

**PHD THESIS SUMMARY:
Phenomenology and economics**

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The question of relevance of phenomenological method for economics has been revived in recent decades especially in the context of the Austrian school and also in more general considerations of economics (see Düppe 2011). My thesis concentrates mainly on the important contributions of formerly Viennese social thinker Alfred Schutz. I attempted to find an interpretation of the original Schutzian legacy that would fit present methodological discussions and show the virtues of the Schutzian framework in comparison with Misesian aprioristic praxeology on one extreme and the empirical ventures of behavioral economists on the other.

Chapter 1 (*World and science by Ludwig von Mises*) shows that Misesian theoretical approach can, on one hand, provide a good tool to defend a specific character of social sciences that rely on folk psychological (or 'mentalist') concepts (finality, means-ends relationship) from purely pragmatic (i.e., not metaphysical) grounds. The mentalist concepts are indispensable in providing the only presently viable way of describing human action and this allows us to use instrumental rationality as a tool to explain economic phenomena. The effort to get the scientific description of the world rid of 'ontologically unreliable' teleology using, e.g., the behaviorist notion of revealed preference cannot get too far because they implicitly rely on particular psychological assumptions that smuggle it back in. On the other hand, unsustainability and inconsistencies of Mises's uncompromising defense of rigidly aprioristic character of praxeology have to be stressed. There is no finite set of eternal and never-changing truths underlying any successful attempt to grasp human action that would be tautological and, at the same time, describe features of the world.

In Chapter 2 (*Alfred Schutz between phenomenology, historicism, and the Austrian school*) I argue in the context of Alfred Schutz's work that it is much more suitable to understand economic principles (under the

label of praxeology or otherwise) as typifications with an empirical origin, although ‘empirical’ in a broader sense than a positivist would acknowledge. Schutz’s methodology is based on concepts of typification and anonymity that allow us to grasp the continuity between immediately perceived everyday reality and abstract theoretical concepts used in scientific description that underlie economic models.

Schutz’s methodological instrument, the telescopic ideal type—term coined by Prendergast (1986)—dissolves the dichotomy between theory and history that was one of Mises’s central themes and allows us to better understand the specific standing of economics that tries to emulate the rigor and precision of physics but is, at the same time, fundamentally connected with interpretation of the actions of naïve agents in their lifeworld. Abstract formal models can be created after ‘zooming-out’ and anonymizing the agents to an extent that allows us to replace the real people living in particular historical, cultural and biographical conditions by anonymous transparent puppets whose utility function has been implanted by the economist acting as a ‘small god’ of his model world. Such formal models can be, of course, sometimes applied to particular empirical circumstances only using additional ad hoc assumptions, constraints, and the like. This fact, nevertheless, does not undermine the scientific value and legitimacy of economic approach as many critics suggest—it is a process necessarily connected with descending on a lower level of abstraction where various circumstances become relevant which we did not need to pay attention to before.

In addition to its philosophical virtues, the Schutzian approach also sheds light on methodological problems connected with Hayekian idea of spontaneous order (Foss 1996). Spontaneous coordination and rise of a social order that has not been designed by any individual mind represent a problem that needs to be solved considering institutional context of the coordination because it is not possible to decide *a priori* which of the multiple equilibria a rational agent going to choose. Hayek attempts to solve this issue through a theory of evolution of institutions. This theory which is potentially problematic because of vaguely Lamarckian character of social evolution can be supplemented using Schutz’s concept of shared ideal types—e.g., Thomas Schelling’s focal points that allow us to solve coordination games with many equilibria make good sense in the context of shared typifications and structures of relevance that are grounded in an invariant structure of a

shared lifeworld. This approach is consistent with the method of telescopic ideal type and Schutzian requirement of continuity between scientific and naïve idealizations of the world that originates in Husserl's phenomenology. Everyday experience with social coordination makes each agent in a socio-economic system into a theoretician of spontaneous order to some extent—successful action often requires understanding of social mechanisms that transcend individual experience towards the anonymous social forces represented as ideal types. These notions provide necessary building blocks for scientific analysis that can more or less smoothly use and refine them. Moreover, the method of telescopic ideal type allows us to bind even the most abstract economic models with the mid-range theories inspired by different social sciences.

Chapter 3 (*Question of apriorism in economics*) of the thesis shows that the telescopic ideal type is a very suitable tool also when we discuss the status of behavioral economics and its standing in the context of general economic discourse, especially with regard to rational choice theory (RCT). The proponents of behavioral economics (e.g., Camerer and Loewenstein 2004) argue that RCT is only a particular branch of the broader behavioral approach and that the assumption of rationality limits the scope of its application. It can be shown, nevertheless, that behavioral economics, which is largely a-theoretical by itself, is only viable to the extent that it assumes a rational benchmark that frames its efforts as find-systematic-anomalies approach. I argue for the crucial importance of the RCT as a universal and fully anonymous model of an agent that demarcates the area for behavioral research in concrete 'historical' (institutional, psychological) circumstances.

The basic axioms of completeness, transitivity, dominance, and invariance are a priori assumptions of a model world with the highest degree of anonymity. These assumptions underlie the ahistorical ideal type of a rational agent that can be consistently and rigorously analyzed—such analysis then provides ground for more detailed particular 'pragmatic' problem solutions. *Homo economicus* is not supposed to be a psychologically correct mirror-image of *homo sapiens* but a theoretical construct with an immense heuristic value due to its simplicity and transparency. If we 'zoom in' and move below the highest level of abstraction to put our idealized scientific constructs face to face with a particular historical setting in the real world, the institutional context, cultural and psychological biases and limited (bounded)

rationality of real people become relevant, of course, and it is necessary to accept additional assumptions and ad hoc interpretations which is the fate of all empirical social sciences including the behavioral economics approach.

Behavioral economists thus collect examples of anomalous actions and violations of axiomatic rationality (for instance, of invariance and transitivity) but offers no alternative paradigm. The anomalies are, from the Schutzzian point of view, something that is to be expected when 'zooming in'. It is even thinkable, however remote, that empirical findings will, in the end, force us to pragmatically re-evaluate and reconstruct the basic aprioristic (axiomatic) analytical framework (similar argument has been made by Barry Smith (1996) from a different perspective). Nevertheless, this changes nothing on the present situation where behavioral economics serves only as a specific branch of empirical research that finds and tries to classify the particular conditions under which a modification in the standard model is needed. I conclude that because this effort makes little sense without the presence of such a standard model, it seems unfortunate to speak about a duality of descriptive and normative (prescriptive) approach (e.g., Tversky and Kahneman 1986), where only one approach captured on different levels of abstraction exists.

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