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TITLE: L. Lachmann, D. Lavoie and a Critical Look to the Austrian School's Revival: Can Hermeneutics be a Solution to the Agent-Structure Problem?

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PAGES: 125-136

ORIGINAL PDF URL: <https://dergipark.org.tr/tr/download/article-file/613640>



## L. LACHMANN, D. LAVOIE AND A CRITICAL LOOK TO THE AUSTRIAN SCHOOL'S REVIVAL: CAN HERMENEUTICS BE A SOLUTION TO THE AGENT-STRUCTURE PROBLEM?

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*Başvuru Tarihi/Application Date:* 17.10.2018

*Kabul Tarihi/Acceptance Date:* 25.12.2018

### ÖZET

Bu makalede Avusturya okulunun yeniden canlandırılma çabaları ve bu bağlamda bazı üyelerinin yorumsamayı bir yöntem olarak benimsemeleri, birey - sosyal yapı ayrışması sorunu odağında incelenmektedir. Ana-akım Neoklasik iktisat okulu, benimsediği doğacı bilgi kuramı çerçevesinde, birey ve sosyal yapıyı birleştirmekten ziyade ayrıştırma yoluna gitmektedir. Avusturya okulu, Neoklasik akımı birey ile ilgili yaptığı bir çok "indirgemeci" varsayım açısından eleştirmekte, bu tür bir yaklaşımın birey - sosyal yapı ayrışmasına yol açtığına dikkat çekmektedir. Ancak Avusturya okulu bireyin eylemi çözümlemesinde, "bilişsel ve öznel bireyi" analiz birimi olarak kabul etmektedir. Bu yazıda Avusturya okulunun yeniden canlandırılması sürecinde, öznel bireycilik anlayışından vazgeçmeksizin yorumsama yöntemi ile insanın eylemi teorisini yeniden yapılandırmaya çalışması irdelenmekte ve bu çabaların epistemolojik ve metodolojik olarak bazı sorunları içerdiği gösterilmeye çalışılmaktadır. Nitekim bu tür bir bakış açısı altında birey-sosyal yapı ikililiği giderilememektedir.

### ABSTRACT

In this paper, Austrian school's revival and some of their members' U turn toward hermeneutics is questioned, regarding the agent-structure problem in social sciences. Rather than reconciling individual and social structure, the mainstream neoclassical school dichotomize these two constructs. Austrian economics criticize neoclassical economics due to its several reductionist assumptions related with its human agent. On the other hand Austrian school recognizes the significance of "cognitive and subjective individual" as a central unit of analysis related with its action theory. Here in this paper the idea of reconciliation of "subjective individual with hermeneutics" after the revival of Austrian economics is questioned and demonstrated that this attempt is not successful neither ontologically nor methodologically.

**Anahtar Kelimeler:** *Avusturya Okulu, Yorumsama, Ajan-Yapı*

**Keywords:** *Austrian School, Hermeneutics, Agent-Structure*

## 1. Introduction

Mainstream neoclassical economics lack of a proper human action theory. This doctrine relates human motivation to the "consensus universal", such as maximization of utility function and consequently creative element in human action mostly translated in to a causal outcome of "need tendencies". At the end of this process human being appears as a "cultural dope" or a "puppet" rather than as a knowing agent. The reason of this kind of approach to human action is inherently related with the main postulates of positivist epistemology, which perceives human beings as atoms react to exterior stimulus only. Ironically this approach is called as individualism. On the other hand, also in positivist tradition, holism stands as an opposing view to individualism, which gives the main accent to social structure by ignoring individual. This dichotomy or duality in between individual and society is called as agent-structure problem and it has been argued that none of these approaches seemed satisfactory to explain action theory. Rather, reconciling individual and social structure by emphasizing their interdependency and reciprocity exhibits a much more accurate methodology in social sciences (Giddens 1984: 44-47; Fay 1987: 59; Hodgson 1988: 137; Lawson 1997: 25).

Austrian economics criticized mainstream neoclassical economics for similar reasons, such as underestimating purposive human action, emphasizing rational action and being too formal in the name of 'scientism' can be a few to count. Ekelund and Hebert explains this point as given below (1997: 508-509):

*"The basic proposition Austrians assert in this connection is that individual choice is not the consequence of some mere gravitational pull toward utility. Rather individuals act with a purpose, even if that purpose is frequently frustrated by error or imperfect knowledge. In this regard Austrians are decidedly anti-Benthamite, for Bentham saw people passively pushed about by pleasure and pain."*

On the other hand, if we continue to distinguish Austrian economics from mainstream neoclassical analysis, we run in to another feature, which is radical subjectivism. With this postulate, Austrian economics recognizes the significance of "cognitive individual" as a central unit of analysis regarding action theory, while disregards the role of the social factors in the determination of the cognitive processes. Such a conception of action theory can't come into terms with an accurate approach to agent and structure relationship. This outcome may create another problem for Austrian school which also gives a paramount importance to the institutional component of economics.

Along with the revival of the Austrian school after 1974, we observe a hermeneutical turn in Austrian school. This might be perceived as an establishment of a better channel for a much more fruitful solution to the agent-structure problem in Austrian economics. Therefore in this study we will question if hermeneutics is really a suitable methodology for Austrian school to solve the agent-structure problem along with the premise of radical subjectivism. In order to answer this question, in the first chapter we will look at the problems of action theory in economics. In chapter two we will consider the methodological problems of classical hermeneutics. In chapter three, we will question action theory of L. Lachmann, in the nexus of radical subjectivism and hermeneutics. In chapter four we will focus on if modern hermeneutics and Austrian school's important premises are really compatible. Finally in chapter five, we will question if hermeneutics is the best method for social sciences and what would be the solution if it isn't.

## 2. Problems of Action Theory in Economics

Orthodox neoclassical school's premises regarding human action are not satisfactory. At the microeconomic level human action mainly focuses on rational choice theory. On the other hand at the aggregated level social entities are explained by methodological individualism. Rational choice theory attributes strong assumptions on individual behavior, such as strong rationality and by that

way it avoids problem of uncertainty and thus most of the time, models become deterministic<sup>1</sup>. All these assumptions are given outside the model and individual's behavior is redeemed to just a stimulus and response. Indeed most of the time individual is perceived as if an atom in the natural sciences (Harre and Secord 1973: 1<sup>st</sup> chapter) and behavior is not determined endogenously. Moreover in economics the explanation of the individual behavior seen as an "unnecessary" detail, which should be studied by sociology or other social sciences (Lucas 1987: 241; Yılmaz 2007: 2).

Methodological individualism has similar problems. The ontological thesis of methodological individualism holds that all social entities are reducible without remainder to logical compounds of individuals. On this account, social entities are nothing but ensembles of individuals in various relation to one another. This thesis is uncontroversial, but on the other hand it is open to misuse. Most of the time methodological individualism creates a basis that individual is taken as "obvious" (Giddens 1984: 220). Society's importance is undervalued and the basic element is announced as an abstract individual. As Hodgson stresses, the global effects of human purpose are regarded as all-important but the study of the formation of purposes themselves is dismissed as if it were secondary or even beyond the legitimate boundaries of social science itself (1988: 71).

An accurate approach to social action theory necessitates two integrated part of a society: active individual and social structure. We can't distinguish these two sides from each other. They both determine each other. Social structure is made up of individuals and at the same time it is effected and changed by individuals' behavior, while it precedes and determines individuals' behavior. This reciprocal relationship has a recursive and an evolutionary character. Both sides effect each other and at the same time they are effected from each other. Thus if we focus only one part then the analysis will be incomplete and wrong. To reflect this mutual dependency for the both part we have to have an inherently determined (endogenous) action theory. Nevertheless this type of action theory is missing in orthodox neoclassical economics. Paradoxically, free will and individual always accentuated in economics, yet because of a lack of an endogenous action model, which is determined within the society, the explanatory factor becomes the structure. For example, in determination of equilibrium, free markets play a crucial role and markets send the necessary signals to individuals. Individuals fulfill their role automatically just by looking at the signals and changing their demand and supply. In these kinds of explanations, social structures (such as markets) become very functional and important yet individuals remain very passive. As if without them individuals can't be guided properly and they become puppets of the structure. This kind of explanation does not only create naive holism (Lewis 2005: 300-303), but also it may invite functionalism<sup>2</sup>.

Austrian school always concerned human action since its establishment. Purposeful human conduct specifically underlined by von Mises. Hayek correctly define the methodological individualism by stressing the individual as a being in society, who has relation with other individuals (Hayek 1948:6). Nevertheless Hayek in his later writings relied on "unintended consequences of intended action", or "spontaneous order" without giving a detailed action analysis. Mostly the earlier members of Austrian school insist on subjectivism as an explanatory force of individual action. Along

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<sup>1</sup> Here we don't want to underestimate the immense area of research which is called as behavioral economics. This research program questions human behavior and rational choice in economics since 1950ies and by following Kao and Velupillai, (2015: 236-271) we can divide this program to two big categories: Classical and Modern. The former was pioneered by H. Simon (1953) and the latter by W. Edwards (1954). Simon departs from Neoclassical economic's hardcore by emphasizing the uncertainty and incompleteness of knowledge regarding decision making and he rejects the global maximization hypothesis and introduces bounded rationality. Although classical behavioral economics has been suggesting much more realistic notions and relaxing some of the strict assumptions (i.e., satisficing), ultimately it seems that there is no big change in orthodox economics in terms of rational choice theory, which is included in modern behavioral economics. In Modern behavioral economics, which is the main doctrine of contemporary neoclassical economics, even if some empirical findings have led to modifications of some hypothesis, the decision maker is still an optimizer and maximizer equipped with high computational capacity. In other words, we can say that the characterization of individual may be extended and some strict assumptions are relaxed but is not really changed.

<sup>2</sup> Especially explanations of institutions which invoke the efficiency enhancing effects of an institution might be subject to functionalist explanation. Here, what wanted to be explained is explained by its beneficial consequences occurring at a later stage. For a detailed explanation of functionalism, look at Giddens 1984: 368.

with the revival of the Austrian school after 1974, we observe a hermeneutical turn in Austrian school. L. Lachmann and D. Lavoie are the two leading names of this movement. In the next part of this article we will question if this change in methodology help to establish a proper action theory for Austrian economics. To do this, we will look at the transformation of hermeneutics first.

### **3. Hermeneutics in Retrospect**

#### **3.1. What is Hermeneutics?**

Can societies be examined like nature? Knowledge theories have different answers to this question. These differences among knowledge theories stemmed from the differences of their ontologies and in this context, the answer to this question forms the polarization of two important trends in the literature of social sciences: naturalism and anti-naturalism. Naturalism defends that the natural and social sciences should gather around positivist principles. In other words, ontologically there is no difference between the subjects of natural and social sciences. On the other hand because of their different subject matter, anti-naturalist trend advocates that natural and social sciences should follow different paths while they are studying their areas.

With respect to hermeneutics, which belongs to the anti-naturalist camp, the essence of social sciences is the interpretation of value laden social action and institutions and therefore interpretation of human action, that stems in the world of symbols (Taylor 1985b: 16-26). According to this thought, ontologically human beings are different than natural beings, such that, they live in a society made up of values and meanings. Human behavior is transformed to meaningful human action if it is considered according to these values and meanings. Otherwise they cannot be taken any further than being a mere reflex or animal instinct. On the other hand natural sciences claim that knowledge can be obtained from the external world and embraces empiricism and causality as an analysis category (Bhaskar 1989a: 66). According to this point of view, knowledge is not abstract, it is tangible and it reflects the outer world exactly, as it is. However hermeneutics asserts in social sciences knowledge is conceptual and their analysis category is meaning (Bhaskar 1989a: 67).

#### **3.2. Transformation of Hermeneutics**

Hermeneutics is not a new movement. Even if it can be traced back to earlier ages historically, crucial difference in between naturalist and anti-naturalist camps has evolved at the end of the 19th century in Germany. The distinction between the causal explanation which is part of the physical world and hermeneutic understanding that is considered to be a part of the world of ideas, culture, history and art (*verstehen*<sup>3</sup>) made a peak at that time. This idealist line of thinking premiered by W. Dilthey, G. Simmel, M. Weber and H. Rickert is partly a protest against positivist social sciences of A. Comte and J. S. Mill and it is called as "traditional hermeneutics". Later, analytically more equipped hermeneutic intellectuals such as G. E. M. Anscombe, C. Taylor and P. Winch has emerged in Oxford in 1950ies. We can count the names of H. G. Gadamer and J. Habermas in Germany and P. Ricoeur in France at this period of time among the intellectuals that form the modern hermeneutic movement. These thinkers naturally have come under crossfire by K. Popper and his school (Bhaskar 1989b: 18).

#### **3.3. Some Tensions of Classical Hermeneutics**

Although classical hermeneutists situated themselves at a very different place from the naturalist line of thought, this school couldn't really depart from positivist methodology completely. Instead the members of this school combined some of the aspects of positivist method with the idealist "life

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<sup>3</sup> *Verstehen* refers to interpretive examination of social phenomena in German and it is also used as the method of social sciences as well.

philosophy". For example, Dilthey and Weber emphasized the subjective side of social sciences, yet they seek the "true" knowledge and they accepted positivist method as a criteria to reach to "truth". Similarly, according to Rickert, who had influenced Weber, the real issue in cultural sciences is to produce "true" knowledge about the historical and social facts that are objects related to values (Schumpeter 1968: 777).

Under the influence of positivism, these intellectuals were after empiric or objective realism as an approach rather than a subjective one. The reason of this tendency is explained by Outhwaite as: "Subjectivity in traditional hermeneutics means a random, and even an arbitrary condition, the empiric realistic approach in contrast connotes an educated, disciplined and a methodological understanding" (Outhwaite 1985: 25-26). Consequently, to establish the epistemology and the methodology of hermeneutics have played a crucial role for the members of classical hermeneutics. Especially for Dilthey, to place the life philosophy on a scientific ground and to suggest a method for human sciences was a very important goal (Dilthey 1989: 165-169).

Dilthey differentiates between natural sciences and human sciences explicitly: Natural sciences are concerned with incidents that are given from the outside and that occur one by one. Whereas human sciences are interested in unique inner experiences that take place in a social and historical frame. Therefore Dilthey asserted that we explain the nature but we understand the incidents related to life. But how this understanding comes about? Understanding in Dilthey requires an open minded and unbiased perspective. The foundation of understanding the human action or the cultural goods is the process of "re-enacting" and "re-experiencing" the inner experiences of others. In this context the one who wants to understand, tries to make his/her own the state of mind of the others' by "seeing with" them by so to say "entering" them (ibid., section 3). On the other hand Dilthey's ideas are not so clear as to incorporate the subjectivity and the reality. For instance is it so easy to relinquish our own experiences in order to understand someone else's experience? One can notice here, to try to understand the meaning on its own or to purify the meaning from any kind of bias is like trying to be objective.

While Dilthey contributes to the philosophical side of hermeneutics, Weber stressed the sociological side. Weber has also been affected by the positivist concepts. According to Weber as every unique incident finds its' meaning in a web of values, the underlying factor in social sciences is not the reality but the meaning that emerges in the context of that unique incident. Therefore the social scientist should be concerned with this meaning. But on the other hand, interpretation is not the only tool for knowledge for Weber. Weber thinks that understanding could be proven by the causal relations which could be generated by statistics.

In his book *Method of Social Science*, Weber suggests two concepts: *value judgment and value relevance* (Weber 1949: 1). According to Weber, social sciences' main concern is value. Value relevance is related with social scientist's choice of her area of work. Social scientist will choose a subject that she pays a special interest to. But at the same time according to Weber, social sciences should be stripped off value judgment. But could there be a social science that is stripped off value judgments? Or as Weber points out, can social science be objective in spite of the scientist's subjective choice? As Weber answers this question with a yes, he follows a positivist path and anticipates that the concepts of fact and value can be differentiated logically.

#### **4. L. Lachmann, Human Action and Hermeneutics**

In Austrian economics first we come across with hermeneutics in ideas of L. Lachmann. Lachmann, who is an important member of the Austrian economics, combines the Austrian individualism with phenomenology and hermeneutics (Addleson, 1995: 100). As an intellectual who criticize positivist-formalist orthodox economics, Lachmann is widely influenced from Max Weber's concept of "verstehen" and holds that verstehen should be the basis of the Austrian Economics (Lachmann 1971: 2-5).

If it is summarized, Lachmann uses hermeneutics in three ways related with action theory. First, Lachmann addresses hermeneutics as the most suitable methodology for economics. This is



because we live in a very complex and uncertain world, which requires continues study of human action. Formal method of natural sciences determines general laws to explain the events and predict the results. This kind of method doesn't suit to social sciences. Social sciences understand the reasoning behind the human action. Consequently, understanding economic agents' behavior such as establishing and managing a firm, borrowing or lending credits, buying or selling bonds etc. and finding the meanings of these plan guided actions in our very complex world, should be the main concern in economics. Lachmann summarizes these points as indicated below (ibid., 248):

*"And while it remains true that in a kaleidic<sup>4</sup> world the lessons of history are by no means self-evident, but require careful interpretation, an activity of the mind, it is no less true that any present state of affairs (though not indeed a 'state of nature') bears the mark of the historical processes that gave rise to it. In fact, our understanding of present depends upon our interpretation of our past."*

As it was pointed by Prychitko, in this usage, Lachmann highlights the hermeneutics as a tool in understanding action thoroughly and from within. This kind of approach calls for "engaging in rational procedures to seek the meaning of action with greatest possible certainty", and here by following Prychitko, it wouldn't be wrong to say Lachmann's Weberian rooted hermeneutics focusing on the plan is quite objectivistic (1994: 306-309).

Lachmann's second usage of hermeneutics is related with understanding the social behavior. Lachmann asserts that plans are not isolated, they are social. For example concepts like coordination and orientation calls for social action like cooperation. In the paragraph below, we can trace these kind of ideas (ibid., 49-50):

"In a complex society such as our own, in which the success of our plans indirectly depends on the actions of millions of other people, how can our orientation scheme provide us with firm guidance? The answer has to be sought in the existence, nature, and functions of institutions. ... An institution provides means of orientation to a large number of actors. It enables them to co-ordinate their actions by means of orientation to a common signpost. If the plan is a mental scheme in which the conditions of action are co-ordinated, we may regard institutions, as it were, as orientation schemes of the second order, to which planners orientate their plans as actors orientate their actions to a plan".

Lachmann uses orientation related with institutions and confirms that orientation is a process that comprehends means and purposes. This may explain that orientation is a social process, because it requires an adjustment with respect to other people's behavior. Lachmann elaborates this concept even further and relates with hermeneutics as (Lachmann 1994: 285):

"Institutions reduce uncertainty by circumscribing the range of action of different groups of actors, buyers and sellers, creditors and debtors employers and employees. We understand how they work by grasping the meaning of orientation of these groups toward them. For us orientation is a fundamental hermeneutic concept... It does not fit into a world of 'function-maximizing' agents."

In the second part above, Lachmann casts lights on the functions of institutions, which are already established or created intentionally and the usage of hermeneutics to understand them. On the other hand, for Austrian Economics rather than this kind of institutions, organic institutions has a special meaning (i.e., money and market). Moreover, organic institutions explain the formation of institutions. Lachmann like other Austrians, by following Menger emphasized the organic institutions, which are created by spontaneous order but didn't describe neither spontaneous order nor the formation of these institutions by using hermeneutics.

If we think in terms of the solution of agent-structure problem with the contributions of Lachmann's hermeneutics, here three important issues hampers the formation of an accurate action theory: First one is radical subjectivism of Lachmann, which is the acceptance of an action as a

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4 Kaleidics is a term which is introduced by G. Shackle to economics. It mainly refers to the ever-changing shape and status of an economy. Uncertainty and indeterminacy are the primary properties of kaleidic factor.

concept belongs to the mind or thought of an actor. The contents of the human mind and decision making cannot be determined by outer factors (Addleson 1995: 113). Even if Lachmann confirms some sociological concepts such as the "role of human situation "or" condition on individual action", he did not establish an action theory which is socially embedded.

The second tenet is directly comes out of the first one that we summarized above. This problem is related with the radical subjectivism's rejection of the idea of sociality. According to radical subjectivist idea, because primary factor is individual in the society, the direction of determination is from individual to social structure not the other way around. Only human beings can determine the social entities, social structures can't determine the individuals' minds and behavior. This premise blocks the establishment of reciprocally related agent-structure approach.

The third problem is related with Lachmann's conception of organic institutions. In the formation of institutions "spontaneous order" considers "individual purposes and preferences as being exogenous to the system" (Hodgson 1988: 137). This kind of analysis is not complete because we don't know how the purposes and preferences are constituted and change socially. To overcome this kind of problem, we need an action theory such that both human subjects and and social institutions are in and change through recurrent practices (Hodgson 1988: 138). Thus, evolutionary conception of the emergence of social institutions can be analyzed. This kind of analysis make possible the formation of endogeneous institutions. This is how we can overcome the agency-structure duality. Lachmann accepts and acknowledges the importance of these points and mentions the importance of sociologically determined action theory (Lachmann 1994: 283). However as Oakley argues "he chose not to maintain his pursuit of these pregnant observations as the core of his later subjectivist meta-theory" (1999: 156).

Lachmann's contribution to Austrian economics is immense. He added not only new concepts but also a new method to this literature. On action theory he led the way for new research projects. Lots of members of Austrian school initiated new studies in this area<sup>5</sup>.

## 5. D. Lavoie and Contemporary Hermeneutics

Problems related with classical hermeneutics wanted to be improved after the revival of Austrian school. To attain that goal some of the radical subjectivists followed modern phenomenological hermeneutics rather than classical hermeneutics. D. Lavoie is the most important contributor of this group. Actually Lavoie himself introduced this modern path of hermeneutics to Lachmann. Lavoie summarizes this process in the paragraph given below (Lachmann 1994: 18):

*"When Lachmann, whose exposure to the hermeneutical tradition came at an early stage with the influence of writers such as M. Weber, A. Schütz, and K. Mannheim, endorses "hermeneutics", there may be some question about whether he would be willing to follow out the more radical implications of contemporary hermeneutics, such as in the work of M. Heidegger or G. Gadamer. In some of my last correspondence with Professor Lachmann I had been asking him to consider Gadamer's work as perhaps a better basis for our effort to construct an interpretative economics that can be found in the traditional verstehen school."*

Inspired by Heidegger's "hermeneutic phenomenology" intellectuals such as H. G. Gadamer in Germany and P. Ricoeur in France have taken the concept of "verstehen" from a more traditional line to a privileged point in contemporary theory (Outhwaite 1985: 21-41). In contemporary hermeneutics understanding is regarded not as a research method of social sciences but as the existential condition of social life (Outhwaite 1985: 35). Rather than relying on a psychological re-animating process, understanding is an issue of the language about conceptualizing the contents of familiar and foreign life forms. Hence understanding others is about having a dialogue with them

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<sup>5</sup> For these kind of contributions see, Lewis 2005b; Boettke and Store 2002;; Foss and Garzarelli 2007; Liljenberg 2005.



(Giddens 2000: 250). Therefore the concept of dialogue is of importance. This at the same time is an approach that is far from the unbiased view as in Dilthey and Weber. Gadamer holds that an unbiased view is not possible as these pre-thoughts we have, enables understanding. For example says Gadamer, understanding the Bible or the Communist Manifesto is not possible without knowing the role they played in our history (Outhwaite 1985: 25). Hence, understanding is not approaching to a written work by leaving aside the world of meanings that we live inside or introducing ourselves into a foreign society in such a manner. On the contrary, understanding is mixing up our world of meanings with them, joining them together. Consequently, the differentiation of reality and subjectivity present in the traditional way of thinking dissolves in Gadamer's approach (Outhwaite 1985: 30).

Previously we have mentioned the idea that hermeneutics in Dilthey was universal as a general method of human sciences. But for Gadamer the universality of hermeneutics means much more than this. As it finds its' expression in language, hermeneutics is the foundation of whole human consciousness and it comprises everything in it the humans have created including the knowledge of nature (Gadamer 1989: 12-13). Therefore it is not enough to see understanding as a method, understanding is the social reality that we live in (Outhwaite 1985: 40). In this respect the actions of the individual in this new line of thinking of *verstehen* are not disconnected from social foundations. Either natural or social knowledge that emerges in the context of understanding and interpretation is basically a social activity. Specifically in Heidegger, Gadamer and Ricoeur the most esteemed symbolic concept as a social activity is language (Gadamer 1989: 383-404). Understanding action necessitates the usage of linguistic categories that are implicitly regulated and that are accessible to everyone. This can be explained as such: The individual can understand herself only by using common concepts accessible to everyone. The tool that understands it is thus the language. As language is the basic condition of the consciousness of the individual, it must come before the consciousness of the individual (*ibid.*). Indeed Lavoie introduced analytically much more equipped type of hermeneutics to Austrian economics. As can be gathered from the above explanations, with its proper social action theory, modern hermeneutics overcome the problem such as agent-structure duality that couldn't be solved in traditional hermeneutics. Lavoie embraces and leans on this philosophically based action theory as a new path for Austrian school<sup>6</sup>. On the other hand we should admit that this type of action theory is in conflict with one of the main premises of Austrian school, which is radical subjectivism. When Gadamer talks about universality of hermeneutics by understanding, he means a kind of notion which is mutual or common to all human consciousness. Similarly, social foundation that Gadamer refers is related with something that is comprised and embraced by everybody as a social reality. All these concepts are in conflict with subjective valuations of human beings. To reach to the type of universal consciousness and understanding which is mentioned by Gadamer, individuals should be totally stripped off their individual particularities and subjective rationalities<sup>7</sup> (*ibid.*, 13). This kind of idea is in conflict with over all subjectivism. As we mentioned in chapter 3, the other problem related with radical subjectivism is, its rejection of social determination of individuals. This line of thinking also in conflict with modern hermeneutics. It seems that Lavoie avoided to face with this problem and instead in his writings he tried to show that contemporary hermeneutic's action theory may fit in with main premises of Austrian school (Lavoie 2011: 116).

## 6. Boundaries of Hermeneutics and Is There a Way Out?

Positivist theory perceives itself as an equivalence theory based on its assumptions specific to the naturalist ontology. What is meant by equivalence theory is the viewpoint that, the positivist thinking reflects the facts related to the outside world in an exact manner? Positivist way of thinking

6 For a detailed discussion regarding the Austrian school and contemporary hermeneutical tradition see Lavoie (1986, 1994, 1990).

7 In this context, Gadamer refers to a concept that he took from Hegel, which is, "bildung". Bildung requires an immediate break of a man from the subjective, rational side of his nature to reach to universal condition of his existence. For a detailed discussion of this concept, see Gadamer 1989, p. 12-13.

treats the social reality just as it treats the natural reality and interprets the social reality as a part of the “outside world”. In this line of thinking, the individual that form the society is disconnected from the society that it forms and this individual is passive. In this point of view the individual appears to be a mere observant. It observes the social facts and describes what these facts are. Therefore in positivist theories the individual seems to be a “fool” of the social structure that is defined by the social factors in a deterministic way and not as a person who is in control of his/her own fate and not as an acting individual with knowledge (Giddens 1995: 244).

In contrast to positivist theories, in hermeneutics and especially in critical hermeneutics the reflexivity and the actions of the individual are highlighted (Giddens 1995: 245; Taylor 1985a: 45-77). The individual is reflexive because to understand other’s actions and self in social life the individual constantly observes other individuals and tries to understand and interpret their actions. Meanwhile she thinks about herself and controls her actions accordingly. Therefore as Gadamer stressed, understanding and interpreting is the foundation of the social life. Moreover the individual is not passive. The social structure doesn’t only limit the individual but also creates possibilities for her and the individual as a human being who creates her “own history” even under restrictions, doesn’t give up such endeavors (Giddens 1984: 71). Therefore the individual is an acting being who is partly in control her own destiny and the society is a creation of such individuals. In relation to the things mentioned here the agent-structure relationship also finds its’ appropriate foundation. In this context both active individual and individual-social structure relationship is handled more appropriately in modern hermeneutics.

We reach all these conclusions stated above when we consider hermeneutics as the basis of existence of the social life. *Therefore both social knowledge and the knowledge of nature is the result of the individuals’ understanding, interpreting and partly shaping the outside world.* In short, *the scientific knowledge has to be an activity founded and created by the individual.* Otherwise when we don’t regard hermeneutics as the basis of existence of the social life, hermeneutics is destined to be a mere method that differentiates the natural sciences from the social sciences, as it happened in classical hermeneutics.

Interpreting accounts for much of the things that happen in the social world, and our belonging to the social world is only possible with the understanding of this interpreting process. But are all the things that exist and all the things that are thought to exist in the social world consists of these? The intellectuals especially belonging to the critical realist line of thinking answer this question with a “no” (Outhwaite 1985: 37). That is to say that *hermeneutics doesn’t show us all the possibilities in the social world.* For example according to the critical realists the deeper causes that are not visible are the main factors that the sciences should investigate. We think that the critical realists who don’t oppose to objective realism but who also don’t embrace only the idealist and anti-naturalist line of thinking need more of our attention.

The critical realism holds that ontologically the world is not only comprised of facts and conditions that we perceive through our experiences and senses. According to the critical realists, independent of our being aware of the situation or not, the world is consisted of complex things that have systems and complicated structures. For example according to Bhaskar, the reason of making an experiment is not to find the facts and the regularities between these facts as Hume and his followers suggest. The main reason of the experiments is to discover the structures, generative mechanisms forming the real basis of laws of causality that mostly appear to have no connection with visible facts (Bhaskar 1989a: 9). For example if we consider the question of “how plants grow”, an observer will notice that the plants will grow faster in hot weather than in cold weather. If we don’t notice the fact that a plant is exposed to sun rays longer in hot weather than in cold weather, we might tend to think that air temperature effects the growing of plants. Hence, what needs to be done here is to discover the growing process of the plants and finding out the mechanisms effective in this process through other experiments. Because only the discovery of these mechanisms will tell us how the plants grow. As a matter of fact, through investigating these mechanisms it was proven that the necessary factor in the growth of the plants was the light and consequently photosynthesis (Harré

1985: 39-40). In short, according to the critical realist thinking, we can talk about three kinds of realities. These realities are:

- a. Empirical, meaning the reality we experience through our experiences and our senses (empirical).
- b. The conditions that are actually present (actual).
- c. Real structures, mechanisms and inclinations (real).

According to the critical realists, these ontological distinctions can neither be reduced to each other, nor separable from each other. The example given above explain this situation. In fact, the process of photosynthesis is a mechanism that can't be sensed by mere observation but one that requires further experiments. Thus, the real subject of the science is to discover these deeper causes that are not visible clearly.

The critical realist movement believes that social sciences is not so different from natural sciences. In social world there are social structures just like in natural world. Social rules, relations, positions are examples of these social structures. These structures are re-created by individual actions but also at the same time they are the premises of these actions and they regulate these actions. These structures, just like in natural incidences, may not be discovered directly. Thus, according to the critical realists, in contrast to the hermeneutic movement, the main purpose of the social sciences is to unearth the structures that cannot be foreseen directly.

Another difference that takes critical realism a step further than hermeneutics is the fact that critical realism's openness to methodological plurality while, hermeneutic movement suggesting one single method for social sciences and leaves us with a methodological singularity like in naturalism.

## 7. Conclusion

It has been discussed above that if either classical or modern hermeneutics can be adopted to overcome some of the problems of Austrian economic's action theory. Lachmann differentiated himself from the traditional Austrian view by radicalizing the idea of subjectivity with more realist contributions and introducing hermeneutics as a method. However his insistence on the priority of cognitive individual in his action theory created an obstacle to attain some of his goals. Because of internal tensions that it bear, classical hermeneutics couldn't help to overcome these problems either. Later, introduction of modern hermeneutics seemed like to help to Austrian school regarding these problems, however subjectivity continued to create philosophical conflicts in modern hermeneutics. If Austrian radical subjectivists want to establish better theories to overcome the problems that we covered so far, they should discuss not only philosophical but also alternative sociological theories in action theory as well.

In this study it is claimed that contemporary hermeneutics have limits in its application to economics and social sciences, because it focuses only on interpreting and understanding processes in a society and it ignores other possibilities such as deeper causes, real structures, mechanisms and inclinations as well as objective realities that are not visible to human beings. Independent of our being aware of the situation or not, the world is consisted of complex things and systems or structures. Thus hermeneutics doesn't show us all the possibilities of the social world. Consequently, instead of going after a single method for social sciences like hermeneutics, incorporating critical realism, which embraces natural sciences may help us to create a solid ground to overcome methodological singularity problem as well.

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