

8 Practical syllogism, entrepreneurship and the invisible hand

A critique of the analytic hermeneutics of
G.H. von Wright

Uskali Mäki

SYNOPSIS OF THE ARGUMENT

Question. Are economics and hermeneutics mutually compatible?

Specification 1. Hermeneutics is treated here as providing a method or methods potentially used by economists for understanding economic phenomena.

Specification 2. The method of understanding is considered in its acausal purposive mode, specified as the practical syllogism as formulated by G.H. von Wright.

Specification 3. Economics as the study of the economy is represented by some aspects of Austrian economics, especially Israel Kirzner's theory of entrepreneurship and Carl Menger's theory of the genesis of money.

Specified question. Do Austrian accounts of what is going on in the economy conform to the practical syllogism as a method of acausal understanding?

Answer. No.

Reason 1. Kirzner's theory of entrepreneurial action is dependent on the notion of causal powers, hence not analysable in terms of the acausal version of the practical syllogism.

Reason 2. Austrian invisible hand explanations, Menger's theory of money included, are accounts of irreducibly unintended consequences of individual action, hence not analysable in terms of sequences of practical syllogisms.

THE CHALLENGE OF *VERSTEHEN*

In his much discussed book, *Explanation and Understanding* (1971, Ch. I), Georg Henrik von Wright makes a distinction between two traditions in the philosophy of science, the Galilean and the Aristotelean. While the former is occupied with causal explanation, the latter is concerned with understanding and teleological explanation. Causal explanations, according to the first tradition, conform more or less to the positivistic covering law model, causalistically conceived: they cite general law-like regularities and

'mechanical' causes. Understanding, in turn, uses a technique which, in the context of human action, can be explicated in terms of the Aristotelean practical syllogism which refers not to causes but to reasons – i.e., intentions and beliefs of actors.

It is von Wright's conviction that, while the covering law model is well suited to the natural sciences, it is not appropriate for the social sciences, contrary to what is implied by the methodological monism of positivism. Natural events do have (Humean) causes, unlike human actions with which social sciences are concerned. This is why human action (and anything manifesting it) should not be causally explained but understood in terms of the reasons of the actors. Whereas general (Humean) laws can be found in the natural world, they do not obtain in the human world. Understanding is not dependent on reference to causes and general laws.

Von Wright's view is, of course, a radical restatement of the old methodological dualism according to which sciences are divided between two categories according to the methods they employ to gain a cognitive grasp of the world. Sometimes this methodological division is prefaced by ontic characterizations of two different realms of reality, the natural and the human. A typical combination of these two presumptions gives the view that natural events which are not meaningful in themselves can and should be causally explained, whereas phenomena involving human action do have a meaning, and this makes them – exclusively or together with causal explanation – amenable to understanding or interpretation. (In what follows I usually treat 'interpretation', 'understanding', and '*Verstehen*' as synonymous.)

The tradition of the interpretive approach is far from uniform; rather, its advocates constitute a large, heterogeneous and often quarrelsome family. There are too many doctrines of *Verstehen* to be dealt with in a short essay like this. I will concentrate my comments on what has been called 'analytic hermeneutics' for which one source of inspiration was Wittgenstein's later philosophy.¹ This essay is a critical discussion of one version of analytic hermeneutics as applied to economics.²

Once a branch of modern hermeneutics has been selected for consideration, a number of further specifications are needed – such as the possible subjects and objects of *Verstehen* or interpretation. Various subjects can act as interpreters, and various objects can be interpreted. For our purposes, it seems sufficient to recognize two kinds of subject and object – those related to economics and to the economy. The following rough classification is produced:

- (A) Interpretation by economists of economic theories and the behaviour of their fellow economists. This is *interpretation within the realm of economics*.
- (B) Interpretation of economic agents of themselves and of their surroundings, including the behaviour of other economic agents. This is *interpretation within the realm of the economy*.

- (C) Interpretation by economists of economic phenomena, including the behaviour of economic agents, institutions and statistics. This is *interpretation across the two realms*.

(A) covers, among other things, what has become known as the rhetoric of economics; (B) may be characterized as part of an ontology of economic life; (C) is an object of the traditional issue of a *Verstehende* method. To confuse these three cases without a systematic reflection of the relations between them is inexcusable, although I admit that the division should not be understood as a strict classification into separately existing worlds of interpretation. It is rather a conceptual division which permits all kinds of overlap and interaction in reality. Indeed, in the final analysis, (C) is not completely independent of (A) and (B), and vice versa. But (C) has some relative independence which makes it a suitable starting point.

I propose to focus my attention on (C). Thus, I will discuss questions of interpreting phenomena related to economic agents and institutions by means of the tools provided by economics. This means that hermeneutics will be dealt with as a potential methodology for studying the economy, that is, *Verstehen* is questioned as a method with applicability in economics. It is in analytic hermeneutics, especially in von Wright's work, that we can find a refined definition of a method of understanding.

Although my remarks on the insistence on studying social – including economic – phenomena on the basis of exclusively interpretive methods will be critical, I am ready to admit that interpretation cannot be avoided in economics, or anywhere else where human action is involved. Indeed, I am willing to subscribe to what may be called *the thesis of the ubiquity of interpretation*: interpretive activity is an aspect of all human life – scientific as well as non-scientific, social scientific as well as natural scientific. We are engaged in interpretive activity as readers of poems or speculators on the stock market; as social scientists recognizing physical movements of human beings as certain kinds of meaningful action, and reading national income statistics; or as natural scientists observing the pointings of a measurement device, and listening to a lecture given by a colleague.

Interpretation appears in many forms, but its ubiquity cannot be denied. However, nothing follows from this in regard to the relative role and power of the methods of causal explanation and interpretive understanding in economics. The question still is this: Is *Verstehen*, in context (C) above, exclusively sufficient and superior to causal explanation?

The above question arises and is specified in the context of the recent revival of hermeneutic ideas among some Austrian economists (see Lachmann 1986, Lavoie 1986, and Ebling 1986). We may now ask: Is *Verstehen* the method of Austrian economics? This question is no doubt ambiguous in many ways. The notion of *Verstehen* will be further specified shortly. 'S is the method of T', in turn, should be understood so as to encompass, 'the actual procedures of T can be reconstructed in terms of S'.

Another specification is this: by 'Austrian economics' I mean economic theories *actually presented* in texts written by people recognized as Austrian economists. Only a very small selection of these theories will be dealt with: namely, Israel Kirzner's theory of entrepreneurship and Carl Menger's theory of the genesis of money.

It seems to me that the hermeneutic revival in Austrian economics has so far remained largely unsettled as to the precise contents of its message. I hope that this paper will help specify the aims and limits of the revivalist efforts.

Underlying von Wright's methodological dualism is the view that positivist explanation in terms of Humean causes is the method of natural sciences, whereas hermeneutic understanding in terms of reasons is the method of social sciences. Replacing positivism by an interpretive approach in social sciences has some undeniable merits. Emphasis on subjectivity and human agency as essential aspects of social reality belongs to these. If this is contrasted to behaviourism in psychology, functionalism in sociology, and 'hydraulic Keynesianism' in macroeconomics (see Coddington 1976), it should be clear that there is a vast difference between focusing on empirical regularities or structural dependencies without the mediation of human consciousness on the one hand, and studying social phenomena as meaningful imprints of the human will on the other.

My complaints begin with the observation that von Wright shares with some other hermeneutic dualists some suspicious premises underlying the picture given about the situation in the philosophy of science. First, it is often assumed that positivism and hermeneutics together exhaust the set of philosophical options in methodology, the problem then being the division of sciences between the purviews of the two approaches. One important consequence of this assumption is the choice given to any student of society and social science: if you do not want to be a positivist, all there is left is hermeneutics. Secondly, it is assumed by some hermeneuticists that positivism – with its Humean conception of law and causation – is the correct theory of natural sciences.³

I find it obvious that both of these assumptions are false. Not positivism but some other philosophy – such as some version of scientific realism – may be the correct (or the most plausible, or the most progressive) theory of the natural sciences. I will not argue for this hypothesis here; it is sufficient merely to introduce a plausible non-hermeneutic rival to positivism in order to establish the rejection of the first assumption. Positivism and hermeneutics do not exhaust our methodological options.

Rejection of the two assumptions does not, of course, imply anything about the role and power of the method of *Verstehen* in social sciences – about whether hermeneutics is correct as *the* social scientific methodology. However, it is clear that their rejection makes it a legitimate project to challenge, on a non-positivistic basis, the exclusive status ascribed by some to the doctrine of acausal understanding.

The third methodological option I have in mind rejects Humean notions of law and causation, and is careful about the limits of the covering law model of explanation, while at the same time insisting on causal notions and explanatory ambitions. I will argue that this kind of scientific realism can be flexibly applied to the methodology of the social sciences without bringing in some of the most serious positivist vices. I will argue that causal explanation of social (and economic) phenomena on a non-Humean basis is possible without destroying human subjectivity and that Austrian economics exemplifies this approach. On the negative side, I will argue that the method of *Verstehen*, compared with this approach, may turn out to be shallow in results and restricted in scope. At the same time, it has to be emphasized that the version of scientific realism I am employing as my background incorporates many hermeneutic insights – it is hermeneutically enlightened scientific realism.⁴

PRACTICAL SYLLOGISM AND ENTREPRENEURIAL ACTION

Selection of the analytic branch of the doctrine of understanding as our focus of attention does not yet unambiguously determine the characteristics of the operation of understanding. At least three kinds of such an operation can be distinguished (see Collin 1985). They differ from each other in regard to the presumed 'ontological basis' of interpretation and to the ways this basis is supposed to convey understanding. They have the common feature that interpretation is concerned with human action; and they all conceive of action as somehow meaningful. Meaningfulness is an ambiguous notion which becomes specified by each approach in its own way. The three modes of interpretation are based, respectively, on goals, rules, and semantic meanings. The focus of this essay will be on the goals-approach, formulated loosely as follows.

- (G) Phenomena of human action can be interpreted in terms of the *goals or purposes* of that action. Purposefulness of action amounts to its directedness towards some goal which is valued by the actor as an end. Action is understood by referring to the intention of the actor to achieve the goal, and to the beliefs of the actor concerning the required means. Pursuit of a goal is one of the senses in which action may be said to be meaningful.⁵

The three modes of *Verstehen* are often unreflectively confused with each other (though it is possible to combine any two – or perhaps all – of them to provide more encompassing approaches). In the tradition of Austrian economics it is possible to find emphases on each of the senses of meaningfulness of human action – some but not all of them accompanied by a commitment to a hermeneutic approach. Goal-directedness is a primary theme in Mises (1949), Lachmann (1986), and Kirzner (1976); rule-following has an important role in Hayek (1973); and meaning-conveying has been dealt

with by Ebeling (1986). The bulk of the discussion which follows will focus upon the goal-directedness or purposefulness of human action in the context of Austrian economics.

The question is now as follows: Are those Austrian economic theories that have a special concern with the purposefulness of human action instances of (G)? The search for an answer to this question has to begin with a suggested specification of the purposive mode. For this purpose I will now turn to von Wright's formulation of the practical syllogism (PS).⁶

Let us begin with the following simple version of the practical syllogism (von Wright 1971, p. 96):

(PS1) Agent *A* intends to bring about *p*.

A considers that he cannot bring about *p* unless he does *a*.

Therefore, *A* sets himself to do *a*.

This scheme can be used in answering the question 'Why does *A* proceed to do *a*?', or 'Why does *A* do *a*?'. The information given in the premises about the intentions and beliefs of the agent is then mentioned in the answer, beginning with 'Because . . .'. It is this answer that provides us with an *understanding* of *A*'s action, or its teleological explanation, as von Wright wants to put it. Let us call this PS-understanding or PS-interpretation.

The first (major) premise of the practical syllogism concerns the intentions, aims, goals, purposes, etc. of the agent under consideration. The second (minor) premise is about the epistemic attitudes of the agent, his or her means-ends beliefs. An important point to be noted here is that it is sufficient for the operation of understanding an action that the agent has some beliefs about the appropriate means; it is not required of those beliefs that they are true.

The action is believed by the agent to be causally related to the end in view. In this way, causation does have a role in practical inference. But when used for understanding human action, the practical syllogism does not, in von Wright's view, provide causal explanation of action. This is so because he subscribes to the so-called *logical connection argument*: the facts described by the premises and the conclusion of the syllogism are logically or conceptually connected. This, von Wright and others claim, precludes any causal connection between them; (Humean) causation would require logical independence of cause and effect. But since intention plus belief and the respective action are conceptually or logically dependent, the former cannot cause the latter. Thus, human action cannot be causally explained by referring to intentions and beliefs as its causes (see von Wright 1971, pp. 93–4, 107–17).

As it stands, (PS1) is too simple as a scheme for understanding human action in excluding, for instance, the time factor. The final qualified formulation of the syllogism provided by von Wright (1971, p. 107) is as follows:

- (PS2) From now on A intends to bring about p at time t .
 From now on A considers that, unless he does a no later than at time t' , he cannot bring about p at time t .

Therefore, no later than when he thinks time t' has arrived, A sets himself to do a , unless he forgets about the time or is prevented.

There are three moments of time here, t (the time of the goal realization), t' (the time of acting), and now. 'From now on' refers to the time interval between the present moment and t' . In addition, two more qualifications are introduced in (PS2): the agent is not to forget the time and the intended action is not to be prevented by any external circumstance. (Note that change in intentions or beliefs or both is not excluded; as a consequence of such a change the original practical inference would 'dissolve' and be replaced by another one with new premises.) The purpose of all these qualifications is to make the practical syllogism logically binding; given the facts represented by the premises, and given the action represented by the conclusion, there is a relation of logical necessity connecting the premises and the conclusion. Note, however, that this is 'a necessity conceived *ex post actu*': the action must already be there in order to have been necessitated by the syllogistic reasoning (von Wright 1971, p. 117).

Economists typically seem to make statements about individual action. More precisely, those statements often concern action by groups or organizations such as households and business firms. It is one of the simplifications of standard economic theory that households and firms are treated as if they were individuals. This is an interesting problem in its own right, but I will refrain from dealing with it here and take, in a more neutral mode, 'agents' – such as 'consumers' and 'producers' and especially 'entrepreneurs' – as the values of the variable A , and their actions as the values of the variable a in (PS1) or (PS2).

Various properties, aims and beliefs, are attributed to consumers and producers by economists. Consumers are said rationally to maximize their utility, and to have beliefs about the relevant conditions of their action, such as the types of goods available in the market, and their prices. Producers are postulated to have maximum profits as the aim of their action, and to have beliefs about the conditions in the factor and product markets. Beliefs of both consumers and producers may be assumed to exist in various degrees of completeness and certainty.

As an illustration, we may apply the simple scheme (PS1) to the case of producer behaviour in standard neoclassical theory with timeless equilibrating mechanisms. An introductory textbook case of a price taker choosing the amount of his output might look roughly like this:

- (PS3) Producer B intends to maximize his profits, $\pi = TR - TC$.
 B believes that unless he produces the amount of q^* of his output so as to establish $MC = MR$, π will not be maximized.

Therefore, B sets himself to produce q^* of his output.

But we are not now interested in the structure of standard neoclassical reasoning. The question we have to tackle is this: Does (PS2) capture the nature of human action as depicted by Austrian economic theory? As a potential Austrian *analysandum* for an inquiry in terms of (PS2) I will consider the theory of entrepreneurship developed recently by Israel Kirzner (1973, 1979, 1985). The question is now this: Does (PS2) capture the nature of entrepreneurial action as depicted in Kirzner's theory?

Let us begin with the major premise of (PS2). It clearly implies the acknowledgement of the essential purposefulness of human action. This is something that has been vigorously emphasized by Austrian economists, and it is no doubt also built into Kirzner's theory. There is the postulate of the general and overriding purpose of human agents to improve their own position, and this is implied in each of the more specific objectives of action, entrepreneurial profit-seeking included.

In general, the time factor is given special emphasis in the Austrian theory, and the treatment of profit-seeking is no exception. A simple point is that, like all action, profit-seeking action takes time. Furthermore, maximum profit as the objective of entrepreneurial action is dealt with by Kirzner in its *ex ante* role. It is *anticipated* profit that serves as an incentive to entrepreneurial action. Pure entrepreneurial profit is based on perceived price differentials in the market – hence, it depends on the violation of Jevons' Law of Indifference. It is the surplus of sales revenues over total relevant purchase outlays, provided this surplus has been discovered by the entrepreneur. It is conceived by the agent as the future result of his action.

To conclude, it seems perfectly sensible to provide the following reconstruction of this aspect of the notion of purposeful profit-seeking in terms of the formulation of the major premise of (PS2): From t on, an entrepreneur, E_i , pursues maximum pure profit as an end to be realized at time t'' . Note that I have relaxed the restriction on the scheme imposed by the formulation in terms of 'now'. Note also that while the formulation captures some aspects of the time-dimension of profit-seeking, it also contains the less than perfectly plausible idealization that the agent already has in mind at t the time (t'') of the fulfilment of his intention. Let us assume, however, that this idealization does not affect the likelihood that (PS2) will adequately characterize the nature of entrepreneurial action.

The minor premise of the practical syllogism is a reflection of the kind of concern that has been given an extremely important status in the Austrian tradition of economics. Reference to what has usually been called agents' 'knowledge', 'information', and 'expectations' of market conditions and available means of profit-seeking action have been of central importance to Austrian theorizing. The minor premise of either (PS1) or (PS2) implies a kind of subjectivism about beliefs due to its indifference with respect to truth. It is obvious that this subjectivism is shared by Kirzner's theory of entrepreneurial action. He writes that he is not 'concerned with the truth or correctness of the knowledge people possess' (Kirzner 1979, p. 139). He is

interested in beliefs and other epistemic attitudes only 'to the extent that people's actions can be recognized as the consistent expression of these beliefs, expectations, and speculation' (Kurzner 1979, p. 140). This is in accord with the view implied in the practical syllogism.⁷

To show that intentions and beliefs have a prominent role in the Austrian theory is not yet proof of its hermeneutic and non-causalist character. I will now present an analysis suggesting that it does not have such a character. Commentators have pointed to several problems in the practical syllogism as a device of understanding (see, e.g., Tuomela 1977, pp. 170–205). Here it is sufficient to concentrate on two problems, because these two reveal divergences between the doctrine of PS-understanding and the Austrian theory of entrepreneurship. The first problem is that there is nothing in the syllogism to tell us what enables and activates people to act in accordance with their intentions and epistemic attitudes. The second problem is that revision of intentions and beliefs – no doubt a permanent feature of human life – remains unaccountable given the conceptual resources provided by the syllogism. It is my suggestion that these problems do not arise in the Austrian theory thanks to the notion of entrepreneurial alertness which is given a central role by Kurzner. I further suggest that alertness can be understood as a causal power, which has critical consequences with respect to the syllogism. I will now deal with each of the two problems in turn.

Consider von Wright's (1971, p. 116) example of a man 'resolved to shoot the tyrant. He stands in front of the beast, aiming at him with his loaded revolver. But nothing happens'. We find that the man was not 'physically prevented from carrying his intention into effect', did not forget about the time, did not give up his intention, nor did he revise his beliefs about the situation. He just did not act as intended. It is notable that no explanation of this kind of event can be given in the framework of the practical syllogism. The only consequence that is permitted to follow from the possibility of the above sort of inaction is the restriction of the necessity of practical inference to necessity *ex post actu*: an action has to take place in order to have been necessitated by the relevant intentions and beliefs (von Wright 1971, p. 117). This implies a kind of asymmetry in our accounts of action and inaction where the relevant intentions and epistemic attitudes are present: action allegedly can be accounted for while inaction cannot. The latter remains a mystery.

To step in front of a tyrant aiming a loaded gun at him is an achievement in itself. Most of us never get so far: we stay at home and deliberate about the premises of a practical syllogism in the first person (e.g., 'I intend to liberate my country from tyranny', and 'to make my country free I have to shoot the tyrant'). But that is it. The intentions and epistemic attitudes do not turn into action. This seems to be a common phenomenon. Introspectively, most of my intentions never get translated into action – that is, most of my intentions are not efficacious. It would thus seem that the practical syllogism is helpless with respect to an important category of

phenomena related to intentions, beliefs, and human action: failures to act. Something is missing in the syllogism.

What we need to add to the accounts of human action and inaction alike to make them symmetrical is a set of notions of factors that help turn intentions into actions. In the case of action all of these factors are present, while in the case of inaction at least some of them are absent. Without these notions the practical syllogism remains restricted in scope (because it does not encompass inactions) and shallow within its scope (because it does not mention all the factors that have a role in generating actual actions).

One suggestion of how to specify the notion of a central factor in the set is to say that it has the general character of a *causal power* that is being exercised when suitable conditions obtain (see, e.g., Harré and Secord 1972, Chs. 12–13; Harré and Madden 1975, Chs. 5–6; Harré 1983, Ch. 7; Chisholm 1976, Ch. 2). Having the power to act in a certain way is to be capable of acting that way; it is to be in a state of readiness to act that way; it is to act that way if the appropriate conditions obtain; and it is to act that way by virtue of an intrinsic nature. Powers in this sense are akin to tendencies, drives, excited capabilities, grounded dispositions or propensities and the like. Loaded guns and runners at the starting line are paradigmatic cases of entities with causal powers. Human powers, when embedded in intentions and beliefs, make these causally efficacious. They are part of the definition of ourselves as *agents*.⁸

To refer back to von Wright's example above, a possible explanation of the failure to act on the part of the potential assassin is that he did not have the required power to implement his intention; we can say this because it was assumed that the appropriate conditions did obtain. The rest of us even lack the power to step in front of the tyrant.

I am now ready to make a crucial point about the Austrian theory of entrepreneurial action. It is in the form of the following suggestion: a central ingredient in entrepreneurship according to Kirzner's theory, namely *entrepreneurial alertness*, is best understood as a *causal power*. Kirzner's work does not provide a strict definition of entrepreneurial alertness that would immediately justify my interpretation. But I hope to show that his several characterizations of alertness give support to the suggestion.

While Mises (1949, p. 336) talks about the superior 'mental power and energy' of entrepreneurs, I have not found the term 'power' used by Kirzner in this context. But Kirzner uses several other terms that are akin to causal powers. 'Ability' is one of them: 'Entrepreneurial alertness consists, after all, in the *ability* to notice without search opportunities that have been hitherto overlooked' (Kirzner 1979, p. 148; my italics). So is 'propensity': 'Human alertness at all times furnishes agents with the *propensity* to discover information that will be useful for them' (Kirzner 1985, p. 12; my italics). 'Tendency' is still another: alertness is 'a *tendency* for man to notice those [facts] that constitute possible opportunities for gainful action on his part' (Kirzner 1979, p. 29; my italics).

That alertness has a role in prompting entrepreneurs to act, becomes clear from the following: 'If one has become sufficiently alerted to the existence of an opportunity . . . it becomes virtually impossible to imagine not taking advantage of the opportunity so discovered' (Kirzner 1985, p. 22). And more explicitly: 'Purposive human action involves a posture of alertness toward the discovery of as yet unperceived opportunities and their exploitation' (Kirzner 1979, p. 109).

Some further characteristics, typical of causal powers in general, are attributed to alertness by Kirzner (1985), which gives support to my interpretation. Entrepreneurial alertness is said to be something that can be '*inspired*' by 'the lure of market profits' (p. 61), or by 'freedom of entrepreneurial entry' (p. 91); it can be '*tapped*' (p. 25) or '*switched on*' by the incentive of 'the pure gain' (pp. 58–9). But alertness can also remain '*latent and untapped*' and '*inert*' (p. 25). The italicized (the italics are mine) expressions give further reason to think of entrepreneurial alertness as a causal power inherent in human agents that has to be stimulated in order for it to manifest or actualize itself. *Entrepreneurial action, then, is the exercise of the causal power of entrepreneurial alertness.*

This also means that, for Kirzner, alertness is no mere behavioural regularity or disposition. It is rather a human power that has a grounding in the nature of the persons who have that power. As such, alertness is a property that mediates between a person's behavioural dispositions and nature. What, then, is the grounding or nature that gives rise to entrepreneurial alertness? Kirzner only gives hints at an answer and says that we do not know much about the psychological basis of alertness, though it would be good to know more about it (Kirzner 1979, p. 26). That he thinks there is such a basis becomes evident, however, when he talks about 'the qualities that make for entrepreneurial alertness' and refers to 'restive temperament, thirst for adventure, ambition, and imagination' (Kirzner 1985, pp. 26 and 89), as well as 'vision, boldness, determination, and creativity' (p. 64).⁹

Let us now turn to the second problem of the practical syllogism. Actors are allowed to revise their intentions and epistemic attitudes in von Wright's account of human action. Each pair of intentions and beliefs is accompanied by a corresponding practical syllogism; so that when intentions and/or beliefs change, a particular syllogism has to be replaced by another one. However, the resources of the practical syllogism turn out to be incomplete in that they do not enable us to explain why it is that actors revise their purposes and beliefs. This inability is a characteristic feature of the practical syllogism: changes in the premises have to be taken as exogenously given. This implies another restriction in the scope of the syllogism.

I will now try to show that the notion of entrepreneurial alertness, understood as a causal power, saves the Austrian theory from such shortcoming. If this claim is true, then it provides another reason for objecting to the idea that the Austrian theory of entrepreneurial action conforms to the

hermeneutic practical syllogism. After all, it seems to me that the syllogism may be better equipped to clarify some aspects of what Kirzner calls 'Robbinsian' maximizing behaviour.

Robbinsian economizing as constrained optimization is action within a given means–end framework. The actor has a hierarchy (in terms of importance) of a multiplicity of given ends and a set of given means that are scarce in the sense that they do not enable the realization of all the ends at the same time. The actor solves this 'economic problem' by choosing a course of action which maximizes his/her utility. He or she does this by employing available means to promote achieving various ends in varying degrees so as to achieve the grand goal, maximum utility (see Robbins 1935, pp. 12–16). Alertness, and with it entrepreneurship, are lacking in any Robbinsian theory: any such theory 'only applies after a person is confronted with opportunities; for it does not explain how that person learns about opportunities in the first place' (Kirzner 1979, p. 7). It follows that '[t]here is nothing in the formulation of the economizing view of the decision that tells us how, in the absence of unexplained exogenous changes, one pattern of relevant ends–means comes to be replaced by another' (Kirzner 1973, p. 36; italics deleted). Robbinsian action, in short, does not encompass the change in means–ends frameworks.

In contrast, entrepreneurial action is not restricted to given frameworks of scarce means and multiple ends: it is based on 'alertness toward new valuations with respect to ends, new availability of means' (Kirzner 1979, p. 109). Without giving up pure profit as their grand goal, indeed in order to promote its attainment, entrepreneurs are apt to revise their means–ends frameworks by virtue of their alertness. Successive frameworks do not remain unconnected as they do in the case of Robbinsian economizing, because 'recognizing this entrepreneurial element may make it possible to view a succession of different decisions by the same individual as a logically unified *sequence*, with each decision comprehensible as the logical outcome of the prior decision' (Kirzner 1973, p. 36). In sum, by postulating the power of alertness to entrepreneurs, the Austrian theory gains the ability to give an account of how and why agents change their intentions and beliefs. The practical syllogism as formulated by von Wright does not have this ability.

I have argued that entrepreneurial alertness, as characterized by Kirzner, is a causal power. As such it makes it both possible and likely for entrepreneurs to hold, revise, and exercise certain sorts of intentions and beliefs. A few remarks will clarify some of the implications of this interpretation.

First, while I have proposed to analyse entrepreneurial action partly in causal terms, I do not mean to do this in terms of (Humean) causal sequences of events but in terms of causal powers. That is, what seems relevant here is not event causation but rather what has recently come to be called agent causation.¹⁰ Second, characterizing action in causal terms does not undermine the fundamentally intentional or purposeful character of

human action, so much emphasized in the Austrian tradition of economics. Purposefulness and causality are both built into the notion of entrepreneurial action; action is determined both causally and intentionally without contradiction. Third, causation of human action is compatible with the idea of free will, another topic dear to Austrian economists. It may be argued more strongly that the notion of free will presupposes analysing agency in terms of causal powers. Fourth, and most importantly from the point of view of my overall argument, it follows from my suggestion that the hermeneutical practical syllogism does not succeed in analysing the Austrian account of entrepreneurial action. The structure and content of the Austrian account is not that of von Wrightian PS-understanding but of a version of causal explanation. This is not to say that it is the primary purpose of Austrian theory to explain entrepreneurial action, but that, in its attempts to explain something else, it builds upon an account of action that is partly causal.

It is to the primary *explananda* of Austrian theory that I now turn. I will argue that the prospects of hermeneutic PS-interpretation thus become even more problematic.

UNINTENDED CONSEQUENCES AND THE INVISIBLE HAND

Although human action is typically intentional, it usually has consequences that were not intended by the actor. To clarify the idea of unintended consequences I would like to introduce the concept of *the sphere of intendedness*: every intended result of an action belongs to the sphere of intendedness of this action by the actor. It is also possible to think of the sphere of intendedness as part of the action itself, together with the underlying intentions, beliefs, powers, plans, etc.

The same type of behaviour may be accompanied by various spheres of intendedness. Take the example of *A*'s turning the handle of a window. It may be that it is only this event which belongs to *A*'s sphere of intendedness: *A* intended to bring about nothing more than the turning of the handle. But it may also be that *A* intended to open the window; the sphere would accordingly be larger. It would grow even larger than that if *A*, say, intended to find out what made the strange noise she had heard from the street, or to get some fresh air into the room. Suppose, however, that this is the limit of *A*'s sphere of intendedness in the case of turning the handle. But *A*'s action may have other consequences as well. The heating costs of the building may become slightly higher than they would have been if she had not opened the window (suppose it was winter). The temperature of the room may drop so as to make *D* (who also was in the room and had incipient influenza) sneeze just as *A* was passing; as a consequence, after a couple of days *A* will have influenza. Worst of all, *A* will not recover soon enough to be able to give her presidential address at the Annual Meeting of the Society for Interpretive Economics. None of these consequences was

intended by *A*; they are not within the sphere of intendedness of her original innocent act. What is most important, these consequences cannot be accounted for by referring to *A*'s intentions and beliefs. The practical syllogism becomes restricted in scope.

Economics is often concerned with invisible-hand processes, and these are not quite like the one described above. There are, however, important similarities. In both cases the actions of agents have consequences which go beyond their spheres of intendedness. In both cases, what happens beyond the limits of the sphere is, I would like to argue, causally determined. In the above example, the causal process is partly natural: decline in temperature, sneeze, propagation through the air of the virus carriers, etc. In an invisible-hand process, whereby economic institutions and phenomena emerge, causation is primarily a social process.

My point may become clearer if von Wright's terminology is used. A typical action may be said to have 'inner' and 'outer' aspects. The inner aspect consists of the mental states and processes which manifest themselves in bodily behaviour, in the outer aspect of an action. Von Wright (1971, pp. 86–7) further distinguishes between 'immediate' and 'remote' outer aspects of an action: 'The immediate outer aspect is muscular activity – e.g. a turning of the hand. The remote outer aspect is some event for which this muscular activity is causally responsible – e.g. the turning of a handle or the opening of a window.'

In addition, von Wright (1971, pp. 87–8) defines '*performance*' as an action which has a phase in its outer aspect – which he calls the '*result*' – that has to materialize in order for the action to have been completed. It is von Wright's view that results of an action – such as the window opening – are conceptually connected with the action itself, which implies that results are intended by the actor. In my terminology, results belong to the sphere of intendedness of an action.

Let us familiarize ourselves with these concepts in an economic context. A typical – maybe the most important – action discussed by economists is that of a transaction or an act of exchange in the market. The inner aspect of an exchange, though much simplified by an economist, seems to be within the purview of the discipline; talk about utility, maximization, knowledge, expectations, etc. is an expression of this. The economist seems to be much less interested in the immediate outer aspect of an exchange; it is usually taken for granted that the bodily movements of passing items of the generally accepted media of exchange, and receiving items of usable goods in return, succeed as required. It is the remote outer aspect of an act of exchange that interests the economist – namely, the fact that certain amounts of goods and money change owners. This is, for an economist, also the result of a transaction: it is intended by the market agents, and its accomplishment completes an act of exchange. An isolated act of exchange, then, is a performance for an economic theorist.¹¹

However, there are typically several agents in the market, and a number

of exchanges take place. The exchanges by different agents are independent of each other in that they are not connected by a common plan of the agents. They are, however, interdependent – in that their relations are established by the market mechanism. As a consequence of these independent–interdependent exchanges, a co-ordinative system of relative prices emerges. This system is a social fact which is not a ‘result’ of any individual or collective action; it does not lie within the sphere of intendedness of any actor, individual, or collective. Agents do jointly bring it about; but bringing it about is not anybody’s or any group’s performance. Note that this way of talking presupposes the notion of collective or group intention – or ‘we-intention’ as it is sometimes called¹² – in addition to that of individual intention (or ‘I-intention’), with the notions of result and performance defined in terms of these two notions of intention. The point can now be formulated as the statement that the system of relative prices is a social fact that is neither I-intended nor we-intended.

The concept of the sphere of intendedness is also related to Anscombe’s (1957, paragraphs 26–29) notion of ‘*intentional under a description*’. To show this we may sharpen our previous concepts and follow von Wright (1971, p. 88) by distinguishing between the *result* of an action and its causal *antecedents* and *consequences* – the latter two being causes and effects of the former. While the result is, in von Wright’s opinion, intrinsically (conceptually) connected with the action, this is not the case with the antecedents and consequences of the action. For instance, certain bodily movements of a person are causal antecedents of his act of opening a window. A decrease in the temperature in a room may be a causal consequence of the result of the act. Where the dividing lines between the results, antecedents, and consequences of an action are drawn depends on what the intention behind the action focuses on. Whereas results are intended, antecedents and consequences are not. The dividing lines can be moved by changing the description which deems an action intentional. For example, when describing a given action, we may move from (i) ‘she turned the handle’ to (ii) ‘she opened the window’ to (iii) ‘she cooled the room’ (von Wright 1971, p. 89).

This may be taken to mean that by moving from one description to another we turn consequences into results and results into causal antecedents. For instance, when moving from (i) to (ii) we conceptualize the turning of the handle (which was a result) as a causal antecedent; and the opening of the window (which was a causal consequence) as a result. It is clear that several such descriptions may be true of an action – the sphere of intendedness may be stretched quite far. Which one of the possible descriptions is true depends on the focus of the intention of the acting agent. However, there are certainly actions for which there is a limit beyond which the sphere cannot be stretched. If an action is described as intentional beyond this limit, it will be a false description. There are consequences of individual action that cannot be truthfully described as its results. It may be true that

A intentionally cooled the room, but it is probably not true that it was an intended result of her act of cooling the room that she could not deliver the presidential address.

Not all unintended consequences of individual action are mediated by an invisible-hand process. For this reason, and because many economic explanations make reference to that process, we have to specify what is characteristic of those unintended consequences that are being generated or mediated by the invisible hand (let us call them '*invisible-hand consequences*'). At least the following special features have to be mentioned:

(i) An invisible-hand consequence is a consequence of actions by several actors. An individual actor is not sufficient to generate such a consequence; a collective – in fact, a 'large' collective – of actors is needed. On this basis, the failure of A to give her presidential address, in the example above, is to be excluded.

(ii) The members of the collective or group have to be unconnected by a *we-intention* to bring about the consequence. The consequence is unintended by the collective as well as by any of its individual members. In other words, the actions of the individuals in the group are 'dispersed' – that is, unco-ordinated by a common plan (although they are co-ordinated by their social consequences).

(iii) The class of invisible-hand consequences comprises social institutions, such as money, as well as large-scale social events, such as changes in many relative prices. One individual becoming unable to deliver a presidential address thus will not do so on this account either.

(iv) Invisible-hand consequences, though unintended, are by and large beneficial to members of the collective. Thus, various kinds of undesired *and* undesirable consequences or 'perverse effects' in the narrow sense (see Boudon 1982) are not invisible-hand consequences in the traditional sense of economics, Austrian theory included (though it is evident that perverse effects in the wide sense are also relevant to standard economic theory; just think of the problem of externalities). This is one more reason why the fate of our poor hermeneuticist who caught a cold is to be excluded.

Of course, this list does not exhaust the characteristic features of invisible-hand consequences, but it will do for our purposes.

An *invisible-hand process*, in turn, is a process whereby invisible-hand consequences are generated. Thus, the above characteristics of invisible-hand consequences serve to define aspects of the process, too. A couple of additional points have to be mentioned. First, the set of invisible-hand processes comprises both processes of origin or emergence, and processes of maintenance or preservation. Second, as I will argue in the next section, an invisible-hand process is essentially a causal process.

Finally, an *invisible-hand explanation* is an explanation which has an invisible-hand consequence as the *explanandum* and an invisible-hand process as the *explanans*. The next section will be devoted to further

scrutiny of invisible-hand explanations, but let it be noted here that the point I am making there is that there is no contradiction between these explanations being causal explanations and their *explanantia*, having intentional individual actions as their components.¹³

Menger's theory of the origin of money is a paradigmatic case of invisible-hand explanation in Austrian economics (see Menger 1892, 1950, 1963; O'Driscoll 1986; Koppl 1984). A rough outline of some of its more important ingredients will neatly illustrate the essentials of invisible-hand explanation.

That Menger thinks there are institutions which satisfy at least the above conditions (ii), (iii), and (iv) for identifying something as an invisible-hand consequence is implied in his explanation-oriented question: 'How can it be that the institutions which serve the common welfare and are extremely significant for its development come into being without a *common will* directed toward establishing them?' (Menger 1963, p. 146). That condition (i) is satisfied and that condition (iii) is satisfied in cases other than institutions proper becomes evident when we quote from the words of Menger (1963, p. 158): 'a large number of the phenomena of economy . . . e.g., market prices, wages, interest rates, etc., have come into existence in exactly the same way as those social institutions. . . . For they, too, as a rule are not the result of socially teleological causes, but the unintended result of innumerable efforts of economic subjects pursuing *individual* interests'. That Menger focused his attention primarily on the invisible-hand processes of origination and emergence is evidenced in the above quotations by the expressions 'coming into being' and 'coming into existence'.

Menger's 'evolutionary account' of the genesis of money begins with a description of the situation of pure barter. In this state market agents suffer from poor liquidity and high transaction costs. An essential condition for the invisible-hand process to get started is the perception by market-agents of differences between commodities as to their *Absatzfähigkeit*, their saleability or marketability – that is, the facility with which commodities can be disposed of in a market at going prices. This facility consists of such factors as the time required for selling a commodity and the quantity of the commodity that can be sold at one time, and it is dependent – among other things – on the value, transportability, and preservability of commodities (see Menger 1892, pp. 243–7). Basing their actions on this perception, individual market agents in entrepreneurial pursuit of their self-interest in an immediate satisfaction of their own needs, begin one after another to exchange their commodities for those that are more saleable in order to secure the provision of those that they require for satisfying their consumption needs. Menger put it this way:

As *each* economizing individual becomes increasingly more aware of his economic interest, he is led by this *interest*, *without any agreement*, *without legislative compulsion and even without regard to the public*

interest, to give his commodities in exchange for other, more saleable, commodities, even if he does not need them for any immediate consumption purposes.

(Menger 1950, p. 260)

This leads to an improvement in the liquidity of market agents, which helps to decrease their future transaction costs. The process, once started, continues in a cumulative, self-enforcing fashion. In the end, the commodity which enjoys the best saleability properties becomes selected as the universally accepted medium of exchange. Money is born.

I would like to discuss the above process metaphorically. Let us say that by making a choice between available media of exchange the agent of each transaction in the process 'votes' for one particular medium and by doing so raises its 'popularity'. The more popular a medium is, the more likely it is that future transactors will vote for it; hence the self-enforcing character of the process. The voting process goes on and is not finished until one medium of exchange becomes 'elected': it becomes so popular that it is established as *the* generally accepted medium of exchange (of course, this medium is continuously being 're-elected'; thus, the voting process in fact never gets finished). I will use this 'voting' metaphor shortly.

That the general conditions of invisible-hand consequences and processes are also fulfilled by Menger's account of the origin of money can easily be shown. He says that 'money is not the product of an agreement on the part of economizing men nor the product of legislative acts. No one invented it'. (Menger 1950, p. 262). Thus, money is not a result of an I-intention or a we-intention. It is rather 'the spontaneous outcome, the unpremeditated resultant, of particular, individual efforts of the members of a society' (Menger 1892, p. 250). Moreover, just as is required of an invisible-hand consequence in the present sense, the institution of money is also beneficial to the members of society, in that the money commodity is 'in the interest of every one to accept in exchange for his own less saleable goods' (Menger 1892, p. 248).

EXPLANATION, UNDERSTANDING, AND THE INVISIBLE HAND

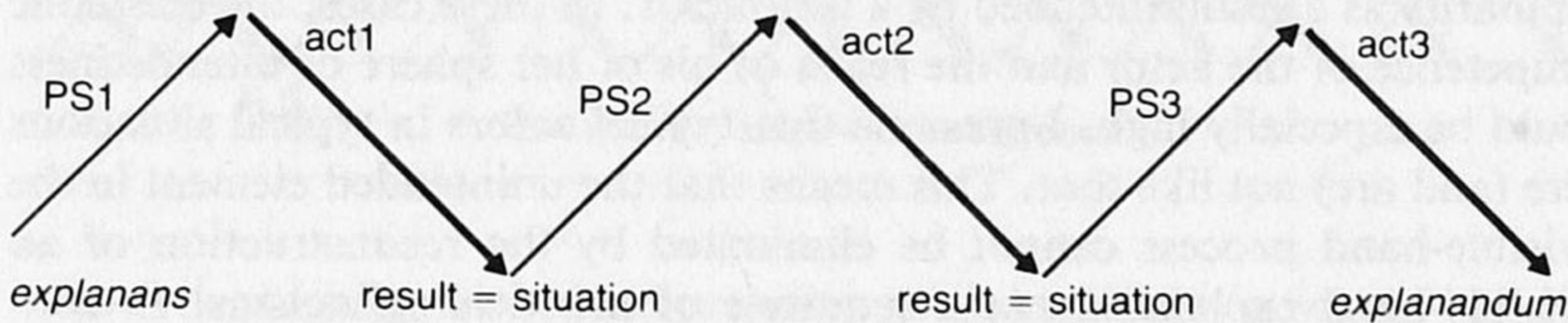
What is the general nature of an adequate account of the unintended consequences of individual action when those consequences have been shaped by an invisible-hand process? Does interpretive understanding have a role in this account? Is the practical syllogism, as a representative of the interpretive mode (G), of any help? Are its limits co-extensive with the limits of spheres of intendedness? Does causation, after all, have a role?

I have argued that understanding based merely on an acausalistically conceived practical syllogism (PS) is shallow and restricted in scope in the case of individual action. I will now argue that there are also other restrictions to its scope: it does not suffice to account for those economic

phenomena and institutions which have emerged as consequences of invisible-hand processes.

Let us now test the potential of PS-interpretation in the case of accounting for invisible-hand consequences. I would like to suggest a possible reconstruction of an invisible-hand explanation which is a variation of von Wright's (1971, pp. 139–143) characterization of what he calls a 'quasi-causal' explanation of an historical event. This kind of explanation points out a sequence of actions (each of them accounted for by means of a practical syllogism) in which the result of each action constitutes part of the situation in which the next action takes place. The structure of the sequence can be represented as in Figure 8.1.

Figure 8.1 Quasi-causal explanation



Von Wright's example takes the generation of World War I as the *explanandum*. He says that the explanation is quasi-causal, because it looks as if the murder in Sarajevo, the *explanans*, causally brought about the war. However, it is only quasi-causal since the connection was mediated by a number of actions plus practical reasonings supporting those actions with no nomic relation involved. Of course, the *explanans* itself was intentionally generated by the reasons of the murderer and his supporting group.

Now one might want to suggest that, for instance, the Mengerian explanation of money should be reconstructed in the same way, in terms of a sequence of practical syllogisms. To each individual transactor would be attributed the intention to improve his or her position and the relevant beliefs about the situation in regard to the available media of exchange and their saleability. The situation changes (the media of exchange change as to their 'popularity'; in every transaction one or the other medium has been 'voted for') as a result of each transaction, thereafter constituting a new starting point for the next transactor. In general terms, the spheres of intendedness of the actors would, so to speak, be connected at the edges. *The notion of global unintendedness would become reduced to the notion of a sequence of local intendedness.* The institution of money would, in this way, be intentionally understood, not causally explained. The same kind of reconstruction might be applicable in the case of the explanation of a system of relative prices.

There are several problems with the above suggestion. First, the causalist

arguments against the intentionalist version of the practical syllogism provided earlier will also retain their force in the case of a sequence of practical syllogisms. A conjunction of non-explanatory or superficially explanatory reasonings is no less non-explanatory or superficial than each individual reasoning. However, this is a point of shallowness rather than scope, because inaction does not have a constructive role in the generation of money or relative prices.

Second, it seems to me that, after all, each of the practical syllogisms inevitably leaves room for unintended consequences in the sequence; the net consisting of the local spheres of intendedness is not completely tight. This is because, to take the example of money, one important consequence of each action in the sequence is a change in the popularity of the available media of exchange, and these changes typically do not belong to the agents' spheres of intendedness. Only in rare cases could we think of a change in popularity as a result intended by a transactor. In these cases, the epistemic competence of the actor and the reach of his or her sphere of intendedness would be especially high. I presume that typical actors in typical situations were (and are) not like that. This means that the unintended element in the invisible-hand process cannot be eliminated by the reconstruction of an invisible-hand explanation as a sequence of practical syllogisms. In conclusion, practical syllogism is restricted in scope: it cannot encompass an important set of *explananda* of economics.

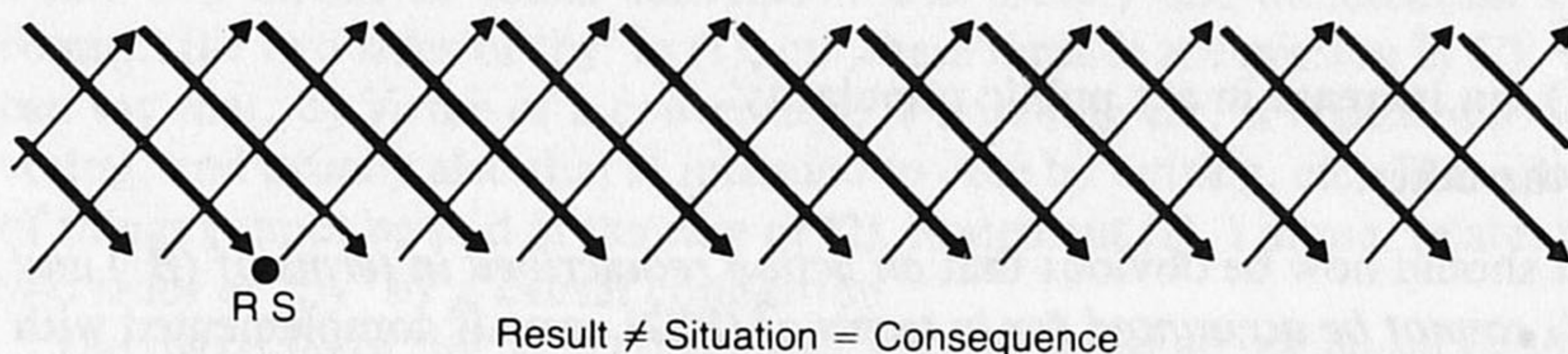
Third, the sequencing of the account is problematic in itself. This is especially clear in the case of an account of a system of relative prices. Market agents may act more or less co-temporally, responding to and creating situations which do not follow each other in a neat sequential order, one action not regularly being dependent on the result of the previous one. In response to this, some people may suggest that sequencing can be justified as a harmless simplification. My reply would be that this kind of simplification would be no less harmful than the simplification in neo-classical general-equilibrium theory, vehemently opposed by the Austrians, that all transactions take place simultaneously.

Fourth, and least important, there is the practical problem related to the length of the sequence in invisible-hand processes. It may be possible to mention the stages leading from Sarajevo to the war, but not those leading to the emergence of money. The obvious way of escaping this difficulty is to omit most of the 'stages' and concentrate on only a few crucial ones, on those at which important transformations occurred in the development of the media of exchange. The practical syllogisms included in such an abridged account would then be simplified accounts of some crucial, representative actions. It seems that Menger's evolutionary account can be read as having this character. Thus, it would seem that simplifications involved in this strategy are more or less harmless.

It follows from the above critical points (especially the second and third points) that we should accept something like the representation shown in

Figure 8.2 as a closer approximation of an invisible-hand process than Figure 8.1. Two modifications to Figure 8.1 are suggested. First, Figure 8.2 rejects the idea of a neat sequential order. Second, Figure 8.2 incorporates the claim that it is not the intended results of earlier actions (depicted as R) that, as such, constitute the situations (S) perceived by agents of later actions. The relevant situations are not results but rather unintended consequences of preceding actions. There is a gap between results and situations represented by the squared circle.

Figure 8.2 Invisible-hand explanation



In order to suggest one interpretation of an important aspect of invisible-hand explanation we have to penetrate the secret of the squared circle. Menger's story will serve as an illustration. I submit that the squared circle symbolizes *the three-fold relation of a redescription*. This relation connects three items to one another. First, there is the *real element* in the economic process. Second, there is the *description* of the real event as a result of an individual action – that is, as something that intendedly promotes satisfying the self-interest of the acting agent. Third, there is the *redescription* of the element as an event of 'voting for' a particular medium of exchange. The redescription tells us what, from the point of view of the invisible-hand process, the event is – namely, an increase in popularity of the medium selected.

The description tells us what happens within the sphere of intendedness of a transactor. The agent intends to bring about a result that promotes his self-interest and acts in accordance with this intention, with his beliefs about the situation and with whatever powers he may possess. By the same act of transaction, however, he brings about something that he did not intend, though this, too, is ultimately in accord with his self-interest. The action is intentional under the description (A) 'He increased his liquidity', but not under the redescription (B) 'He increased the popularity of this medium of exchange', or, 'He voted for this medium of exchange'. (A) describes a performance, whereas (B) does not. Voting is typically intentional action, but in this case, typically, it is not. By using the term metaphorically, we can avoid conceiving of voting as intentional under the redescription.

To clarify the point further I submit that we make a distinction between

describing an action in terms of the related intentions and describing it in terms of its outcomes, let us call them 'intention-descriptions' and 'outcome-descriptions'. In the case of (A) and (B) this implies making a distinction between the pair of description and redescription,

(A') 'a pursuing of one's self interest by choosing the medium of exchange x '

and

(B') 'a voting for the medium of exchange x ',

on the one hand, and the pair,

(A'') 'an increase in one's individual liquidity'

and

(B'') 'an increase in x 's public popularity',

on the other.

It should now be obvious that *an action redescribed in terms of (B') and (B'') cannot be accounted for in terms of (PS2)*, even if complemented with the notion of human causal powers. If formulated as stating that an agent had the intention of bringing about an increase in the public popularity of x , the major premise of (PS2) would most likely be false and hence would not serve to make the action understandable. This is a crucial point, because it is the conjunction of (B') and (B'') that tells us something about how situations for further actions are generated as consequences of previous actions.

We can use the ambiguous notion of 'by' to clarify some of the relations that prevail between various elements under consideration. Note that (A') is already formulated in terms of a 'by'. Here it denotes a means-ends relation: an end is pursued *by* some means. The same sense of 'by' is employed if we say that an agent did what (A'') describes *by* doing what (A') describes. Even the pair (B') and (B'') can perhaps be connected by a 'by' in this sense, providing it is kept in mind that language here is deliberately metaphorical. The important point is that the meaning of 'by' is different when we say that an agent did what (B') describes *by* doing what (A') describes, or that he did what (B'') describes *by* doing what (A'') describes, or, by virtue of transitivity, that he did what (B'') describes *by* doing what (A') describes. In spite of their differences, these two senses of 'by' seem to be similar in one respect: they denote a causal relation. It would seem obvious enough that 'by' (in its 'means-ends' sense) designates a causal notion. However, it will have to be argued that the second sense is causal, although the reason is relatively simple.

There is a non-causal sense of 'by' that is related to the mode (R) of hermeneutic understanding (see note 5). When we say, for example, that 'Matti voted for Teppo by writing "Teppo" on a piece of paper which he dropped in a box', we do not presume that Matti's voting was caused by his writing, etc. Instead, what we say presupposes the existence of a rule or social convention which prescribes that Matti's writing 'Teppo', etc. (or Matti's

raising his hand or Matti's shouting) means Matti's voting for Teppo. The rule is a constitutive rule (see Searle 1969, pp. 33–5) which prescribes that Matti's writing constitutes Matti's voting. Whether or not this view is correct, it should be clear that there is a difference in regard to the meaning of 'by' between:

(1) 'A voted for x by writing " x " on a piece of paper etc.'

and

(2) 'A voted for x by using x as his medium of exchange in pursuing his self-interest.'

There is a thread of social convention and usually one of intention that connect the two sides of 'by' in (1), but these threads are missing in (2). We can say that, by virtue of a convention, A 's writing etc. is regarded as A 's voting, and usually also that A intended to vote by writing, etc. These sorts of things cannot be said in the case of (2). Statement (2), I argue, relates the two sides of 'by' by a causal connection.

The two sides of 'by' in (2), I suggest, are connected by the causal relation of *bringing about*. A reformulation in these terms is as follows:

(2') 'A brought about the voting for x by using x as his medium of exchange in pursuing his self-interest.'

That what we have here is the relation of 'bringing about' should be uncontroversial. That this relation is a causal relation should also be evident. Consequently, we may formulate:

(2'') 'A caused the voting for x by using x as his medium of exchange in pursuing his self-interest.'

Loaded with human powers, economic agents also bring about intended results. In a case like (2'), agents bring about unintended consequences. The transformation of intended results into unintended invisible-hand consequences is contingent upon appropriate social conditions such as, in this case, the dispersion of decision-making and the co-ordination of decisions in the market. These factors may be regarded as necessary causal conditions for the causal bringing about of invisible-hand consequences by individual agents. These consequences would not emerge in the absence of those social conditions, but these conditions do not bring about the consequences. Individual agents do. We may say that, in the presence of the market system, the individual agents acquire the causal power to bring about invisible-hand consequences such as 'votings for' mediums of exchange and, ultimately, the emergence of money. The invisible-hand process in question is a socially conditioned causal process with intentional agents as the initiators and mediators.

It is important to understand that the above rough draft of a causal account of economic institutions and the phenomena related to them does not eliminate genuine human agency. It is still true that human actors, by

their intentional actions, bring about the institutions and their behaviour; that is, that social phenomena 'are generated by deliberate, purposeful human action' (Kirzner 1979, p. 151). However, it is not true that the actors purposefully generate all of those phenomena. The generation is a causal process whereby results of action are transformed into consequences of action. For this reason it is not true that explanations of these consequences of actions are reduced only to intentional accounts of those actions. Thus, it makes no sense to ask the question: 'Why did the actors bring about these particular institutions and phenomena?' It makes no sense, because it is typically presupposed in such a question that the answer lies in the actors' reasons (one possible answer could be, 'Because they wanted to have a society like this.'). But it makes sense to ask, 'How did the actors bring about these things?' And a simplified Austrian answer would be, 'By pursuing improvement in their own position under market conditions.' That is, they did one thing by doing another thing. It also makes sense to ask, 'Why do these institutions exist and these phenomena take place?' And the answer would be a more comprehensive answer to the above 'how' question. In this way, causal explanation, not being reducible to hermeneutic PS-understanding, is dependent on theoretical description.

CONCLUSION

I have argued that invisible-hand consequences are causally generated. More precisely, I have argued that they are doubly caused. Invisible-hand consequences are caused by a social mechanism in which individual action has a central role, and individual action is generated in part by the causal power of entrepreneurial alertness. Note that at no point is Humean causation presupposed. Thus, Austrian invisible-hand explanation would seem to represent a third way between positivistic explanation and hermeneutic PS-understanding. If my arguments are acceptable, two conclusions can be drawn from them. First, important parts of existing Austrian economic theory do not conform to that version of analytic hermeneutics which builds upon the acausalistically understood practical syllogism. Second, von Wright and other hermeneuticists who hold an acausalist view of legitimate social scientific understanding have been given a case that subscribes both to the spirit of subjectivism that it shares with hermeneutics and to the idea of causal explanation.

Of course, both analytic hermeneuticists and those Austrian economists who commit themselves to hermeneutic ideas can respond to these statements by denying the Austrian theories of entrepreneurship and the invisible hand their legitimacy as adequate theories of society. This would, indeed, seem to be the only option open to somebody like von Wright in his 1971 book.¹⁴ However, Austrian hermeneuticists have another alternative. This is to opt for some other version of hermeneutical understanding as the *analysans* of Austrian economic theory. This also brings out one important

restriction of this essay. Namely, it follows from focusing on one tributary of a wider stream that the implications of my critical remarks cannot always, at least without modification, be applied to other tributaries as well. I hope, however, that my tentative remarks will have some relevance in assessing other versions from the angle of economic methodology. I also hope that, to promote genuine argument, these other versions will be formulated with the same rigour that characterizes the analytical hermeneutics of von Wright.

ACKNOWLEDGEMENTS

I wish to thank Israel Kirzner, Martin Kusch, Don Lavoie, Raimo Tuomela, and Georg Henrik von Wright for comments on an earlier draft. Financial support from the Yrjö Jahnsson Foundation is gratefully acknowledged.

NOTES

- 1 This post-Wittgensteinian branch of the philosophy of interpretive social sciences is closely related to the analytic philosophy of language, and it has been cultivated mainly in Britain and Scandinavia. For general accounts, see Apel 1967 and Howard 1982, Ch. 1. Some important though far from unified representatives are Winch 1958, Louch 1966, Taylor 1971, von Wright 1971. For a collection of essays on and inspired by von Wright's approach, see Manninen and Tuomela 1976.
- 2 To my knowledge, analytic hermeneutics has not been utilized or adopted by economists or methodologists of economics, unlike, say, Alfred Schütz's phenomenological variety of the interpretive approach.
- 3 Conceptual ambiguities abound here. First, von Wright (1971, p. 93) defines *Humean causation* in terms of the logical or conceptual independence of cause and effect, whereas this notion is often understood as primarily involving the constant conjunction view of causation. Of course, no inconsistency prevails between these two meanings of the term. Second, von Wright's (*ibid.*, p. 4) characterization of *positivism* is extremely broad and vague. In his view, positivism is a doctrine which subscribes to methodological monism, to the conception that mathematical physics provides an ideal for all science, and to the tenet that scientific explanation should be causal and nomological. These characteristics may be misleading, since only by combining (one or more of) them with certain ontological, semantical, and epistemological views based on the notion of observability can we hope to distinguish positivism proper from other doctrines that may accept one or more of the three characteristics. Of course, often the best thing might be to avoid using such highly ambiguous terms as 'positivism' altogether.
- 4 I do not intend to discuss explicitly questions of scientific realism in this paper. For a reconstructive analysis of explanatory theorizing in Austrian economics in terms of some explicitly scientific-realist presuppositions, see Mäki (1990a and 1990b).
- 5 The other two modes of interpretation can be characterized in the following way:
(R) Phenomena of human action can be interpreted in terms of the *rules* to which action conforms. Action is rule-following if e.g., it is performed out of a feeling of obligation to act in compliance with a rule and not based on calculations of the preferred outcome. Action is understood by referring to

recognition of a rule and compliance with it by the actor. Rule-following is one of the senses in which action may be said to be meaningful.

(M) Phenomena of human action can be interpreted in terms of the *semantic meaning* that the actor wishes to convey by her or his act. Meaning-conveying action is communication of messages, i.e. beliefs in something being the case, from actors to audiences by means of symbols; speech acts, for instance, use spoken language. Action is understood by referring to the communicative intentions of the actor and to the semantic meaning of the communicative vehicles used. Meaning-conveying is one of the senses in which action may be said to be meaningful.

- 6 It is a common difficulty with methods of hermeneutic understanding that they have seldom been given rigorous articulations. The practical syllogism, as formulated by von Wright, is an exception in this respect.
- 7 It may sometimes be misleading that Austrian economists often use the word 'knowledge' when they talk about beliefs in the strict philosophical sense. Knowledge, in the sense of traditional epistemology, implies both belief and truth, while belief implies neither truth nor knowledge. Continuity between disciplines in terminological matters and benefits of greater conceptual clarity might be forthcoming if Austrians consistently adopted the philosophical terminology about belief and knowledge.
- 8 It is interesting to note that in his manipulation theory of causation, von Wright (1971, pp. 48–54; see also von Wright 1974, pp. 64–74) maintains that agency is conceptually prior to causation (because, he thinks, it is human agents who give rise to causal sequences by manipulating the world). According to the view suggested here, however, it is the other way round: causality (in the sense of causal powers, not in that of causal sequences as in von Wright) is conceptually prior to agency.
- 9 In private correspondence, Kirzner has told me that it seems to him that my interpretation of his work 'is accurate' and that I am 'correct in describing entrepreneurial alertness as representing . . . "causal power"'. His only concern is that by using the term 'power' we may give rise to a misunderstanding to the effect that alertness is something that can be deliberately deployed by agents. This misinterpretation should, indeed, be avoided by abstracting from such possible unnecessary connotations of 'power'. That these connotations are unnecessary is evidenced by the fact that we can speak also about natural agents (such as helium atoms, DNA molecules, pieces of coal, birch trees, elephants) as having causal powers that are exercised with no one deliberately deploying them.
- 10 Note that von Wright (1974, p. 49) explicitly rejects the notion of agent causation; event causation is the only variety of causation he accepts.
- 11 The degree to which ordinary action theory simplifies social scientifically relevant human action is revealed nicely here. Think of a typical act of exchange across national borders in a modern setting. The good being sold and bought is shipped from one country to another, which often takes a long time. The process is mediated by complicated technical devices and by a large number of bodily movements by several persons – most of whom are not the agents of this particular transaction. The corresponding payment for the good is transmitted by electronic means, again mediated by bodily movements of several persons, and possibly taking place in many stages. Thus, what amounts to a simple case of an exchange for economics, turns out to be extremely complicated for action theory. But, as I said, the outer aspect of an action is not of great interest for general economic theory and the simplification of the actual situation implied in action theory may thus be justified. It is another matter whether the simplification in economic theory concerning the inner aspect is justified or not.

- 12 For a discussion of we-intentions, see Tuomela (1984, pp. 31–54).
- 13 For discussions of invisible-hand explanation, see Ullmann-Margalit (1978), Elster (1979, pp. 28–35), Tuomela (1984, pp. 448–54), Koppl (1984), Vanberg (1986), Langlois (1986).
- 14 In his 1971 book, von Wright conceives of the scope of the practical syllogism widely enough to cover all social science: 'Broadly speaking, what the subsumption-theoretic [covering-law] model is to causal explanation and explanation in the natural sciences, the practical syllogism is to teleological explanation and explanation in history and the social sciences' (p. 27). In private correspondence, von Wright now says that he no longer regards the scope of the PS-scheme as encompassing as he used to.

REFERENCES

- Anscombe, G.E.M. (1957) *Intention*, Oxford: Basil Blackwell.
- Apel, Karl-Otto (1967) *Analytical Philosophy of Language and the Geisteswissenschaften*, Dordrecht: Reidel.
- Boudon, Raymond (1982) *The Unintended Consequences of Social Action*, New York: St Martin's Press.
- Chisholm, Roderick (1976) *Person and Object*, London: Allen & Unwin.
- Coddington, Alan (1976) 'Keynesian economics: the search for first principles', *Journal of Economic Literature* 14 (Dec.): 1258–73.
- Collin, Finn (1985) *Theory and Understanding*, Oxford: Basil Blackwell.
- Ebeling, Richard (1986) 'Toward a hermeneutical economics: expectations, prices, and the role of interpretation in a theory of the market process', in Israel Kirzner (ed.) *Subjectivism, Intelligibility, and Economic Understanding*, New York: New York University Press.
- Elster, Jon (1979) *The Ulysses and the Sirens*, Cambridge: Cambridge University Press.
- Harré, Rom (1983) *Personal Being*, Oxford: Basil Blackwell.
- and Madden, Edward (1975) *Causal Powers*, Oxford: Basil Blackwell.
- and Secord, Paul (1972) *The Explanation of Social Behaviour*, Oxford: Basil Blackwell.
- Hayek, F.A. von (1973) *Law, Legislation and Liberty*, vol. 1, London: Routledge & Kegan Paul.
- Howard, Roy J. (1982) *Three Faces of Hermeneutics*, Berkeley: University of California Press.
- Kirzner, Israel (1973) *Competition and Entrepreneurship*, Chicago: Chicago University Press.
- (1976) *The Economic Point of View*, Kansas City: Sheed & Ward 1976.
- (1979) *Perception, Opportunity, and Profit*, Chicago: Chicago University Press.
- (1985) *Discovery and the Capitalist Process*, Chicago: Chicago University Press.
- Koppl, Roger (1984) 'Marginal explanations or do economists use invisible hand explanations?' mimeo.
- Lachmann, Ludwig (1986) *Market as an Economic Process*, Oxford: Basil Blackwell.
- Langlois, Richard (1986) 'Rationality, institutions, and explanation', in R. Langlois (ed.) *Economics as a Process: Essays in the New Institutional Economics*, Cambridge: Cambridge University Press.
- Lavoie, Don (1986) 'Euclideanism versus hermeneutics: a reinterpretation of Misesian apriorism', in Israel Kirzner (ed.) *Subjectivism, Intelligibility, and Economic Understanding*, New York: New York University Press.

- Louch, A.R. (1966) *Explanation and Human Action*, Oxford: Basil Blackwell.
- Manninen, Juha and Tuomela, Raimo (eds) (1976) *Essays on Explanation and Understanding*, Dordrecht: Reidel.
- Menger, Carl (1892) 'On the origin of money', *Economic Journal* 2 (June): 239–55.
- (1950) *Principles of Economics*, New York: New York University Press.
- (1963) *Problems of Economics and Sociology*, Urbana: University of Illinois Press.
- Mises, Ludwig von (1949) *Human Action: A Treatise on Economics*, New Haven: Yale University Press.
- Mäki, Uskali (1990a) 'Scientific realism and Austrian explanation', *Review of Political Economy* 2, pp. 310–44.
- (1990b) 'Mengerian economics in realist perspective', *History of Political Economy* 22 (forthcoming).
- O'Driscoll, Gerald (1986) 'Money: Menger's evolutionary theory', *History of Political Economy*.
- Robbins, Lionel (1935) *An Essay on the Nature and Significance of Economic Science*, London: Macmillan.
- Searle, John (1969) *Speech Acts*, Cambridge: Cambridge University Press.
- Taylor, Charles (1971) 'Interpretation and the sciences of man', *Review of Metaphysics* 25, pp. 3–51.
- Tuomela, Raimo (1977) *Human Action and its Explanation*, Dordrecht: Reidel.
- (1984) *A Theory of Social Action*, Dordrecht: Reidel.
- Ullmann-Margalit, Edna (1978) 'Invisible-hand explanations', *Synthese* 39 (Oct): 263–91.
- Vanberg, Viktor (1986) 'Spontaneous market order and social rules: a critical examination of F.A. Hayek's theory of cultural evolution', *Economics and Philosophy* 2 (April): 75–100.
- Winch, Peter (1958) *The Idea of a Social Science and Its Relation to Philosophy*, London: Routledge & Kegan Paul.
- Wright, Georg Henrik von (1971) *Explanation and Understanding*, London: Routledge & Kegan Paul.
- (1974) *Causality and Determinism*, New York: Columbia University Press.

P. 11. 788