Chapter 4

Should Economics Make a Pragmatic Turn? John Dewey, Karl Polanyi, and Critique of Economic Naturalism

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Abstract This article draws upon John Dewey's pragmatic philosophy to offer a critique of naturalistic assumptions underpinning modern economic thought. More specifically, mainstream economics is criticized for treating its subject-matter as human-independent, maintaining untenable means-ends dualism, and displaying a strong tendency to talk about capitalism and markets as if they were quasi-natural phenomena. Pragmatic arguments are developed in dialogue with the ideas derived from Karl Polanyi, Gunnar Myrdal, and contemporary philosophy of science. Throughout the article, institutionalism is singled out as an approach to economic inquiry that is compatible with central insights derived from Dewey's version of pragmatism. The article suggests that pragmatism together with constructivism and hermeneutics provides a more appropriate philosophical framework for institutional economics than other approaches, including critical realism.

4.1 Introduction

In this essay, I will argue that the philosophy of economics – and economic thinking more broadly – should make a pragmatic turn. Yet, pragmatism is not a uniform tradition and critics vary greatly in their assessment of various aspects of pragmatic legacy. Here I wish to concentrate on a version of pragmatism developed by John Dewey since it seems to be most relevant for economics and social sciences in general. My goal in this essay is to appropriate certain insights taken from Dewey's philosophy in the critique of contemporary economic discourse. Following Dewey, I wish to argue that economics, despite its loudly proclaimed scientific aspirations, is still held captive by unexamined assumptions derived from various versions of

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philosophical naturalism.¹ In *Logic: The Theory of Inquiry* Dewey argued that “the net consequences of classical economics was reinstatement of the older conception of natural laws by means of a reinterpretation of their content” (Dewey 1938, 498). This remark was directed against the old natural law philosophy, which inspired the classical economics of Adam Smith and his followers. Similar critique, I would argue, can be raised against contemporary neoclassical theory and its allied approaches, which based their scientific aspirations on a particular understanding of physics and other natural sciences.²

More specifically, strong naturalistic influence can be detected in at least three areas of contemporary economic thinking. First, the dominant self-understanding of the economic profession assumes that the economy can be studied in the same way we study nature. This implies that the subject-matter of economics is treated as ontologically independent from human intentions and purposes. Second, neoclassical economics is based on a very problematic view of human nature and rationality, which treats means-ends dualism as a universal feature of rational behaviour. Thirdly, naturalistic undertones can be discerned in various conceptualizations of capitalism or the market economy which treat them as quasi-natural phenomena driven by their own internal laws. When applied to the subject matter of economics Deweyan pragmatism can be seen as a form of philosophical therapy. By exposing hidden philosophical presuppositions of contemporary economic theory pragmatism can loosen its grip over the economic profession and make economists and other social scientists more willing to examine alternatives to contemporary orthodoxy.

It should be clear from the outset that the argument offered in this essay is not neutral between various research traditions within contemporary social sciences and rival economic ideologies. On the contrary, it takes a partisan stance and champions the institutional approach to the economy as represented by original institutional economics and various research traditions within political science, sociology, and anthropology. More particularly, it tries to combine pragmatic arguments with lessons derived from Karl Polanyi and research tradition inspired by his work. Interestingly enough, Deweyan pragmatism and Polanyian institutional approach to political economy are not only compatible on a theoretical level but also embedded in a very similar social and political outlook. John Dewey and Karl Polanyi were

¹For students of Dewey’s thought this assertion may be surprising. Was not Dewey himself a proponent of naturalism both in general and with regard to social inquiry? The answer to this question is of course positive. But Dewey’s version of naturalism had nothing to do with the naturalistic ambition, which drives contemporary economics. Suffice to say that for Dewey the presence of practical purpose and value judgments are two universal traits of all types of inquiry.

²Although orthodox economics can be easily identified, providing an exact definition of it may be difficult. In this paper such terms as mainstream or orthodox economics will refer to various approaches that are basically consistent with the central features of neoclassical analysis (i. e. mathematical formalism, rationality defined as utility maximization, and equilibrium analysis), even if they modify some of its assumptions. On definitional issues see further Arnsperger and Yannis (2008); Dequech (2007) and Lawson (2006).

almost contemporaries.³ Both thinkers offered largely parallel critiques of nineteenth-century *laissez-faire* ideology and naturalistic philosophical assumptions behind it. More importantly, they both tried to avoid false alternatives represented by orthodox liberalism and orthodox Marxism. In order to overcome the ideological limitations of his time, Polanyi sought to examine the place of markets in different economic systems which existed in the past.⁴ His radical institutionalism, which emphasizes the fact that markets are always socially constructed, resonates well with Deweyan anti-essentialism. Taken together these approaches suggest a novel and compelling way to think about the role of markets and institutions in a contemporary society.

We can now state our initial thesis in a more precise form. I believe that taking the pragmatic turn would make economics less naturalistic, more institutionally oriented and more radical in its social outlook. I will try to make this argument in the following steps. Firstly, I will examine the present state of economic discourse and try to show that some of the shortcomings of modern economics stem from its unconscious reliance on very problematic philosophical assumptions. Secondly, I will contrast Deweyan social psychology with simplistic utilitarianism, which dominates contemporary economic thought. Finally, I will suggest some lessons that we can learn from Dewey and Polanyi regarding the place of markets in a just social order. In the concluding section of the paper, I ask what, if anything, economics can gain from Deweyan pragmatism and Karl Polanyi's social thought.

4.2 Our Problematic Situation: Mainstream Economics and the Legacy of Naturalism

John Dewey teaches us that all thinking has its beginning in some deeply felt dilemma or trouble.⁵ Arguably, Dewey's thesis has been vindicated by the rise of philosophical reflection regarding economic subject-matter. Indeed, the growing popularity of such a relatively young subfield as philosophy of economics indicates that professional economics is beset by deeply felt scepticism concerning the validity of its assumptions, models and standard methods of conducting research. There is a widespread conviction that not all is well with the way economics is thought and practiced today. Economics, it is often said, is a science of choices that people make under conditions of scarcity.⁶ If so, economic methods and concepts are largely irrelevant for understanding more complex social situations such as, among other things, the present state of economic science. Ordering preferences and listing

³For biographical information consult Westbrook (1991) and Dale (2016).

⁴See Polanyi (1977).

⁵See Dewey (1938, 109).

⁶For the classic formulation of the scarcity definition of economics see Robbins (1932, 15).

possible choices is not a suitable panacea for a deep crisis of professional self-confidence. We need to engage in a more interpretative inquiry and ask what kind of cultural tensions reveal themselves in contemporary philosophical debates about the present state of economic science.

The best way to start the inquiry is to take a closer look at its scientific ambitions. Philosophical self-understanding of mainstream economics, to the extent that it has any, is defined by naturalistic outlook. By naturalism we mean here the desire to imitate the most successful of the natural sciences, most particularly physics. As Philip Mirowski (1989) has argued in his book *More Heat Than Light* modern neo-classical economics has started out as an attempt to use concepts derived from nineteenth-century energy physics to the study of economic subject-matter. From that time on, recurrent physics envy is one of the most enduring characteristics of mainstream economic thinking. In the early twentieth century, self-understanding of naturalism was transformed under the influence of new philosophy of science represented by logical positivism and the teachings of Karl Popper. Influence of positivism is evident in the writings of such luminaries as Paul Samuelson and Lionel Robbins (Macpherson 1983, 97). Arguably, the naturalistic orientation of contemporary mainstream economics can be characterized as an attempt to imitate a particular image of natural science, which was created by the positivists and the Popperians after World War II. In his book devoted to the critical examination of the idea of social science in the philosophy of Charles Taylor and Alasdair MacIntyre, Jason Blakely noted that neoclassical economics is a “standard-bearer for naturalism in the social science today”.⁷ Economics is also a major source of naturalistic influence for other social disciplines, most notably political science. As many authors observed, this naturalistic orientation is revealed in a predominance of mathematical formalism, which bears some superficial resemblance to techniques used in natural sciences.⁸ Even more importantly, naturalism brings with itself certain problematic philosophical assumptions about the character of the subject matter of economics.

At the heart of naturalism lies the idea that the economy resembles the natural world at least in one essential regard. Both economic and natural phenomena are thought to be subject to laws and regularities that are ontologically independent from human will and intentionality. From the point of view of Dewey’s pragmatism, modern economics is a special case of the spectator theory of knowledge. According to this fallacious view, knowing is conceived as radically separated from doing. As a consequence, the subject matter of knowledge is conceptualized as ready-made and complete in itself. In *The Quest for Certainty*, Dewey offered the following explanation of the consequences of the spectator theory of knowledge with special reference to economic thinking:

The doctrine that nature is inherently rational was a costly one. It entailed the idea that reason in man is an outside spectator of a rationality already complete in itself. It deprived

⁷ See Blakely (2016, 17).

⁸ On the contested issue of mathematical formalism in economics consult Mirowski (1986).

reason in man of an active and creative office; its business was simply to copy, to re-present symbolically, to view a given rational structure. (...) The doctrine was both an effect of the traditional separation between knowledge and action and a factor in perpetuating it. (...) Its paralysing effect on human action is seen in the part it played in the eighteenth and nineteenth century in the theory of natural laws in human affairs, in social matters. These natural laws were supposed to be inherently fixed; a science of social phenomena and relations was equivalent to discovery of them. Once discovered, nothing remains for man but to conform to them; they were to rule his conduct as physical laws govern physical phenomena. They were sole standard of conduct in economic affairs; the laws of economics are “natural” laws of all political action; other so called laws were artificial, man-made contrivances in contrast with the normative regulations of nature itself. *Laissez faire* was the logical conclusion. For organized society to attempt to regulate the course of economic affairs, to bring them into service of humanly conceived ends, was a harmful interference (Dewey 1929, 169).

While contemporary economics cannot be said to be uniformly pro-market in its ideological orientation, it nevertheless retains essentially the same notion of fixed subject-matter that was criticized by Dewey. The essence of this view is to treat economics as a discipline concerned solely with a value-free study of pre-existing economic reality.

The naturalistic view of the relationship between economics and its subject-matter rests on very problematic epistemological and ontological assumptions. On the epistemological level, it is questionable whether we really can know the economy – or, for that matter, anything else – without taking into consideration practical purposes which our knowledge should serve. The thesis that knowing and doing are always connected in the process of inquiry is one of the distinguishing traits of pragmatism. The essence of pragmatic position was captured well by Clarence Irving Lewis who said that for Dewey ‘meaning and action are necessarily connected’ (Lewis 1939, 572). As Lewis explains Dewey’s logic contains

...distinctive conception, incompatible with most views, that the cognitive or meaning situation does not admit of bifurcation into an activity of the knower and a preformed object which is contemplated; that knowing or meaning is integral with other activities which shape the objects to which they are addressed; that meanings themselves serve to frame the situations of action into which they enter, and exercise an operational force upon what they serve to formulate. It is implied that an idea or a meaning, apart from some possible action and the reality in which it should eventuate, is a fictitious entity not found in human thinking. And conversely, it is implied that the objects of knowledge, without reference to meanings and the actions to which they may lead, are equally fictitious (1939, 572).

We can glimpse from this quotation how radical the pragmatic theory of knowledge really is. It seeks to undermine basic dualisms of modern philosophy including those between subject and object, theory and practice, and knowing and the known. What we get instead is a picture of inquiry as a form of practical activity whose ultimate aim is to reconstruct its subject matter according to some purpose or plan. Thus, the goal of inquiry is not only to understand the world but also to change it or, said more precisely, theoretical understanding of the world would be impossible without some sort of practical purpose which guides our interpretation of a given problematic situation.

The interconnection between cognitive situation, meaning, and practical purpose is evident in Dewey's conception of the mutual interdependence of facts and values.⁹ According to Dewey, judgments about facts and judgments about values are closely linked in the process of inquiry. Every inquiry takes place in the context of some specific problematic situation. Selection of data and facts is guided by implicit or explicit determination of their relevance to the issue at hand. Without reference to some problem we do not have facts but only a mass of meaningless information. But to say that facts are relevant to a given case is to make a value judgment since relevance is obviously an evaluative term. More generally, the way we organize our facts depends to a large extent on the value premises of our theories. Strikingly similar point was made by Gunnar Myrdal with regard to economic inquiry. According to Myrdal "all science, at any rate all social science, is «practical», even in its purely casual theory, because it must choose one from amongst infinite number of possible ways of collecting and ordering its infinitely large mass of empirical data" (1958, 209). Thus, every principle of selection contains some overt or hidden reference to practical purpose. Historically speaking, economic theories emerged as an attempt to meet the demands of some "concrete and particular political questions" (1958, 210). Thus, for Myrdal "practical political economy", which is defined by its adherence to particular aims and purposes, "logically precedes any causal explanation" (1958, 210). Thus, any strict distinction between theory and practice, or positive and normative economics is untenable.

Problematic situations, the main subject of social inquiry, are practical in yet another sense. As John Dewey noted, problems investigated by social sciences typically "grow out of actual tensions, needs, «troubles»" (Dewey 1938, 493). Charles Wright Mills, who followed Dewey in this regard, argued that a social issue "involves a crisis in institutional arrangements, and often, too, it involves what Marxists call «contradictions» or «antagonisms»" (2000, 9). In the context of particular social conflicts, facts can be divided into factors that enable or inhibits the realization of certain desired goals (Dewey 1938, 493). Following this further, we can note that the perception of social problems is strongly influenced by the perspective of particular social actors. Businesspeople, trade unionists, environmental activists, and feminists can have different ideas about what counts as an economic problem and which data are particularly relevant. Taking this into consideration, James Bohman (2002) argues for multiperspectival social science, which includes points of view of all relevant actors. Moreover, competing ideologies and social philosophies can be interpreted as different ways of making sense of problematic situations. They offer divergent hypothesis regarding the nature of social problems that should be given a free play in the course of economic investigations. Thus, it is vital for an economic inquiry to be open to different theoretical, ideological and methodological perspectives. Interpreting the world through the lenses of a single

⁹For Dewey's view see in particular his essay *The Logic of Judgments of Practice* (1915) MW 8, 14–97. For perceptive commentary consult Bernstein (1999, 213–219).

theory is likely to lead to a strong bias, regardless of how many Nobel prize laureates in economics may be associated with that particular theory.¹⁰

In human sciences, facts and values are connected not only epistemologically but also ontologically. Dewey made this point in *The Public and Its Problems* when he observed that “political facts are not outside human desire and judgment. Change men’s estimate of the value of existing political agencies and forms; and the latter change more or less.”¹¹ What seems obvious with regard to political institutions, such as constitutions and electoral laws, also remains true for economic institutions like money, credit, and banking. In contemporary philosophy similar conception of the subject-matter of social sciences has been put forward by the proponents of constructivism and hermeneutics. Following John Searle, we can say that the subject matter of social sciences, economics included, is epistemologically objective but ontologically subjective (Searle 2005, 3–5). To say, that the economy is epistemologically objective is to maintain that more or less warranted assertions can be made about it. To say that the economy is ontologically subjective is to assert that it is constituted by institutions, which are collectively created with the use of language. In other words, economic objects owe their very existence to human intentionality and judgment as well as moral purpose embodied in them (Róna 2017, 3–9). For instance, such business artefacts as money and banking are unthinkable without rules and shared meanings, which are associated with them. Hence, interpretations are a constitutive part of economic reality.¹² Strangely enough, the fact that economic reality is laden with intersubjective meanings and purposes is systematically ignored by mainstream economic theory. Fear of allegedly subjective interpretations is evident in the tendency of mainstream economics to treat preferences as a given property of autonomous individuals.¹³ As a result, culturally specific and socially constructed character of human wants and preferences is placed outside of the scope of orthodox economic inquiry.

In this section, I have argued against naturalistic self-understanding of economic profession, which states that the goal of economics as a positive science is to produce value-free explanatory theories about the nature and workings of the economy. I have found this self-understanding inadequate on both epistemological and ontological grounds. From an epistemological perspective, a positive conception of economic inquiry is neither possible nor desirable. It is impossible since we cannot have any scientific discourse without judgments related to such values as significance, simplicity, fruitfulness, adequacy, and so on.¹⁴ It is undesirable since the attempt to construct such science makes it more difficult to use the insights of economic inquiry for the purpose of social and economic reconstruction. From the

¹⁰ For recent arguments in favour of a greater pluralism in economics see Fullbrook (2008, 13–25).

¹¹ See Dewey (1927, 240). For an elaboration of this point with respect to economics see Dewey (1947, 224–238).

¹² For a classic statement of interpretative conception of social inquiry based on the view that social reality is constituted by shared meanings see Taylor (1971).

¹³ See Macpherson (1983).

¹⁴ For a further elaboration of pragmatic critique of fact/value dichotomy see Putnam (2002).

ontological perspective, the main shortcoming of mainstream economics lies in the neglect of the role of ideas, interpretations, and meanings in the constitution of economic subject matter. Ultimately, economic reality consists of historically specific practices and institutions, which cannot be adequately conceptualized without taking into account the category of a shared culture.

4.3 Overcoming the Limits of Rational Choice: Pragmatism and Institutionalism

In addition to the conception of economic subject-matter shaped by naturalism, neoclassical economics also contains a view of human being as *homo economicus*, devoted single-mindedly to the maximization of utility. Modern economics assumes universal human nature and universal rationality, which consists of the capacity to choose the most efficient means to a given set of aims. For the followers of mainstream economics, all human beings from diverse cultures and different historical epochs are essentially alike, at least with regard to the type of rational calculations that guide or should guide their conduct. Hence, categories developed by neoclassical economics are believed to be rooted in the very nature of human beings. But a closer examination of the philosophical assumptions underlying economic theories of human nature and rational action reveal that they are built on very shaky foundations. From the pragmatic perspective at least two elements of the received view are extremely problematic. Firstly, the idea of universal human nature breaks down when confronted with a variety of culturally specific habits and institutions. Secondly, the rigid dualism of means and ends seems to be untenable in the light of a pragmatic theory of action which revolves around the idea that means and ends are “two names for the same reality” (Dewey 1922, 36).¹⁵ That is to say, the distinction between means and ends is not absolute but contextual. Those arguments, taken together, undermine the behavioural micro-foundations of modern economics.

In order to expose questionable behavioural assumptions behind much of present-day economic thinking, I shall compare social psychology of habits developed by Dewey in *Human Nature and Conduct* with individualistic psychology of utility maximization that dominates mainstream economics. Dewey offers a broad definition of a habit as “that kind of human activity which is influenced by prior activity and in that sense acquired; which contains within itself a certain ordering or systematization of minor elements of action; which is projective, dynamic in quality, ready for overt manifestation; and which is operative in some subdued subordinate form even when not obviously dominating activity.”¹⁶ It is important to understand that for Dewey habits are functions of social surroundings. They are not inborn but acquired through the process of socialization and participation in culture. They

¹⁵ For a theory of creative action build on Dewey’s social psychology see Joas (1996).

¹⁶ See Dewey (1922, 31).

denote typical modes of response to standardized social situations. In this respect, they are similar in meaning to the concept of institutions. Affinity of the two terms was perceptively noted by Wesley Mitchell, a leading institutional economist and Dewey's student at the University of Chicago. As Mitchell observed, the term "institutions" as conceptualized in institutional economics is merely a convenient name for "the more important among the widely prevalent, highly standardized social habits" (1950b, 373).¹⁷ However, rootedness of economic action in the of shared habits and institutions is systematically ignored by neoclassical economics and akin approaches. Indeed, as Geoffrey Hodgson observed, one of the major limitations of mainstream economics is that it is institutionally blind.¹⁸ Hence, the integrity of the behavioural assumption behind mainstream economics can be preserved only at the price of ignoring or downplaying the importance of the institutional context of the economic inquiry.

Another problematic aspect of mainstream economic theory lies in its attempt to introduce exact mathematical calculus into the study of human conduct. As Dewey noted, future pleasures and pains are "subject to incalculable accident" (1922, 38). Similar arguments apply also to the notion of marginal utility, which is nothing other than an imaginary unit of preference satisfaction. Clearly, calculations made in such terms can bring only a distant semblance of exactness and rigor. On the contrary, such categories as habits and institutions cannot be easily expressed in mathematical formulas. Nevertheless, they have a considerable advantage from an empirical point of view. To put it simply, habits and institutions are revealed in specific patterns of behaviour, which can be recorded and studied with the help of appropriate quantitative and qualitative techniques. Norms guiding human conduct can be studied through participant observation, in-depth interviews, discourse analysis and other methods derived from anthropology and qualitative sociology. However, institutionalism does not need to shy away from the study of macro-phenomena with the use of quantitative methods. Indeed, as Wesley Mitchell, an institutional economist and one of the founders of modern econometrics observed, "the quantitative workers will have a special predilection for institutional problems because institutions standardize behaviour and thereby facilitate statistical procedure" (1950a, 30). Mitchell's approach, although biased in favour of statistical methods, is poles apart from the use of econometric techniques prevalent in neoclassical economics, where "the business of statistician is merely to verify conclusions established by deduction" (1950a, 33). To conclude, from a pragmatic perspective, studying patterns of behaviour observed in the fieldwork or encapsulated in time series of economic data, is eminently more enlightening than building formal models based on aprioristic assumptions.

Equally serious difficulties emerge when we look more closely at means-ends dichotomy, which is assumed by most economics textbooks. Mainstream economic theory treats economic rationality as a matter of finding the most efficient means to

¹⁷ Mitchell was Dewey's student at the University of Chicago.

¹⁸ See Hodgson (2002).

given ends. But such account is ridden with serious difficulties. To start with, our ability to act rationally is predicated on the possibility of having adequate knowledge about future states of the world. Unfortunately, social sciences, including economics, failed to demonstrate their capability of yielding such knowledge. Following Mary Hesse, we may say that natural sciences are instrumentally progressive (i.e. characterized by cumulative growth of their ability to predict and control), whereas social sciences are not.¹⁹ In consequence, economic actors facing the situation of choice cannot be sure what the consequences of alternative lines of action will be. Moreover, as mainstream economic theory admits, when we are faced with incomplete markets or imperfect information rational economic calculations may be impossible to perform.²⁰ In short, instrumental rationality, such as means-ends schema, can work successfully only in a highly predictable environment. But our social and economic world is not of this kind. Indeed, as many writers assert, unquantifiable uncertainty is one of the most enduring features of our contemporary economic life.²¹ For that reason, as Dewey reminds us, “all action is invasion of a future, of the unknown”.²² Surely, economic action in an uncertain world cannot be adequately described as a maximization problem.

Another problem with mainstream economic theory is that in many situations we cannot distinguish strictly between means and ends. Suppose that a person wishes to attain a state of religious ecstasy.²³ It would be inappropriate to suggest that essentially the same outcome can be achieved more efficiently through the use of certain psychedelic drugs. In such situations, the use of means-ends schema tends to misinterpret the character of established social customs. As Michael Macpherson observed, “it may in some cases make more sense to conceive of cultural learning as supplying «ends to given means» rather than other way round” (1983, 108). The means-ends dualism assumes that all relevant means leading to projected outcome are known in advance. However, as Jens Beckert (2003) sought to demonstrate, creative economic action as personified by the figure of Schumpeterian entrepreneur, typically modifies existing patterns of conducting business. Hence, entrepreneurship cannot be adequately described as finding the most efficient means to preconceived ends. Following Dewey Jens Beckert argues that creative action reconstructs both traditional means and established ends and, for that reason, it cannot be adequately explained within the rational choice framework. Finally, for Dewey inquiry does not start with assigning means to ends but with the interpretation of some problematic situation, when we do not know what to do. Exploring the

¹⁹ Cf. Hesse (1980).

²⁰ See Hahn (1980).

²¹ On the role of uncertainty consult Davidson (2010).

²² Dewey (1922, 38, 37).

²³ The example is drawn from Macpherson (1983, 108).

intricate complexities of the situation can suggest novel means as well as previously overlooked ends.²⁴

Mainstream economics assumes that economic reality can be bifurcated into two entirely separate domains. On the one hand, there is a purely objective world of means, which can be studied with the aid of scientific methods. On the other hand, there is a purely subjective world of ends, which are introduced to the economy from outside by economic agents. It can be demonstrated that means-ends dichotomy that dominates modern economic thinking is a paradoxical consequence of the replacement of deistic naturalism of the seventeenth and eighteenth century with the image of science modelled after modern natural science. As Gunnar Myrdal observed, “the use of the categories of means and ends to order and arrange knowledge did not become important until political economy has outgrown the naïve philosophy of natural law” (1958, 209). For classical economists, such as Adam Smith, nature was inherently moral since it was a part of divine creation.²⁵ The natural order was supposed to work according to laws given by God. In Myrdal’s terms essence of old naturalism was “direct identification of teleology with causality” (Viner 1927, 206; Myrdal 1958, 206). However, with the rise of modern physics classical deism fell out of grace and a different image of nature emerged. This time nature was depicted as a cold realm governed by impersonal mechanisms which were indifferent to human purposes. Thus, new naturalism modelled on the idea of physical nature has relegated causality and teleology, or means and ends, into two entirely separated realms. The result is extreme relativism, which characterizes mainstream economic thinking. All values are regarded as essentially subjective and all of them lay outside the scope of theoretical or positive economics.

Needless to say, the economic universe cannot be divided so neatly into means and ends. For instance, labour can be regarded both as a means (i.e. factor of production) and as an end because it is closely intertwined with the quality of life and dignity of human beings. Moreover, as we have already observed, economics errs in treating ends as given. The tendency to treat preferences as fixed is especially explicit in the economic theory of human behaviour put forward by Gary Becker (1976, 5). However, such a perspective is clearly at odds with many popular ideas about the nature of rationality and freedom. Especially for the normative purposes, rationality cannot be adequately conceptualized as a simple matter of obtaining the most efficient means for a fixed set of preferences. As John Dewey argued, “what men actually cherish under the name of freedom is varied and flexible growth, of change of disposition and character, that stems from intelligent choice” (1928, 110). Thus, the formulation of new and potentially more rational aims is far more important than finding optimal satisfaction to an existing set of preferences. Indeed, as Karl William Kapp observed, “only a sick or neurotic being, one who singles out one fixed end and attached an overruling importance to it, can be said to have a

²⁴ For a more elaborated account of the consequences of situational character of ends see Whitford (2002).

²⁵ Cf. Viner (1927).

given or fixed preference schedule” (2011, 79). Moreover, orthodox economic theory pays little attention to the conditions under which needs and preferences are formed. If the dominant set of preferences is created by giant corporations via means of advertisement and manipulative techniques of persuasion driven by big data technology, then it is not so great compliment to say that the market system is the most efficient way to satisfy those preferences. Clearly, what we would like to know is how autonomous people are in making decisions in the market and how rational their consumption choices are from both social and ecological point of view.

To sum up, the utilitarian account of rational choice, which underpins much of modern economic thinking, is inadequate both for the purpose of scientific explanation and moral guidance. Theory of rational action overlooks the role of institutions in shaping human conduct and rests on an overly simplified view of the relationship between means and ends. Moreover, it tends to miss what is arguably most important in moral deliberation and conduct, namely the possibility of rational assessment of diverging aims and conceptions of the good.

4.4 Embedded Markets and the Importance of Institutions

The last vestige of naturalism which I am going to discuss in this essay concerns the philosophical presuppositions of the language we often employ when talking about capitalism and markets. Naturalistic orientation in this area can be detected in the tendency to treat capitalism or markets as quasi-natural phenomena. Once set in motion, they tend to develop according to their own inner logic, which reflects their inner nature or essence. Interestingly enough, such views are entertained both by mainstream economists and their Marxist critics. John Dewey and Karl Polanyi were keen critics of the aforementioned tendency to treat capitalism and markets in a naturalistic manner. Writing to Clarence Ayres, Dewey expressed the hope that in the future, economics would offer an account of economic order that would “break down the idea that capitalism or any other socio-political order is fixed entity and hence exempt from otherwise universal sway of process”.²⁶ For a similar reason, Karl Polanyi tended to avoid the word capitalism in his magnum opus *The Great Transformation*, preferring such notions as the market society.²⁷ At the same time, Polanyi was aware that the very idea of the market which we inherited from Adam Smith is wedded to naturalistic philosophy. One of the main contributions of Karl Polanyi to social thought is the recognition that markets are always socially constructed.²⁸ John Dewey on his own part offered a very similar critique of market naturalism. Writing about the need to reform liberal social thought Dewey argued

²⁶ Dewey’s letter to Ayres quoted in Tillman (1998, 159).

²⁷ This point was noted early on by Allen Morris Sievers in first book-length study devoted to the analysis of Polanyi’s thought. See Sievers (1949, 18).

²⁸ See Polanyi (2011).

against “the *laissez faire* doctrine held by degenerate school of liberals to express the very order of nature itself”.²⁹ Both thinkers believed that overcoming market naturalism is a necessary prerequisite for realistic thinking about the place of markets in the modern society.

Such considerations may seem as one more curiosity pulled out from the rich treasury of bygone social and economic doctrines. Nevertheless, I would argue that our own way of talking about capitalism and markets is not far off from the assumptions criticized by Dewey and Polanyi. I will try to demonstrate that by discussing two recent books strongly influenced by Karl Polanyi’s institutional theory: Fred Block’s *Capitalism. The Future of Illusion* and Steven Vogel’s *Marketscraft. How Governments Make Markets Work*.³⁰ Let’s start with Vogel. His main thesis is that “real world markets are institutions: humanely devised constraints that shape human interactions” (2018, 1). To be sure, very few people would contest this claim. Even the most devoted followers of Hayek and Friedman are ready to admit that markets in order to function need a basic legal framework. However, they will also assert that when legal courts and property rights are in place markets can function in a self-regulatory fashion. However, this is precisely what Vogel denies. For him even the daily functioning of markets cannot be explained without accounting for cultural norms and practices, social networks, power relations, and public and private acts of governance. In other words, for Vogel markets are institutionalized and socially embedded almost to the bone.

One of the most interesting aspects of Steven Vogel’s argument is close attention he pays to words we habitually use when discussing markets. In Vogel’s view our economic language is still predominantly naturalistic. In our public discourse, we tend to treat markets as if they were natural phenomena. The key misleading phrase is the expression “free market”, which was popularized by Milton Friedman. As Vogel explains this “elegant juxtaposition of the world *free* and *market* evokes many of the presumptions challenged in this book: that markets are natural; that markets arise spontaneously; that markets inherently constitute an area of freedom; and that government action necessarily constrains this freedom” (2018, 117). The misleading imaginary of “freeing” the markets is present in popular expressions such as leaving things to the markets or trusting the markets. It also manifests itself in the idea of government “interfering with” or “distorting” natural workings of the economy. Such abuses of language are by no means limited to popular discourse. Professional economics also uses rather problematic concepts such as perfect *competition* or *market failure*. The theory of perfect competition, as Vogel observed, “implies that imperfect markets are the puzzle to be observed and perfect markets are natural order” (2018, 122). In consequence, what economics tries to explain are deviations from market behaviour and not market behaviour itself (Vogel 2018, 122). In a somewhat similar vein market failure theory positions government as an outside force that corrects some minor dysfunctions of the economy. Yet such

²⁹ See Dewey (1935, 290).

³⁰ See Block (2018) and Vogel (2018).

conceptualization is misleading insofar as it suggests that failures are accidental to the workings of markets. However, flawless or perfect markets exist only in an imaginary realm of pure economic theory. More importantly, real markets would be inconceivable without rules, including legal rules sanctioned by the governments. Thus, the government cannot be portrayed as a force external to the market, which comes down to fix this or that occasional failure.

A similar point can be made also against the notion of capitalism. To be sure, we can define capitalism in purely institutional terms as a regime characterized by a dominant role of private property, prevalence of wage labour, and markets as main mechanisms for allocation of resources. However, it is important to realize that the notion of capitalism is very often associated with the image of a fixed system driven by its own inner laws. As Fred Block argues, this invokes the image of capitalism as a natural organism with his own DNA (2018, 28). From this perspective attempts to reform capitalism can be depicted as contradicted by the inner logic of the system or inconsistent with its DNA. But such arguments are both misleading and dangerous. It is misleading to think of capitalism as a coherent system. As Fred Block argues, “market economies depend on complex combination of conflicting institutions and motivations, they are contradictory and unstable, and they periodically require major structural reorganizations” (Block 2018, 15). More importantly, the view that capitalism is an autonomous system which follows its own inner logic puts unnecessary constraints on democratic political action. The image of capitalism as driven by its own laws suggests that democratic governments have no choice but to conform to its systemic demands.

To sum up, I have argued that contemporary public discourse about capitalism and markets is contaminated by unexamined naturalistic assumptions. Naturalistic vocabulary is omnipresent both in public debate and in the realm of academic social theory. John Dewey’s pragmatism and Karl Polanyi’s institutional theory can be seen as parallel attempts to draw our attention to the fact that markets are not governed by natural laws of economics but rather by man-made legal and political rules. Hence, we can always attempt to rewrite those rules in the face of new social, economic and environmental problems.³¹

4.5 Concluding Remarks

In this paper, I have argued for a particular set of alliances between different philosophical approaches to social inquiry and rival research programs in contemporary social sciences. I have argued that mainstream economics is closely associated with positivist currents in philosophy of science. I also noted a series of elective affinities between various forms of institutionalism and such philosophical positions as

³¹ For a very influential attempt to apply institutional insights about the importance of rules to the problems of contemporary capitalism see Stiglitz et al. (2016).

pragmatism, constructivism, and hermeneutics. It may well be true that the growing discrepancy between mainstream economics and institutionally oriented social sciences is one of the most profound divisions not only in academia but also in contemporary Western culture writ large. From the historical perspective, it can be seen as a modern version of the *Methodenstreit* in which different philosophical orientations intersect with methodology and politics. In case of such deep-seated cultural conflicts, it is unlikely that the debate can be resolved in any predictable future. At any rate, this paper does not claim to offer knockdown arguments against mainstream economics. Its more modest ambition is to persuade the followers of an institutional approach that their arguments can be supplemented with valuable insights derived from Dewey's pragmatism, social constructivism and hermeneutics. By incorporating such a philosophical perspective, proponents of institutionalism can not only find new arguments against their neoclassical rivals but also better understand philosophical presuppositions of their own theories.³² Institutionalism is most persuasive when we recognize that the economy is constituted by socially constructed rules and that those rules are being permanently reconfigured in response to various difficulties and contradictions, which Dewey once called problematic situations. The aim of economic inquiry is to aid democratic societies in this endless process of institutional reconstruction.

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³² It should be noted that the argument linking institutionalism with pragmatism, constructivism and hermeneutics is not the only possible one. For instance, Tony Lawson has offered interpretation of institutional economics, which attempts to tie it to a realist ontology. See Lawson (2005).

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