

**Review of Carsten Herrmann-Pillath and Ivan Boldyrev's
Hegel, institutions and economics: performing the social.
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The most fun an academic can have, at least on the job, comes from encountering a package of ideas one never expected to see that turn out to be deep and interesting. If, before I encountered Carsten Herrmann-Pillath's and Ivan Boldyrev's (henceforth, HPB) joint work at a conference two years ago, I had been asked to list canonical dead philosophers whose work might inspire fresh insights about current issues in economic methodology, I would have put Hegel near the bottom. Imagine anyone being so muddled about economic reasoning that that they could be set straight(er) by Marx! HPB's new book convinces me that this would have been a completely misjudged expectation.

By this comment I do not mean to endorse HPB's view that what both the academy and the policy world need now is a general embrace of Hegelian economics. Nor am I about to repeat the experience, which I recall with a shudder from much younger days, of actually reading Hegel's *Philosophy of right*. But I will go this far: the authors make a compelling case for the proposition that Hegel is the most important fountainhead for a coherent set of ideas about both economic behavior and political economy that, when expressed in an idiom closer to that of contemporary social science, deserve to be represented in both methodological and policy debates. Furthermore, as I will explain, going beyond anything to which HPB allude, if someone thinks (as I did) that the current German model of capitalism is largely a path-dependent consequence of Bismarck's cunning in designing a welfare state that needed paternalistic oversight by a Junker aristocracy, then HPB's book reveals that that is wrong too, or at least simplistic. German-style capitalism has deep intellectual roots, and they can be found in Hegel.

Before I get to economics, I will comment on HPB's basis for putting a convincing 21st-century gloss on Hegel's pure philosophy, which, as

someone trained by analytic philosophers, I had previously found utterly archaic. Hegel, famously, goes on constantly about *spirit*, and, even more off-puttingly, about a kind of spirit he calls *objective*. This phrase smells like mysticism and, in its 19th-century context, nationalism to boot. Liberal cosmopolitan economists like me can hardly imagine a more repugnant mixture than that. But HPB make a convincing case that objective spirit is in fact Hegel's pre-Darwinian name for an element of the ontological furniture that so-called *externalist* philosophers of mind, following Tyler Burge (1986), Daniel Dennett (1987), Edwin Hutchins (1995), Ron McClamrock (1995), Andy Clark (1997), Radu Bogdan (1997, 2000, 2009, 2010, 2013), and Tad Zawidzki (2013), have established as central to an adequate science of human behavior: the socially scaffolded but primarily self-narrated *person*. I have argued repeatedly—but see especially Ross (2005, 2014)—that the standard story economists tell about the philosophical foundations of their most important theoretical concept, economic agency as inferred from revealed preference, snaps in a satisfying gestalt switch from incoherence to rich profundity if only one distinguishes such socially scaffolded but richly individuated people from the neural computers studied by psychologists and neuroscientists. Only then can we understand how preference consistency is stabilized as an achievement that simultaneously embeds normative individualism *and* identification with points in complex vector spaces of social markers. The relevant concept to replace the mind-as-internal-computer has unfortunately been established in the literature under the label of the 'extended mind' (Menary 2010). Since this suggests that the mind begins as an internal computer that is then accessorized, in terms of connotations the label is not much of an improvement on 'objective spirit'. So, HPB convince me, Hegel also anticipated the important philosophers listed just above in discovering a scientifically crucial conceptual insight and then botching its branding.

HPB update Hegel by reference to three main reference points that emerged subsequent to his death. First, his unrestricted teleology is replaced by the non-teleological but nevertheless developmental dynamics of Darwinian evolution, as generalized to apply to culture. Second, his highly abstract account of the formal stabilization of the social relations of free people is set into the context of contemporary industrial and post-industrial society, with the business corporation as the appropriate central exemplar, by filtering it through the work of

Masahiko Aoki (2001, 2010). Finally, Hegel's political economy, which according to HPB was a refinement of Adam Smith's theory of moral sentiments in light of a critical response to Kant's accounts of reason and morality, is mapped onto the concept space of contemporary economics according to the template that is fully worked out in Herrmann-Pillath's own recently published magnum opus, *Foundations of economic evolution* (2013). In light of all this updating, the reader might wonder whether the resulting comprehensive picture is 'Hegelian' merely by courtesy. HPB argue for Hegel's substantive primacy by reference to his originality with respect to all the picture's core elements. I find this case convincing for a reason they do not mention, and to which I will return below: HPB have effectively conjured the deep intellectual roots of the German model of capitalism; and whereas those roots can reasonably be associated with Hegel, it would make no sense to say that Aoki, or the leading modelers of cultural evolution, have elliptically been describing Germany.

On HPB's exegesis, Hegelian persons—that is, socially scaffolded ones—collectively participate in *institutions* that are subject to three primary constraints: *continuity*, *performativity*, and (reciprocal) *recognition*. Continuity is the denial of ontological dualism: people and groups of people are embodied in physical complexes that include their brains, and their potential actions and thoughts are constrained by the limits of these systems. Both of the systems in question, and therefore also the coupled system that arises from their continuity, are complex, in the full sense modeled by contemporary theorists of such systems. Performativity refers to the idea that theoretical models of society, including economic models, are realized by concrete actions—performances—which feed back upon the dynamics of theory articulation and change. Finally, people can only participate in institutions to the extent that they recognize others, and are recognized by others, as entities who enjoy subjective points of view on the basis of which they frame *choices* and are influenced by (partly) idiosyncratic preferences. Recognition reflects continuity, in that people can only construct themselves as individuated persons—in Hegel's language, can only achieve objective freedom—in response to recognition of their personhood by others.

This recognition is mediated and stabilized by institutions, in the absence of which mutual recognitions would be too ephemeral to serve as the basis for building concentrations of human, cultural and financial

capital. The most important of these institutions, languages and money,¹ are created by people but not deliberately designed by them. The case of money is worth specific elaboration, particularly given its special interest to economists. Hegel, according to HPB, anticipated and inspired Georg Simmel's (1978 [1907]) conception of money as collectively structured scaffolding that makes valuations among many people, including strangers, commensurable. This function permits individuals to partly transcend their parochial social contexts, as it allows them, at least in principle, to build their extended selves out of any assemblage of available materials that (some) others can understand. Thus money is a collectively constructed institution that fosters modern normative and performed individualism.

This example nicely illustrates the central *apparent* paradox in Hegel's thought, namely, that people expand their freedom by forging their identities within the normative structuring of institutions. Hegel has often been ridiculed for this idea by thinkers who are not only *normative* individualists, but also descriptive and methodological individualists. For example, Bertrand Russell (1946, 701-715), writing about Hegel during the Second World War, saw the seeds of national socialism in the latter's philosophy and duly turned on Hegel the same mocking tone he took when writing about Nazis. Of course this was unfair, but appreciating Russell's motivations can assist us in taking the measure of Hegel's contemporary significance and relevance to economics. Institutions, and especially political institutions, serve liberating functions and they are *also* very often oppressive. The Nazi state surely tipped the net balance in favor of the latter, while democracies filled with ideological individualists, like Russell's England, create more opportunities than they foreclose. This raises an interesting possibility. Suppose that Hegel is right—as I join HPB in thinking he is—about the essential role of institutions in creating constitutive conditions for the development of modern (and, for that matter, post-modern) individuals. This allows that we might observe significantly different social forms—and, in particular, different forms of capitalism—depending on whether most people living in a society idealize the Hegelian character of their political economic dynamics, or

¹ In this list Hegel would have included the family and the state; but in contemporary rich societies the former is being crowded out in importance by professional and cultural networks, and the latter may also be shrinking in significance as it competes with rival forms of political organization.

invent implausibly individualistic mythologies about these dynamics and use this as a basis for normative institutional criticism.

To further frame the point at which I am driving here, let us consider one of HPB's examples of an economic institution that can be better understood in light of the Hegelian insight. Economists have often complained that international trade bargaining that proceeds by way of reciprocal tariff reductions is irrational. Since every country would usually (though not always) improve the average welfare of its citizens by unilaterally eliminating protectionist barriers, reciprocal commitments to lower tariffs resemble a situation in which one person agrees to stop punching herself in the face if another does likewise. But HPB use their Hegelian perspective to remind us that although tariffs are of course instruments for protecting comparatively disadvantaged domestic producers, they are *also* the principal mechanism by which market access rights are institutionalized and countries recognize one another as, among other things, agencies responsible for promoting development at national scales. They are therefore the natural focus of any institution, such as the WTO or a national trade ministry, that regards international trade as a *managed* system of relationships.

Free traders, of course, might wish that international trade relationships were *not* institutionalized in this way; but it is a fact of global political life that they *are*. On the other hand, by direct contrasting analogy, in a few countries, particularly the United States, individual people are largely left to sort out their access to labor markets on their own terms (with some ethical/institutional restrictions such as the ban on selling oneself into slavery or even selling one's labor below a mandated minimum wage). In Germany, by comparison, labor market access is strongly institutionalized through the role that unions and artisanal associations play in corporate governance. This model goes back to Bismarck's time and so has been highly resilient, especially in light of the upheavals in political structures that have occurred in Germany over that stretch of history. Thus, although the populations of both the USA and Germany benefit (extravagantly) from (culturally) evolved Hegelian freedom, the extent to which prevailing ideologies are consistent with this inheritance differs in ways that make for significant divergences in economic performance. (Each country, I would argue, tends to reliably out-perform the other on predictable and familiar dimensions of assessment, with the American economy being more dynamic and the German economy being less vulnerable to business

cycle volatility.) If HPB's general interpretation of the philosophical history of economics is correct—and I indeed find it very persuasive—then there is valuable insight to be had from considering the German form of capitalism as reflecting a more pervasively Hegelian economic sensibility than the capitalism of the USA. (One could arrange other national capitalisms along a continuum stretched between them.) I find that to be an illuminating insight, potentially fecund with others, which could not have been obtained in the absence of HPB's highly original and rigorously constructed contribution to the philosophy of economics.

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