

Creative Action in Ludwig M. Lachmann's Action Theory

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I

Introduction: Economics and the Theory of Action

Because action is a key concept in all social sciences, the theory of action occupies the center stage of social sciences. It is so central that Talcott Parsons divided sciences 'into the two groups of the natural sciences and the sciences of action' (Parsons 1966 [1937]: 764). The sciences of action are economics, politics and sociology, among others. Debates on action theory allow social sciences to differentiate their subject areas from others. Joas emphasizes that 'debates on action theory not only represent one of many possible subjects of scholarly controversy but also comprise arguments about the direction each discipline should take and how it should mark itself off from other fields' (Joas 1996: 3).

In trying to determine their respective subject areas and direction, these disciplines have all needed their own action frame of references. By constructing their own action theories, these disciplines have emerged as autonomous scientific discourses, and they have been able to separate themselves entirely from the others. However, both the creation of a unique discourse and departmentalization have led to the isolation of each discipline from the others. Economics was the first of the social sciences to develop a mature action theory during the formative phase of the field. It has constructed its action theory based on the model of *homo economicus*. The theoretical premises of the economic theory of action are, firstly, the means-end framework in choosing the most efficient means for the achievement of given ends, and secondly, the model of universal maximization of utility (Walsh 1994: 401; Sen 1993, 1994). The road taken to rational choice theory also explains both the canon formation of the discipline about the theory of action and how it has marked itself off from other fields. By emphasizing a rational action model, economics has become a much more homogeneous

field in its trajectory. The rational action model for economics is a core concept, one that requires no redefinition or reconstruction. Economics simply tries to universalize its action theory. Although the attempts to extend and revise rational choice theory have never ceased, the theory of action itself has never been the core problematic of economics.

Moreover, rational action model as an economic model of action has shifted into a privileged position and then, economics leaves discussion of the theory of action almost entirely to sociological thought. The debates on action theory, as a study area, formally belong to the sociological side of the traditional divisions of disciplines. The reason for this lies in the historically determined division of intellectual labor between economics and sociology. The roots of the division are traced to early generations of economists and sociologists, like Adam Smith and Auguste Comte (Zafirovski 1999: 584), but the standard division of labor, as a kind of implicit gentlemen's agreement, is constructed based on Pareto's dichotomy between rational and non-rational actions. The field of economics, then, is restricted to rational action: irrational action is implicitly relegated to sociology (Ingham 1996: 258).

By the self-confidence of having "a privileged action theory" (Whithford 2002), economics has not concerned with the discussions on the theory of action.¹ However, leaving rational action to economics has led sociology to develop its action theory that produces very rich theoretical discussions. 'In sociology, the classical thinkers of the discipline in this century who have shaped mainstream theory formation –be they Max Weber or Talcott Parsons- attempted to ground not only their own studies but also the discipline as a whole in a theory of action' (Joas 1996: 2). Debates on action theories have never lost its importance in sociological theorizing. 'The theory of action remains the lead actor in' (Camic 1998: 283) almost all of the important contemporary theories in sociology. Some of these are Habermas's theory of communicative action, Giddens's theory of structuration, Coleman's rational choice theory and Joas's theory of creative action. In trying to advance a particular approach to a theory of action, almost all of these contemporary studies also develop a different paradigmatic core for sociological theorizing.

Debates on action theory have never completely come to an end in economics, but they are fundamentally different from debates that occur in sociological theory. In economics,

¹ "[M]ainstream economics studies the allocation of scarce resources among competing ends. It does not study human action. Instead, neoclassical economics provides a formal theory of rational choice, which assumes away questions of ignorance and uncertainty (at best, agents are modeled under conditions of 'risk', which collapses into a certainty equivalent), time (time is treated as a parameter rather than a flow of consciousness), and social-institutional change (at best, economists engage in comparative statics, studying the movement from one equilibria to another)" (Prychitko 1995a: 1).

the model of rational action constitutes the ‘hard core’ (in Lakatosian terms) of action theory. Therefore, debates on the rational action model are not intended to challenge its very existence. Herbert A. Simon’s notion of bounded rationality, for instance, which is one of the most influential and critical interpretations of rational action in recent decades, does not reject the paradigmatic core of economics completely. Instead, Simon tries to extend rational action further by arguing that rational choice theory should be concerned with uncertainty and the limited computational power of rational actors.

According to Simon,

A theory of rational behaviour must be quite as much concerned with the characteristics of the rational actor –the means they use to cope with uncertainty and cognitive complexity- as with the characteristics of the objective environment in which they make their decisions. In such a world we must give an account not only of substantive rationality –the extent to which appropriate actions are chosen– but also procedural rationality –the effectiveness, in light of human cognitive powers and limitations, of the procedures used to choose actions (Simon 1978: 8-9).

Extending debates on action theory in economics by importing the new conceptual portfolio from neighboring disciplines may provide an opportunity to overcome a narrowly defined theory of human action, leading towards a broader and more pluralist agenda. The purpose of this paper is to examine Ludwig M. Lachmann’s action theory in detail and explore the promise it holds for avoiding common charges of nihilism. Hans Joas’s concept of creativity of action is proposed as a counter to these charges. The addition of Lachmann’s concept and the radical subjectivists’ conceptual portfolio will enable theorists to both overcome the nihilism problem and to generate a conceptually cohesive theory of action that is compatible with the subjectivism of the Austrian school of economics. Moreover, it may also provide a basis for suggesting similarities between American pragmatism and the Austrian school of economics, despite their seeming incompatibility.

II

Austrian School of Economics and the Theory of Action

While rational action theory has maintained a determinative position within mainstream economics (preventing a concern with action theories,) the heterodox schools are, on the contrary, more inclined to debates on action theory. Because these heterodox theorists usually start their dissent by challenging rational action, they have paid more attention to theories of action and try to relate action theory to their broad theoretical efforts. The Austrian school of economics is arguably the one school of thought in the history of economics that gives a privileged position to debates on the theory of action. A fundamental emphasis on subjectivism led Austrian economists to the development of its own alternative action theory.

‘As a dissident member of a dissident school of thought, the Austrian school,’ (Lavoie 1994a: 1), Ludwig M. Lachmann can be considered the last distinctive economist in the Austrian tradition whose work concentrates and relies on debates on action theory. He aims to provide an alternative subjectivist analysis which he called ‘radical subjectivism’. Radical subjectivism, as an extension of both traditional Austrian understanding of subjectivism and the limited subjectivism of mainstream economics, is an attempt to present an alternative action model. Lachmann does dissent from the traditional Austrian school in that he does not merely intend to develop a narrow and technical definition of economic action. Rather, he tries to put his action theory on a dynamic ground that leads to a fundamental transformation of economic theory. He is the man who ‘prodded the school into having second thoughts about the possibility of “going too far” with subjectivism’ (Boettke 2001: 10).² In his attempt to extend subjectivism, he tries to combine Mises’s principle of human action, Hayek’s principle of the role of knowledge and Shackle’s emphasis on the concept of uncertainty. ‘Lachmann hoped to correct (render consistent, push forward) Austrian economics by extending subjectivism to develop a theory of expectations and uncertainty in a way that comes to terms with the fact that the market process is indeterminate, or “kaleidic”’ (Prychitko 1995b: 94). He works on problems inside the canon of the Austrian tradition, but through the use of apparently different discourse than this tradition. He extends its discourse

² Lachmann argues that the subjectivism of the Austrian school of economics is far from static. Radical subjectivism can be interpreted as a concept that built upon two previous stages. The first stage was a subjectivism of wants which was developed in the early 1870’s. Through the work of Mises, subjectivism reached the second stage, by then subjectivism is understood as a matter of means and ends. Lachmann suggests that through inspiration from the works of George Shackle, subjectivism reached the third, and thus far, the highest stage. This is the subjectivism of the active and creative mind (Lachmann 1994: 246).

to include hermeneutics in order to create a philosophy of science suitable to his own discipline.

Although Lachmann has tried to develop an alternative action theory that constitutes a different discourse from the traditional debates in both mainstream and traditional Austrian economics, he has never intended to cross the terminological boundaries between the social science disciplines in order to apply the various debates on action theory to the different disciplines. Despite his radical approach towards the theory of action, his debates on action theory occur within the strict boundaries of economic discourse. He has never, for instance, taken into consideration the terminology that is current within sociological debates on action theory.

Nevertheless, his work on action theory gives rise to different interpretations in the Austrian school of economics. A first group of authors, profoundly influenced by Lachmann's extension of subjectivism, seeks to explore the philosophical affinities between Austrian economics and hermeneutic tradition.³

This line of thinking is "radical" because, by emphasizing the interpretation of meaning, it tries to overcome the traditional subject/object dichotomy that is found in the Cartesian and the old Austrian tradition. Lachmann's work on the theory of action is very innovative for this group because he examines the nature of subjectivism and extends its limits beyond the legacy of the Cartesian tradition. The contemporary radical subjectivists modernize Lachmann's ideas through an analysis of the literature on contemporary hermeneutic tradition. They follow Gadamer or Ricoeur in conceptualizing action theory from the perspective of new hermeneutic tradition.

A second group of authors challenges this "radical subjectivism" and accuses it of leading to relativism, or nihilism. "Within the Austrian school Lachmann has been criticized

³ Hermeneutical tradition has two variants: the old and the new hermeneutics (Oliver 1983). The older tradition of hermeneutics includes Dilthey in philosophy, Max Weber in sociology and Ludwig von Mises in economics. They resist positivism, and the old Austrian school belonged to this variant. However, the older version of hermeneutical tradition has never tried to overcome the subject/object dichotomy. In the twentieth century, the older version has been subjected to harsh internal criticism by subsequent contributors who were inspired by Edmund Husserl's phenomenology. Through the influence of these criticisms, including Alfred Schütz, Martin Heidegger, Hans-Georg Gadamer and Paul Ricoeur, hermeneutical tradition radically transformed into a philosophical tradition that tries to overcome the subject/object dichotomy. The first group of Austrians, radical subjectivists who are inspired by this second version of hermeneutical tradition, are not just challenging neoclassical economics, but also traditional Austrian methodology. For a detailed discussion the relationship between the Austrian and hermeneutical traditions, see Lavoie (1986, 1994a, 1994b), Lavoie (ed.) (1990), Madison (1994), Ebeling (1986), Boettke (1995), Addleson (1995), Prychitko (1995b).

for having allegedly gone too far in his radicalized version of subjectivism. Radicalizing subjectivism, then, for the more traditional Austrians, seems to mean turning radically inward, and thereby losing touch together with objective reality” (Boettke 2001: 11).

While Lachmann’s emphasis on the extension of the principle of subjectivism to people’s expectations gives rise a methodological debate between “the modern Austrian subjectivism” (Kirzner 1995: 17) and “radical subjectivism”, the essential radical attempts to extend subjectivism to a wider intellectual discourse come from the followers of Lachmann (Horwitz 1994, Lewis 2004). “Building on the work of Lachmann, and drawing also on the philosophical hermeneutics of Paul Ricoeur and (in particular) Hans-George Gadamer, the post-revival radical subjectivists have argued that the key to overcoming the charge of nihilism lies in replacing the under-socialized model of man as an isolated Robinson Crusoe with an account that portrays people as social beings whose values, beliefs and conduct are profoundly shaped by the social, cultural and historical context in which they are embedded... Contemporary radical subjectivists attempt to sustain a ‘sophisticated’ version of individualism that threads its way between the under-socialized Cartesian conception of human nature and the opposite over-socialized extreme according to which people are so completely socialized that their attributes and behaviour are completely determined by their social environment” (Lewis 2005a: 295). It is true that the discourse of the radical subjectivists based its premises and foundations on the contemporary phenomenological hermeneutics of twentieth century, but their apparent demand for an alternative action theory does not extend this debate far enough to include the sociological discussions on the theory of action.

In order to avoid continuing the battle between the modern and radical subjectivists within the canonical terms of the Austrian school of economics, to overcome the charge of nihilism leveled against radical subjectivists, and to grasp Lachmann’s concept of action, it is important to concentrate on debates on action theories that occur in both philosophical and sociological theories. Despite the fact that the discourse of the radical subjectivists apparently has a wider conceptual framework than economic theory provides, its relation with some of the sociological debates on action theories is rarely discussed. Joas’s concept of creativity of action, which he develops as a third model of sociological action theory, may provide an insightful extension to overcome some of the problems in Lachmann’s action theory.

III

Joas's Concept of Creative of Action

Hans Joas has developed an action model “that emphasizes the *creative* character of human action” (Joas 1996: 4). Although the creative action theory propounded in *Creativity of Action* (Joas 1996) is oriented toward the sociological framework of thinking about action, it is both suggestive and promising for representatives of the neighboring disciplines.⁴

Joas's action theory develops an alternative model of action to the two predominant models--rational action model on the one hand, and normative theories of action on the other. The debate on the theory of action in the social sciences can be characterized by these two predominant models. Rational action models “largely borrow their assumptions from the discipline of economics and transfer the micro-economic model of the rational actor to non-economic areas of research. Along this approach, the individual maximizes the utility function given the available incentives. In contrast, *normative theories* take their inspiration mostly from Kantian philosophy. They emphasize that the theorist should not start with utility because utility is endogenously determined by normative orientation such as commitments to family and community and rules of fairness. Such norms cannot be reduced to interest or utility because it is ... determined by such norms” (Joas and Beckert 2002:1). However, as normative approaches implicitly advocate the means-end schema of action, they are consistent with rational action models (Dalton 2004: 605).

Joas's third model of action relies on the creative character of human action. Creativity should not be seen simply as an additional type of action to be arrayed alongside the other two predominant models of action. It is argued, rather, that “creativity is an essential element of all activity that deserves to be placed at the center of theorizing about human agency” (Dalton 2004: 605).

Joas objects to an implicit general agreement between the two predominant models of action on the role of means and ends in human action. Both models of action rely on three

⁴ The book received much praise and commentary from a sociological audience, but it received less attention from neighboring disciplines. Some thoughtful commentaries are by Kilpinen (2000), Gross (1999), Burger (1998), Mouzelis (1998), and Campbell (1998). Camic (1998) and McGowan (1998) cited the book as a masterly contribution to theoretical work on action. Beckert (2002, 2003) adopted the concept of creative action to contribute to a sociological theory of action in economic contexts. Kilpinen (1998, 2003) and Yilmaz (2007) introduced the concept to the discourse of institutional economics. While Dalton (2004: 603) “emphasized the great promise it holds for integrating major themes of contemporary social theorizing”, he tries to overcome the duality between habitual action and creative action in the work of Joas.

tacit assumptions. The first is the teleological character of human action. The second is corporeal control by the actor, and the third is the autonomous individuality of the actor (Joas 1996: 5). He questions all these tacit assumptions and suggests an alternative three main assertions. Firstly, “The alternative to a teleological interpretation of action, with its inherited dependence on Cartesian dualisms, is to conceive of perception and cognition not as preceding action but rather as a phase of action by which action is directed and redirected in its situational contexts” (Joas 1996: 158). For him, an act of intellect is not prior to the actual action. Goal-setting and actual action are always embedded in a stream of action. Secondly, instead of perfect control of an act of intellect over the body’s actions, which implies the instrumentality of body, Joas proposes an action theory that emphasized the relaxation of bodily control. “The theory of creativity maintains that the relationship between actors and their bodies is shaped by the structures of interaction in which an actor develops. In this way, neither the actor nor his body is deposited or given as a thing that stands externally to the other” (Joas and Beckert 2002: 3). Third, Joas objects to the presupposition of the autonomy of individuals contained in the rational actor model. Instead, in his theory of creative action, action and actors are inherently integrated within society.

Joas examines the history of complex intellectual currents to bring the notion of creative action to new life (Camic 1998: 286) and tries to provide for an alternative action theory which allows a superior conceptualization. He finds a satisfactory account of creative action in the work of the American pragmatists (Gross 1999: 336) and the core of his approach relies on the assumptions that are derived from pragmatism (Dalton 2004: 606). For Joas, “...American pragmatism is characterized by its understanding of human action as a *creative* action. The understanding of creativity contained in pragmatism is specific in the sense that pragmatism focuses on the fact that creativity is always embedded in a situation, i.e. on the human being’s “situated freedom”. It is precisely this emphasis on the interconnection of creativity and situation that has given rise to the repeated charge that pragmatists merely possess a theory that is a philosophy of *adaptation* to given circumstances. This accusation fails to perceive the antideterministic thrust of the pragmatists. In their view the actors confront problems whether they want to or not; the solution to these problems, however, is not clearly prescribed beforehand by reality, but calls for creativity and brings something objectively new into the world” (Joas 1993, 4). Joas tries to develop a pragmatist theory of action that “involves a conceptualization of the process of action in which creativity is accorded a central role” (Gross 1999: 336).

IV

Ludwig M. Lachmann's Action Theory and the Creativity of Action

As an Austrian economist, Lachmann rejected the mechanistic conception of the neoclassical “pure logic of choice” which, in reality, is not truly an action. Instead, it is a mere reaction of “mindless mechanisms made up to look like human actors” (Lachmann 1994: 224). In the neoclassical framework “People react to the current external conditions of their economic existence: they do not act” (Lachmann 1977: 51).

Lachmann (1994: 220) conceives of human action in terms of a subjectivist analysis because the “whole scheme of action exists within the actor's mind at any moment of time.” Although he agrees with many of the important presuppositions of traditional Austrian subjectivism, especially on the central importance of human action in economic theory, his writings on human action present a different conception of the theory of action.

Lachmann adopted a subjectivist theory of action in which “man *as an actor* stands at the center of economic events” (Lachmann 1977: 51). In attempting to understand human action, he concentrates on plans that are the preliminary to action. For him, “Acts of choice, though made in the present, always concern future objects. We never are able to choose between present objects. It is always “too late” for that (Lachmann 1994: 219). In order to act rationally, “man has to make a plan” (Lachmann 1943: 15). He emphasized “the parallelism between action and plan” (Lachmann 1971: 49). Plans are the product of mind and they guide the course of action. The role of the plan in economic action also forms the intentionality of action. The whole scheme of action takes place within the actor's mind. Plan, as a product of mind, is the basic unit of analysis of human action and it is prior to action. Analysis of human action must rest in an understanding of plans. It is true that the whole scheme of action pre-exists within the actor's mind before action takes place, but this pre-existence may occur at any moment of time. “Its external manifestation in an observable course of action” (Lachmann 1994: 220) is a gradual thing that happens overtime.

As an observable course of action occurs over time, and as “economic action concerned with the future” (Lachmann 1943: 12), Lachmann emphasized that the role of time is crucial to understanding human action. Circumstances change in time and these changes lead to revision of plans. “The revision of plans occurs as experience is made over-time, but all experience has to be interpreted, and different men will interpret the same experience in

different ways” (Lachmann 1994: 220). Some plans may fail and have to be revised (Lachmann 1976: 129). Both plans and their revisions depend on the expectations of planners. The expectations are formed by using knowledge of the past and present. The knowledge of the past and present is not homogeneous for planners because they learn different lessons from similar experiences, or they may not make the same use of identical knowledge.⁵

In addition to the problems of heterogeneity associated with the knowledge of the past and present, the most important thing is that the knowledge of the future is also “unknowable” (Lachmann 1994: 220). An undetermined future does not simply imply the concept of the imperfect knowledge of neoclassical theory, it means that the knowledge of the future is non-existent and “any claim to have it is but a figment of the agent’s imagination” (Oakley 1999: 152). This non-existent knowledge of the future is created by imagination. The reason for the unknowability of the future is the existence of uncertainty. In a world of uncertainty, the future cannot be seen or predicted. “All expectations are subjective estimations of possible futures” (Lachmann 1994: 152).

Lachmann explains human action in terms of plans. Plans are constituted by “mental acts” (Lachmann 1977: 153), in other words by “the creative acts of human minds” (Lachmann 1977: 90). Inspired by Shackle, Lachmann “emphasizes that all action except “routine action” is undetermined creative choice” (Vaughn 1994: 152). The creative acts of human minds link an imagined future to an active present.

Human action cannot be explained in terms of “response to stimulus”. The creative acts of human minds are not a “response” to anything pre-existent. Rather, they are “spontaneous action in the form of innovation” (Lachmann 1977: 153). “What creative minds may invent tomorrow” is not known (Buchanan and Vanberg 2002: 125).

Lachmann rejects the teleological interpretation of action. By emphasizing the unknowability of the future, Lachmann tries to develop non-teleological but intentional action theory. Economic actors constantly create new knowledge, but “the future knowledge cannot be gained before its time” (Lachmann 1977: 90), rather it is created in action. Lachmann’s concept of the unknowability of the future apparently echoes a pragmatist theory of action. A leading pragmatist, John Dewey (1957: 133) argues that “All action is an invasion of the future, of the unknown.” Human action takes place within this unknowability of the future; but for an invasion of the future, actors create the knowledge they need.

⁵ Lachmann does not only refer to the standard knowledge problem of traditional Austrian economics, but by emphasizing the different interpretations of the same knowledge by different people, he also introduces the concept, or let say the method, of interpretation.

Lachmann's action theory is radically different from the theory of action developed by Israel Kirzner. Kirzner's action theory remains closer to the neoclassical orthodoxy. His conception of the individual agent limits itself to discovery. Kirzner emphasizes the discovery of unnoticed profit opportunities that bring the economy from ignorance towards equilibrium (Gloria-Palermo 1999, 2002: 70). "Kirzner defends the idea that the market economy opens up *arbitrage* possibilities because of the ignorance of individuals: finding a good that sells for different prices in the market is the most obvious example, but Kirzner believes that the *discovery* of factors of production that can be transformed into consumer goods can also be considered as an arbitrage if factor prices are lower than the price of the consumer good. The essence of the entrepreneurial behaviour is thus the discovery of profit opportunities... The *discovery-arbitrage* behaviour represents a force that constantly pushes the market toward equilibrium" (Dulbecco 2003: 234). In Kirzner, human action is limited to the discovery of the relevant market signals. There is a pre-existent stock of knowledge which waits for economic actors to discover it (Kirzner 1992, 1994).

In Lachmann's action theory, the subjective dimension of the human mind is extended to creativity, where "creative agent builds plans upon his or her imagination of future" (Gloria-Palermo 2002:69). Whereas the Kirznerian actor discovers the pre-existent opportunities, the Lachmannian actor creates these opportunities. Lachmann (1994: 247) argues that "... subjectivism teaches that prediction of future events is impossible because the future is unknowable and will in fact itself only *be created by active minds*" (*emphasis added*).

The distinction between discovery and creativity is also closely related to the methodological tension between the Kirznerian modern subjectivism and the Lachmannian radical subjectivism. The limitation of human action to discovery gives an opportunity to interpret market process in terms of equilibrium. On the contrary, emphasizing the creative character of human action leads to the recognition of the market as an indeterministic process (Gloria-Palermo 2002: 72).

Lachmann's action theory both criticizes the neoclassical model of action and the traditional Austrian theory of action. Moreover, he does not merely criticize the traditional mechanistic conception of action and its passivity, but also tries to construct a theory of human action on the grounds of creativity. Insisting on the creative character of human action and relating it to Joasian arguments may provide a solution to overcome some of the weaknesses from which Lachmann's action theory suffers.

Problems with the Relationship between Joas and Lachmann

Lachmann's work on action theory is profoundly concerned with correcting and extending the general implications of traditional Austrian subjectivist conceptualization. However, his theory of action still suffers from some weaknesses.

The notion of creative action developed by Joas may provide a consistent ground for overcoming some of the problems that Lachmann's action theory suffers. However, the addition of the notion of creative action to Lachmann's conceptual portfolio, at first sight, seems to lead to some contextual problems. Focusing on these contextual problems, on the other hand, provides an opportunity to diagnose the potential of creativity of action for overcoming the problems of Lachmann's action theory.

The first apparent problem is related to the difference between the philosophical roots of Joas's and Lachmann's action theories. On the one hand, the theory of action that Joas develops is a pragmatist theory of action and he insistently emphasizes "the potential of pragmatism for the solution of crucial problems in social theory" (Joas 1993: 4). Lachmann's action theory, on the other hand, relies on "the influential tradition of German social thought that is associated with which the names Wilhelm Dilthey, Heinrich Rickert, J. G. Droysen, Max Weber, and Alfred Schütz" (Boettke 2001: 4). There are apparent differences between these two philosophical traditions, but recent developments in both traditions imply that the differences are being gradually overcome.

Joas himself (1993) tries to carry the renaissance of pragmatism in American philosophy to social theory. He believes that American pragmatism has an action-oriented type of thinking and possesses an incredible potential for overcoming some of the problems of social theory (Joas 2004: 303). He also emphasizes that the relationship between American pragmatism and German thought is a history of misunderstandings. The theory of action that he develops is not simply an attempt to work within the theoretical limits of pragmatism, but rather an attempt to develop a third model of action theory.

Radical subjectivists have evolved away from their traditional way of thinking and have begun to discuss ways of overcoming the subject/object dichotomy. Radical subjectivists have followed the direction which Lachmann pointed out. The philosophical ground at which they have arrived is not far from pragmatism's claims. Both pragmatism and radical

subjectivism try to overcome the subject/object dichotomy by applying the notion of intersubjectivity.

Related to the first problem, the second problem lies in the relationship between the assumptions of Joas's and Lachmann's action theories. There is apparent similarity between Joas and Lachmann in emphasizing the creative character of human action. Joas's creativity of action has a potential to overcome some of the weaknesses in Lachmann's thinking and to develop and extend his ideas further than he takes them himself. There are, however, some tension points that conceal the hidden affinities between the assumptions of their action theories. The most obvious of these is the role attributed to the concept of situation in the constitution of action. As Joas argued (1996: 160), "Every action takes place in a situation." For him, considering human action as being contingent on situation is not sufficient, "it should also be recognized that the situation is constitutive of action. In order to be able to act, the actor must pass judgement on the nature of situation" (Joas 1996: 160). The situation exists in the form of possible actions, not simply as an external counterpart to internal self. Joas tries to overcome the inherited dependence on Cartesian dualism in the theory of action by combining an act of the intellect with the actual action.

By recognizing the situation as constitutive of action, Joas, furthermore, discusses the relationship between plans and action. He refuses to see plans as "preconceived structures of the course to be taken by action". According to Joas (1996: 161), "The concrete course which the action takes has to be determined constructively from situation to situation and open to continuous revision." Lachmann, too, emphasizes openness to continuous revision, but Joas differs from him when he adds that "the plan is never the sole focus of orientation for our action" (Joas 1996: 161). Joas apparently tries to connect intentionality to the concept of situation.

Nevertheless, Lachmann's position, although slightly different, is not too far from Joas's rejection of the priority of plan to action. Joas's main objection is to the dualistic explanation of the neoclassical kind. Lachmann (1971: 40) regards the relationship between plan and action as "not the simple one of cause and effect, but the complex one of interaction between mental acts and observable events."

Moreover, Lachmann emphasizes the term "meaning" in explaining the relationship between plan and action. He (Lachmann 1971: 12) argues that "all action derives its meaning from the plan which guides it." By introducing the term meaning, he tries to propose "the notion of the plan as an interpretive device" (Prychitko 1995b: 95). It is well-known that in order to escape from a mechanistic theory of action, he tries to apply a hermeneutical method

to the Austrian view. Hermeneutical interpretation of economic phenomena emphasizes the meaning of action to escape from the subject/object dichotomy. Regarding the relationship between plan and action, it can be added that both Lachmann and Joas object to dichotomic explanations.⁶

Lachmann does not totally disregard the role of situation in human action. For him, human action is “free within an area bounded by constraints” (Lachmann 1971: 37). In his 1937 article, as Mongiovi noted (1994), Lachmann emphasized the role of situation and condition on individual action. However, as Oakley (1999: 156) argues, he “chose not to maintain his pursuit of these pregnant observations as the core of his later subjectivist metatheory.”

Neglecting the situational containment of human action leads to an artificial separation of the subject from the object. Interpreting subjectivism in psychological or mentalistic terms seems to “place meaning out of reach of any empirical research” (Boettke 2001: 12).⁷

Concerning the problem of situation, the distinction between the pragmatist theory of action and that of Austrian subjectivism is not as far as it seems at first sight. Joas (1993: 4) argues that pragmatism does not disregard “the subjective components involved in defining a situation as a problem situation” and it does not “takes an objectivistic concept of the problem as the point of departure. Contrary to this, the pragmatists quite readily accept the subjective constitution of a given worldview, but nevertheless regard the emergence of the problems within reality, as subjective as it is, as removed from arbitrary subjective reach.”

The other point of tension that should be resolved is related to the role attributed to the notion of sociality. Joas rejects the subjectivist postulate that suggests the primary authority of the individual actor. Inspired by George Herbert Mead, one of the leading American pragmatists, Joas emphasizes primary sociality as a constitutive feature in action. Joas (1996:

⁶ Most of the radical subjectivists after Lachmann, believe that, although Lachmann added such a new method, hermeneutics, to Austrians’ conceptual portfolio, his application of this method is not radical enough. They claim that Lachmann’s appropriation of hermeneutics can not embrace the recent scholarship in phenomenological hermeneutics and it fails in overcoming the subject/object dichotomy.

⁷ The later radical subjectivists conceptualize human action as historically situated action. The acts of the intellect raises in a situation that pre-exist (Lewis 2005b). Boettke and Storr (2002)’s interpretation of Weber extends the Austrian view to the conceptual portfolio of economic sociology. They focus on both the Weberian concept of understanding and the concept of embeddedness. Liljenberg (2005) also discusses the relationship between Austrian economics and economic sociology. It is well-known that the discourse of economic sociology does not reduce its analysis to the autonomy of the individual and his/her subjectivity. Instead, it considers the individual as an embedded entity within sociality.

189) argues that Mead himself tries to develop a non-individualist concept of social action, but it should not be considered as an organicist or holistic attack on individualism. “Instead, Mead wishes to expose the irreducible sociality behind all individual acts; he then describes this sociality itself as a specific type of action and of action coordination” (Joas 1996: 189). Joas tries to introduce the autonomy of individuals into action theory by emphasizing the formation of human action in socialization processes.

This suggestion invites the notion of intersubjectivity into consideration. The notion of intersubjectivity is derived from Mead’s concept of symbolically mediated communication (Joas 1997). According to Beckert (2003: 775-77), intersubjectivity “sheds light on the creative dimension of action” and it “forms a core premise of pragmatist action theory.”

Conceptualizing intersubjectivity as an irreducible interworld of shared meanings (Crossley 1996) provides an opportunity to see a conjunction between Joas’s view and that of Lachmann. Lachmann (1994: 282) argues that “all human action takes place within a context of “intersubjectivity”; our common everyday world (the Schützian “life-world”) in which the meanings we ascribe to our own acts and to those of others are typically not in doubt and taken for granted.” It should be added that Schütz, from whom Lachmann and other radical subjectivists were largely inspired, adopted and extended the notion of intersubjectivity from Mead. The notion of intersubjectivity and the concept of life-world bring both the pragmatists and the Austrians to the common ground of both Mead and the phenomenological tradition.⁸

Although the notion of intersubjectivity is not so central for Lachmann’s entire analysis, his use of the concept gives his analysis an opportunity to escape from atomistic individualism and to build a bridge with a pragmatic conception of action.⁹

Lachmann, moreover, suggests that the interpretation of meaning derived from empirical knowledge of economic phenomena is embedded within this context. He states that (1994: 282), “hermeneutic interpretation of economic phenomena therefore has to takes place

⁸ For a discussion of Schütz’s place in Austrian economics, see Kurrild-Klitgaard (2001), Froman (2001), Augier (2001), Koppl (2001), Zaret (1980), Foss (1996), Prendergast (1986).

⁹ Contemporary radical subjectivists also differ from Lachmann in emphasizing the notion of intersubjectivity. Intersubjectivity, for contemporary radical subjectivists, is so central that they regard economics as “a systemic intersubjective study of intersubjective phenomena” (Boettke 2001: 14). It can be added in here that both Austrian radical subjectivism and pragmatism understand subjectivity as a necessarily intersubjective process. It seems that the gap between pragmatism and the Austrian tradition has recently been overcome by the work of radical subjectivists.

within a horizon of established meanings, with one such horizon for each society. Our phenomena observed have to be placed within an order constrained by this framework.”¹⁰

VI

Conclusion

It has been argued above that a pragmatist theory of action developed by Joas can be appropriated to overcome some of the weaknesses of Lachmann’s action theory. The distinctive characteristic that differentiates Lachmann’s action theory from the traditional Austrian view is his emphasis on the unknowability of future. Human action is directed towards an undetermined future. An actor creates, rather than discovers, his/her future in the process of action. Action is guided by plans which are the products of creative minds. The whole scheme of action, in Lachmann’s view, takes place within the actor’s mind. However, his insistence on the priority of mind in the course of action means an apparent commitment to the subject/object dichotomy from which radical subjectivists were trying to escape.

In this paper, it is claimed that incorporation of a pragmatist theory of action into the Lachmannian view extends his and other radical subjectivists’ ideas further than they themselves take them. At first glance, it seems that pragmatism and the Austrian school of economics have incompatible philosophical tendencies, and that any attempt to incorporation would lead to possible tensions between their conceptual contexts. In truth, a closer examination shows that the resolution of the tensions between these traditions is not so difficult and this resolution also reveals some unexpected and suggestive shared elements.

Creativity of action provides a fair common ground to overcome the subject/object dichotomy that is the basic problem in Lachmann’s action theory. Moreover, as a well grounded action theory, it also rescues his theory from the charges of nihilism.

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¹⁰ For the relationship between Lachmann and hermeneutics, see Boehm, Kirzner et al. (2000).

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