

JOHN DEWEY'S PRAGMATIC PHILOSOPHY AS A CRITIQUE OF ECONOMIC DISCOURSE

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This article attempts to mobilize insights derived from John Dewey's pragmatism for the critique of contemporary mainstream economics. The paper identifies four main fallacies of a conventional economic discourse: the fallacy of unchanging human nature, the fallacy of rational choice, the fallacy of natural order, and the fallacy of a separate economic sphere. It is demonstrated that Dewey's pragmatism is consistent with institutional and sociological approaches to economic inquiry as exemplified by the work of such scholars as Karl Polanyi, Karl William Kapp, Amitai Etzioni, and Jens Beckert. An important practical corollary of the proposed argument is the necessity to incorporate values into economic life.

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John Dewey along with Charles Sanders Peirce and William James are often considered the founding figures of the pragmatic movement in philosophy.¹ Among the classical pragmatists it was Dewey, who devoted the most time and energy to the study of social matters. He wrote extensively on democratic education, pragmatic ethics, the future liberalism, and the state of democratic theory. What is more, his social and political writings were animated by heated polemics against *laissez faire* liberalism and profound dissatisfaction with the economic realities of his time.² Therefore, it may come as a surprise that Dewey did not write a single book devoted exclusively to the analysis of the subject matter of economics.

Nevertheless, in his writings we may find many scattered remarks indicating that he was highly critical of the dominant forms of economic thought. The purpose of this paper is to explore the strengths of Dewey's criticism of economic discourse and mobilize his key insights for the critique of contemporary mainstream economics. Historical reconstruction of Dewey's arguments against economics of his time will be treated as a prerequisite for providing a pragmatic critique of neoclassical orthodoxy and allied approaches. In so doing I will seek to demonstrate the relevance of Dewey's version of pragmatism for gaining critical understanding of contemporary economic discourse.

The main argument of this essay revolves around the claim that pragmatic critique of conventional economic thinking reveals a set of four fallacious assumptions. Firstly, the mainstream economic theory is based on erroneous view on human nature, which neglects constitutive role of culturally embedded habits in shaping economic behavior. Secondly, the economic theory is plagued by an inadequate conceptualization of rationality. Following Dewey, we may single out the rigid

¹ This research project was supported by funding from the National Science Centre (DEC-2011/03/N/HS5/02916).

² On Dewey's political views consult Robert B. Westbrook, *John Dewey and American Democracy*, (Cornell University Press, Ithaca N. Y., 1991); and Alan Ryan, *John Dewey and High Tide of American Liberalism*, (WW. Norton, New York, 1995).

separation of means and ends and the neglect of the context of inquiry as the main shortcomings of utilitarian foundations of neoclassical economics. Thirdly, from a Deweyan perspective the dominant forms of economic discourse can be seen as a special case of the spectator theory of knowledge, which is based on the separation of knowing from doing. Dewey's criticism of the metaphysical foundations of the mainstream economics parallels contemporary concerns with the performativity of economic discourse. Finally, Dewey held that a socially disembodied capitalist market economy enforces the dualistic mode of thinking based on sharp distinctions between the material and the ideal, the individual and the society, economics and ethics. For Dewey, such dualisms were among the most significant manifestations of the modern crisis caused by rigid separation of the economy from the society.

For the sake of convenience, we will refer to the four sets of fallacious assumptions identified above as the fallacy of unchanging human nature, the fallacy of rational choice, the fallacy of natural order, and the fallacy of the separate economic sphere. The analysis of those fallacies is prefaced with the brief discussion of the relationship between Dewey's pragmatism and different theories of the economy. The introductory section has two goals. Firstly, it aims to clarify Dewey's attitude towards certain currents of economic thought. Secondly, it singles out neoclassical economics and allied approaches as the main target of subsequent critique. The remaining part of this paper attempts to reconstruct Deweyan critiques and apply them in the present context. The main thrust of the argument is that the influence of Dewey's pragmatism should not be limited to methodological insights, significant as they are in their own rights. Equally important is the overall political and ethical perspective that animates Dewey's critique of economic theorizing. In emphasizing both methodological and political aspects of Dewey's pragmatism the essay seeks to demonstrate its relevance for the contemporary critique of mainstream economics.

Dewey's Pragmatism and Theories about the Economy

Since economics is not a unified discipline, it is worthwhile to consider the relationship between Dewey's pragmatism and various currents of economic thinking. In his writings Dewey criticized classical economics, which he regarded as a combination of outdated natural law philosophy and discredited laissez faire policy. In his magnum opus *Logic: The Theory of Inquiry*, Dewey maintains that "the net consequence of the classic economics was reinstatement of older conception of natural laws by means of a reinterpretation of their content".³ How had metaphysical ideas entered the realm of economic thinking? Dewey sought to answer this question in considerable detail in his earlier book *Liberalism and Social Action*, published in 1935.

The story begins with John Locke, who invented the doctrine of "natural rights inherent in individuals independent of social organization" and applied it to criticize the abuses of absolute monarchy.⁴ As Dewey observed, Locke's philosophy "gave a directly practical import to the older semi-theological and semi-metaphysical doctrine of natural law as supreme over political law."⁵ Later on, the idea of natural law acquired strictly economic interpretation. In the philosophy of Adam Smith, as Dewey argues, the "Lockean idea of natural laws took on a more concrete, a more directly practical meaning."⁶ In fact, Smith identified natural laws with "the laws of free industrial production and free commercial exchange."⁷ Moreover, he maintained that social order emerges spontaneously as an unintended by-product of individual acts of barter and exchange. Reliance on early liberal ideas was not without consequences for the form and content of economic theory.

³ John Dewey, *Logic: The Theory of Inquiry*. in, *The Collected Works of John Dewey, 1882-1953*, ed. by Jo Ann Boydston (Carbondale and Edwardsville: Southern Illinois University Press, 1967-1990), LW 12:498.

⁴ John Dewey, *Liberalism and Social Action*, LW 11:7.

⁵ Ibid.

⁶ Ibid., 9.

⁷ Ibid., 10.

According to Dewey this metaphysical heritage led economists to frame their theories as if there were “universal principles applicable anywhere and everywhere”.⁸ If the neglect of context is, as Dewey once put it, “the most pervasive fallacy of philosophic thinking”, then economic theorizing in the classical tradition has surely fallen victim to it.⁹

Although Dewey did not explicitly discuss the neoclassical or marginalist school, whose ideas form the basis of contemporary mainstream orthodoxy, arguably his critique may be brought to bear on this approach as well.¹⁰ General equilibrium theory, a crowning achievement of neoclassical economics, can be interpreted as an attempt to provide a rigorous formal proof of Adam Smith’s thesis that social order is created as an unforeseen result of uncoordinated actions of self-interested individuals.¹¹ There is, therefore, an intellectual continuity between general equilibrium theory and the belief in the spontaneous emergence of social order, which Dewey rightly criticized as the “Achilles heel” of an old liberalism.¹² On the micro-level, the notion of individual as a ruthless maximizer of utility is clearly at odds with the main thrust of Dewey’s social psychology. Moreover, one can identify several philosophical assumptions that are common to classical and neoclassical economics. As Philip Mirowski demonstrated in his book *More*

⁸ John Dewey, *Logic: The Theory of Inquiry*, LW 12: 499.

⁹ See John Dewey, *Context and Thought*, LW 6: 5.

¹⁰ Curiously enough, it is easier to identify mainstream economics than to provide its precise definition. By mainstream, conventional, or orthodox economics I mean various approaches that are basically consistent with the central features of neoclassical analysis (i. e. mathematical formalism, rationality defined as utility maximization, and equilibrium analysis), even if they modify some of its assumptions. On definitional issues see further Christian Arnsperger and Yannis Varoufakis, “Neoclassical Economics. Three Identifying Features,” in *Pluralist Economics*, ed. Edward Fullbrook (London and New York, Zed Books 2008), 13-26; David Dequech, “Neoclassical, mainstream, orthodox and heterodox economics,” *Journal of Post-Keynesian Economics*, vol. 30, No. 2 (2007): 279-302; Tony Lawson, “The Nature of Heterodox Economics”, *Cambridge Journal of Economics*, vol. 30 (2006): 483-505.

¹¹ See Frank Hahn, “General Equilibrium Theory,” *The Public Interest*, No 36 (1980): 123.

¹² See John Dewey, *Liberalism and Social Action*, LW 11: 40.

Heat Than Light, neoclassical economics also treats markets as natural phenomena, although the particular image of nature it favors owes more to nineteenth century energy physics than to the deistic philosophy of Adam Smith.¹³ What is more, both schools seem to rely on a largely ahistorical image of human beings and dubious context-free notion of rationality. To sum up, from the vantage point of Dewey's pragmatism, neoclassical economics, despite its undeniable technical sophistication, still betrays the presence of unexamined metaphysical assumptions drawn from old natural law and utilitarian philosophies.¹⁴

On the other hand, certain currents of economic thinking were broadly consistent with Dewey's pragmatism and sometimes directly inspired by his writings. This applies primarily to the institutional school of Thorsten Veblen, John Commons, Wesley Mitchell and Clarence Ayres. Pragmatism and institutional economics emerged from the same cultural milieu, marked by the revolt against formalism and the predominance of evolutionary thinking inspired by Darwinism.¹⁵ As many commentators have observed, there are numerous affinities between social thought of John Dewey and Thorsten Veblen.¹⁶ In his writings Dewey frequently employed several Veblen's concepts, including the distinction between industry and

¹³ See Philip Mirowski, *More Heat Than Light. Economics as Social Physics: Physics as Nature's Economics* (Cambridge University Press 1989).

¹⁴ Critics of mainstream economics often stress its quasi-religious character. For instance, Christian Arnsperger and Yannis Varoufakis called neoclassical economics a "religion with equitations". From the point of view of intellectual history however, the expression "metaphysics with equitations" would be more appropriate. See. C. Arnsperger, Y. Varoufakis, "Neoclassical Economics: Three Identifying Features", Christian Arnsperger and Yannis Varoufakis, "Neoclassical Economics. Three Identifying Features," in *Pluralist Economics*, ed. Edward Fullbrook (London and New York, Zed Books 2008), 24.

¹⁵ For an analysis of philosophical underpinnings of institutional economics see Allan Gruchy, *Modern Economic Thought. The American Contribution* (Prentice-Hall, New York, 1947), 1-28; and David Hamilton, *Evolutionary Economics. A Study of Change in Economic Thought* (Transaction Publishers, New Brunswick and London, 1991), 18-28.

¹⁶ See, for example, Rick Tillman, "John Dewey as an User and Critic of Thorstein Veblen Ideas", *Journal of the History of Economic Thought*, vol. 20, issue 2 (1998): 145-160.

business as well as the concept of “sabotage of production.”¹⁷ Wesley Mitchell was Dewey’s student at the University of Chicago. His articles devoted to the interpretation of Bentham calculus inspired Dewey’s own critique of utilitarian philosophy developed in human *Human Nature and Conduct*.¹⁸ Both John Commons and Wesley Mitchell considered Dewey’s social psychology as an important source of inspiration for institutional economics.¹⁹ As Mitchell put it, “Dewey helped an economist to drag the psychological preconceptions lurking behind theories of value and distribution into consciousness, and to see how they stood the light of current knowledge.”²⁰ Equally influential were the efforts of Clarence Ayres to incorporate certain elements of Dewey’s theory of valuation into the technological theory of value.²¹ Even today, followers of what is now known as the old or original institutional economics continue to draw their inspiration from John Dewey’s writings.²²

¹⁷ Ibid., 147 and 152.

¹⁸ See Wesley C. Mitchell, “Bentham’s Felicific Calculus,” *Political Science Quarterly*, vol. 33, No. 2 (1918): 161-183. Dewey acknowledged his indebtedness to Mitchell for recognizing the affinity between utilitarian calculus and the tendency inherent in economics to treat money and prices as universal units of calculation. See John Dewey, *Human Nature and Conduct*, MW 14: 148.

¹⁹ See John R. Commons, *Institutional Economics. Its Place in Political Economy*, (The Macmillan Company, New York, 1934), 140-157.

²⁰ See Wesley Mitchell, “Research in Social Science,” in: Wesley Mitchell, *The Backward Art of Spending Money and Other Essays* (Augustus M. Kelly INC, New York 1950), 73.

²¹ Ayres’ efforts were met with Dewey’s approval. In a letter to the editor of *Sturday’s Review of Literature*, Dewey sought to defend Ayres’ book *Theory of Economic Progress* against what he thought to be an unfair criticism on the part of the reviewer. (Critical review was written by Harry Hazlitt, the follower of an Austrian school of economics and a staunch believer in *laissez faire*). See John Dewey, “John Dewey on the *Theory of Economic Progress*” LW 15: 359-360. For a concise presentation of Ayres’s views consult his article “The Co-Ordinates of Institutionalism”, where Dewey’s philosophy is recognized for being the main source of inspiration for institutional economics, on an equal footing with the work of Veblen. See. C. Ayres, *The Co-Ordinates of Institutionalism*, *The American Economic Review*, vol. 41, no. 2 (1951): 47.

²² See, for example, Geoffrey Hodgson, “Reclaiming habit for institutional economics”, *Journal of Economic Psychology*, vol. 25 (2004): 651-660. The

While disenchanted with classical economics, Dewey displayed great interests in what other social sciences had to say about the economy. He reviewed favorably Karl Mannheim's magisterial book *The Man and Society in the Age of Reconstruction*, referring to it as the best account of the crisis of liberal-democratic order in the interwar Europe.²³ The main message of this book was that the modern democratic society can survive only at the price of abandoning old economic liberalism and deliberately employing various social techniques to gain a reasonable degree of control over the economy. Mannheim's arguments in favor of "planning for freedom" were consistent with Dewey's belief in the necessity of intelligent planning in a modern democratic society.²⁴ Moreover, Dewey was greatly impressed by Karl Polanyi's classic *The Great Transformation*, devoted to the historical analysis of the rise and fall of free market capitalism in the interwar Europe. In a letter to Sidney Hook Dewey praised Polanyi's work as an antidote to Hayek's *Road to Serfdom*, the latter being a bold attempt to reinvigorate *laissez faire* school of liberalism. As Dewey argued, "If Hayek had read one chapter [of *The Great Transformation*] I think he would have been ashamed to write his book – for it is a convincing proof that all the evils and objectionable problems Hayek builds on are the products of the necessity of social protections against a market economy (...)."²⁵

term *old* or *original institutional economics* is used to differentiate this approach from the so called new institutional economics of Ronald Coase, Oliver Williamson, and Douglass North. Interestingly enough, strong Deweyan influence can also be detected in some European followers of old institutionalism. See discussion of Dewey's ideas in the context of institutional economics in Karl William Kapp, *The Foundations of Institutional Economics*, ed. Sebastian Berger and Rolf Steppacher (Routledge, London and New York 2011), 27-28, 74-81, 85-86, and 258-263.

²³ John Dewey, "The Techniques of Reconstruction. Review of Karl Mannheim's *Man and the Society in the Age of Reconstruction*", LW 14: 293-294.

²⁴ See Karl Mannheim, *The Man and Society in the Age of Reconstruction* (Rutledge and Kegan Paul, London, 1941), 239-252 and 369-383. Dewey's views on planning were expressed most clearly in an article written jointly with John L Childs. See John L Childs, John Dewey, "The Social-Economic Situation and Education", LW 8: 43-76.

²⁵ John Dewey's letter to Sidney Hook quoted in: Robert Westbrook, *John*

The early work of sociologists Daniel Bell and Nathan Glazer also met with Dewey's approval. In *Liberating Social Scientist*, an important essay devoted to the philosophy of the social sciences, Dewey contrasted articles written by Nathan Glazer, Daniel Bell and Karl Polanyi, all marked by a critical attitude towards free market capitalism, with what he thought to be the limiting tendency to treat existing economic order as given and complete in itself.²⁶ Social researchers Dewey argued, should be free to adopt a broader historical perspective on social problems and to include valuations as an integral part of the research process.

From this brief overview one can glimpse Dewey's taste in economic matters. Dewey had a strong dislike for arid abstractions, "metaphysical" theorizing, and *laissez faire* policy prescriptions. He favored works based on historical or sociological scholarship, advocating social reform and democratic planning. But Dewey's engagement with economic discourse was not limited to discussion of various schools of thought and the works of individual scholars. According to Dewey's famous definition, philosophy is "inherently criticism, having its distinctive position among various modes of criticism

Dewey and American Democracy, (Cornell University Press, Ithaca N. Y, 1991), 461.

²⁶ See John Dewey, "Liberating the Social Scientist.", LW 15: 224-228. Dewey referred to the following articles: Nathan Glazer, "Government by Manipulation," *Commentary*, no. 2 (July 1946); Nathan Glazer, "What is Sociology's Job", *Commentary*, no. 3 (February 1947); Daniel Bell, "Adjusting Man to Machines," *Commentary*, no. 3 (January 1947), Karl Polanyi, "Our Obsolete Market Mentality. Civilization Must Find a New Thought Pattern", no. 3 (*Commentary*, February 1947). In his first essay Glazer described the use made of social science in organizing detention camp for Japanese Americans and Japanese nationals during World War II, noting that similar techniques are used in controlling the behavior of factory workers. Glazer's second article criticizes the tendency of sociology to treat social problems such as crime, race relations or juvenile delinquency as separate issues disconnected from a larger socio-economic order. Daniel Bell exposes the tendency of some social scientists to treat workers like tools to be adjusted in the interests of greater productivity. Finally, Karl Polanyi's essay mobilizes the insights from cultural anthropology for a critique of *laissez faire* capitalism. All the works recommended by Dewey combine social science scholarship with an openly critical attitude towards *status quo* and strong moral commitments.

in its generality; a criticism of criticism as it were.”²⁷ Philosophy conceived as a critique of culture is primarily concerned with the relation between human values and various dimensions of individual and social experience. Such a broad view of the role and scope of philosophy justifies inquiry into the relationship between economic domain and other areas of culture. More specifically, Dewey was concerned with the negative consequences of what he perceived as growing discrepancy between economics and ethics under modern capitalism. In *Individualism Old and New* Dewey argued that economic systems driven by the quest for pecuniary gain stands in stark contrast with the professed idealism of American life. We live, to use Dewey’s apt metaphor, in a house divided against itself, where moral values and individual aspirations are constantly pitted against the economic imperative of capitalist accumulation.²⁸ Although arguments contained in *Individualism Old and New* are targeted at the United States shortly before the Great Depression of 1929, much of what Dewey said in that book can be interpreted as a general assessment of cultural contradictions that are bound to arise whenever market economy is constructed as an independent social sphere separated from ethics and politics.

In this section I have argued that during his career John Dewey took a firm stand in the heated debates between different theories about the nature and the workings of a capitalist economy. In general, he rejected conventional economic theory in favor of institutional and sociological approaches. Moreover, Dewey’s scholarly preferences clearly overlapped with his strong distaste for the social realities of corporate capitalism in the first half of twentieth century. In the remaining part of this paper I will argue that Deweyan pragmatism remains relevant for the contemporary critique of economic orthodoxy. This is hardly a novel suggestion. Indeed, the implications of Dewey’s brand of pragmatism for the study of the economy have been already thoroughly examined from

²⁷ See John Dewey, *Experience and Nature*, LW1: 298.

²⁸ See John Dewey, *Individualism Old and New*, LW 5: 45-49

the point of view of institutionalism, economic sociology and the philosophical analysis of economic methodology.²⁹ While this body of literature is on the whole admirable, it has two shortcomings, which will be briefly discussed here. Firstly, it rarely takes any notice of political and ethical reasons that motivated Dewey's writings on social and economic matters. As a result, it tends to diminish the importance of the normative dimension of Dewey's pragmatism. Secondly, theorists often shy away from a broader cultural analysis of the relations between various theoretical positions and the socio-economic realities of modern capitalism. Such arguments, highly speculative as they undoubtedly are, can nevertheless throw an interesting light on the controversies surrounding the role of markets in modern societies. In what follows I will argue that Dewey's pragmatism offers not only methodological but also normative insights that are relevant to the critique of contemporary economic discourse.

The fallacy of unchanging human nature

The argument that conventional economics is based on erroneous views concerning human nature was advanced by John Dewey in his lectures on social psychology, published in 1922 as *Human Nature and Conduct*. The book had considerable influence on the development of institutional economics and it remains a *locus classicus* for the pragmatic critique of economic discourse. The main aim of Dewey's investigations is to establish social psychology based on the analysis of the interplay between impulses, habits and intelligence in human conduct. Clearly, habit is the most important category here. In Dewey's definition *habit* is an acquired disposition to act in a certain way. As Dewey puts it, the word *habit* is used to denote "that kind of human

²⁹ See Allan Gruchy, *Modern Economic Thought. The American Contribution* (Prentice-Hall, New York, 1947); Hans Joas, *The Creativity of Action*, (The University of Chicago Press, Chicago, 1996); and essays gathered in *Dewey, Pragmatism and Economic Methodology*, ed. Elias. L. Kahlil (Rutledge, London and New York, 2004).

activity which is influenced by prior activity and in that sense acquired; which contains within itself a certain ordering or systematization of minor elements of action; which is projective, dynamic in quality, ready for overt manifestation; and which is operative in some subdued subordinate form even when not obviously dominating activity.”³⁰ Habits are social and historical, owing their particular shape to prevalent cultural norms and customs. Moreover, Dewey also regards them as infused with meaning, and as such, capable of making human conduct both understandable and morally significant.³¹

As opposed to *habits*, impulses are native. John Dewey is skeptical about various classifications of impulses and instincts. To be more precise, we should speak of a reservoir of impulsive energy that is integrated with a particular set of habits. Although impulses are generally subdued by habits, in a social crisis, such as a war or social revolution, impulsive energy may break out of the habitual constraints. In Dewey’s social theory such moments of breakdown of a given habitual order are called *problematic situations*. They typically occur when agents are confronted with novel and unexpected circumstances. Such circumstances require a proper readjustment between habits and impulses. This is the task that Dewey assigns to intelligence, which he understands as the capacity to reshape habits according to a deliberate plan. One may doubt, however, whether impulsive energy plays any direct role in the process of intelligent reconstruction. It would be more consistent with Dewey’s overall approach to assume that the tension manifesting itself in problematic situations stems from conflicting sets of habits, rather than from the growing discrepancy between the acquired habits and inborn impulses. Whatever the case may be, in Deweyan theory of action a proper role of intelligence is to guide the process of readjustment of a given set of habits, in order to make them more adapted to changing demands of social life.

For the sake of the present argument it is important to realize that Dewey’s notion of habit is similar in meaning to the

³⁰ See John Dewey, *Human Nature and Conduct*, MW 14:31.

³¹ *Ibid.*, 65.

concept of “institution” as it is understood in the economics of Thorstein Veblen and his followers.³² Firstly, both habits and institutions are conceptual tools designed for the study of human behavior from an cultural or anthropological point of view.³³ Institutions are usually defined as “relatively uniform patterns of thought and action” or “rules” governing human conduct.³⁴ It is essential to understand that those rules or patterns are not treated as universal features of human nature but are recognized as culturally specific and, in principle, open to change. Secondly, institutions and habits should be regarded as probabilistic tendencies rather than exact laws. They inform us how people are expected to act in typical social situations. However, the possibility of deviating from the established habits or modifying them can never be excluded. Thirdly, habits and institutions cannot be adequately conceived as expressions of individual motives and desires. On the contrary, prevalent motivations and constellations of wants are themselves reflections of given social environment. In other words, both Dewey and the followers of institutional economics assert the analytical primacy of the social factors over individual ones in explaining human actions. Fourthly, as culturally conditioned patterns of behavior both habits and institutions are at the same

³² Dewey noted the proximity between habits and institutions himself. In *Human Nature and Conduct* Dewey sometimes uses the term *institutions* as a synonym for habit, i. e. when he refers to habits as “embodied institutions”. See J. Dewey, *Human Nature and Conduct*, MW 14: 77.

³³In his contribution to the *Encyclopedia of Social Sciences*, Dewey credited anthropology with the discovery of the primacy of culture in shaping human behavior. “Anthropology (...), Dewey argued, has made it clear that the varieties of cultural and institutional forms which have existed are not to be traced to anything which can be called original unmodified human nature but are products of interactions with the social environment; they are functions (...) of institutional organization and cultural traditions as these operate to shape raw, biological material into definitively human shape”. See J. Dewey, “Human Nature”, LW 6: 37. On the role of anthropological inspiration in Dewey’s thinking see further Loren Goldman, “Dewey’s Pragmatism from An Anthropological Point of View”, *Transactions of Charles S. Peirce Society*, 2002, vol. 48, no. 1 (2012): 1-31.

³⁴ See Karl William Kapp, *The Foundations of Institutional Economics*, ed. by Sebastian Berger and Rolf Steppacher (Routledge, London and New York 2011), 50; Geoffrey Hodgson, “What are Institutions?”, *Journal of Economic Issues*, vol. xl, no. 1, (2006): 2.

time enabling and constraining. To use John Commons' famous expression, institutions can be conceived as a "collective action in control, liberation and expansion of individual action."³⁵ In a similar vein Dewey argued that habits are abilities, not unlike skills displayed by an artist or craftsman.³⁶ In conclusion, we may agree with Wesley Mitchell's remark that the term "institutions" is a convenient name for "the more important among the widely prevalent, highly standardized social habits."³⁷

We shall now consider the contrast between pragmatic social psychology and what Dewey called the "mythological psychology of instincts behind modern economics."³⁸ By artificially separating the human self from its social surroundings the founders of classical political economy created an artificial persona of *homo oeconomicus*, driven exclusively by the the love of gain and aversion to labour. These two motives were singled out as being "economic" in nature. Contemporary mainstream economics, although in many ways very remote from its classical predecessor, is even more ignorant of the institutional context of an economic action. It conceives social actors primarily as maximizers of utility and treats their preferences as exogenous. From the standpoint of Dewey's social theory economics erroneously concentrates on individualistic concepts such as motives, incentives or utility

³⁵ John Commons, "Institutional Economics", *American Economic Review*, vol. 21, no 4 (1931): 648.

³⁶ J. Dewey, *Human Nature and Conduct*, MW14: 47.

³⁷ Wesley Mitchell, "The Prospects of Economics," in Wesley Mitchell, *The Backward Art of Spending Money and Other Essays* (Augustus M. Kelly INC, New York 1950), 373. It is important to note, however, that both terms have slightly different connotations. For instance, institutions can be characterized as formal and informal. While habits and customs may in some circumstances be passed into law, the term *formal habit* would be a misnomer. More importantly, *habit* is not the right word to use when discussing phenomena at a macro-level. While we may speak of "institutional diversity of modern capitalism", it would be rather queer to employ the word habit in a similar context. On the other hand, habit is a much better choice when we are inclined to discuss questions related to human character and conduct. Habits are also intimately connected with bodily reactions in the way institutions are not.

³⁸ John Dewey, *Human Nature and Conduct*, MW 14: 145.

maximization at the expense of social categories such as habits and institutions. Neoclassical economics is particularly notorious for its persistent institutional blindness³⁹ Under the influence of utilitarian philosophy theorists of neoclassical school attempted to apply mathematical calculus to the study of economic behavior. However, as Dewey noted, future pleasures and pains are among factors “which are most subject to incalculable accident.”⁴⁰ The same is true, we may add, for marginal utility. Habits and institutions, on the other hand, do not lend themselves easily to mathematical formulation. Nevertheless, they are much better tools for the study of observable regularities of conduct. In fact, from empirical point of view pragmatic analysis of tendencies of behavior expressed in habits and institutions is more reliable guide to understanding economic action than utilitarian analysis conducted in terms of fictional units of preference satisfaction (i.e. utility).⁴¹ If economic analysis were to be based on realistic psychological foundations, it should follow social psychology of habits instead of individualistic psychology of inborn instincts, natural motives or personal preference orderings.

Let us now contrast Dewey’s pragmatism and neoclassical economics with respect to their respective conceptions of reason. Due to its commitment to methodological individualism mainstream economics tends to assume that rationality is essentially an attribute of individuals. Moreover, for neoclassical economics reason is reduced to bare capacity to calculate the most efficient ways for satisfaction of given set of preferences. Such a view of reason assumes a strict separation between the human organism and its natural and social surroundings. However, from the point of view of Dewey’s

³⁹ The expression “institutional blindness” is taken from the title of Geoffrey Hodgson’s essay. See Geoffrey Hodgson, “Institutional Blindness in Modern Economics”, in *Advancing Socio-Economics. An Institutionalist Perspective*, ed. J. Rogers Hollingsworth, Karl H. Müller, and Ellen Jane Hollingsworth (Rowman and Littlefield, Lanham and Oxford 2002),147-170.

⁴⁰ John Dewey, *Human Nature and Conduct*, MW 14: 38.

⁴¹ For a persuasive account of social mechanisms in terms of Deweyan habits see Neil Gross, “A Pragmatist Theory of Social Mechanisms”, *American Sociological Review*, vol. 74 (2009): 358-379.

pragmatism such an assumption is untenable. For one thing, neoclassical definition of rationality seems to disregard the cognitive limitations of living organisms. In his article devoted to the critique of rational choice model of rationality Herbert Simon argued that it cannot be applied to real life situations due to asymmetries of information, sequential decision making and sheer limits of human calculative ability.⁴² As Simon put it, certain features of the natural environment (i.e. limits of computational capacity) are placed “within the skin of the biological organism.”⁴³ In other words, neoclassical economics seems to ignore biological constraints that necessarily apply to any feasible notion of rationality. On the other hand, mainstream economics also overlooks another possibility, namely that certain features of social environment can make people actions more rather than less rational. This is possible because knowledge and intelligence are embodied in habits prevalent in a given culture. To use one of Dewey’s favorite examples, a contemporary car mechanic “can discourse of ohms and amperes as Sir Isaac Newton could not in his day.”⁴⁴ More generally, people can be as rational (or irrational) as are the habits and folkways, which form their social surroundings. To sum up, from the standpoint of Dewey pragmatism rationality is social rather than individual affair. As such it has to be regarded not as property of individuals but as relation between human beings and their environment.

Another consequence of institutional blindness of mainstream economics is its inability to understand social and economic change. Following Hans Joas, we may say that all human action oscillates between unreflective enactment of established habits and acts of creativity.⁴⁵ On this reading the proper function of intelligence is an innovative reconstruction of the existing set of institutions. In other words, human

⁴² See Herbert Simon, “A Behavioral Model of Rational Choice”, *The Quarterly Journal of Economics*, vol. 69, no. 1 (1955): 99-118.

⁴³ *Ibid.*, 101.

⁴⁴ John Dewey, *The Public and Its Problems*, LW2: 366.

⁴⁵ See Hans Joas, *The Creativity of Action*, (The University of Chicago Press, Chicago, 1996),: 129.

creativity can be understood only against the background of habitual activity.⁴⁶ By treating habits and intuitions as exogenous factors, conventional economics effectively excludes them from the purview of analysis. By doing so it places existing institutional arrangements beyond the scope of critique. Conventional economics can afford to treat habits and institutions as exogenous factors only by assuming that the social environment remains essentially stable in a short run. However, in modern society, where a rapid social and technological change is a norm rather than an exception, this assumption seems rather questionable. Paradoxically enough, petrification of even the most preferable set of social institutions may turn out to be a rather pyrrhic victory. For, if Dewey's account of social change is plausible, the more rigid the particular set of institutional arrangement appears, the more costly any future economic reconstruction is likely to be.

To sum up, from the standpoint of Dewey's social psychology the main fault of classical and neoclassical economics lies in their deliberate neglect of culturally specific habits and institutions. Institutional blindness of mainstream economics not only leads to inadequate analysis of human behavior but also to deficient conceptualization of rationality. From the pragmatic perspective efforts of mainstream economics to discuss rationality in general are likely to be counterproductive. For Dewey human conduct can be assessed properly only if particular social context is taken into account. As James Bohman put it, "without some sense of problematic situation in which judgment is operating, it is hard to see responses as «rational» or «intelligent» and thus as predictive of anything like a permanent tendency of human reasoning within an extended social environment."⁴⁷ Moreover, if a

⁴⁶ For some empirical evidence supporting this claim see Neil Gross, "Pragmatism and the Study of Large Scale Social Phenomena", *Theory and Society*, vol. 47, Issue 1 (2018): 87-111.

⁴⁷ See James Bohman, "Participation Through Publics: Did Dewey Answered Lippmann?", *Contemporary Pragmatism*, vol. 7, no. 1 (2010): 56. Interestingly enough, Bohman's remark is directed against psychological theory of Tversky and Khanemen, whose pessimistic views on human

pragmatic account of the interrelationship between habits and intelligence is correct, then we must conclude that any social theory which fails to take habits and institutions seriously is bound to limit our collective capacity to find creative solutions to pressing socio-economic problems.

The fallacy of instrumental rationality

In the preceding section we already noted that Dewey's pragmatism and neoclassical economics tend to clash over the meaning of rationality. Now we are going to pursue this issue in more detail concentrating on the problem of mutual relationship between means and ends. It will be useful to start with the standard definition of the subject matter of neoclassical economics, which can be found in Lionel Robbins' well-known *Essay on the Nature and Significance of Economic Science*. Robbins' defines economics as "the science which studies human behavior as a relationship between ends and scarce means which have alternative uses."⁴⁸ The three key elements in Robbins's definition of economics are *wants*, conceptualized as unlimited, *means*, considered to be scarce by nature, and *choice*, which may be deliberate or not. It is important to note that Robbins' definition of economics is predicated on a rigid distinction between means and ends. Pure economic analysis is obliged to treat aims as exogenous and concern itself only with the relationship of the means and the ends occurring within a given set of preferences. In particular, interpersonal comparisons of utility are not allowed, as they would contaminate pure economic theory with subjective value judgments.⁴⁹ Rationality of economic action is therefore

cognitive capacities are the main source of inspiration for contemporary behavioral economics. It seems that both excessive optimism and excessive pessimism about human potential for rationality stem from common ignorance of the context of action.

⁴⁸ Lionel Robbins, *An Essay on the Nature and Significance of Economic Science*, (Macmillan & Co, London., 1932): 15.

⁴⁹ See Lionel Robbins, "Interpersonal Comparisons of Utility: A Comment", *The Economic Journal*, Vol. 48, No. 192 (1938).

exclusively a matter of selecting the most appropriate means for the given ends.

Now we shall contrast this account of rational choice with the vision of practical deliberation offered by Dewey in *Human Nature and Conduct*. The key to Dewey's theory lies in the distinction between utilitarian calculation and moral deliberation. As Dewey explains: "Deliberation has its beginning in troubled activity and its conclusion in choice of a course of action that straightens it out. It no more resembles the casting-up of accounts of profits and loss than an actor engaged in drama resembles a clerk recording debit and credit items in his ledger".⁵⁰ Deliberation is conceptualized as a dramatic rehearsal (in imagination) of various possible courses of action in the context of a perplexing dilemma or trouble. The end product of such dramatic rehearsal takes the form of a practical judgment about the course of action in a given situation. Dewey believes that judgments, as the outcomes of inquiry, represent more rational responses to problematic situations than reactions based exclusively on habit, routine or an impulsive urge. Therefore, deliberation makes human conduct more rational not because it leads to maximization of pleasure or utility, but simply because it improves the quality of our practical judgments. From the pragmatic point of view rationality is a practical affair; that is to say, it is largely a matter of making reasonable judgments about the course of action in a particular situation.

While neoclassical economics is based on the assumption that means can be sharply distinguished from ends, the rejection of this very possibility is one of the most original features of Dewey's philosophy. For Dewey, the distinction between means and ends is essentially contextual and temporal: "the end is merely a series of acts viewed at a remote stage; and a means is merely the series viewed at an earlier one."⁵¹ Moreover, what serves as an end in one situation can well become means in another. Hence, means and ends are in

⁵⁰ John Dewey, *Human Nature and Conduct*, MW 14: 129.

⁵¹ John Dewey, *Human Nature and Conduct*, MW 14: 34.

principle interchangeable or, as Dewey puts it “means and ends are two names for the same reality.”⁵² To take it further, it seems pointless to talk about ends in general, since such ends would be devoid of any discernible role in directing human conduct. To avoid misunderstanding, John Dewey prefers to speak about end-in-view, serving as an aim in a given context. Moreover, Dewey’s theory of action stresses the possibility that deliberation may result in the formulation of new ends. Ends are not ready made but they are being constantly discovered in the course of inquiry into a given problematic situation. Finally, for Dewey human conduct is future oriented and thus not fully predictable. As Dewey puts it, “all action is invasion of a future, of the unknown.”⁵³ For that reason conflict and uncertainty are recognized by Dewey as the most general features of conduct, which any theory of practical rationality has to take into account.⁵⁴

Ironically, neoclassical economics seems to be based on all the erroneous assumptions that John Dewey so vigorously criticized. To start with, in neoclassical economics maximization of satisfaction or utility is posited as an end independent from a particular context. From the point of view of Dewey’s theory such a general end seems suspiciously close to an empty formula devoid of any discernible role in explaining a given behavior. Moreover, neoclassical theory of action is openly teleological, that is to say it assumes that agents are aware of their preferences before they take action. Following Barry Hindess, Josh Whitford called this conception *a portfolio model of an actor*.⁵⁵ In this view, an economic actor is assumed to have a portfolio consisting of preferences and desires that are well-defined, well-ordered and independent from the context. Rational action is conceptualized as a purely instrumental affair consisting in choosing the most effective means to achieve the

⁵² Ibid., 36.

⁵³ Ibid., 37.

⁵⁴ Ibid.

⁵⁵ Josh Whitford “Pragmatism and the untenable dualism of means and ends: Why rational choice theory does not deserve paradigmatic privilege”, *Theory and Society*, Vol. 31 Issue 3 (2002):325.

goals in the actor's portfolio. However, from a pragmatic perspective, the idea that actors have a stable set of preferences carried from one situation to another is one of the most problematic assumptions of the neoclassical model. As Josh Withford observed, "when desires are situational, it is nonsensical to build a theory around actors possessing a complete and well-defined preference ordering of all possible end states."⁵⁶ We encounter even more serious problems for means-ends dichotomy when we take into account the uncertainty of the economic environment. As Karl William Kapp pointed out, neoclassical economics presupposes that actors operate under conditions of complete transparency of situation.⁵⁷ That is to say, rational actors are able to correctly estimate future costs and benefits of any possible course of action. However, in real economic situations, marked with uncertainty, this is hardly the case. For instance, in uncertain situations we cannot determine in advance the payoff from buying particular bonds, investing in new technology or learning certain skills.⁵⁸ In such circumstances it is often impossible to assign the optimal means for the given ends, let alone to maximize the desired outcome.⁵⁹ However, if the portfolio view of actor and the assumption of perfect transparency of a situation are rejected, then the rigid dualism of the means and ends becomes untenable.

Jens Beckert argues that Deweyan social psychology can provide social sciences with a plausible alternative to the rational choice theory, associated with neoclassical

⁵⁶ Ibid., 324.

⁵⁷ See Karl William Kapp, "Economic Development in New Perspective: Existential Minima and Substantive Rationality", *Kyklos*, vol. 8, issue 2 (1965): 61.

⁵⁸ See Jens Beckert, *Imagined Futures. Fictional Expectations and Capitalist Dynamics* (Harvard University Press, Cambridge and London, 2016), 131-169.

⁵⁹ For the relevance of radical uncertainty for the critique of neoclassical economics see further Jens Beckert, "What is Sociological About Economic Sociology? Uncertainty and Embeddedness of Economic Action", *Theory and Society*, vol. 25, no 6 (1996): 803-840.

economics.⁶⁰ Beckert holds that a teleological framework, with its assumption that ends are identified prior to the action, fails to offer adequate explanations of creative economic behavior, such as, among others, entrepreneurship. Following Schumpeter, Beckert distinguishes a manager and an entrepreneur as two distinctive social types. While managerial action can often be adequately described as maximization of fixed performance goals, the same is not true for entrepreneurial action. This is because an entrepreneurial action is by definition innovative and innovation involves creative reconfiguration of habitual business practice. Having surveyed contemporary empirical studies on innovations, Beckert found them generally in tune with the pragmatic model of action as inherently reconstructive and creative. To take the argument further, we may observe that constant reshaping of the established social routines can be seen as essential for the workings of capitalist economy. From Deweyan perspective the market can be conceptualized as habit-breaker, i.e. a specific institutional device that provides the incentive for an innovative behavior (i.e. additional profits) and punishes those who stick to ineffective routines for too long.⁶¹ More generally, the creativity of human action can be seen as essential for understanding the micro-foundations of capitalist dynamics. As Christoph Deutschmann provocatively argues, capitalism's restless drive for endless accumulation is predicated on the ability of the capitalist class to monopolize the benefits of innovations, resulting from creative reconstructions of the established habits and routines.⁶²

It is sometimes argued that any criticism of neoclassical economics, which concentrates on its unrealistic assumptions, misses the point. Neoclassical economics, so the argument goes, is not an explanatory but a normative theory. In other words, it

⁶⁰ See Jens Beckert, "Economic Sociology and Embeddedness. How Shall We Conceptualize Economic Action?", *Journal of Economic Issues* (2003).

⁶¹ *Ibid.*, 782.

⁶² See Christoph Deutschmann, "A Pragmatist Theory of Capitalism", *Socio-Economic Review*, Volume 9 Issue 1 (2011).

is not concerned with the explanation of what economic actors are actually doing but in demonstrating what they should do if they wish to remain within the bounds of rationality. However, this response is hardly convincing, since neoclassical theory of rational choice misses what is arguably the most important aspect of human rationality, i.e. the fact that rational behavior is not merely a technical issue of matching means to the given ends. It is above all an effort to criticize and rationally evaluate the ends that we strive to achieve.

This point may be clarified with the aid of Dewey's distinction between the desired and the desirable.⁶³ The term "the desired" refers to a simple fact that people want certain objects, states or performances. Such wishes are at least initially unreflective. The category of "desired" in Dewey's philosophy corresponds rather closely to what in economic theory is known as revealed preferences expressed in actual market behavior. On the contrary, the term "desirable" refers to the objects and activities that are judged worthy of desire in the light of an informed and imaginative deliberation. The distinction between the desired and the desirable creates room for moral inquiry and contestation of patterns of valuations established in the market sphere. Without distinguishing between the desired and the desirable – or between preferences and metapreferences, to use Albert Hirschman's terminology – we would not be able explain the difference between reflective and unreflective changes in behavior.⁶⁴ Following Dewey, we may say that the essence of rational action – and indeed of human freedom – lies in the possibility of critical evaluation of the established ends, and not merely in seeking the most efficient ways to achieve them.

Faced with sociological and institutional critique, proponents of neoclassical economics often respond that their theory does not require an agent to be narrowly selfish or

⁶³ See John Dewey, *The Quest for Certainty*, LW 4: 207-209.

⁶⁴ See Albert Hirschman, "Against Parsimony. Three Easy Ways of Complicating Some Categories of Economic Discourse", *Bulletin of An American Academy of Arts and Sciences*, vol. 37 no. 8 (1984): 12-15.

egoistic. The agent may as well strive to maximize the most altruistic or benevolent goals and yet, his or her behavior will still fall under the scope of economic analysis, as long as they attempt to use their limited means in an efficient manner. It should be noted, however, that this typical response fails to fully address Deweyan objections. If Dewey's account of action is correct, then the main problem with mainstream economics is not the alleged selfishness of a homo-oeconomicus but a rigid distinction between means and ends. To be sure, rational behavior may still be broadly conceived as a relation between means and ends, with the caveat that both means and ends may undergone several modifications during the course of action. As Karl William Kapp put it, "for the institutionalist rational action consist not of adaptation of (given) means to (given) ends, but in exploration of ends and means and their mutual adaptation, as both are discovered and evaluated."⁶⁵ To conclude, any sensible notion of rationality would have to take into account the contextual nature of economic deliberation and bring ends as well as means under the purview of socio-economics analysis.

The fallacy of natural law

If the two fallacies discussed up to this point dealt mainly with the utilitarian underpinnings of economic discourse, the two remaining critical arguments are of more general nature. They address the place of economy within society and the constructive role of human reasoning in economic thinking. In this section we will examine the relations between economic inquiry and economic reality. Let us introduce pragmatic argument with a quotation from *The Quest for Certainty*, where Dewey describes deleterious effect that spectator theory of knowledge had on the development of economic science:

The doctrine that nature is inherently rational was a

⁶⁵ Karl William Kapp, *The Foundations of Institutional Economics*, eds. Sebastian Berger and Rolf Steppacher, (Rutledge, London and New York 2011), 28

costly one. It entailed the idea that reason in man is an outside spectator of a rationality already complete in itself. It deprived reason in man of an active and creative office; its business was simply to copy, to re-present symbolically, to view a given rational structure. (...) The doctrine was both an effect of the traditional separation between knowledge and action and a factor in perpetuating it. (...) Its paralysing effect on human action is seen in the part it played in the eighteenth and nineteenth century in the theory of natural laws in human affairs, in social matters. These natural laws were supposed to be inherently fixed; a science of social phenomena and relations was equivalent to discovery of them. Once discovered, nothing remains for man but to conform to them; they were to rule his conduct as physical laws govern physical phenomena. They were sole standard of conduct in economic affairs; the laws of economics are “natural” laws of all political action; other so-called laws were artificial, man-made contrivances in contrast with the normative regulations of nature itself. *Laissez faire* was the logical conclusion. For organized society to attempt to regulate the course of economic affairs, to bring them into service of humanly conceived ends, was a harmful interference.⁶⁶

One way of unpacking Dewey’s argument is to draw attention to the role played by the theory of a natural order in shaping the agenda of economic enquiry. As we have already discussed, for Adam Smith the idea of nature had deistic overtones, with Divine Grace guaranteeing the existence of the natural order in the world. Consequently, the role of human reason was limited to discovering, understanding, and maintaining this pre-established harmony. On a more mundane level, the market system, or, as Smith called it, a natural order of liberty was seen as an equivalent of the cosmic harmony. In fact, Smith’s famous invisible hand was at the time one of the most popular

⁶⁶ John Dewey, *The Quest for Certainty*, LW 4:169.

metaphors of deistic God on par with such phrases as Providence, the Author of Nature, or the final cause.⁶⁷

What John Dewey questioned, was not so much a natural law philosophy as such, but its most significant practical corollary, i.e. the assumption that human reason plays no role in shaping the subject matter of economics. This assumption is present in much of contemporary economic discourse, both popular and scientific. Adam Smith ascribed to a natural order unquestionable ethical authority stemming from its divine origins, and hence he considered the political economy a moral science. However, as Philip Mirowski famously argued, with the marginalist revolution, modern energy physics has replaced astronomy as the role-model for economic science.⁶⁸ This intellectual change gave rise to an entirely different idea of nature. From the perspective of the late nineteenth century physics, the natural world was governed by mechanical laws rather than moral values inscribed in it by the divine creator. Accordingly, economics was reinvented as social physics devoted to an impassionate study of self-equilibrating market mechanism. As Mirowski explains, in the works of Jevons, Walras, and their followers, physical terms such as energy, space and forces, were translated into economic equivalents such as utility, commodity space and prices.⁶⁹ However, the basic idea of mind as a passive spectator of external world has been preserved in the new scientific world view. Part of the legacy of physics envy, to use Mirowski's apt expression, is the assumption that economics is a positive science, whose proper task is to explain the preexisting economic reality. In short, due to the reliance on metaphors drawn from the nineteenth century physics, the spectator theory of knowledge penetrated into the very foundations of mainstream economics. In consequence, the dualism between subject and object has been

⁶⁷ Jacob Viner, "Adam Smith and Laissez Faire", *Journal of Political Economy*, Vol. 35 No. 2 (1927): 202.

⁶⁸ See Philip Mirowski, "Physics and the 'marginalist revolution'", *Cambridge Journal of Economics*, Vol. 8 No. 4 (1984).

⁶⁹ Philip Mirowski, "Do economists suffer from physics envy?", *Finish Economic Papers*, Vol. 5, No.1 (1992): 63.

fully persevered in the neoclassical concept of the subject matter of economic science.

As Michael Lawlor observed, one of the most difficult aspects of Dewey's philosophy are his "provocative statements on the open, unfinished, and ultimately plastic character, not of knowledge, but of reality".⁷⁰ What does it mean that reality, including economic reality, is essentially open-ended and changing? On a theoretical level, Dewey's overall stress on malleable character of reality is a consequence of his post-Darwinian evolutionary metaphysics of an open universe marked by genuine novelty, contingency and chance. On a more practical level, as Lawlor's article aptly demonstrates, it means that careful attention needs to be paid to the changing cultural matrix of economic inquiry. From a pragmatic point of view, concepts and theories are instruments to be used in a given context. When successfully applied in inquiry, they contribute to changing an indeterminate and problematic situation into a determinate and resolved one.⁷¹ In other words, concepts and theories are both cultural products as well as important factors shaping cultural milieu in which they operate. Lawlor illustrates this general point with the story of the rise and fall of monetarism in economic theory. Initially, when monetarism emerged and gained popularity, in the 1980s, its basic claim was the existence of a stable relationship between money supply and changes in nominal GDP. However, as Lawlor maintains, this relationship was jeopardized in the early 1990s, when nominal GDP began to grow faster than the money supply. It looks as if the monetarist theory that had been more or less adequate in the 1980s suddenly lost much of its intellectual credibility and predictive power in the 1990s.

How should we interpret this strange reversal of fortune? Has monetarist theory been proven wrong, or, alternatively, have the changes in the social and institutional

⁷⁰ Michael S. Lawlor "Dewey and economic reality" in Dewey, *Pragmatism and Economic Methodology*, ed. Elias. L. Kahlil (Routledge, London and New York, 2004), 304.

⁷¹ See John Dewey, *Logic: The Theory of Inquiry*, LW 12:108.

context of economic activity rendered it inadequate? Lawlor clearly opts for the second explanation. He cites various factors that contributed to the change of economic environment, such as the birth of new information technology, the lowered costs of transactions, the rise of new financial institutions and, last but not least, self-referential effect of economics, manifested by various attempts by the public to outguess the FED with the use of monetarist theoretical framework.⁷² The lesson to learn from Lawlor's story is that economic reality is being constantly recreated and that economists, central bankers, market professionals and members of the general public all play an important role in this process. One of the advantages of this standpoint is its recognition of economic reality as malleable and open to change. Consequently, it overcomes a paralyzing effect of the spectator theory on economic investigations. In Lawlor's own words, "Dewey's rejection of quest for certainty, his abandonment of simple view of reality, opens up inquiry to the possibility of multiple socially constructed realities."⁷³

A similar point has been recently made by Michel Callon, a French sociologist and philosopher of science, who argued that economics is inherently performative.⁷⁴ The basic idea is that economics contributes to the creation of its subject-matter, i.e. the economy. To support his claim, Callon often refers to the example of a traditional French strawberry market, which was later completely remodeled according to the neoclassical pattern. Personal ties between buyers and sellers were broken, products were standardized and the whole trade was organized as an auction, not unlike the one described in the famous Walras' model. A young counselor of the Regional Chamber of Agriculture, an economist by training, played a crucial role in

⁷² Lawlor "Dewey and economic reality" in *Dewey, Pragmatism and Economic Methodology*, ed. Elias. L. Kahlil (Routledge, London and New York, 2004), 318-320.

⁷³ Ibid., p 323.

⁷⁴ See Michel Callon, "Introduction: the embeddedness of economic markets in economics", *The Laws of the Markets*, ed. Michel Callon (Blackwell Publishers, Oxford and Malden, 1998).

initiating the above changes.⁷⁵ In Callon's view the story of the transformation of a strawberry market is almost a laboratory case of performativity, since it shows that economic theory can actually shape the way in which the actual market operates. To be sure, Callon's argument would not work equally well for many other existing markets, where participants are blissfully ignorant of the claims of economic theory and over which professional economists hold no sway. However, the point is not whether or not economics is always successful in shaping the real world. The main conclusion to be drawn from the examples provided by authors like Lawlor and Callon is that it is impossible to keep economic theory and economic practice separate, even for the sake of seemingly objective inquiry.

It needs to be said that contemporary economics is not completely ignorant of the problem of practical application. Indeed, since Milton Friedman's famous paper 'Methodology of positive economics' it has become customary to divide economics into positive inquiry, which provides an objective account of "what is", and normative inquiry, which offers prescriptions based on particular political and ethical preferences.⁷⁶ However, if the arguments presented above are right, this very distinction does not hold water. This point may be clarified with reference to Dewey's understanding of the role that facts play in the process of inquiry. According to Dewey every inquiry takes place in the context of some problematic situation, which is incomplete in itself and in need of reconstruction. This general feature of problematic situations is even more prominent in the domain of social inquiry, when problems under investigation "grow out of actual tensions, needs, troubles."⁷⁷ The problem-oriented character of research has profound consequences for understanding the interplay between facts, theories and values in the conduct of inquiry. For

⁷⁵ Ibid., 22.

⁷⁶ See Milton Friedman, "The Methodology of Positive Economics" in *The Philosophy of Economics. An Anthology*, ed. D. M. Hausman (Cambridge University Press, 2008), 145-146.

⁷⁷ See John Dewey, *Logic: The Theory of Inquiry*, LW12:493.

Dewey, observation is not only theory-laden but also problem-laden. In the contexts of given problematic situations certain data are regarded as relevant to ongoing inquiry and admitted into evidence, while others may be rejected as meaningless. However, to regard some facts as relevant to the resolution of a particular problematic situation is to formulate a value judgment, albeit of a rather rudimentary kind. No social or economic inquiry can manage without judgments of relevance, fruitfulness, adequacy, efficiency and the like.

More generally, on Dewey's account of inquiry there are no judgments of fact that do not presuppose some value judgments. Hence, even from a purely methodological point of view, a strict distinction between positive and normative economics cannot be maintained.⁷⁸

While Dewey's arguments about the necessary connection between facts and values apply equally to physical and social sciences, the latter have additional reasons to recognize the normative dimension of inquiry. To wit, in the realm of the human sciences facts and values are connected not only methodologically but also, so to speak, ontologically. As Dewey observed in *The Public and Its Problems*, "political facts are not outside human desire and judgment. Change men's estimate of the value of existing political agencies and forms; and the latter change more or less."⁷⁹ The same, I would argue, is also true for economic facts and institutions. More generally, we can say that social reality consists of social practices, which in turn are partly constituted by explicit or implicit value judgments. For this reason, social inquiry has to have essentially practical, that is to say: moral, character. Dewey made this point rather well, when he wrote:

⁷⁸ On the role value judgment in science in general and in economics in particular consult Hilary Putnam, *The Collapse of The Fact-Value Dichotomy and Other Essays*, (Harvard University Press, Cambridge, Massachusetts and London, 2002); Hilary Putnam, Vivian Walsch, "Entanglement throughout Economic Science: The End of a Separate Welfare Economics", *Review of Political Economy*, Vol. 21 No. 2, (2009): 291-297.

⁷⁹ See John Dewey, *The Public and Its Problems*, LW 2: 240.

But in the case of study of man, of “social” studies, it should be obvious that subject matter studied consists of human practices or activities; that the study of them is itself one variety of human activity or practice, and that its conclusions always intervene in the pre-existing body of human practices in one direction or another.⁸⁰

In ‘Liberating social scientist’ Dewey used the example of economics to demonstrate how the illusion of social science devoid of evaluative judgments is maintained. Firstly, by saying that the goal of science is to study what is, rather than to speculate about what should be, the contemporary economic regime is treated as quasi-natural phenomena. Secondly, by arbitrarily limiting the time horizon of inquiry, we ignore both historical genesis of present economic order and alternative forms of social organizations. Needless to say, the end product of such methodological percepts is not so much value-free social research but rather economic science with strong but hidden bias towards *status quo*.

To conclude, I have argued that Dewey’s philosophical insights can be used to undermine the distinction between positive and normative economics. In fact, from the vantage point of pragmatism this very distinction can be regarded as an offshoot of the old tradition of the natural law. To be sure, mainstream economics rejects the deistic image of natural order of liberty as reflection of cosmic harmony. However, it retains the crucial element of older conception, namely the idea that economic order is ready made and complete in itself. This tendency is evident in the rigid distinction between facts and values as well as in various attempts to limit the scope of pure economic theory to the positive study of “what is”. In consequence, all value judgments are relegated to a tiny compartment known as “welfare economics”.⁸¹ Ironically, form

⁸⁰ See John Dewey, “Liberating the Social Scientist.”, LW 15:228-229.

⁸¹ On the paradoxical relation between old natural law philosophy and the means-ends schema of modern economics see also Gunnar Myrdal, “Means and Ends in Political Economy.” in Gunnar Myrdal, *Value in Social Theory. A Selection of Essays on Methodology*, ed. by Paul Streeten, (Routledge and

the vantage point of Dewey pragmatism contemporary concerns with “pure” or “positive” economics inadvertently imitate the understanding of theory as a contemplative activity, which dominated Western thought before the advent of modern experimental science.⁸²

Fallacy of a separate economic sphere

In this section we will examine John Dewey’s critique of the separation between the economic and the social. As many historians of ideas and anthropologists have noted, modern market economy has been constructed as a quasi-autonomous sphere, independent from ethics, politics and religion.⁸³ The changes in the way market economy was viewed had the cumulative effect of reversing the traditional position of the economy vis-à-vis the society. As Karl Polanyi put it, “instead of economy being embedded in social relations, social relations are embedded in the economic system”.⁸⁴ The notion that the economy constitutes an independent system governed by its own laws, has been central to the development of economic science at least since Quesnay’s *tableau économique*. It may also be noted that the very idea of economy as an autonomous sphere was one of the main targets of institutional criticism of orthodox economics.⁸⁵ John Dewey had nothing to add to this line of argument, as far as economic methodology is concerned. However, Dewey’s writings contain various remarks about

Kegan Paul, London 1958), 206-210. There is a striking resemblance between some of Myrdal’s arguments and Dewey’s theory of valuation, although I am not aware of any evidence of direct impact of Deweyan pragmatism on Myrdal’s economic thought.

⁸² See John Dewey, “Social Science and Social Control”, LW 6: 64-69.

⁸³ See Richard Tawney, *Religion and The Rise of Capitalism. A Historical Study* (J. Murray, London 1926); Louis Dumont, *From Mandeville to Marx: Genesis and Triumph of Economic Methodology* (University of Chicago Press, Chicago, 1977).

⁸⁴ See Karl Polanyi, *The Great Transformation. The Political and Economic Origins of Our Time* (Beacon Press, Boston, 2011), 60.

⁸⁵ See Karl William Kapp, “The Open-System Character of the Economy and its Implications”, in *Economics in the Future*, ed. Kurt Dopfer (Macmillan Press, London and Basingstoke, 1976)

cultural ramifications of divorcing the economy from the larger social fabric. In particular, the dominant understanding of work and the rigid distinction between ideal and material can be singled out as manifestation of the split between markets and morality. In the further part of this article we will analyze those problems, using illustrations drawn from the writings of John Dewey and Karl Polanyi.

We have already argued that mainstream economics fails to recognize the importance of habits and institutions. However, from the point of view of Dewey's social psychology economics is also guilty of another "monstrous assumption", namely that of regarding men and women as passive and requiring some special incentives to act.⁸⁶ By presupposing that human beings naturally remain in the state of rest, economics ignores the impulsive side of human nature. This tendency is evident in the standard neoclassical definition of work as the opposite of leisure, with the additional assumption that under normal condition people prefer leisure over work.⁸⁷ Work is conceptualized as something inherently costly, which means that people need to be properly incentivized in order to perform it. From the standpoint of pragmatic social psychology this view is manifestly inadequate. As Dewey was keen to point out, children are not lazy or passive by nature.⁸⁸ This fact alone suggests that economic treatment of incentives greatly oversimplifies the situation. In fact, passivity is not native but acquired. In order to understand the alleged need for incentives to work we have to study social conditions in which work is performed. Such research would have to take into account the social organization of work under capitalism marked as it is with unequal distribution of initiative and hierarchical structures of power.

The problem of work can also be approached from the

⁸⁶ See John Dewey, *Human Nature and Conduct*, MW 14: 84.

⁸⁷ For a discussion of neoclassical treatment of work see Yanis Varoufakis, *Foundations of Economics. A Beginner's Companion* (Routledge, London and New York 1998), 168.

⁸⁸ See John Dewey, *Human Nature and Conduct*, MW 14: 84.

point of view of the means-ends continuum. In fact, even rudimentary discussion of problems involved in treating labour as mere means will suffice to undermine means-ends dichotomy. On reflection most people would admit that work can be intrinsically rewarding. This is certainly true for the work performed by artists, scientists and artisans. Even ordinary occupations can be and to some extent are the source of meaning and ethical significance for many employees. At the same time, work still remains a goal-oriented activity. Hence, depending on our purpose labour can be described both as means or as an end. Nevertheless, under some circumstances it is accurate to characterize labour only as means. Such a description is true when tasks performed are mechanical and routine or when workers are entirely deprived of the right to show their own initiative. Under such conditions work becomes a purely instrumental activity.

In fact, the neoclassical conception of work can be seen as a symptom of divorce between instrumental and consummatory activities, or between ordinary experience and works of art.⁸⁹ Historically speaking, this experience of work is fairly recent. As Dewey pointed out, it was only with the advent of the modern capitalist economy that production of useful things was entirely stripped of aesthetic elements, which used to be present in the work of skilled artisans.⁹⁰ Seen from this angle economic definition of labour merely reflects the process of de-aesthetization of work under capitalism. Moreover, as Dewey frequently pointed out, the very understanding of labour as mere means to good life has its roots in the conditions of slavery, under which work of some was treated as the means to the ends of others.⁹¹ Hence, the conception of labour as mere means for obtaining some external ends (such as income or leisure) points out to rather serious deficiencies of the

⁸⁹ See John Dewey, *Experience and Nature*, LW 1: 271.

⁹⁰ This process is described in considerable detail in Dewey's *Art as Experience*. See John Dewey, *Art as Experience*, LW 10: 12-16.

⁹¹ The analogy between wage labour and slavery occurs frequently in Dewey's writings. See for example John Dewey, *Human Nature and Conduct*, MW 14: 78.

organization of work in modern market economy.

A sharp dichotomy between ideal and material, as Karl Polanyi aptly observed, is characteristic of the society based on the institution of a self-regulating market. According to Polanyi the rise of modern market societies was accompanied by a fundamental change in the overall image of a human being: “As regards man, we were made to accept the heresy that his motives can be described as «material» and «ideal», and that the incentives on which everyday life is organized spring from the «material» motives. Both utilitarian liberalism and popular Marxism favored such views.”⁹² John Dewey could not agree more. Both thinkers believed that actual human motivation is a mixture of ideal and material aspirations. In fact, motives that animate people to act are embedded in habits and institutions that constitute their social environment. As Dewey observed, the most surprising fact from the standpoint of modern economic theory is “the small number of people who have any effective interests in the acquisition of wealth.”⁹³ In Dewey’s view such factors as the need for security or desire to have a good time play much more prominent role in directing human behavior than purely monetary incentives. However, mainstream economics tends to focus exclusively on the material side of motivation. Normative and affective factors, to use the phrase introduced by Amitati Entzioni, are almost entirely neglected.⁹⁴ In consequence, mainstream economic theory unwittingly lends its support to various manipulative attempts to influence people’s behavior with carefully designed incentive schemes. However, if we follow Dewey and Polanyi in regarding human motivation as irreducible to material factors, such efforts are bound to bring meager and often paradoxical results.⁹⁵

⁹²See Karl Polanyi, “Our Obsolete Market Mentality: Civilization Must Find a New Thought Pattern”, *Commentary*, No. 3 (1947): 110.

⁹³ See John Dewey, *Human Nature and Conduct*, MW14: 100

⁹⁴ See Amitai Etzioni, *The Moral Dimension. Towards a New Economics* (The Free Press, New York, London, 1998), 89-113.

⁹⁵ I believe that “publish or perish” system widespread in academia can serve as a good example of such perverse incentive scheme. For an interesting

Economic determinism, that is the belief that only material or economic factors really matter in social life, is another outcome of the dualism between ideal and material. To be sure, such views are rarely proclaimed openly. However, as Dewey shrewdly observed, although economic determinism may not be extolled in theory it is almost completely realized in practice. "We live, Dewey wrote, as if economic forces determined the growth and decay of institutions and the fate of individuals."⁹⁶ Honest recognition of our objective situation would lead to a "definitely materialistic scheme of values."⁹⁷ However, this is manifestly not the case. According to Dewey the conflict between the aspirations people profess and the "practices of pecuniary culture" is waded into the very fabric of market society.⁹⁸ Essentially the same point was made by Karl Polanyi when he observed that "under market economy human society itself was organized on dualistic lines, everyday life being handed over to material, with Sunday's reserved for ideal".⁹⁹ Karl Polanyi believed that social conditions which gave birth to this way of thinking were rather exceptional. Economic determinism was the nineteenth century phenomenon, born out of *laissez faire* ideology and bound to disappear in a more socialized economic order emerging after World War II. With hindsight, we may regard this judgment as over-optimistic. In the light of the recent triumph of neoliberal policies in the late XX and early XXI century the analysis conducted by Dewey and Polanyi has become topical again. Indeed, we may well describe our contemporary social conditions as a house divided against itself, where widespread concerns with human wellbeing and the protection of the environment seem hopelessly at odds with day-to-day workings of the market economy.

discussion of the manipulative potential of neoclassical view of incentives see Wolfgang Streeck, "Social Science and Moral Dialogue", *Socio-Economic Review*, volume 1, issue 1, (2003): 126-129.

⁹⁶ Ibid.

⁹⁷ Ibid.

⁹⁸ Ibid, 49.

⁹⁹See Karl Polanyi, "On the Belief in Economic Determinism", *Sociological Review*, vol. 37, no. 1, (1947): 101.

What both Dewey and Polanyi realized is that the growing chasm between the ideal and the material was one of the signs of the interwar crisis of liberal capitalism. In the essay 'The Crisis in Human History,' devoted to the discussion of Polanyi's work, Dewey claimed that totalitarianism "is without paradox a legitimate consequence of and a reaction to the *laissez faire* liberalism that proclaimed the subordination of the political to the economic."¹⁰⁰ The separation between economics and politics has its counterpart in the dualism of material means and ideal ends. On the individual level it manifested itself as the disturbing feeling that daily activities were devoid of meaning and moral significance. On the social and political level, it contributed to the sense of aimlessness and chaos of modern life. Indeed, anti-liberal propaganda has always exploited those motives by flirting with the idea of restoring the unity of society. In Dewey's view, a part of the emotional appeal of fascism was its promise to remove the divisions splitting the modern society apart. The success of Adolf Hitler was partly due to his ability to envisage the way to "overcome that division between inner and outer, the ideal and the actual, between spiritual faith and hard realities of action", endemic to liberal market society.¹⁰¹ Finally, the totalitarian response to the modern crisis aimed to create a unitary community by means of force. The split between the material and the ideal was abolished at the cost of individual freedom. To be sure, economic transformation does not always lead to such catastrophic results. As Karl Polanyi argued, political responses to the failure of free markets in the interwar period ranged from authoritarian and fascist solutions in Southern and Central Europe, to social democracy and American New Deal.¹⁰² Nevertheless, the basic point remains that the construction of self-regulating market as an independent social sphere

¹⁰⁰ See John Dewey, "The Crisis in Human History. The Danger of Retreat to Individualism", LW 15: 218.

¹⁰¹ See John Dewey, "The One World of Hitler's National Socialism", MW 8: 429.

¹⁰² See Polanyi, *The Great Transformation. The Political and Economic Origins of Our Time* (Beacon Press, Boston, 2011), 231-268.

inevitably leads to the political backlash and various attempts to re-embed the economy in the society.

To conclude, we have seen that modern economics betrays a tendency to take for granted certain (rather problematic) features of contemporary economic life. Belief in economic determinism and the prevalent conception of work are arguably among the most contestable aspects of capitalist culture. To the extent that these ideas are reflected in definitions of incentives and labour adopted in conventional economic textbooks, mainstream economics can be regarded as an uncritical expression of modern market mentality.

However, as the analysis conducted by John Dewey and Karl Polanyi demonstrates, such ideas cannot be regarded neither as value-free, nor as unproblematic. Throughout his entire career John Dewey argued that modern dualisms like those between means and ends, the material and the ideal, theory and practice, or work and leisure are something more than just unfortunate reminiscences of bygone philosophies or erroneous assumptions behind the mainstream economic theory. More than that, they are also, at least to some extent, an intellectual expression of the fact that the bulk of economic life in capitalist society remains beyond any effective social control. Although certain functional divisions between different spheres are unavoidable in a modern complex society, when the chasm separating the ideal and the material, the economic and the social becomes too wide, it can become hard to tolerate. Hence, any economic theory, which unreflectively perpetuates such dualisms, only adds confusion to our contemporary social discontents.

Concluding remarks

In this essay I have argued that Dewey pragmatism offers both methodological and normative insights that are relevant for the contemporary critique of economic discourse. Let us start with methodology. As we have seen, Dewey regarded the bulk of human behavior as shaped by socially embedded habits and

institutions. Such a view remains in stark contrast with the approach of modern economics, which either fails to recognize the role of social institutions or assign to them a very limited role in explaining human conduct. Following this further, in Dewey's writings we can find several arguments, which may undermine neoclassical theory of rational behavior. In particular, pragmatic critique demonstrates that any theory of instrumental rationality based on rigid distinction between means and ends is unsatisfactory both for empirical and normative purposes. Related to that line of argument is Dewey's critique of the spectator theory of knowledge and his account of the role of facts in social inquiry, which undermines the distinction between positive and normative economics. Moreover, as I have demonstrated, several Dewey's insights have been successfully utilized by critics of neoclassical economics working within the tradition of institutional economics and economic sociology.

What is often underemphasized in recent literature, however, is the normative dimension of Dewey's pragmatism. As I have attempted to demonstrate, Dewey's arguments against utilitarian and metaphysical assumptions behind classical and neoclassical economics have important normative consequences. To start with, Dewey's account of the habitual nature of social reality has important implications for understanding the role of creativity in directing economic change. His critique of dichotomy of means and ends not only undermines the theory of rational choice but also allows us to formulate a far more comprehensive account of rationality. Getting rid of the fallacy of natural order and an obsolete positive-normative dichotomy makes us more sensitive to the role played by value judgments at all stages of socio-economic inquiry. Finally, close attention paid by Dewey to growing discrepancy between markets and morals helps to uncover cultural contradictions of social life under the capitalist system. It is my contention that making these normative considerations explicit would make the critique of economic discourse inspired by pragmatism not only more persuasive, but also more topical

and urgent. It may also suggest new topics for empirical research. For instance, much of contemporary Deweyan scholarship in economic sociology proceeds on the assumption of the importance of creativity for understanding capitalist dynamics. However, as our brief discussion of the problem of wage labour suggests, many activities under capitalism are poles apart from creativity. More generally, greater attention needs to be paid to the unequal distribution of creativity between different positions in social and organizational hierarchy as well as to the ways in which creative action can be distorted by being subjected to capitalist logic of accumulation.¹⁰³ After all, as Dewey pointed out, it is not the mere fact of creativity but its quality that matters.¹⁰⁴

In conclusion, we may try to cursorily summarize the image of socio-economic inquiry which emerges from Dewey's writings.¹⁰⁵ For John Dewey human beings are basically creatures of habits, whose conduct is regulated to a large extent by established traditions, routines, and customs. But in economic conduct, as well as in other areas of life, people are not slaves of the past. When confronted with the problematic situations they have the creative power necessary to change the inherited institutions and habitual ways of conducting economic affairs. Inquiry into economic affairs, just as any other branch of human thought, is concerned with solving specific problems. However, by finding solutions to contextualized dilemmas we are at the same time introducing institutional changes in our social and economic environment. The task of socio-economic inquiry is to aid us in this endless work of economic transformation by bridging the gap between moral and economic considerations. It may well be true that in a

¹⁰³ See John Dewey, *Human Nature and Conduct*, MW 14: 101-102.

¹⁰⁴ Ibid.

¹⁰⁵ For the origin of the term socio-economics see Amitai Entzoni, *The Moral Dimension. Towards a New Economics* (The Free Press, New York, London, 1998). The term is used here to encompass both institutional and sociological approaches. Moreover, in tune with the argument of the present paper, socio-economics as originally conceived by Amitai Entzoni, puts special emphasis on normative dimension of inquiry into economic affairs.

complex society based on functional differentiation of various social spheres, it is impossible to fully overcome dualism of the economic and the ethical. At any event, it is the task of socio-economics to ensure that the gap between economic means and ethical ends is as narrow as possible.

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