as 'ideal types'? The strong idea of the hermeneutical conception of 'ideal types' demands for a kind of innovation, which is itself an 'ideal type' (like the 'Schumpeterian entrepreneur'). But this is a paradox. Innovations are not to submit under a rule. The rule-guided part of behaviour, hermeneutical economics likes to analyze, is only one part of the economic behaviour. Insofar it becomes contingent, which part is valid in a concrete situation. We are confronted with a kind of contingency, hermeneutical economics is certainly better prepared to handle with as

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<sup>29)</sup> If the meanings of the individuals are guided by the semnatics of the language, we receive something like a standard-hermeneutic, which works like standardized rules of interpretation. The 'free interpretation' (see above (II)) gets a touch of 'receptive perception' (see above (I)). The game of language guides the actors in a conservative mode by restricting their horizon of interpretative perceptions. We have to be aware of this problem: in beeing glad about having something like 'ideal types' we have to aware of the problem to overlook all those action which are not conform. So hermeneutics interpretes even more some standard meanings, but not all meanings which are really communicated.

<sup>30)</sup> Rorty 1979, chap. VII, 1.

<sup>31)</sup> Kliemt 1990, 103.

the neoclassical theory, but in the problem of the meaning of novelty his conservative mode of intersubjectivity is not sufficient.

Instead of assuming the 'intersubjective meaning' as a kind of given semantics we have to look for the process, which changes the semantics of all, that is which tells a new story of new possibilities of action. This process is undoubtedly a process of communication.

## From 'intersubjectivity' to 'communication'

'Communication' here is nothing else but an active formulation of 'intersubjectivity'. Intersubjectivity is no (respectively not only a) tacit interrelation between the players of the language game, but a sort of reciprocal action or interaction, which actively changes the meanings by communication (on diverse levels). It is easy to explain the neoclassical abstinence of communicational processes; in the rational choice approach communication is forbidden by the methodological or normative position of the independence of the individuals' free actions. But it is not so easy to understand the same abstinence in hermeneutical economics; Lachmann definitely do not use the term 'communication'.<sup>32)</sup>

Active communication is another hermeneutical objective as mere passive intersubjectivity. Following Rorty, science is nothing else but a conversation with "a bare hope for consent". Indeed, this is the problem of communicating novelties in economics. The jump from the Erkenntnis/hermeneutic-difference to the mere practical problems of economics may be risky. But it is a coherent problem: both - the new theory and the innovation - have to be communicated in society before they become successful. But where are the discussions of communicational processes in hermeneutics?

Hermeneutics teach us to be aware of 'meaning', 'interpretation' and 'understanding', but attributes it only and exclusively to the individual. Naturally there is an analysis of the relation of understanding of one himself and of the others. But the analysis of 'understanding' the others 'understanding' etc. is fundamentally occupied by the interpretation of the relation of language and practical rules of behaviour. Only the "commonly shared structure of intersubjective meaning" can be of hermeneutical interest to construct another type of economic science. For Lachmann - as an 'ideal type' of an hermeneutical economist, we have friendly used him - the 'methodological individualism' (in the tradition of Schumpeter) remains as a fundamental basement of economic analysis. He constructs another type of actor, **but the actor continues to be an individual**. This individual gets more competence<sup>33)</sup> and more freedom than the rational actor of neoclassical standard. The Lachmannian actor seems to be a more realistic one. But it only seems so. Many 'meanings' are not self-evident by being a member of the language game. They have to be interpreted, and can be understood differently. The "intersubjective meaning" only is a cut of the real communications. It is reduced on the rules, the actors have got experience with. How to handle different interpretations and different understandings of the "commonly shared structure of intersubjective meanings" except that we have to communicate it?

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<sup>32)</sup> And others too do not use the term; see Ebeling 1990, Berger 1990 (he do use it, but in a unspecific manner).

<sup>33)</sup> See, i.e., the nice article on `attention` in a hermeneutical interpretation of economics (Berger 1990).

Hermeneutics is right to teach a subtle view of the problem of 'double-hermeneutics' (borrowing this term from A. Giddens), that is to have to attribute the hermeneutical view to the actors and, at the same time, to the scientific observers (or scientists). The doubleness of hermeneutics refers to the very problem, how the observers are able to observe the actor's 'interpretation', 'understanding', 'meaning' etc. And, inversely, the actors, being aware of to be observed, do they act further in the same manner?

The situation of 'being observed' is better explained by the choice, which language (and mode of thought, interrelated with language) the actor prefers to use: his 'meaning', 'understanding' etc. of the processes, he is part of, or the 'meaning', 'understanding' etc. of an scientific code? This is one of the main topics of hermeneutical economics to be able to show that the science of economics has to be changed by refusing abstract reasoning in the neoclassical mode, and by gaining more evidence from the 'interpretative turn'. But the very idea of hermeneutics to construct a new economic theory which is able to solve this problem by being aware of the 'meaning' etc. of the actors, fails in ignoring the communicational processes. In a trivial case, the economic actor has to decide by himself, which kind of language he will use. It depends on the communicational structure, he is embedded in. The hermeneutical economists are right in conceding, that the actor's imagination of the act that shall be done, depends on the "structure of intersubjective meanings" - but only in a certain way, that is only then, if it depends.

If it depends, we have to deal with an 'indirect communication' with the others. But if it depends not on "the structure of intersubjective meanings" - so in all cases of innovation -, there has to be a 'direct communication' which produces the "intersubjective meaning" as a result (and takes it not as a - given - precondition).

Let us take an example. The most favorite candidate of direct communication in economics is advertising, not only having a function in markets, but itself an economic branch. Advertising tells new stories of new products (and new stories of the older one's), but stories which creates life-styles and life-worlds in a poetic intention directly. There is no demand/supply-scheme of the market which is not influenced by this 'literature'. Markets communicate by money and meanings: money as a functional communicator, meaning as a essential one. New products are not demanded evidently; they have to be communicated for becoming a part of everyone's life-world. The effective demand finally is a consequence of this communication.<sup>34)</sup>

I think, that advertising is a sort of literature in modern societies which has become more prominent and more effective than the literature, we usually like to prefer (and to think about as literature exclusively). Advertising is not only a medium to make the people fit for consuming; it is a kind of reflecting on modern life-worlds literary. **The individuals are not**

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<sup>34)</sup> This point is of relevance für the neoclassical theory of rational choice too. Advertizing couples the individualistic preferences with the societies game of language, and that, what the individuals belief to choose by it's own meaning, is giuded by the supply of meaning of the public discourses. Naturally there is a chance to be immun of this influence of public meanings, but this case could not be typical. The theory of rational choice insists on the independence of rational actors, but is not aware of the individual's preparation of meaning by the public discourses. Insofar the theory of rational choice is a kind of hermeneutical economics by a standard-solution of the problem of 'understanding'. Because there is no problem of 'understanding', the theory of rational choice operates with an ability of all actors, to interpret all situations without any problems. This is nothing else than a kind of standard-hermeneutics.

**'influenced` by advertising in a crude or manipulative manner, but they use its symbolic worlds, its semantics, sentences, meanings, and interpretations in their every day communication.** This language game, created by advertising, circumscribes a quick changing area of intersubjective meanings, every time able to create new types of life-styles or modifying the existing one's. Here the modern societies (including modern economies) communicate new meanings and interpretations, which become standards of conduct and behaviour - as a contingent consent, mostly only for a short time. This is a fact of modern life, we have to analyze with the same importance as the usual microeconomic issues (and not to reduce it on 'Veblen-effects' etc., as if it are extremely rare cases).

But there are other communications in economy too: all the magazines and congresses for managers, which supply new organizational standards. Most of these conceptual supplies are not demanded, but every time there become some of it prominent, that is all the men do communicate it. To communicate new organizational standards has effects on applying these standards. The style of thought ("Denkstil") changes. Often enough it is only communication as communication, but reflecting the effects of implementing rules by the language game, we have to analyze the actual communications to be oriented about the path of organizational development.

We can continue in describing many of these communications, which are relevant for economic analysis.<sup>35)</sup> To be clear about: it is not the theory, the managers i.e. had learned, which influences their behaviour, but their communications about how to handle their markets and firms is guided by theoretical fragments, mixed up from their early learnings and from the actual informations **and** intuitions. These theoretical fragments again are mixed up with experiences and looking for how the other do behave: finally this is the relevant communication. The main topic of these communications is something like an "actualization of conventions". The individuals like to behave as all the other do behave, but to be able to do this in quickly changing economies, they have to be aware of new modes of behaviour, which are not conformable to the contingent norms of the present just gone. They want to be conformable, but to realize new behaviour it needs to be able to offend against the rule of the game.<sup>36)</sup>

## **Possible consequences**

Communication matters. But all we have said about is to expand the traditional economic analysis in two steps: first in a hermeneutical interpretation, and second in a communicative interpretation of the hermeneutical interpretation. We did not see the changing perspective, we tacitly had prepared with our analysis: **not the individual, but the organization is the central actor of economy.**

Hermeneutical economics is identical with neoclassics in having the same type of actor: individuals. As we have shown, the hermeneutical individual strongly differs from an

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<sup>35)</sup> I.e. the special languages of the specialists selling and buying foreign money, speculating of the daily changes of exchange rates of money; the special languages of markets of real estates; etc. It is not the special language alone, but their special feelings, intuitions, and practices, which build together the semantics of the very special language game of these markets.

<sup>36)</sup> On this topic in general see: Suber 1991.



neoclassical one. But in what the hermeneutical individual differs from the neoclassical one is the free choice of ends, not its subjective perspective on economy. Communications, in a certain way, can order these rather subjectivated subjective perspectives of the (Austrian) hermeneutical individuals as economic actors by being a member of a specific societal language game. But hermeneutical economics demonstrates that there is no guarantee of order by communication. Lachmann (and others too) likes to believe in intersubjective meanings, which give a kind of same interpretation to all actors.

But in the very process of market-development nobody is forced to communicate in the realm of intersubjective standards. Defining acting by free choice, in contrary, the most important implication of hermeneutical economics is the innovative potency of man. To be able to make innovations is to be able to offend against the rule of the game, and - at its best - to create a new rule or new meaning. Insofar (the Austrian implications of) hermeneutical economics is an important step into constructing a more dynamic economic theory, but lacks in defining an order, which must be a kind of 'dynamic order'.

Individuals often are not able to interpret the complexity of situations which corresponds to this 'dynamic order'. As free choosing men they act in an open economic or market system, which operates with a certain 'spontaneous order' in the Hayekian sense, but the complexity of this system do not allow to all actors to make reasonable decisions. They do have ideas, but often no money or capital, no ability to make other actor cooperate with them, etc. Not the individual is the real actor, but certain forms of cooperated groups, collectives or organizations, individuals are an element of, but not the decisional force. The most actors of an economy are not individuals, but in a certain way arrangements of individuals in different forms (firms, households, non-profit-organizations etc.). These - differently apparent - forms of arrangement of individuals are actors. But to be actors, they have to have communication together - in a formal or an informal way. In this way we have to handle with communications between different actors (individuals or organizations etc.) and with communications, which take place within the actors (that is within organizations). Now this is very important: in the organizational context the individual's 'meaning', 'understanding' or 'interpretation' becomes less relevant. It is not the individual's meaning etc., but meaning of the 'actor', that is the organization, reached by internal communication (in the usual forms of organizational communications), which matters.

Organizations are communicating entities or, better to say, they become more and more communicating entities after having been eliminated the old organizational hierarchies. Organizations<sup>37)</sup> replace the very idea of the individual-actor, both neoclassical and hermeneutical economics are still based on. Organizations have two kinds of communications: an internal and an external one. From an external point of view, organizations may be regarded as if they are individuals of its own character (or as a juridical entity). But this effect is a result of societal communication (and additionally produced by the internal communication), not a 'given thing'.

How the communicational process, especially the communications between the organizations, is ordered? The prices naturally are relevant informations. But in the market process actual prices are only one element of the communication; economic organizations often have to deal

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<sup>37)</sup> And, inversely, households are also communicating entities.

with expected prices of future markets, they do not know. And they do not know the demand of the future too. Investments mostly are 'free chosen ends', which cannot be based on actual demand and prices. It is their main task to communicate about their new projects of investment and supply to offer it to the public. To be successful in offering such a new economic idea (in the demandable form of a new good or service) is to give an incentive to re-order the whole market. The other organizations have to be aware of this by creating new ideas by themselves etc.

The market as a process is one of the main topics of Lachmann's work on economics, but not formulated in his article on hermeneutical economics. In a very friendly interpretation, we are convinced that he presumes all that in his hermeneutical approach. But being not so friendly, we become aware of the fact that in his article on hermeneutical economics Lachmann is more investigated in explaining institutions than markets. Here it is not the place to analyze Lachmann's theory of institutions<sup>38</sup>), but there is a striking coincidence of the topic of 'intersubjective meaning' and of the explanation of institutions, because for institutions the very idea of intersubjective meaning is more plausible than for market processes. That is why my critique of Lachmann's hermeneutical approach enforces me to emphasize the communicational processes within economy. Regarding the market as a process, a hard core of intersubjective meaning naturally may be consistent, but important parts of this process are changing every moment. So we are not able to concentrate our hermeneutical analysis only on the 'hard core', but we have to be aware of the non-existence of such 'intersubjective meaning'. The non-existence of 'intersubjective meaning' is identical with the need for communication: that is the production of such meanings. That is my idea of making the hermeneutical approach reasonable for process analysis.

Lachmann clearly sees his hermeneutical approach of economics ordered by the restriction of available means. The actor is free to choose any end he will choose, but the availability of means reduces the free imagined ends to the feasible ones. Insofar the economic system communicates with the free acting actors by limited means or resources. This Lachmannian economic system is in a certain kind over-complexed: in every moment there are more imagined ends as realizable and - later on - realized actions.

This over-complexity is the very reason why a Lachmannian economic system cannot be in equilibrium. This would be only for these ends, which corresponds exactly with the available means. All the rest of free chosen ends, which are not corresponding actually to some means by which they can be realized, represents a disequilibrium. In neoclassical equilibrium theory this rest is eliminated by the argument of ineffectivity of these ends. In the Lachmannian hermeneutical economics it cannot be eliminated: the free chosen ends are the very substance of the economy. Equilibrium order is an useless criteria in an economic theory of market processing. To declare the relevant action as a free choice of ends is to describe **the process of economy as a production of overpluses of ends**. Many of these ends will not be realized. But - and that is the main point - many of the usual ends (or ends of the past) will be not realized too. In this process of gaining new ends and losing old ones the means do not play the role of neutral media or neutral resources. They are affected by this process of changing ends, that is why the availability of means is not only a restriction - as in neoclassical theory - of the realization of ends, but in the same way created as the ends themselves.

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<sup>38</sup>) Cf. Priddat 1995.

Insofar the innovations do not belong exclusively to the ends, but even in the same way to the process of organizing means. It is a romantic impetus of the idea of 'free choice' to belief in a lonely acting genius (of the individual) - an idea, we never would use in regarding organizations as actors. Not the idea of an end, anyone has, is important, but how he is able to communicate it in a way, the others (or the other member of the organization) do agree with it.

It may be that the origin of the idea notoriously is individualistic; there is - by systematic reason of the 'unknowable of future' - no theory to describe this very process of innovation. But we are able to analyze the conditions of communication of this idea to become relevant and decisionable. Not the idea alone, but the organizational success of the idea we have to observe. The firm i.e. is an organizational form, which makes it possible to realize more ends than an individual would be able to do it. That is why the firm organizes the availability of means, that is the firm transcends the restrictions of the individual's availability by setting free some kind of 'productive power', which is better to describe as an **synergetic mode of interaction and communication**.

Without the free choice of ends (and its imaginative procedure) economy would not operate. There is no ideal state of the economy, which can be described as an absolute point of equilibrium of ends and means, because the availability of means is not defined by a certain 'givenness' of well defined objects, but by an interpretation guided by the ends. In this disequilibrium market processing the availability of means can be created by the idea of an end. Naturally there are limits of availability, but of another kind as in neoclassical economic theory: it is not a limitation by given goods, but by the lack of ideas about ends and means. It is a lack of knowledge and of innovative creativity<sup>39)</sup>, the organizational mode of acting is able to remove.

This is a rather interesting result of our tour d'horizon d' économie: from an individualistic point of view - indifferent to the neoclassical or the hermeneutical economic theory - the economic system only can be regarded as an interactive system, which restricts the individual's possibilities by the parallel realization of the other individual's ends. In the neoclassical theory this restriction is described by an equilibrium process; in the hermeneutical economics by the availability of means. Both descriptions are right, in their own context. But both descriptions fail in explaining the inverse process of the expansion of ends and means by organizational actors. Organizations are the only actors 1. which are able to transform new

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<sup>39)</sup> It should be clear that we are not able to assign this state not by informational processes. Information is always 'information about', we do not can have in the case of dealing with the future. We do not have any information about the future of our actions and of the actions of the system, we are acting in. We can interpret the situation as if we can get informations about this process. But there is no difference to the imaginations of ends, Lachmann is speaking of. We only can be informed by others on their interpretations of the situations. But this process we normally do not call 'information', but 'communication'. In hermeneutical economics the term 'information' is useless; we can use him in a metaphorical way, but why? All 'information', we do believe to have or to get, are interpretations of something, but interpretations of a special kind, which make us forgettable that it is only an interpretation, not an information in the the Shannonina sense. Information, which have to be interpreted, are no informations in the strong sense. The whole idea of informational processing in economics belongs to the epistemological standard of 'given things'. It is a neoclassical standard, not of hermeneutical economics. Hermeneutics is profoundly sceptical in these forms of 'givenness'. This kind of view is even more usefull for the mere fuzzy processes of economics than the methodological or rational belief of neoclassics in idealistic exactness (with no empirical content).

ends in results, and 2. which are able to stimulate the availability of means. In this way organization can move the level of creating new ends, and they can lower the restrictions of 'given' means by organizing modes of cooperations, coordinations, and ideas, which create new 'meanings' of new end/mean-relations.

That is why the real actors of an economy are not the individuals, but the organizations. Individuals are restricted by their competence to choose free (or not; and by their personal availability of means). Not so the organizations. They are interactive arrangements of high elasticity, which can compensate the individual's restriction in the competition of markets by stimulating their internal powers of creating ends and means contrafactually. But this actor is not clearly described as an 'interpretative' one. The 'interpretation' or the 'understandig' of a situation by an organization is always a result of a communicational process. Organizations are better able to make innovations, if they are organized and managed to be able to do so. The lonely decision of the entrepreneur is not the main innovative potential; this is an old fashioned Schumpeterian conception, which has its own limits: It would be a great mistake, to reduce innovation on technological issues; nowadays the most innovations are needed for organizational development. But there is another critique of the Schumpeterian conception of innovative entrepreneurs: one man can have great ideas of new ends. But only organizations can have many ideas of new means, which are necessarily needed for the realization of the new ends to make them marketable. It is this point we often forget in reflecting the innovational processes: not the single new end, but the realization of this end by finding new means characterizes the complete innovation.

Insofar not the hermeneutical virtues of an individual, but the communicative virtues of an organization matter. In accepting these reflections, we have to construct new economic theories, which are aware of these ideas. Let us start.

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