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**NOBEL-PRIZE WINNERS IN ECONOMICS**  
**PART II: OLIVER WILLIAMSON, MILTON FRIEDMAN**  
**AND THE IDEA OF PRAGMATIC METHODOLOGY**



Aleksander Sulejewicz

# **NOBEL-PRIZE WINNERS IN ECONOMICS**

**PART II: OLIVER WILLIAMSON, MILTON FRIEDMAN  
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The present chapter is an exercise in **economic methodology**. It focuses on the methodological aspects of the work of two rather different mainstream economists-recipients of the Bank of Sweden prize: Oliver Williamson (2009) and Milton Friedman (1976). Williamson is an interdisciplinary microeconomist and the founder of New Institutional Economics. Friedman is a historically minded macroeconomist and the leading ideologue of (neo)liberalism. The common strand found in both is a preoccupation with some uncomfortable methodological aspects of mainstream economics. One aspect that seems *prima facie* to be espoused by both authors is the validation of a “pragmatic” approach to economic method.<sup>1</sup>

Williamson is explicit about the pragmatic methodology: in recent years he authored at least three different papers in which he suggests the appropriateness of “pragmatic methodology.” The fullest account is in “Pragmatic methodology: a sketch, with applications to transaction cost economics” (2009).

Friedman wrote his “Methodology of positive economics” in 1953 but it is probably still the most often cited work on economic methodology. It has proved to be rather ambiguous allowing for a number of different interpretations. Friedman was always very cryptic about the meaning of his famous essay and never took part in numerous methodological debates surrounding the article. One of the possible interpretations is precisely the pragmatic reading of this pronouncement.

We shall thus adopt a dual approach towards the main theme of the subcourse: first, we shall review the formulation of the “pragmatic methodology” by Williamson and discuss it against some aspects of mainstream economics. We shall investigate the place of the new institutional economics in contemporary economics and inquire about the possible reasons for this late (in his career as an economist) methodological self-declaration.

Second, we shall sketch Friedman’s approach to methodology as we see it, refer to some interpretations and focus our attention on the “pragmatic”

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<sup>1</sup> As we shall see, Williamson declares his pragmatic methodology having origin partly in Friedman’s 1953 essay (Williamson 2009, p. 38). In fact, he refers to Friedman’s 1996 interview published in 1997 (Snowdon, Vane 1997, pp. 191–221). The page referred to by Williamson is 196.



reading. Hence our approach will be, in some measure, that of reconstructing the “proper” (for the purpose of the present text) understanding of the programmatic statement by Friedman. We then examine the strength of the argument in favour of the “pragmatic Friedman” and ask the question why pragmatism is a possible candidate for economic methodology.

The final section is devoted to **pragmatism** as a philosophical current. It is a much, much broader inquiry into epistemology and philosophy of science than the concern of either of the two economists studied. We select only some key aspects relevant for social science and economics of the two laureates, in particular. By constructing a typology of approaches within broadly understood pragmatism, we discuss some basic methodological precepts that can be adduced to provide an interpretation of contemporary philosophy of economics (economic methodology<sup>2</sup>). We then place the two Bank of Sweden prize winners within such a frame so as to appraise their respective contributions discussed in the previous sections.

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<sup>2</sup> Boumans, Davis 2010, p. 1.

# Oliver Williamson and New Institutional Economics

Oliver Williamson almost single-handedly resurrected Coasian analysis of markets and firms<sup>3</sup> and, since the late 1960s, made significant contributions to what became an increasingly attractive branch of microeconomics. Transaction Cost Economics (TCE) has been one of the pillars of New Institutional Economics (NIE) which bestowed respectability on institutional economics, a largely forgotten current of American economics of the late 19<sup>th</sup> – early 20<sup>th</sup> century. During the last quarter of the 20<sup>th</sup> century, institutions received increasing amount of attention by economists who began closing the 100-year gap in institutional analysis that separated them from e.g. sociologists.

The history of new institutional economics (or neo-institutional economics) is well documented.<sup>4</sup> In the first decade of the 21<sup>st</sup> century Oliver Williamson himself has focussed on writing overviews and summaries of Transaction Cost Economics.<sup>5</sup> He also contributed several papers in which he proposes a “pragmatic methodology” which he applied to his own version of transaction cost economics.<sup>6</sup>

We shall proceed as follows: we begin by sketching R. Solow’s methodological note. Then we summarize the rather succinct paper of Williamson, elaborate on the meaning he seems to attach to the methodological advice offered there, and provide some initial interpretation on the reasons and context of the methodological excursion.

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<sup>3</sup> Coase 1937, pp. 386–405; Coase 1960, pp. 1–44.

<sup>4</sup> Coase 1998, pp. 72–74. Please, consult also: Ménard, Shirley 2008.

<sup>5</sup> Williamson 2007.

<sup>6</sup> Williamson 2009, pp. 145–157; Williamson 2008; Williamson 2003; Williamson 2009; Williamson, Friedman 1953 in: Mäki 2009, pp. 241–256.

## a. The “good practice” of Robert M. Solow

The source for Williamson’s methodological precepts is Robert Solow’s (another Bank of Sweden prize winner in 1987) micro-paper containing a *terse description of what one economist thinks he is doing*.<sup>7</sup> In the paper Solow sums up his notion of “good practice” in three injunctions:

1. Keep it simple.
2. Get it right.
3. Make it plausible.

**1. Keeping it simple** is necessary because of “the very complexity of real life.” As all scientists know it is impossible to formulate a model that would be comprehensive enough to reproduce faithfully the details of social and economic reality. In addition, the goal of “middlebrow close-to-data theorizing” is to *get some useful understanding of the way [the] economy reacts to changes in policies*. And this should be done by *trying to understand one or two important interactions at a time* (Solow 2001, p. 111).

The “simplicity” principle of Solow is a reaction to sophisticated econometrics as well as to “complexity theory” or “chaos theory” (although he does not refer to it explicitly). He talks of “complex models” which should not be the starting point of analysis for two reasons: it will be difficult and essentially arbitrary to choose among several equally “performing” models, and secondly, “an undigested” complex model cannot generate “intuitive understanding.” “Complexity generates behavioural patterns that simply cannot be traced to elementary components” so it is “unpromising” to go immediately after complex models.

**2. Getting it right** includes *translating economic concepts into accurate mathematics (or diagrams, or words) and making sure that further logical operations are correctly performed and verified* (Solow 2001, p. 112). “Right” appears here in three senses. The first is epistemological: *a model can be right in that somewhat mechanical sense, but still rather unenlightening because in some way imperfectly suited to the subject matter. It can obscure the key interactions instead of spotlighting them* (all emphases – A.S.; Solow 2001, p. 112). The “mechanical sense” we take to mean formalism, a frequent affliction of mainstream economics: the model may be simple or sophisticated but is formally correct. Still, it does not generate much (or any) knowledge, essentially because it is irrelevant, ill suited to the subject matter, mis-specifying the relationships studied. The second and third sense

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<sup>7</sup> Solow 2001, pp. 111–112.

is methodological and sociological: *two models, in most ways equivalent, can differ because one of them connects more easily with other bits of economics, makes better use of trained intuitions, uses more transparent machinery, and is therefore easier to explain and use* (all emphases added – A.S.; Solow 2001, p. 112).

Clearly, modelling is no simple matter: While logical and mathematical operations can relatively easily be controlled (deductive logic) this only refers to the *mechanics* of reasoning. The mathematics which misses the point obscures reality. Inaccurate model is also unconnected (not necessarily incoherent with) to the rest of the theory and functions without or against what should be called scientific **habits** (trained intuitions) of researchers. Finally, the macro-models of Keynes fared better in the “intellectual marketplace” than the Swedish School in the 1930s because they were easier to explain and use (this would be a pedagogical value) and were published in English, a language spoken by a larger number of people (akin to sociological and market-size advantage) (Solow 2001, p. 112).

3. **Making it plausible** requires *the simple models of complex economies (...) at least to make sense for “reasonable” or “plausible” values of the important parameters* (Solow 2001, p. 112). These models *ought to behave in plausible ways when those parameter values are inserted*. Macroeconomics, says Solow, has “a fund of such regularities” even though there may be “anomalies” revealing some of those folk-regularities to be “illusory.” This, however, does not invalidate the model as such, only the spurious “regularities.”

The three injunctions serve to restore a balance: *I have the (admittedly casual) impression that serious methodology is much more deductive and normative in character than it is empirical and descriptive* (all emphases added – A.S.). But *one should pay attention to the behaviour of native speakers*. In other words, methodology is how and what economists are doing even though, as Solow admits, *my own practice may not always conform to my understanding of the right way (or at least a good way) to do economics* (Solow 2001, p. 111). So the methodological reality of economics is to be found in the actual **experience** rather than in the logical deductions. Another point worth mentioning is that the Solow’s **practice** over the years as he describes it, *refer[s] only to certain parts of economics, not all*. His examples evoke macro-models and macroeconomics, generally.

## *b. The “pragmatic methodology” of Oliver Williamson*

Williamson begins his narration with reminding ourselves that methodology has got a “bad reputation:” Dennis Robertson referred to it as “a distasteful

subject of methodology”<sup>8</sup> (quoted by Tjalling Koopmans, himself a Bank of Sweden prize winner in 1975). Given that the paper appeared very late in the career of Williamson, is rather short and unencumbered by philosophical ideas, we conjecture that he shares the conventional (see also Stigler, Bank of Sweden laureate in 1982) feeling of “disutility” of methodological deliberations. However, like Sir Roy Harrod, he finds “a strong inner urge to say something.”<sup>9</sup> The second stated reason for writing the paper is disagreement with the “anything goes predilection” referred to by Mark Blaug<sup>10</sup> in his (brief) discussion of post-modernism.

Williamson repeats Solow’s advice on “good practice.”

1. Keeping it simple is necessary because of “the very complexity of real life.” As all scientists know it is impossible to formulate a model that would be comprehensive enough to reproduce faithfully the details of social and economic reality. It is accomplished “by stripping away inessentials” and thereby *focus[sing] on first order effects* (Williamson 2009, p. 145). Keeping it simple requires the student to prioritize. Here Williamson adduces Milton Friedman: *Most phenomena are driven by a very few central forces. What a good theory does is to simplify, it pulls out the central forces and gets rid of the rest.*<sup>11</sup> *Central features and key regularities are uncovered by the application of a focused lens* (146) (emphasis original – A.S.).
2. Getting it right, repeats Williamson after Solow, *includes translating economic concepts into accurate mathematics (or diagrams, or words) and making sure that further logical operations are correctly performed and verified.*
3. Making it plausible requires the models to *make sense for “reasonable” or “plausible” values of the important parameters* (Solow 2001, p. 112). *Also because “not everything that is logically consistent is credulous”* (Kreps 1999, p. 125), *fanciful constructions that lose contact with the phenomena are suspect – especially if alternative and more veridical models yield refutable implications that are congruent with the data.*

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<sup>8</sup> *This is a topic which, when I started to read economics at Cambridge in 1910, it was not, I think, fashionable among us to think much about (...). To us, I think it seemed a subject more suitable for discussion by Germans than by Englishmen. There was on our reading list what I have since come to regard as a good, if dry book about it, J.N. Keynes’s Scope and Method of Political Economy, but to be quite honest I doubt if many of us read it. We thought we knew pretty well what sort of things we wanted to know about.* Robertson 1952, p. 14 (quoted by Hutchison, p. 5).

<sup>9</sup> As quoted by Koopmans 1957, p. 130.

<sup>10</sup> Blaug 2002, pp. 35–56, p. 49.

<sup>11</sup> Snowdon, Vane 1997, pp. 191–221.

Williamson adds a fourth precept, which has not been formulated by Solow:

4. Derive refutable implications, to which the relevant (often micro-analytic) data are brought to bear. He also quotes Georgescu-Roegen: *the purpose of science in general is not prediction, but knowledge for its own sake, yet prediction is the touchstone of scientific knowledge.*<sup>12</sup> (...) *most economists know in their bones that theories that are congruent with the data are more influential* (bold emphases added – A.S.). A quote from Friedman is adduced: *I believe in every area where I feel that I have had some influence it has occurred less because of the pure analysis than it has because of the empirical evidence that I have been able to organize*<sup>13</sup> (bold emphases added – A.S.).

In addition, Williamson formulates a number of clearly methodological statements that are not part of his four precepts.

5. Referring to “exceptionally complex” phenomena that are the object of social scientific research, he advocates **pluralism**: *any direction you proceed in has a very high a priori probability of being wrong; so it is good if other people are exploring in other directions.*<sup>14</sup> *Accordingly, we are concerned with theories (plural) rather than a theory (singular),* (p. 146).
6. Since “theories rarely appear full blown,” he stresses a **natural progression** – *from informal to pre-formal, semi-formal, and fully formal stages of development – over which interval the relation between theory and evidence is interactive*: *“Theories cumulate. They are refined and reformulated, corrected and expanded. Thus we are not living in the world of Popper (...). [Theories are not] shot down with a falsification bullet (...).”* (Newell 1990, p. 14), (p. 146), (bold emphases added – A.S.).
7. *Successive refinements and reformulations of a theory do not, however, go on indefinitely. Sooner or later the time comes for a reckoning when each would-be theory needs to stand up and be counted – which I take to mean that each candidate theory should be examined with reference to the four precepts of pragmatic methodology, with special emphasis on the last* (p. 146), (bold emphases added – A.S.).

Through this partly metaphorical language Williamson seems to be engaging in the following methodological argument. Complexity is paramount but pluralism that serves the social sciences well is only temporary. During an (intense) period (Th. Kuhn would call it pre-paradigmatic) a dialectic **process** between theory and practice develops. However (against possible Kuhnian discontinuity), theories cumulate and are improved upon and progressively formalized. Presumably,

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<sup>12</sup> Georgescu-Roegen 1971, p. 37.

<sup>13</sup> Personal communication from Milton Friedman to the author [O.W.], February 6, 2006, p.146.

<sup>14</sup> Simon 1992, p. 21.

this formalization is what allows theories to be mutually compared. *Here as elsewhere, it takes a theory to beat a theory*<sup>15</sup> (p. 149). The comparison involves the three Solovian injunctions and the fourth Williamsonian precept. The stress is on the last, a somewhat Popperian-sounding “derive refutable implications.” We understand that refutations are not conclusive (they are not falsification bullets killing “bad” theories) but... are conclusive, because the process does not go on indefinitely. Probably, after the elimination of refuted theories, and if several candidates survive, the criteria of simplicity, “rightfulness,” and plausibility are applied and the “one” qualifies. Qualifies for what? *Pragmatic methodology is concerned first and foremost, however, with practice. Agreement with the four precepts in theory and non-compliance in practice are altogether too common. If and as the demands of logical consistency (in theory) yield infeasibility (in practice), applied economists will understandably question whether the theory is ripe for applications in practice* (p. 153), (bold emphasis added – A.S.).

### c. The “pragmatic methodology” applied to TCE

In several papers written during the last decade, Williamson applies his methodology to the transaction costs economics. This, in contrast to the examples of Solow, is a branch of *microeconomics*. This is not enough: *TCE operates at a much more microanalytic level of analysis than does orthodoxy* (p. 148). Even Arrovian “*nanoeconomic reasoning*” is cited.

In the JEM paper, the simplicity criterion as formulated for the benefit of (a theory of) economic organisation is illustrated by two pieces of advice:

- postulate the *economizing behaviour* (Frank Knight is adduced as a source of quotation) so as to replace the all-too-often monopolizing assumption (for various business practices that one does not understand, cf. Ronald Coase),
- out of several forms of economizing, focus on *adaptation*. Here, one is to combine “autonomous,” Hayekian<sup>16</sup> market and “coordinated,” Barnardian<sup>17</sup> hierarchy.

Getting it right is pursued by choosing an appropriate focus lens, i.e. the *lens of contract* (a much more microanalytic level). This is contrasted with the *neoclassical lens of choice*. This allows the organisation theoretician to take account of the mutuality of interest (one of the three principles of John Commons: conflict, mutuality, order).<sup>18</sup> Thus TCE **operationalises** all the three principles: *governance* serves to infuse order (thereby mitigating conflict and realizing mutual gain), *transaction* as a basic unit of analysis adopted after Commons

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<sup>15</sup> Kuhn 1970, p. 77.

<sup>16</sup> Hayek 1945, pp. 519–530.

<sup>17</sup> Barnard 1962 [1938].

<sup>18</sup> Commons 1950.

“contains in itself the three principles,” and (one assumes) the *economizing principle* as such takes care of conflict (presumably evoking the definition of economics formulated by Lionel Robbins).<sup>19</sup>

Making it plausible poses tensions with both of the first two precepts. When plausibility collides with simplicity and mathematical tractability, then what to do? (p. 148) (emphases added – A.S.). In the spirit of **pluralism**, no single tactics is suggested. Williamson provides at least four examples of TCE satisfying the PM requirements *added plausibility*:

- a) the cognitive and self-interestedness *attributes of human actors* are described as bounded rationality and opportunism respectively,
- b) express provision is made for key *inter-temporal regularities* of economic organization,
- c) the *limits of the courts* for contract enforcement purposes are admitted,
- d) in-built scaling up *approximates the real-world* phenomenon (e.g. the modern corporation) of interest (all emphases added – A.S.).

We remember that “not everything that is logically consistent is credulous,” therefore simple and mathematically tractable orthodox formulations have to give way to plausible theorizations. One understands that full rationality assumed by neoclassical economics (NCE) is both simple and mathematically tractable (as millions of students of economics prove every semester) but is implausible. This needs to be corrected in TCE. Similarly for the subsequent observations. All the four points demonstrate that *approximation of the real-world phenomena* is methodologically valuable even despite added complexity and difficulty of mathematization (the risk of getting it wrong is on the NCE and *not* on the TCE!).

Finally, predictions and empirical testing. Contrary to common knowledge that “it is easy to lie with statistics,” prediction and corroboration are difficult. *Compelling evidence* [for TCE] *was difficult to work up and (...) few economists were persuaded* (p. 149) (bold emphasis added – A.S.). However, “since it takes a theory to beat a theory” it is necessary to provide empirical corroboration of theoretical concepts. It seems that Williamson suggests relying on standard statistical and econometric techniques. What might be seen as new in his approach is that the explication of new TCE concepts is better achieved through scaling down explanations from “(general) *theories*” to “(partial) *mechanisms*.” The ability of the concepts to scale up (from nanoanalytic level to an organisation) combined with the ability of the explanation to scale down (from general to partial equilibrium)<sup>20</sup> provides the security of inquiry.

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<sup>19</sup> Robbins 1952 [1932].

<sup>20</sup> Williamson is careful and never uses the notion of equilibrium in this text. However, given all the rest of his scientific output as well as other statements in the paper, it seems safe to assume that his disagreements with NCE do not reach this fundamental concept. However, it is **not** to be conceived like in the *neoclassical resource allocation paradigm (...) which focuses on prices and output, supply and demand and describes the firm as a black box (...)*, (p. 147). Rather, a sociological



In addition to the basic precepts of pragmatic methodology Williamson formulates four supplementary considerations. These are: *the key attributes of human actors on which [to] rely, the unit of analysis; the scaling up of models to approximate the phenomena of interest; and remediableness* (p. 150). We leave to the reader investigation into whether these *minor* four are a repetition or an addition to the *major* four presented above.

#### d. "The Carnegie triple"

As we have mentioned earlier Williamson elaborates on methodology in several recent papers. Another theme that was not touched upon in the JEM article is "the Carnegie triple:" *[u]pon reflection, I describe the training and research at Carnegie in terms of three imperatives: be disciplined; be interdisciplinary; have an active mind.*<sup>21</sup> The Pragmatic methodology as presented above is fully part of the first imperative. *The qualified version of the injunction to "be interdisciplinary" is this: be prepared to cross disciplinary boundaries if and as this is needed to preserve contact with the phenomena. Being interdisciplinary is strictly conditional, therefore, on the perceived need and is introduced strictly in a pragmatic way* (p. 6). *The pragmatic reason for (...) training [in one or more contiguous social sciences] is this: economists who lack an appreciation that some of what is going on out there has non-economic origins will be neglectful of or will misrepresent forces that are responsible for consequential regularities that ought to be taken into account* (p. 6) (bold emphasis added – A.S.). Finally, Williamson, after, d'Andrade,<sup>22</sup> contrasts two research orientations: an authoritative (self-confident, top-down, at an advanced stage of development, declaring – "This is the law there") and **inquiring** (more **tentative, bottom-up, pluralist, and exploratory**, posing the question "What is going on here?"), (emphasis added – A.S.). As can be expected, Williamson favours the latter quoting again R. Solow: *there is a lot to be said in favour of staring at the piece of reality you are studying and asking, just what is going on here?* (emphasis added by O.W). He follows with another revealing passage: *To be sure, few economists have no curiosity whatsoever with the phenomena. The readiness, however, to impose preconceptions – rather than to get close to the phenomena by asking and attempting to answer the question, "What is going on here?" – is nevertheless widespread* (p. 11), (bold emphasis added – A.S.). He quotes J. McMillan who contrasts his research strategy with that of others: *(...) You have to look and see how things actually work or do not work. That might seem so trite as not to be worth saying, but assertions about*

concept of mechanism is adduced (Jon Elster's remarks are referenced). See: Elster 1991 (<http://www.reocities.com/hmelberg/elster/AR91AAB.HTM>).

<sup>21</sup> Williamson majored in economics at the Carnegie Institute of Technology during 1969–1963 (Williamson 2007), [www.economics-ejournal.org/economics/discussionpapers](http://www.economics-ejournal.org/economics/discussionpapers), p. 1.

<sup>22</sup> D'Andrade in: Fiske and Schweder 1986.

*economic matters that are based more on preconceptions than on the specifics of the **situation** are still regrettably **common***<sup>23</sup> (emphasis added by O.W., bold emphasis added by A.S.).

Finally, one last methodological advice is to **operationalize**. Despite the fact that Ronald Coase (another Bank of Sweden prize winner in 1991) confronted already in 1937 “an embarrassing lapse” of mainstream economics, *the **prevailing** assumption within economics [was] that transaction costs were zero* (p. 12), (bold emphasis added – A.S.). Why the ***long-standing neglect of transaction costs...?*** (p. 12), (bold emphasis added – A.S.). Rather than answering this question, Williamson strives to propose: *What to do? The unmet need was to operationalize the concept of transaction cost, broadly with reference to the four precepts of pragmatic methodology. Addressing the issues in a comparative **institutional** way with applications to **specific** phenomena (...)*, (p. 12), (bold emphases added – A.S.).

### e. The “pragmatic methodology:” summary and appraisal

All the methodological papers of Oliver Williamson are written in everyday language: one even gets the impression that he finds pleasure in mocking high-brow philosophical jargon of epistemology and contemporary philosophy of science through the use of low-brow advice: “keeping it simple” (close to KISS), “getting it right,” etc. While he occasionally evokes “certified methodologists;” that is professional philosophers of science (Popper, Kuhn), he follows Robert Solow in presenting “the native informant’s” report on practices in their respective fields of research. After all, his *pragmatic methodology is concerned first and foremost (...)* with **practice**. Practices lie outside discourse, outside pure logic and/or linguistic analysis of contemporary philosophy of science. Through the language describing the actual behaviour or “good practice” Williamson demonstrates that he is totally unconcerned with “economic meta-language,” i.e. the language of economic methodology dominated by analytical philosophy. One need know nothing of Vienna Circle, Hempel-Oppenheim model, verification, falsification, etc. The concepts he uses can with difficulty, if at all, be associated with a particular meaning established by professional methodologists: veridical, credulous, focused lens, reckoning, stand up and be counted, fanciful constructions, congruent with data, corroboration, what is going on here?, etc. We are supposed to rely on commonsensical meaning of some other concepts such as *empirical evidence*, “look and see,” *accurate* mathematics/diagrams/words, *complexity*, and, indeed, *pragmatic way/reason/methodology*. He demonstrates his humbleness through frequent citations of more “arcane” conceptual schemes or methodological themes (beginning with Solow, through Friedman, Kreps, Newell, McMillan, to Simon, Barnard, and Coase).

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<sup>23</sup> McMillan 2002, p. 225.

As shown through the analysis of his own TCE and managerial theories of logistical value chain his is not a conventional methodological analysis – neither does he analyse logical structures, nor the language of economic or management science. Quite the opposite! Since pragmatic methodology’s primary concern is practice, Williamson virtually never leaves the level of description of **what economists do**, that is what the population of the most numerous neoclassical – orthodox group does. He contrasts their behaviour with the normative precepts, injunctions or “the Carnegie triple.” The descriptive terminology used for the former includes such notions as: being neglectful, having research orientations, regrettably common/widespread readiness to impose preconceptions, prevailing assumption, long standing neglect, being reluctant to engage in microanalytics and preferring to work at what they regard as “high ground,” etc. Clearly, these are not terms used by conventional economic methodology. Williamson is describing **attitudes** of his fellow economists and just like Solow he is presenting his own **experience** in studying mainstream economics (the Carnegie triple) and in developing its new branch (pragmatic methodology). Indeed, both the mainstream “misbehaviour” described and the “pragmatic” imperatives postulated can usefully be labelled **habits**. “Wrong” habits of neoclassical economists (some of whom “are enamoured of the physics style”<sup>24</sup>) are, at least for the applied microeconomics, to be replaced with good habits of keeping it simple, getting it right, making it plausible, deriving testable predictions on the one hand and being disciplined, interdisciplinary and active-minded on the other. Sometimes the presentation is confused: the *focused lens* helping uncover central forces is introduced with the first precept of keeping it simple (p. 146). However, when the concept of *lens* is applied to the TCE, it belongs to the second precept of getting it right (p. 147). If our **habitual** interpretation of practice is correct, then it seems to be of no specially damaging consequences (as both are needed).

The seemingly day-to-day language of practice cannot avoid, however, comments from the philosophy of science. Keeping it simple seems to be just a version of the old Occam’s razor. Parsimony and simplicity have been the criteria of quality of philosophical and scientific thought discussed at least since Aristotle<sup>25, 26</sup>, and an ontological version is even older and goes back to pre-Socratic beginnings of philosophy as such.<sup>27</sup> In other words, the question arises to what extent the notion of simplicity is characteristic of specifically pragmatic

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<sup>24</sup> Solow 1997, pp. 39–58, quoted in Williamson 2007, p. 11.

<sup>25</sup> Aristotle writes in his “Posterior Analytics”: *We may assume the superiority ceteris paribus of the demonstration which derives from fewer postulates or hypotheses.*

<sup>26</sup> Arguably an opponent of Friedman and Williamson, Mill states as follows: *According to one mode of expression, the question “What are the laws of nature?” may be stated thus: What are the fewest and simplest assumptions, which being granted, the whole existing order of nature would result?* (Mill 1843), <http://www.gutenberg.org/files/27942/27942-pdf.pdf> III, IV, p. 1.

<sup>27</sup> *Occam’s razor* – Wikipedia, the free encyclopedia, [http://en.wikipedia.org/wiki/Occam’s\\_razor](http://en.wikipedia.org/wiki/Occam’s_razor).

approach to methodology of (social) science. Given the popularity of popperism in economic methodological discussions<sup>28</sup> let us just mention Popper’s definition of simplicity where he claims that the simpler the hypothesis the more falsifiable it is: *Simple statements, if knowledge is our object, are to be prized more highly than less simple ones because they tell us more; because their empirical content is greater; and because they are better testable.*<sup>29</sup> *To understand this there is no need for us to assume a “principle of economy of thought” or anything of the kind. This conclusion comes after Popper first (section 41) exclude[d] from our discussion the application of the term ‘simplicity’ to anything like a presentation or an exposition (...). [I]t does not fall within the province of logic, but merely indicates a preference of an aesthetic or pragmatic character (emphasis original – A.S.).*

Williamson labels *translating economic concepts into accurate mathematics, diagrams or words* as “getting it right.” In Popper’s terminology it clearly qualifies to “a presentation or an exposition;” after all the idea is already known, it just needs “translation” and formulation in adequate mathematical or graphical language. Precisely for this reason, it is dismissed by Popper as merely pragmatic. However, as we noted above, Williamson is not arguing at a level of logic (the only level worthy of effort for Popper) but at a level of (economic) practice. For our purpose here, let us just state that “simplicity” has no meaning of its own and is implicated in complex epistemological systems of thought. It has no special relationship with pragmatism (in any definition, see below) and does not bestow on the body of methodological advice, such as Williamson’s, the strictly pragmatic quality.

Coming back to Williamson’s preoccupations we shall eschew at this time further philosophical discussions<sup>30</sup> and only evoke the flavour of some debates in economics. Some years ago, I came upon the phrase used in industry, “Keep It Simple Stupid,” that is KISS and thought about it in relation to scientific model-building. Since some simple models are stupid, I decided to reinterpret KISS to mean “Keep It Sophisticatedly Simple.” In any event, KISS is very popular in many scientific and non-scientific areas. For example, the slogan of the Honda Motor Company is, “We make it simple.” The Dutch Schipol airport in its advertising claims that, “It excels because it is simple and convenient.” And it is well known that Einstein advised in connection with theorizing in the natural sciences, *Make it as simple as possible but no simpler (...). Many, including myself, have for long advocated that workers in econometrics and statistics follow the advice of natural scientists and others to keep analyses and models sophisticatedly simple.*<sup>31</sup> This introductory remark signals Zellner’s sustained effort of explicating the meaning

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<sup>28</sup> E.g. Boylan 2008.

<sup>29</sup> Popper 2002, p. 128.

<sup>30</sup> *Simplicity*, Stanford Encyclopedia of Philosophy (Alan Baker), <http://plato.stanford.edu/entries/simplicity/>.

<sup>31</sup> Zellner 1998, reprinted in: Zellner, Keuzenkamp, McAleer (eds.) 2001, pp. 242–262.

of “simplicity” and providing working rules for macroeconomic modelling and econometric research. Much in the vein of Williamson’s account he recollects the experience of other economists: *I asked [James Tobin, Nobel 1981] if he used complicated macroeconometric models in his work for the Council [U.S. Council of Economic Advisors]. He responded that he didn’t because he and others could not understand the workings and output of such models and thus did not have much confidence in them.*

The last chapter of the book contains remarks sent by Nobel Prize winners on the subject.<sup>32</sup>

R. Solow: *To be brief – simple? – I would come close to equating simplicity with transparency. A simple model or theory is one whose inner workings can be seen and interpreted by a knowledgeable person. “Oh yes, I see how and why that works.”*

J. Harsanyi (Nobel 1994): *Other things being equal, a simpler theory will be preferable to a less simple theory. For in the case of empirical theories, whenever we add a new empirical assumption to a given theory we will always reduce the prior probability that all our assumptions will be found consistent with the actual facts [“Popper’s improbability criterion for the choice of scientific hypotheses,” Philosophy 25 (1960), pp. 332–340]. On the other hand, in the case of normative theories, whenever we add a new normative postulate to our theory we always run the risk that the latter will be really unnecessary or will actually reduce the plausibility of our theory from a normative point of view.*

J. Nash (Nobel 1994): *It is certainly true that simplicity has a major function but also it’s difficult to think that a simple “rule of simplicity” can be given so that, by simply using that rule, it would be easy to produce good scientific research!*

Getting it right is referring to achieving an appropriate level of formalisation. Mainstream economists do not see life outside formal modelling methods. These should be universally applied, usually without making any assessment of their suitability for investigating social matters. It is simply taken for granted that such techniques are not only appropriate but essential for economics, and are defining the subject. *Economics is a quantitative subject. (...) mathematical modelling is essential and is here to stay. But mathematical modelling of volition is inevitably, a repugnant exercise, because it seems to demean the human experience. (...) But in order to make progress, we have to simplify in suitable ways. In many applications, individual choice as modelled by the economist, is*

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<sup>32</sup> McAleer in: Zellner, Keuzenkamp, McAleer (eds.) 2001, pp. 292–296. Nine out of 26 living laureates responded to the request.

*a grotesque caricature of ourselves.*<sup>33</sup>

Williamson is clearly against “excessive” and obscuring mathematization. He quotes H. Simon (Nobel 1975) to the effect: *Mathematics has become the dominant language of the natural sciences not because it is quantitative – a common delusion – but primarily because it permits clear and rigorous reasoning about phenomena too complex to be handled in words.*<sup>34</sup> However, he remains committed to this (*a priori*) ideal and this seems to be a source of tensions.

Ronald Coase declared in his address to the International Society of New Institutional Economics: *we are a society with a mission and that mission is to transform economics. When I speak of economics, I have in mind mainstream economics as expounded in countries in the West and particularly what is called microeconomics or price theory. Our mission is to replace the current analysis with something better, The New Institutional Economics.*<sup>35</sup> *What should characterise modern institutional economics, and does to a considerable extent, is that the **problems** tackled are those thrown up by **the real world***<sup>36</sup> (bold emphasis added – A.S.). [*r*]ealism in our assumptions is needed if our theories are ever to help us understand why the system works in the way it does. Realism in assumptions forces us to analyse the **world that exists**, not some imaginary world that does not.<sup>37</sup>

Williamson concurs with Coase in the appeal to “the real world.” *Many economists treat behavioral assumptions as unimportant. This reflects a widely held opinion that the realism of the assumptions is unimportant and that the fruitfulness of a theory turns on its implications. But whereas transaction cost economics is prepared to be judged (comparatively) by the refutable implications which this approach uniquely affords, it also maintains that the behavioral assumptions are important.*<sup>38</sup>

He also emphasises that *the study of governance goes beyond structure and incentives and control instruments to include an examination of process. This is an area in which economists have been loath to enter (...). I am persuaded that the self-conscious study of **process** has already played a vital role in the development of transaction cost economics (...) and that additional study of process is sorely needed if core issues are to be exposed.*<sup>39</sup>

While process is emphasised, it remains unclear how exactly this is to be done and how comfortably these issues sit with the dominance of efficiency of organisational forms. Williamson has also retained his commitment to scientific

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<sup>33</sup> (Sir) Dasgupta in: Mäki 2002, pp. 57–89, quote p. 81.

<sup>34</sup> Simon in: Williamson 2003, pp. 917–942, quote p. 934.

<sup>35</sup> Coase 1999, pp. 3–6.

<sup>36</sup> Coase 1984, pp. 229–231, quote pp. 230–231.

<sup>37</sup> Coase 1994, p.18.

<sup>38</sup> Williamson in: Schmalensee, Willig 1989, pp. 135–182, quote p. 138.

<sup>39</sup> Williamson in: Farkus, England 1988, pp. 159–185, quote p. 163.

progress as formalisation: *A chronic problem with Coase's work has been that the concept of transaction cost is vague (...). Although Coase evidently acknowledges the need for operationalization, he has yet to address himself to this in a systematic way (...). Many readers would benefit from arguments once conceptualized, translated into a more formal language.*<sup>40</sup>

Making it plausible remains relatively uncontroversial. It seems to be a part of extended testing of the theory and sits well with experimental emphasis of pragmatism.

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<sup>40</sup> Williamson 1989, pp. 223–231, quote p. 229.

# Milton Friedman and the methodology of neoclassical economics: hints of pragmatism?

The “Methodology of positive economics” is the most famous piece of methodological writing in economics. The list of commentaries, papers, books, and conferences devoted exclusively to this 40-page essay is truly amazing.<sup>41</sup> We cannot do justice to even minimal review of the voluminous literature. Our purpose is to select one thread in the discussion that was touched upon by a very small minority of participants of discussions about the “F53” as it has become customarily called. We shall try to extract the signs of “pragmatism,” if any, in this methodological pronouncement. Our discussion will be as follows: we shall start with the “labelling” issue, continue with a brief exposition of Friedman’s text, follow it with citations from two commentators, and wind up with our judgement on possible “pragmatic” methodology contained in Friedman’s work.

## *a) Labelling Friedman’s methodology*

The point about labelling has been forcefully made by Uskali Mäki in the latest book devoted entirely to Friedman’s essay.<sup>42</sup> Philosophers of economics methodologists and fellow economists attempted variously to pigeon-hole the

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<sup>41</sup> A few items required for an honest discussion are: Samuelson 1963, pp. 231–236; Simon 1963, pp. 229–231; Wong 1973, pp. 312–325; Boland 1979 pp. 503–522; Caldwell 1980, pp. 366–374; Musgrave 1981, pp. 377–387; Mäki 2000, pp. 303–322.

<sup>42</sup> Mäki 2009, pp. 47–68.



essay. It may safely be asserted that the richness and ambiguity of the essay have contributed in a major way to the richness and sustainability of the discussions. For most of the labels proposed one can find textual evidence in the essay, for some appropriate citations can be found in other publications, finally, some are said to be evidenced in actual practice of Friedman himself. Among the main labels used we can trace: positivism, instrumentalism, realism, conventionalism, falsificationism, pragmatism, (social) constructivism...

We leave to the students the identification of the supposed philosophies in the quotations below as well as in the main text (or other texts):

*John Neville Keynes distinguishes among a positive science (...) [,] a body of systematized knowledge concerning what is; a normative or regulative science (...) [,] a body of systematized knowledge discussing criteria of what ought to be (...); an art (...) [,] a system of rules for the attainment of a given end (p. 3).*

*Positive economics is in principle independent of any particular ethical position or normative judgements. (...) positive economics is, or can be, an „objective“ science, in precisely the same sense as any of the physical sciences (p. 4).*

*The **interaction** between the observer and the process observed that is so prominent a feature of the social sciences, besides its more obvious parallel in the physical sciences, has a more subtle counterpart in the indeterminacy principle arising out of the interaction between the process of measurement and the phenomena being measured. And both have a counterpart in pure logic in Gödel's theorem, asserting the impossibility of a comprehensive self-contained logic. It is an open question whether all three can be regarded as different formulations of an even more general principle (p. 5).*

*Such a theory is, in general, a complex intermixture of two elements. In part it is a "language" designed to promote "systematic and organized methods of reasoning."<sup>43</sup> In part, it is a body of substantive hypotheses designed to abstract essential features of complex reality. Viewed as a language, theory has no substantive content; it is a set of tautologies (p. 7).*

*Viewed as a body of substantive hypotheses, theory is to be judged by its predictive power for the class of phenomena which it is intended to "explain" (...). The only relevant test of the validity of a hypothesis is comparison of its predictions with **experience** (p. 8–9).*

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<sup>43</sup> Here Friedman quotes Alfred Marshall's "The Present Position of Economics" (1885).

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*Logical completeness and consistency are relevant, but play a subsidiary role; their function is to ensure that the hypothesis says what it is intended to say (p. 10).*

*One of the effects of the difficulty of testing substantive economic hypotheses has been to foster a retreat into purely formal or tautological analysis (p. 11; this is about Oskar Lange).*

*[T]autologies have an extremely important role in economic analysis and other sciences as a specialised language (...), (p. 11).*

*But economic theory must be more than a structure of tautologies if it is able to predict and not merely describe the **consequences** of action; if it is to be something different from disguised mathematics (p. 11–12).*

*Complete “realism” is clearly unattainable, and the question whether a theory is realistic “enough” can be settled only by seeing whether it yields predictions that are good enough for the purpose in hand or that are better than predictions from alternative theories (p. 41; all emphasis in original, **bold** added by A.S.).*

## *b) Friedman’s pragmatic methodology: two commentaries*

The two commentaries adduced here are those of the fellow “nobelist” O. Williamson<sup>44</sup> and of A. Hirsch, and N. de Marchi.<sup>45</sup>

### *1) O. Williamson’s appraisal of Friedman*

Let us remember that the “pragmatic methodology” of Williamson himself owes a number of supporting quotes to Friedman (see above). These points are repeated as is the message attributed to essential content of the F53, without however, mentioning the “pragmatic” aspect. And so “simplicity” and “fruitfulness” are adduced: *A theory is “simpler” the less the initial knowledge needed to make a prediction within a given field of phenomena (p. 10).* Indeed, *[a] fundamental hypothesis of science is that appearances are deceptive and that there is a way of looking at or interpreting or organizing the evidence that will reveal superficially disconnected and diverse phenomena to be manifestations of a more fundamental and relatively simple structure (p. 33).* Thus we recognize the Solovian/Williamsonian “simplicity principle” which prompts scientists to look for “a very few central forces” (first precept).

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<sup>44</sup> Williamson, Friedman 1953 in: Mäki 2009, pp. 241–256.

<sup>45</sup> Hirsch, De Marchi 1990.

Referring to the distinction positive/normative we see Friedman advice *more economists should concern themselves with real phenomena rather than idealizations*. Surely, all would-be positive theories *should stand up and be counted – by making predictions and submitting these to empirical testing*. This last is the way by which to sort the sheep (*hard-headed theories*) from the goats (*fanciful constructions*), (p. 242), (fourth precept).

Williamson criticizes the “unrealisticness” of assumptions especially the statement that *truly important and significant hypotheses will be found to have “assumptions” that are wildly inaccurate descriptions of reality, and, in general, the more significant the theory, the more unrealistic the assumptions* (F53, 14, emphasis added by O.W.), (p. 242). However, he approves of Friedman’s observation that *the relevant question to ask about the “assumptions” of a theory is not whether they are descriptively “realistic,” for they never are, but whether they are sufficiently good approximations for the purpose at hand* (F53, 15), (242–243 bold added – A.S.).

As Williamson’s article is focused on the theory of the firm, he discusses the concrete manifestation of Friedman’s methodology in relation to microeconomics or what later came to be known as industrial organisation. At the time of writing (and seemingly after as well) Friedman was critical of Chamberlin’s “monopolistic competition” and argued in favour of assuming only perfect competition and monopoly (“ideal types”) for all studied phenomena. Friedman claims that he is following Marshall: *everything depends on the problem; there is no inconsistency in regarding the same firm as if it were a perfect competitor for one problem, and a monopolist for another*.<sup>46</sup> *Each occurrence has some features peculiarly its own (...). The capacity to judge that these are or are not to be disregarded (...) can be learned but only by experience and exposure in the “right” scientific atmosphere, not by rote* (F53, 25), (p. 244), (bold added – A.S.). Williamson notes again that *by referring to the right scientific atmosphere, Friedman appears to scant the possible benefits of pluralism* (bold added – A.S.), (p. 244). Williamson reproaches Friedman his neglect of pluralism (“a way” and a „simple structure” rather than his own “simple structures”<sup>47</sup>), (third precept).

The notion of realism is again adduced when Williamson reproaches Friedman for not *nam[ing] the circumstances under which (...)* [an assumption] *is problematic* (p. 244). He relies again (see above) on “early” T. Koopmans. It is a passage worth quoting in full: *Such a change in the basis of economic analysis would seem to represent a gain in realism attributable to a concern with the directly perceived descriptive accuracy of the postulates. It would lead us to expect profit maximization to be most clearly exhibited in industries where entry is easiest and where the struggle for survival is keenest, and would present us*

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<sup>46</sup> We may recognize the *instrumentalist* character of this statement.

<sup>47</sup> Williamson, Friedman 1953 in: Mäki 2009, p. 242.

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*with the further challenge to analyze what circumstances give to an industry that character. It would also prevent us, for purposes of explanatory theory, from getting bogged down in those refinements of profit maximization theory which endow the decision makers with analytical and computational abilities and assume them to have information-gathering opportunities such as are unlikely to exist or be applied in current practice. It seems that nothing is lost, and much may be gained, in thus broadening the postulational basis of economic theory<sup>48</sup> (second precept).*

The summary judgement of Williamson's account is that *the central message, at least among **pragmatically oriented economists**, is fundamentally correct. Would-be theories, in economics and throughout social sciences, need to stand up and be counted – by making predictions and inviting empirical tests* (p. 253–254),<sup>49</sup> (bold added – A.S.).

Thus, on the interpretation of Williamson, Friedman is supposed to basically ascribe to the same pragmatic principles as espoused by Williamson himself. Simplicity, accurate mathematics, prediction as the acid test of theories, and empirical testing make Friedman appear in Williamson's "pragmatic" camp.

## 2) A. Hirsch and N. de Marchi's appraisal of Friedman

The second account dates back to 1990 when A. Hirsch and N. de Marchi published a book-length re-interpretation of Friedman's economics as "pragmatic." They started, just like Mäki twenty years later, with the complaint about labels that mislead as much lay readers as professional participants. Three such labels are dealt with three in particular, those that could be, and have been, associated with the philosophical work of John Dewey: "**instrumentalism**," "**pragmatism**," and "**experimentalism**." The last one has been rejected out of hand, because, the authors suggest, economics is a largely non-experimental field.<sup>50</sup> The second description, "instrumentalism" would be appropriate, on account of Hirsch and de Marchi, if it had not been pre-empted (in the common knowledge of philosophers of science and economic methodologists in the U.S. in the latter half of the 20<sup>th</sup> century) *by the modern philosopher of science Karl Popper, and his disciple in economics Lawrence Boland, and used to stand for something very different from the central ideas in Deweyan thinking.*<sup>51</sup>

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<sup>48</sup> Koopmans 1957, p. 141, quoted by Williamson, Friedman 1953 in: Mäki 2009, p. 245.

<sup>49</sup> Williamson more modestly refers to social sciences while Friedman originally talked about (all, natural) sciences.

<sup>50</sup> Let us remember that they started their research in 1977 and published it in 1990 (Acknowledgements, op. cit., p. vii, long before experimental economics became fashionable).

<sup>51</sup> Hirsch, De Marchi 1990, p. 3. For a brief account of Dewey's "instrumentalism" see below. Boland makes it clear: *Nowhere in my article did I mention Dewey or Dewey's instrumentalism. Nowhere have I said that Friedman's instrumentalism was in any way related to Dewey's instrumentalism.* Journal of Economic Issues, 1990, p. 2.

Instrumentalism within the philosophy of science refers to positions that regard scientific theories not as literal and/or accurate descriptions of the natural world, but instead as mere tools or “instruments” for making empirical predictions and achieving other practical ends. This general instrumentalist thesis has historically been associated with a wide variety of motivations, arguments, and further commitments. Unifying all these positions is the insistence that one can and should make full **pragmatic use** of scientific theories either without believing the claims they seem to make about nature (or e.g. society) or without regarding them as actually making such claims in the first place.<sup>52</sup>

Friedman did neither express any falsificationist views nor proceeded in a purely deductivist (e.g. Millian) fashion. For popperians this must have seemed mere technicist or “instrumentalist” an approach. His insistence on organization of data leads us to believe in a strong inductivist theme in his thinking. *To a deductivist, any inductivist can be no more than a “practical man” or “instrumentalist.” This is so because the inductivist does not rely on deductive proof (for the Millian) or deductive disproof (for a Popperian),* (p. 115). It should be clear that for Mill, *a political economist (...) may be an excellent professor of abstract science without knowing much in the way of what goes on in the world* (Mill 1973, p. 433; HdeM, p. 122). So it is not him who might be able to verify (in the old Millian sense) the predictions contained in scientific laws discovered by science. It is the **practical statesman** who plays this role.

The third description “pragmatism” is retained although *there is no direct relationship between this approach and William James’ pragmatic theory of truth* (p. 3). It is important to emphasise that the notion of pragmatism as used by Hirsch and de Marchi bears no relationship to some other ideas of “practicalism” that appeared in the history of economics or philosophy. See the quote by John Stuart Mill’s on the “practical man.”<sup>53</sup>

Mill says: *No one who attempts to lay down propositions for the guidance of mankind, however perfect his scientific acquirements, can dispense with a **practical knowledge** of the actual modes in which the affairs of the world are carried on, and an extensive personal **experience** of the actual ideas, feelings, and intellectual and moral tendencies of his own country and his own age.* The true practical **statesman** is he who combines this experience with a profound knowledge of abstract political philosophy (emphasis added by HdeM, **bold** added by A.S.).<sup>54</sup> Thus the nature of verification becomes a matter of division of intellectual labour and **social practice**. Each case has to be looked at separately. Hirsch and de Marchi emphasise that Mill expressed confidence *that our science and our knowledge of the particular case render us competent to predict the future* (Mill 1973, Logic VI, chapter IX; HdeM, p. 122–123, emphasis added by HdeM).

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<sup>52</sup> Pfeifer, Sarkar 2006.

<sup>53</sup> Mill, “Essays on Some Unsettled Questions of Political Economy.”

<sup>54</sup> Ibidem.

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The views of Friedman as reconstructed by Hirsch and de Marchi (and which are seen as opposed to Mill) are remarkably similar to Williamson's self-professed "pragmatism" (p. 124):

- Friedman views extensive observation of specific experience as a necessary component in the process of deriving "good" theory in economics (scientifically sound and useful); Solow's/Williamson's "a lot is gained by just looking what is going on;"
- Friedman views inquiry in economics as a continuous process where observation of specific experience and hypothesizing interacts at every stage in the process; Williamson agrees but emphasises interaction during the first stage;
- Friedman does not regard "realistic" assumptions as either necessary or sufficient to make a theory provisionally acceptable as part of economic science; here, exceptionally, Williamson disagrees;
- Friedman believes that the extent to which a theory can predict (and retrodict) should have a bearing on how we judge its premises; the fourth precept of Williamson is all important: a theory needs to stand up and be counted.

Friedman sees the logic of inquiry as inductivist rather than deductivist (at least on par); Williamson starts with inductivism and ascribes growing role to deduction, i.e. translation into accurate mathematics. Both agree that falsificationism is not a correct view on scientific procedure. Both see the failure of the implications of a theory to correspond as well with the facts as those of another theory as ground for choosing the latter and questioning the truth of the premises of the former. As we can see from this preliminary summary the only element of disagreement is Williamson's (admittedly not categorical) doubt in the unrealisticness of assumptions.

### *c) Pragmatism in the methodology of "positive economics:" summary and appraisal*

Friedman seems to have formulated all Solow's good practice precepts more than half a century ago: (...) *until we can develop a simpler picture of the world, but an understanding of the interrelations within sections of the economy, the construction of a model for the economy as a whole is bound to be almost a complete groping in the dark. The probability that a process will yield a meaningful result seems to me almost negligible. What is then to be done? The direction of work that seems to me to offer most hope for laying a foundation for a workable **theory of change** is the analysis of parts of the economy in the hope that we can find bits of order here and there and gradually combine these bits into a systematic picture of the whole. In the language of*

*the model builders, I believe our chief hope is to study the sections covered by individual structural equations separately and independently of the rest of the economy*<sup>55</sup> (emphasis and bold added – A.S.).

The relevance of these *concrete* remarks referring to the earliest macroeconometric models of the Cowles Foundation has persisted 50 years pointing to a perennial problem in macroeconomics. Williamson has transferred the precepts of simplicity and accurate mathematics (econometrics) to (partial equilibrium) institutional microeconomics and raised it to the level of generality of a (pragmatic) methodology. While Friedman seems to have used, in his early work, *plausibility* and realisticness of assumptions interchangeably,<sup>56</sup> Solow and Williamson, in tune with general usage, made it into a separate and more technical term referring to variations in the parameters of the model to test its robustness.

Thus one could claim that our chapter is in fact on the methodology of Milton Friedman only. The matter then resolves to the discussion of pragmatism of Friedman's thinking on positive economics and political economy. Friedman warned against the use of "schizoid concepts" which are used by those *thoroughly competent in the field of deductive analysis but utterly incompetent for quantitative analysis*.<sup>57</sup> He states that the more mathematical constraints are imposed by the definition of a theoretical concept, the less value it will have for the organisation of empirical data.<sup>58</sup> Apart from serving the objective of asserting (favoured) Marshallian over Walrasian approach to economics, it clearly points at the relative undesirability of rigorous definitions without an empirical counterpart. Friedman appears to look for an intermediate position between *schizoid* concepts of "pure" theory (concepts like "pure profits," "natural rate of interest," or "general equilibrium") and "applied" concepts valid for empirical analysis. (...) [*v*]ery strict definition of the variables would make infeasible the classification of data, thus preventing prediction from being obtained.<sup>59</sup> Especially, if one remembers that predictions are politically relevant, rough prediction is better than no prediction at all. Defending his Marshallian economics he repeated that Walrasian approaches were inherently useless for policy-maker.<sup>60</sup>

*At both ends of formalism and empiricism, economists have produced real and valuable improvements in the formal "language" available for describing economic interrelationships and in our detailed knowledge of the phenomena*

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<sup>55</sup> Friedman, "Comment" (on "A test of an econometric model for the United States 1921–1947") in Conference on Business Cycles, NBER, New York, pp. 107–114, quote p. 113 and 114 (after Hirsch, De Marchi 1990, p. 25).

<sup>56</sup> Friedman, Savage 1948, pp. 279–304.

<sup>57</sup> Wallis, Friedman, "The empirical derivation of indifference curves" in: Lange, McIntire, Yntema 1942, p. 176, after Teira, Zamora 2009, p. 197.

<sup>58</sup> Ibidem, p. 186.

<sup>59</sup> Teira and Zamora, op. cit., p. 198.

<sup>60</sup> Friedman 1953, p. 300, 316.

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to be explained by economic theory. But they have left something of a vacuum in the equally vital intermediate area of theories of hypotheses that have implications about important phenomena susceptible of contradiction through observation<sup>61</sup> (emphasis added – A.S.). Friedman battled on both fronts: as much against vacuous formalism (a critique of Oskar Lange of 1946) as against descriptive realism of institutionalist economics of the day.<sup>62</sup> In between, there remains an undefined area; would it be too much to see Friedman attribute some value to “vagueness,” important for pragmatists, James in particular? This is the intermediate area of inquiry to which J. Dewey devoted his efforts (see below) and which invites Peirce’ian logical analysis.

As we noticed above Milton Friedman while sympathetic and offering help in various attempts at exegesis or critique of his methodological essay almost never, as far as reported, commented directly on the views of the participants. So it is interesting to note the revealing note: *One minor indication of my difficulty is that you cite Dewey as if he were not a “modernist” in my sense, yet some recent papers I have read [early drafts of ours setting out parallels with Deweyan pragmatism] have persuaded me that my own methodological views are almost identical with those of John Dewey.*<sup>63</sup>

#### d) Final comments

It is clear that both economists do not pretend to be economic methodologists let alone philosophers of science. Friedman showed great interest in economic methodology early in his career (1940s/1950s), Williamson, on the contrary, in the later years of his (1990s/2000s). With some exaggeration one might even say that each of them contributed essentially one paper on methodology, Friedman’s 1953 article was a summary of his previous pronouncements and practice, after which he seldom ventured into separate methodological discussions. Williamson’s 2001 paper was a start of more vivid discussion (essentially a repetition) of methodological issues. One, in addition, that is practically devoid of sophisticated philosophizing but instead describes what the author considers appropriate research practice. This can also be seen as an aspect of pragmatism: (...) [i]n the pragmatic way of thinking methodology is simply part of the background knowledge with which one proceeds. It is taken for granted and nothing is said about it.<sup>64</sup>

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<sup>61</sup> Friedman, “Comment” (on “Methodology”) in: Haley 1954, pp. 455–457.

<sup>62</sup> Descriptive realism was a battle cry of institutionalism and the closely related emphasis on extensive statistical studies of economic phenomena (...). Ibidem, p. 457. Also: Friedman, Lange 1946, pp. 613–631 (reprinted in Friedman 1953).

<sup>63</sup> Letter of Friedman to McCloskey, January 10, 1984 (a copy of which was sent to Hirsch by Friedman) quoted after Hirsch, De Marchi 1990, p. 6.

<sup>64</sup> Hirsch, De Marchi 1990, p. 153.



Friedman’s methodological writings point to the philosophical problems tackled by classical pragmatism: the “assumptionist” versus “implicationist” dilemma has been very much the stuff of pragmatist analyses of meaning, truth, logic and theory of inquiry. It can be illustrated as follows:

**Table 1. Inquiry**

Premises		Reasoning		Conclusions
Basis		Beliefs		Implications
Justification of beliefs	→	Truth	→	consequences
	→		→	practical use
Assumptions		Theory		Predictions

We remember that, in common understanding (folk Friedman, as it was), he went as far as render the truthfulness of assumptions irrelevant for the proper knowledge acquisition. One reason he was led to formulate such a thesis, was prompted by the problem of unobservables. He “solved” it by concentrating instead on predictions. It is the implications of theory that are observable and which, therefore, have a chance of standing an objective test. When introspection (of the Millian tradition) is ruled out consequences become paramount. Much in the pragmatistic vein.

Since at least Thomas Kuhn growth of knowledge is the most important problem for the philosophy of science. In the spirit of the times, Friedman’s view is that one should concentrate on the implications since focus on the “realism” of plausibility of assumptions leads to stagnation. *Even what may look like advance in this mode, substituting more “realistic” assumptions for those that are less so, has often meant changing one set of dogmas for another which has somehow lost its plausibility.*<sup>65</sup>

Friedman was defending neoclassical economics (for maximisation hypothesis *inter alia* against mark-up pricing theory, against questionnaire research in business) and political position (against socialism of Lange or Lerner, against “big” government). The way he chose to defend bear similarity to pragmatist philosophy (he was a collaborator of an institutional economist Wesley Mitchell). As his “Monetary History of the United States 1867–1960”<sup>66</sup> testifies, he emphasised, just like Mitchell, the need for extensive investigation as an essential aid in deriving theory: the emphasis is not on assumptions (deductivism) but rather on implications (inductivism). In doing that, however, he took care not to fall into an empiricist camp. This major work in which he worked towards towards corroborating his monetarist *theory* is a thick examination of the historical evidence.<sup>67</sup> This goes a long way towards privileging historical and

<sup>65</sup> Ibidem, p. 95.

<sup>66</sup> Friedman, Schwartz 1963.

<sup>67</sup> „Thick” and „thin” are common terms in the methodology of social science. For economics see: Boettke et al. 2006.

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institutional analysis, and pragmatist “evidentialism” in economic methodology as practised by Friedman himself.

However, as Mark Blaug notes, Friedman’s strong dictum about solely predictions and not assumptions counting in an appraisal of theory is considerably weakened: *An even more important body of evidence for the maximisation-of-returns hypothesis is **experience** from countless applications of the hypothesis to specific problems (...). This evidence is extremely hard to document; it is scattered in numerous memorandums, articles, and monographs concerned primarily with **specific concrete problems** rather than with submitting hypothesis to test<sup>68</sup> (bold added – A.S.). Really? Not even one concrete prediction?<sup>69</sup> We see a major inconsistency: Friedman does not practice what he preaches (and he preaches “positivist economics”). This inconsistency is to be, partially to be sure, healed by acknowledging that Friedman is not a Popperian, not even a regular positivist, not an instrumentalist (in the positivist sense) but a **pragmatic**. Paul Samuelson sees Friedman as saying that: (...) [a] *theory is vindicated if (some of) its consequences are **empirically valid to a useful degree of approximation**, the empirical realism of the theory “itself” or if its “assumptions,” is quite irrelevant to its validity and worth<sup>70</sup>* (bold added – A.S.).*

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<sup>68</sup> Friedman 1953, pp. 22–23.

<sup>69</sup> Blaug, “The debate over F53 after fifty years” in: Mäki 2009, p. 350.

<sup>70</sup> Samuelson 1963, pp. 231–36.



# Towards pragmatism in economics

## a) *The uses of “pragmatism”*

To say that the meaning of the word “pragmatism” is not very precise is to state the obvious. We shall eschew here the long debate in academic philosophy concerning the proper sense and meaning of pragmatism.<sup>71</sup> Our purpose is to inform the debate on economic methodology with some insights of the pragmatic philosophy of science. From how it is used in everyday language as well as in humanities and sciences one can make several principal senses. Often the word “pragmatic” has two or more shades of meanings, sometimes even contradictory. Without in any way claiming that there is *one* “proper” usage or one “scheme” of interpretation or taxonomy, we shall nevertheless distinguish a number of **levels** of pragmatism. We basically see “pragmatism” being used at five levels of discourse:

Level 0: by level “zero” of pragmatism we shall designate a body of thought where the word “pragmatic” is used but that has no (visible, sensible, even semi-articulated) reference to pragmatism whatsoever. **Empty**.

Level 1: At this basic level, the word has, generally speaking, a meaning close to everyday language. Philosophically speaking, it is **vulgar pragmatism**. We see two main versions of vulgar pragmatism:

(a) The main understanding is close to **dictionary** meaning as practical, useful, or realistic. This can further be evaluated as positive (i.e. not unrealistic, impractical, or abstract) or negative (concerned with mundane matters, utilitarian, lacking and/or unconcerned with theoretical basis, explanations).<sup>72</sup>

<sup>71</sup> An early and still relevant voice is Lovejoy 1908. For contemporary reviews see: McDermid 2006; Haack 2006.

<sup>72</sup> The vulgar use is demonstrated by “elegantki pragmatyzm” [elegant pragmatism]; this is the

(b) The more sophisticated understanding relates to the understanding of actions or policies (especially economic and social policies or politics in general). Again, it can be interpreted in a positive manner as antithetical to ideological dogmatism, careful avoiding cultural (including religious) conflicts or politically explosive issues or in a negative manner (unprincipled expediency, lack of moral or ideological consistency, brutal and opportunistic *realpolitik*). Intermediate shades can surely be witnessed. We could call it **strategic pragmatism**.

Level 2: Here, the usage is explicitly scientific and refers to areas of academic philosophy and methodology of natural and/or social science. In this usage, authors do not merely appropriate the label of pragmatism, but predominantly some key idea(s) which they rightly or wrongly attribute to the founding fathers of pragmatism or to this intellectual movement "as such." As common sense is certainly part of pragmatistic thinking, it is relatively easy to either present more sophisticated versions of common sense or take some ideas considered as important or characteristic of pragmatism.<sup>73</sup> Depending on the depth of philosophical reflection (and, possibly, good will of the thinker) it may range from **trivial** to sophisticated investigation of pragmatism and focus on any of the philosophical fields: ontological, epistemological, moral, methodological. Given the sometimes, but not always, "**straw man**" characteristics of representation of this body of thought, we call this level **folk pragmatism**.

Level 3: Only at this level do we find the proper **classical pragmatism** of the founding fathers. Usually three names are uttered in one breath: C.S. Peirce W. James, J. Dewey. Depending on the purpose of the discussion one treats these thinkers as broadly in agreement or, conversely, as substantially differing on e.g. major epistemological or ontological questions. For the purpose of economic methodology, one can initially, at least, separate Peirce (a) and Dewey (c) from the thought of James (b) (see below).

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Polish title of see: Rasonyi 2010, Forum, nr 35, 30.08–5.09.2010, p. 10–11. It is reported that "a pragmatic work style of D. Cameron" has been met with relief by bureaucrats and journalists. "Word clarity, pragmatism and team work" are praised. On the other hand, the content of the policies of the conservative-liberal coalition is continuous rolling back of the State, elimination of guarantees of social benefits, cutting public expenditure below the level witnessed during the reign of M. Thatcher (ca. 40%). This shows the ideological consistency in the neo-conservative agenda that was labelled "radical" even "revolutionary" in the 1980s. Is the term pragmatic as used here empty, misleading, façade, manipulative? See: footnote 18.

<sup>73</sup> As an example of ideas referred to most often, let us see the opening sentences of the Internet Encyclopedia of Philosophy: *Pragmatism is a philosophical movement that includes those who claim that an ideology or proposition is true if it works satisfactorily, that the meaning of a proposition is to be found in the practical consequences of accepting it, and that unpractical ideas are to be rejected. Pragmatism originated in the United States during the latter quarter of the nineteenth century. (...) it has significantly influenced non-philosophers – notably in the fields of law, education, politics, sociology, psychology, and literary criticism (...)*, <http://www.iep.utm.edu/pragmati/>, p. 1.

**Level 4:** It can be argued that the works of the three<sup>74</sup> "fathers" belong to the history of philosophy rather than to contemporary thinking. By this we mean that it is unlikely that one can be strictly a Peirce'an or Jamesian philosopher today (as different from being a historian), after a century passed with phenomenological, analytical, existentialist, Marxist, hermeneutical, structuralist, etc. contributions to philosophical investigations. Hence important contemporary philosophers claiming pragmatism as their source or current "label" should rather (if at all) be seen as new pragmatists, neo-pragmatists, post-pragmatists, etc. We shall call them **post-classical pragmatists**. The main authors "faithful" to the traditional pragmatist concerns are J. Margolis, J. Stuhr, Ch. Misak, R. Bernstein, V. Colapietro, J. Shook. At the same time, there are thinkers that can claim or be placed in association with other major currents of contemporary philosophical reflection and only tentatively or partially be espousing pragmatist creed. The classification relies on major figures whose pronouncements on the matter may or may not be decisive. The philosophers in question are W.V.O. Quine, H. Putnam, R. Brandom who, within the camp of the "historians," are seen as simply analytical philosophers. Less "parochial" analysis (or wider ideological cleavage) might reveal some of them to be post-analytical philosophers. Hence, within contemporary pragmatism, we could call these thinkers analytical or **post-analytical pragmatists**. Dewey's successor at the University of Chicago R. Carnap, who reportedly viewed pragmatism as somewhat crude proto-positivism, added "pragmatics" to logical analysis of language. Since logic figures prominently in contemporary post-Vienna-Circle analytical work, it was also, especially if we add S. Haack, labelled **logical pragmatism**.<sup>75</sup>

**Level 5:** An important label of "neo-pragmatism" has been associated with post-modernist thinking of Richard Rorty whose work, as a critique of much of conventional philosophy as such, does really stand out and might be labelled **post-modernist pragmatism**. Post-classical pragmatists' output has important implications for economic methodology and deserves a separate chapter.

In recent Polish journalism the label "neo-pragmatism" has been used in the sense 1b, i.e. it belongs to vulgar pragmatism. The reasons for using the prefix "neo-" are obscure if not entirely spurious.<sup>76</sup> We venture a hypothesis that the most probable explanation seems to be "cheap" rhetoric: it suggests

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<sup>74</sup> Admittedly, one could add at least J. Royce, F. Schiller, G.H. Mead as major contributors to the pragmatic movement at the turn of the 20<sup>th</sup> century.

<sup>75</sup> McLellan 1988, pp. 39–56.

<sup>76</sup> E.g. The description of former deputy prime minister Marek Belka as neo-pragmatist by J. Żakowski (Radio TOK-FM) or some pronouncements, or better, calls for a neo-pragmatist approach during Economic Forum 2009 in Krynica: Marek Staniszewski, "Neopragmatyzm imperatywem na niepewną przyszłość", <http://staniszewskimarek.blogspot.com/2009/09/neopragmatyzm-imperatywem-na-niepewna.html>.

“contemporary,” “fresh” version of whatever is understood as “pragmatism” and is to bestow an aura of “value” on the person or policy approach. In the Polish political culture, this would be an additional “virtue:” one would assume that a pragmatist is capable of meta-thinking, he or she is able to appraise whole systems of thought, go beyond them and the weigh arguments on some meta-level. While the ability to deconstruct narratives in the post-modern fashion may or may not be approximately true for individual persons, we assert that it is unlikely to apply to government serving economists.

## *b) Examples of recent (mostly) Polish economic work claiming affinity with pragmatism*

In this section we shall provide brief commentaries on some economic works that refer explicitly to pragmatism. Usually the word “pragmatism” appears in the title of the book.

Before we do that let us, for a moment, look up a dictionary: The meaning of “pragmatism” in Merriam-Webster online dictionary (<http://www.merriam-webster.com/dictionary/pragmatism>):

1. a practical approach to problems and affairs *tried to strike a balance between principles and pragmatism*.

Let us note that the example (...) provided is itself imprecise and ambiguous: either

- a) it would imply that there is a third position, quasi-pragmatism, semi pragmatism, half-way pragmatism or practical approach (neutral): you as pragmatist need to strike a balance between P1 and P2 (and it immediately becomes circular!),
- b) pragmatism is a negatively charged word, an antonym of principled (thought, behaviour, action), that is unprincipled: only driven by the desire to achieve one’s ends and is possibly or potentially unethical (betrayal), unscrupulous, opportunistic.<sup>77</sup>

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<sup>77</sup> Let us inspect an article by L. Shevtsova, “Pożyteczni idioci Putina” (“Putin’s useful idiots”), *Gazeta Wyborcza*, 4–5.09.2010, p. 16–17. First, a clarification: *In political jargon, the term useful idiot was used to describe Soviet sympathizers in Western countries and the attitude of the Soviet government towards them. The implication was that though the person in question naïvely thought themselves an ally of the Soviets (...) they were actually held in contempt by them, and were being cynically used.* Wikipedia: [http://en.wikipedia.org/wiki/Useful\\_idiot](http://en.wikipedia.org/wiki/Useful_idiot). The term which is commonly attributed to V.I. Lenin (*Nützliche Idioten*), sometimes in the form “useful idiots of the West” indicates victims of propaganda, objects of brainwashing, puppets in an orchestrated spectacle. A brief look at current web pages tells us that journalists easily substitute G.W. Bush, B.H. Obama or other contemporary politician for Lenin or Stalin. In her article, the Russian political scientist uses of the

Another, commonsensical (but philosophically vulgar) meaning is offered by the “Free dictionary:”<sup>78</sup>

*A practical matter-of-fact way of approaching or assessing situations or of solving problems.*

Let us, first, signal empty and dictionary pragmatism (Level 0 and 1a). It might seem strange to find in “serious” economic writing an “empty” adjective that an author would voluntarily use to describe his/her statement pertaining to economic science. And yet, let us inspect cursorily a few publications in economics that appeared after 1989 in Poland.<sup>79</sup>

The first two books are exercises in social history. The authors do not claim to be economists and do not write an economic textbook.

Janusz Zaręba’s book is a biography of an eminent Polish economic activist, Eugeniusz Kwiatkowski who was a minister of trade and industry and vice-prime minister before the WW2. His main achievement was the Polish shipbuilding industry and marine economy in general as well as the Central Industrial Cluster (metalworking and armament industry) created under strong Polish state economic interventionism of 1920s and 1930s. Pro-Soviet Polish government after 1945, attempted to use his pre-war reputation for limited purposes in early reconstruction 1945–1947, but prevented him from formulating let alone realizing any significant economic ideas. The oxymoronic title of the book conveys on the one hand, the bold (“romantic”) ideas of economic development Kwiatkowski had entertained, “stretching” in public policies and pre-war industrial planning (interventionism), and on the other hand, the enormous energy he showed in politics, effectiveness in mobilizing and monitoring public bureaucracy. The term “pragmatism” is to show that he was able to get things done. Action was his *forte*. It might also reveal that he had no academic economic education (he was a chemical engineer) and, probably, was no prisoner of any economic doctrine (currently taught at Polish universities or high business schools).

Tadeusz Bodio, a political scientist, looks at Polish history as an interplay of romanticism and pragmatism (the terms usually used in this context refer

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term “pragmatism” to describe the attitude of precisely those “naive idiots;” this suggests cynicism on both sides: the “idiots” allow themselves to be manipulated in order to manipulate “partners,” if possible, or simply to derive economic or political benefits. The *Schröderisation of the politics of the West towards Kremlin* is a case in point. *Business and politicians are ready for pragmatism at all cost. But what about those for whom the strengthening of values and principles should be their life mission? I mean intellectuals, journalists, experts or scientists. The intellectuals should not be pragmatic [pragmatykami] such as their leaders are.* So here, persons are “useful idiots” because they are (strive to be) pragmatic. In the case of the new British government, those that call the Cameron-Clegg coalition government pragmatic are themselves the useful idiots. In these contexts, calling someone “pragmatic” seems to be a currently politically correct, i.e. unethical, manner of describing an unethical politician.

<sup>78</sup> <http://www.thefreedictionary.com/pragmatism>.

<sup>79</sup> Zaręba 1998; Bodio 2000, p. 205; Narski 2005, p. 168; Poray 1993, p. 453.



to literary traditions of romanticism and positivism). Especially the latest transformation shows *the confrontation of romanticism and pragmatism*, so much so that he calls the Polish society undergoing a “psycho-transformation” at the beginning of the 21<sup>st</sup> century. He mainly discusses Polish romantic ethos and attitudes. His usage of the term “pragmatism” is limited to “pragmatic geopolitics” and ends on the note of distinction between “euro-romanticism” to “euro-pragmatism.” Generally speaking, “pragmatism” as used by Bodio, is:

- a) an antonym of romanticism, a condemnation of Polish messianistic aspirations,
- b) descriptive of attitudes of quick adaptation to European regulations (*pragmatyka działań dostosowawczych*).

Euro-pragmatists are supposedly driven by reasons and interests (*racje i interesy*) while euro-romanticists act on intentions and aspirations. His suggestion is (Orwellian) “doublethink,” i.e. that after 1989 Polish politicians demonstrate *both* attitudes depending on “spirits.” His presentation of pragmatic politics emphasizes *realism* of ideas on Poland in the present world.

Thus “pragmatism” that appears in the two works is a “dictionary” pragmatism. It denotes an **attitude** rather than a *body of thought*. That attitude boils down to approaching life in a practical manner, pursuing realistic aims and looking for useful things in life or policy.

The book by Narski, boldly entitled “Pragmatic economics,” is for all practical purposes, a text in somewhat idiosyncratic economic accounting at the level of an enterprise and a national economy. There is no indication what the target audience is, but judging from the level of discussion and technical tools used it seems to be destined for secondary school pupils (*liceum, technikum*). It contains no mathematics higher than simple arithmetic, all the definitions are in the form of simple ratios and percentages, and the most advanced formulae concern (arc) elasticity of demand and growth rates. This is, of course of no particular importance (we remember that Ronald Coase’s (Nobel in 1992) mathematics was limited to addition and subtraction) for the “weight” of the argument. It is ostensibly anti-theoretical, contains no references to any works at all, all the definitions are practically commonsensical, and simple taxonomies referring to costs or managerial aspects dominate the narration. Narski never uses the term “pragmatic” in the text. One could conjecture then, that the meaning of the “pragmatic” in the title of the booklet (168 pages) is to convey the following methodological message: all (with relatively few exceptions) short sections making up the chapters contain some simple formula ready for immediate calculation. The book engages in no theoretical debates on any level of abstraction. This might (although I do not think the author has this in mind) in addition signal absence of theoretical, i.e. impractical, discussions and distilling the formulaic knowledge readily applicable in private and/or public management/policy.

The bulkiest of the four books reviewed here, by A. Poray, carrying a subtitle of "A study of natural principles of pragmatic economics" is the only one attempting a *theoretical* synthesis. The book is a wide ranging socio-historical-philosophical sketch, a *justification for the science of pragmatic political economy* (p. 13), ("pragmatic economics" is in the title, "pragmatic political economy" is found in the text of the book). Its task is to *reveal the natural rules of pragmatic government (rządzenie) of the national economy (gospodarstwem narodowym) so as to achieve the transformation of societal being from the state of poverty to the state of economic wealth* (p. 13). The main gist of the narration is the opposition of "doctrinaire constataions" of various economic theories and political ideologies with the "pragmatic socio-economic facts" as observed in the "historical evolution of pragmatic development" of societal being. Methodologically, *pragmatic facts of economic activities of social subjects* (p. 10) can however serve as confirmations of certain theoretical constataions. The book is devoid of any references and engages in occasional discussions with 18<sup>th</sup>– 19<sup>th</sup> century social and political thinkers (mainly classical socialists Fourier, Marx, Lenin and classical political economy) only indirectly by dismissing their alleged theses as utopian. One is given to understand that pronouncements are generally "unpragmatic" (my own term) if they abstract from the "natural" characteristics of "*homo sapiens*" and "*homo creator*."

The meaning of the term "pragmatic" in the text is fuzzy, usually synonymous to "real," "realistic," "effective," most often bogged down in pleonasms ("*masło maślane*") and tautologies. The main sense that can possibly be extracted from the verbiage is that "pragmatic" is the antonym of doctrinaire, i.e. academic, theoretical, "armchair," "impressionistic" (p. 11), "it-seems-to-me" types of thinking and "subjectivist research method" (p. 11).<sup>80</sup> The Author however, does not indicate how these ugly ways of thinking differ from his own *opus* which is a mixture of metaphysical pronouncements on biological and social conditions of Life as well as full of (trans)historical and ethical assertions. "Pragmatism," on his account, includes "naturalism" and is opposed to "illusions" created by various "do-gooders" ("*uszcześliwiacze*"). It also carries the positivistic message of "*mierzyć zamiar podług sił*."<sup>81</sup>

All in all, none of the books contains any serious discussion of economic concepts, proposed "knowledge" is superficial and the ostensibly "pragmatic" content is nowhere to be found. The meaning of the "pragmatic" is either hazy or outright absent (economics) or commonsensical (social and historical accounts). One has to conclude, therefore, that the term "pragmatic" is **used for marketing purposes**. Conventionally, one would say: for "rhetorical purposes."

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<sup>80</sup> The meaning of "subjectivist" is left unexplained. This is a warning for the more analytical reader who might associate the term "subjective" with, for instance, the Austrian school of economics.

<sup>81</sup> Allusion to Mickiewicz's: *Mierz siły na zamiary, nie zamiar podług sił* (*measure the forces on intentions, not going to force*), Adam Mickiewicz (1798–1855), „Pieśń Filaretów" (1820).

However, “rhetoric of economics” is one significant current of post-modernism or, indeed, of pragmatism in economics (Level 5) and, as a valuable current in contemporary economics, should be distinguished from banal sense and everyday usage of the term. Hence, all these books would fall into the category of P0, pragmatism “zero:” have no specific pragmatic content behind the title, either methodologically or theoretically, and are simply “empty.”<sup>82</sup>

This fifth book clearing the ground for the study of pragmatic economics is Wiesława Sotwin, “Podmiotowość w sferze politycznej czyli pragmatyzm – pryncypializm,” Wydawnictwo Naukowe Scholar, Warszawa 2003.<sup>83</sup> The book is a social-psychological study and is devoted to the Polish transformation (ca. 1980–2000). The main distinction made is between principled choice (normatively-ethically-ideologically motivated) and pragmatic decisions (task-oriented). Pragmatism is here an **attitude**. The pragmatic style of communication by politicians<sup>84</sup> uses descriptive language, utilitarian argumentation, is based on facts, informs on diverse aspects of social reality. Pragmatic behaviour is characteristic of persons whose reference is primarily to empirical reality (possibility of action) rather than the mythical world (values) important for the principled types of subjects. Indeed, the functioning of persons as subjects of “free will” and the construction of their choices given the “muddled” social environment during transition is the general object of investigation. Here the “pragmatic pattern of behaviour” is an empirically observed (via questionnaire research) construct, an “attractor” to use the chaos theory terminology (p. 57). A four-item typology emerged from empirical research: stable and switching pragmatists as well as stable and switching “principlalists.” For our purposes it suffices to say that pragmatism in this version of social psychology is an attitudinal variable, realized in choices made by people in changing political circumstances. A simple correlation study revealed that the strength of pragmatism was uncorrelated to the financial status in 1980 among respondents, but strongly correlated to (higher) financial status in 1989 (p. 115). In sum, it is a realistic, task-oriented attitude. It is in our taxonomy P1, Level 1.

Examples of the “serious” usage of pragmatism found in the discussion on economic policy. In Poland, “early” examples of “pragmatism” are found in the discussion of reforms under “real socialism.” This pragmatism was unambiguously positive and antithetical to ideological (PZPR or generally “communist”) dogmatism. The difference with the primitive notions discussed above is that behind the label one can find some concrete proposals of

<sup>82</sup> A marketing sense is also witnessed in the title of a set of economic reports on several countries of Asia, see: Boisseau de Rocher, Godement 2006. The key terms “pragmatism” and “cunctatorship” are never used in any of the ten texts forming the *receuil* of 182 pages. A “strategic” sense of pragmatism (examples provided below) might conceivably be behind the title if it were not left entirely to the imagination of the reader.

<sup>83</sup> Sotwin 2003.

<sup>84</sup> *Ibidem*, p. 46. This is based on Jakubowska 1999.

economic organisation or policy. On the whole, these pronouncements boiled down to advocating some (greater) measure of “market socialism” inside central planning.<sup>85</sup> A similar level of understanding of pragmatism is shown by some discussants participating in the great debate on post-1989 transition/transformation. Here the term pragmatism signifies avoiding another ideology, this time dogmatic (neo)liberalism.<sup>86</sup> We are given to understand that wholesale reliance on the market forces (possibly the “invisible hand” attributed to Adam Smith) might be too costly (social suffering, destruction of the safety net) and may be even counter-productive. Pragmatism would, therefore, mean more equilibrated, slower transition to capitalism than was prescribed (in Poland) by the “shock therapy” of J. Sachs and L. Balcerowicz. All in all this is tantamount to avoiding extremes: neither “purely” “socialistic” nor “capitalistic.”

**Strategic** pragmatism (Level 1b) signalled above is even more visible in the discussion of development issues in Asia. Essentially authoritarian governments are however praised for their skilful pro-capitalist/pro market policies in the context of a traditional, multicultural society. So for instance, the government of Lee Kwan Yew in Singapore, an early so-called Asian “tiger” as well as the “capitalist roader” Deng Xiaoping, the supposed founder for the success of the most recent (and dangerous) “tiger” of People’s Republic of China are congratulated on their respective mixes of developmental policies.<sup>87</sup> As a number of official documents and policy declarations speak of “pragmatism” the concept assumes an ostensibly **ideological** character.

A lively discussion is currently held in the U.S. concerning the alleged “pragmatism” of Barack H. Obama.<sup>88</sup> A few quotations suffice for the present purpose.

*So my whole goal over the next four years is to make sure that whatever arguments are persuasive [are] backed up by evidence and facts and proof that they can work, that we are pulling people together around that kind of pragmatic agenda* (press conference, February 9, 2009).

*(...) [v]alues are faithfully applied to the facts before us, while ideology overrides whatever facts call theory into question* (“Audacity of Hope,” p. 59).

*We may not agree on abortion, but surely we can agree on reducing the number of unwanted pregnancies in this country (...). I know there are differences on*

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<sup>85</sup> Zieliński 1978.

<sup>86</sup> Szymański 1993; Zienkowski 1993.

<sup>87</sup> Schein 1996; Schein 2008; Yang 1993.

<sup>88</sup> Obama 2006. His other pertinent statements are, for example, “The presidential inauguration speech” on 20.01.2009 (<http://www.whitehouse.gov/blog/inaugural-address/>), various speeches and interviews. Some of the quotes have already found place on a dedicated website: [http://www.notable-quotes.com/o/obama\\_barack\\_vii.html](http://www.notable-quotes.com/o/obama_barack_vii.html).

*same-sex marriage, but surely we can agree that our gay and lesbian brothers and sisters deserve to visit the person they love in the hospital and to live lives free of discrimination. Passions fly on immigration, but I don't know anyone who benefits when a mother is separated from her infant child or an employer undercuts American wages by hiring illegal workers* (Remarks of Senator Barack Obama at the Democratic National Convention, August 28, 2008).

*I (...) began our conversation by asking about his economic approach. He started to answer, but then interrupted himself. "My core economic theory is pragmatism," he said, "figuring out what works"* (Leonhardt, "Obamanomics," New York Times, August 24, 2008).<sup>89</sup>

*This approach has earned Obama praise for his prudence, independent thinking, epistemological modesty, empiricism, curiosity, results orientation, lack of dogmatism, distaste for extremism, willingness to compromise and insistence on nuance. He has been compared to William James and John Dewey, the heroes of American pragmatism.*<sup>90</sup> The self-proclaimed "pragmatism" of Obama appears to be, at first glance, of the philosophically vulgar kind: avoidance of conflict, eschewing (extreme) ideological positions, uniting rather than dividing, etc. [T]he old bipartisan pragmatism of American politics is sometimes adduced in political writing.<sup>91</sup> Commentaries on Obama's "human resource policy" for selected (!) posts have also used the adjective such as was the case of Christina Romer's nomination for the post of the leader of the Council of Economic Advisers: *Depression scholar has a reputation for pragmatism.*<sup>92</sup>

Yet he can also claim (we leave the critique for another text) a more (folk) philosophical level making direct allusions to William James and declaring acting on the principle of "**what works.**" *The question we ask today is not whether our government is too big or too small (...). Nor is the question before us whether the market is a force for good or ill. The question before us is whether it works (...). Does the market get the job done? Does the state get the job done? And how do they get their jobs done?* [inauguration speech]. Colin Koopman suggests that rejection of "stale political arguments" is also a rejection of the view that we can know in advance of experience what roles governments and markets should play in our lives. Obama is supposedly taking a more **experimental** approach to government and market forces that would allow us to invoke one or the other, either government or market, when each is appropriate.<sup>93</sup>

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<sup>89</sup> <http://www.nytimes.com/2008/08/24/magazine/24Obamanomics-t.html>. Compare James 1907.

<sup>90</sup> Gerson 2009.

<sup>91</sup> Parker 2005.

<sup>92</sup> Helman 2008. Her resignation took effect on September 2, 2010.

<sup>93</sup> Some economists also stress the experimental approach as belonging to pragmatism, see: Wolsfetter 2001, pp. 49–54. Generally speaking, this is correct. On the precise meaning of "experimentalism" see the works of Dewey.

Philosophers – commentators find other examples: *Pragmatism was most evident on Tuesday* [inauguration speech – A.S.] *in Obama's steadfast invocations of hope: which hope is of course as native to pragmatist thinking as it is to very America itself* (Colin Koopman).<sup>94</sup> Coming from the University of Chicago, Obama can also claim affinity with the Law & Economics and legal – economic scholar Richard Posner who became another self-proclaimed pragmatist, this time in legal theory.

Political rivals, on the other hand, expose the pretence of “pragmatism” and outright policy failure or even mystification.<sup>95</sup> The analysis of these discussions is beyond the scope of the present chapter. Having in mind the “Asian pragmatism” referred to above, one can simply add **ideological pragmatism** to our tentative list of vulgar pragmatisms. Depending on one's political analysis (and values), one could associate this version to the empty, “marketing,” or (“purely”) “rhetorical” kind detected above. John Kenneth Galbraith, economic advisor to several Democratic Party presidents called himself “reluctant pragmatist:” reluctant pragmatism was to serve “*as a defender of America's true political genius*” *against conservatism* [that] *would grow more and more dangerously utopian*.<sup>96</sup> Galbraith referred to Milton Friedman with whom he battled for the mindshare of the American public and provided a countervailing intellectual force against the Republican Party in the 1960s and 1970s. *If you hear someone in public life say that he is going to stand firmly on principle, you should take cover – and warn others to do the same*.<sup>97</sup>

The scope of the present text does not allow us to delve deeper either into the current U.S. policy debates or Asian development strategies. We have evoked these discussions since they illustrate the three lower levels of pragmatic/pragmatistic thinking: empty, vulgar and, occasionally, folk pragmatism.

### c) *Philosophical pragmatism: essential concepts*

The literature on pragmatism is voluminous and our purpose is to sketch certain aspects relevant for economic methodology. We shall focus on themes evoked in the first two sections to the extent that these have been discussed by philosophical pragmatists (Levels 3 and, partially, 4). We shall expose the main epistemological and methodological achievements of philosophical pragmatism that are supposedly (or hopefully) valid for all science, including social science. This means also economics.<sup>98</sup>

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<sup>94</sup> <http://cwkoopman.wordpress.com/2009/01/24/pragmatism-in-obamas-inaugural/>.

<sup>95</sup> The emptiness of Obama's pragmatism, Christian Science Monitor, <http://www.csmonitor.com/Commentary/Opinion/2009/0526/p09s02-coop.html>; Glen Greenwald, The NYU Law School event, [http://www.salon.com/news/opinion/glenn\\_greenwald/2010/03/09/nyu/index.html](http://www.salon.com/news/opinion/glenn_greenwald/2010/03/09/nyu/index.html).

<sup>96</sup> Parker 2005.

<sup>97</sup> Ibidem. An easy (not untrue) quip of the present author is: *If you hear someone in public life says that he is going to be pragmatic, you should take cover – and warn others to do the same*.

<sup>98</sup> Peirce was aware of economics (political economy), knew W.S. Jevons and exchanged

1) *A brief presentation of some ideas of classical pragmatism*

Pragmatism is not, relatively speaking, an old philosophy. Historians agree that the thought of Charles Sanders Peirce, William James and John Dewey, to name the three late 19<sup>th</sup> century American philosophers, has in a decisive manner been developing under the impact of Charles Darwin's (revolutionary) evolutionary theory. It is worth mentioning that the thinking of the fathers of the current marginalist "mainstream economics," Léon Walras and Alfred Marshall contains more than just references to epoch-making *oeuvre* of Darwin.<sup>99</sup> However, their final products, both Marshallian and, especially, Walrasian expositions of economics have conspicuously failed to incorporate these insights into the social science. Pragmatists have adopted the broad premises of the evolution of species, adaptation to changing environments, variety and selection "mechanisms," mutability of knowledge undermining all kinds of dogmatism, appropriateness of the psychological conceptions of Human, to name the few.

Psychology was rapidly establishing itself as a respectable social (natural) science at the turn of the 19<sup>th</sup> century and all the three thinkers contributed in no small measure to its rapid development. Their common stance<sup>100</sup> was anti-positivistic "Data" are not "given" but "taken" and interpreted, depending on the purpose of the inquiry. According to Peirce, logical inference shades into perceptual judgement "without any sharp line of demarcation between them."<sup>101</sup> These and other observations and insights have found corroboration in contemporary neuroscience and thereby in neuroeconomics, that is a century later. Thus, pragmatism and social science affiliated with it espoused not a *Homo Oeconomicus* but a psychologically richer conception of Human.

K. Wilkoszewska<sup>102</sup> summarizes what the pragmatists were up to philosophically as follows.<sup>103</sup> They:

- resign from seeking certainty in knowledge,
- abstain from passing judgements on the ultimate matters,
- reject all forms of absolutism,
- prefer **experience, process and pluralism** as leading metaphors,

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correspondence with him; as a mathematician he was interested in the work of A. Cournot and equilibrium concepts (he probably discovered Nash equilibrium long before John Nash).

<sup>99</sup> Compare the body of knowledge revealed in thorough reviews of Rafaelli 2003 and Jolink 1996 with the content of any standard textbook of mainstream (i.e. neoclassical) economics or conventional presentation of the two approaches.

<sup>100</sup> The concept of stance as a kind of commitment to a creed that is maintained by faith is elaborated in Van Fraassen 2002.

<sup>101</sup> Peirce 1931–1958, CP 5.181. We are using the conventional notation for citing Peirce in the Collected Papers. CP 5.181 is section 181 in vol. 5.

<sup>102</sup> Wilkoszewska 1999, pp. 35–51.

<sup>103</sup> See: Sulejewicz 2009, Wyjazdowe seminarium naukowe Kolegium Gospodarki Światowej SGH.

- accept the concepts of structure, order, unity as derived notions,
- attempt to understand the relation of human – world in behavioural rather than conceptual manner,<sup>104</sup>
- are sensitive to the pressure of **environment** and emphasise the role of **context**,
- are future oriented,
- are reluctant to engage in speculative thought, one that is removed from lived experience.<sup>105</sup>

John Stuhr, himself a declared contemporary pragmatist,<sup>106</sup> in Classical American Philosophy summarizes American philosophy as a whole as follows:

- rejection of categories, language and key concepts of previous philosophies,
- **fallibilism**,
- **pluralism**,
- radical empiricism,
- continuity between philosophy and science,
- **pragmatism**,
- special interest in the community and the social context,
- **processualism** (added by A.S.).

Output of pragmatists is voluminous, spans 140 years of which over 70 can be seen as belonging to the classical period. For the purpose of the paper, the summary of the important features of classical pragmatist account of science may include the following main points:<sup>107</sup>

a) Realism. Pragmatism posts a world existing independently of any person or any person's thought. Peirce: [The] *fundamental hypothesis* [of the method of science], *restated in more familiar language, is this: there are real things, whose characters are entirely independent of our opinions about them; those realities affect our senses according to regular laws, and though our sensations are as different as our relations to the objects, yet, by taking advantage of our laws of perception, we can ascertain by reasoning how things really are, and any man, if he have sufficient time and reason enough about it, will be led to the one true conclusion.*<sup>108</sup>

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<sup>104</sup> This should perhaps be corrected to mean „naturalistic“ rather than “behavioural.“ Dewey explicitly rejected American behaviourism of Watson and, later, Skinner.

<sup>105</sup> While this might be true for some (for example, Dewey) it is somewhat surprising if it refers to the whole pragmatist movement. After all, the main journal where most if not all pragmatists published their works is The Journal of Speculative Philosophy.

<sup>106</sup> Stuhr 1997; Stuhr 2010; Stuhr 1999.

<sup>107</sup> Hands in Khalil 2004, pp. 225–238.

<sup>108</sup> Peirce, CP 5.358-387.



However, pragmatism rejects metaphysical realism, which takes truth as existing “entirely” independently. Dewey devoted substantial effort to criticise the “spectator theory of knowledge” and “presentative realism.”<sup>109</sup> More modestly than classical positivism, pragmatism does not presume that “reality” can present itself in its ultimate and pure form.<sup>110</sup>

This realism is to be opposed to instrumentalism in the Popperian sense. For Popper instrumentalism does not take any ontological position about the existential status of theoretical entities. Such entities are merely expedient<sup>111</sup> instruments generating theoretical and empirical predictions.

b) Anti-scepticism. This is shared by many (if scepticism, philosophically, means denying the possibility of knowledge) as science in general is anti-sceptical.<sup>112</sup> Peirce maintained that doubt, if not genuine, cannot be artificially imposed: it is impossible to meet Descartes’ requirement that knowledge must start with an absolutely certain truth and that all else should be treated with scepticism. This irrelevance of (pseudo)scepticism is demonstrated by one’s willingness to act on a (genuine) belief.<sup>113</sup>

c) Fallibilism. Every belief is acknowledged to be possibly false. Beliefs are warranted by previous inquiry and thus further other inquiries. But they are not (permanently) exempt from critical scrutiny and critical testing. K. Popper would wholeheartedly agree and has, incidentally, acknowledged that Peirce was one the greatest philosophers.<sup>114</sup>

d) Naturalism. While, at least since Enlightenment, science has broadly emancipated itself from religious doctrines and related metaphysics,<sup>115</sup> philosophical discourse is much less clear-cut. Pragmatism rejects apriorism and supernaturalism. While not uniform,<sup>116</sup> for the present purpose we focus on the naturalist pragmatism, it claims that knowledge of the natural world, which includes humans and their artefacts, is obtained through natural means. This naturalism is radical in the sense of positing a continuum of reasoning from the

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<sup>109</sup> Dewey 1916; Burke, Hester, Talisse 2002.

<sup>110</sup> Neo-pragmatism (of Rorty) pushes the argument much further. This has important consequences for science in general and economics, in particular.

<sup>111</sup> Notice the hint of vulgar pragmatism here (castigated by Popper, as cited above).

<sup>112</sup> This is broadly anti-Cartesian. See also Damasio 1994.

<sup>113</sup> Buczyńska-Garewicz 1965; Peirce 1868 (Polish edition 2009), pp. 41–75.

<sup>114</sup> Popper.

<sup>115</sup> E.g. the teaching of “The Intelligent Project” as an academic subject in numerous schools and universities in the U.S. is something of a curiosity. However, theology remains important and in less developed countries like Poland actually gains social influence (cf. the number of theology departments opened in the past two decades).

<sup>116</sup> See especially the works of philosophers such as James or Royce. Cf. Pihlström 2008. On the various meanings of naturalism see: Haack 2009, pp. 167–189.

simplest organisms (e.g. amoeba) to the human brain/mind: there is no chasm between nature and human being. Careful interpretation of the ambiguous term of “naturalism” shows it to be antithetical to scientism and rejecting epistemological dichotomies of human reason/nature. For Dewey especially, neither scientific knowledge nor common sense knowledge is privileged. Indeed, inquiry refers as much to science as to life outside of science. Observing the success of science in advancing the human condition, since the beginning of Peirce’s thought the pragmatists attempted to articulate a non-reductionist concept of science, i.e. one that did not create a dichotomous division between “correct,” scientific,” “analytic” methods in the academic research and “fuzzy,” “unreliable,” “subjective” etc. methods in solving practical problems of life.

These descriptions, the philosophical meaning of which was barely scratched here, point to the rejection of both polar cases of epistemological foundationalism and relativism. This is broadly conforming to the strategy of attacking a number of dichotomous positions in traditional epistemology. *[T]he conviction persists – though history shows it to be a hallucination – that all the questions that the human mind has asked are questions that can be answered in terms that the questions themselves present. But in fact, intellectual progress usually occurs through sheer abandonment of questions together with both of the alternatives they assume – an abandonment that results from their decreasing vitality and a change of urgent interest. We do not solve them: we get over them.*<sup>117</sup>

Modern (not postmodern) philosophy, it is conceded, is largely Cartesian in the sense that major currents find it necessary to start from scratch, that is by constructing the philosophical system beginning with a single theoretical starting point. For pragmatism, the very possibility of starting from scratch is an illusion.<sup>118</sup> The starting point is **experience** as actually encountered. The **process** of **inquiry** always returns to the experience and in this **interactive** manner, allows and stimulates revisions and reformulations of the conceptualisations. The meaning of experience is, of course, central to the proper understanding. It is not synonymous to empiricist “sense data,” as pragmatism does not accept the rigid distinction of “theory” and “observation” (as Popper and later positivists came to acknowledge). Experience refers to the totality of transaction between the organism (for instance, human) and their environment. The environment is defined more precisely as the *situation* which is the starting point of experience. As Campbell points out, experience means both the **history** and the **current, ongoing process** of such transaction between organism and the environment.<sup>119</sup>

The starting point is the situation, which initially is unreflective. According to Dewey, it is a vague awareness of the totality of surroundings. Knowledge is

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<sup>117</sup> Dewey 1997 [1910], pp. 1–19, quote p. 19.

<sup>118</sup> It is not alone in this; see the aftermath of Hegelian thought, Marxist, in particular.

<sup>119</sup> Campbell 1995.

considered a subset of experience; however most of experience is not knowledge. The three pragmatists see human experience as guided by **habits** rather than mere thought. Still, most of their endeavours (Dewey) are to improve the quality and widespread application of reflective activity. So, the starting point is really a moment in the process: it is inescapable that we are always in the middle of things – existentially, culturally, historically, and scientifically. Inquiry begins with the unreflective situation (yielding the major part of experience), this “practical starting point,”<sup>120</sup> and proceeds in a controlled manner generating knowledge. An *indeterminate situation* is at the start of knowledge; it gives way to a *problematic situation* where there is enough focus so as to be able to formulate hypotheses about *possible problem solutions*. A problem solution occurs when some suggested actions are instituted and the anticipated (predicted) consequences are the actual consequences. Confrontation between the currently possessed knowledge and the consequences appropriated from experience yield a larger body of knowledge. As Dewey asserts, the meaning emerging from inquiry is examined in the context of other relations of meaning in the same system of meaning.<sup>121</sup> Thus experience becomes knowledge and the indeterminate situation becomes a *determinate situation*. While Peirce’s discussion of the “irritation of doubt”<sup>122</sup> has customarily been interpreted in an individualistic fashion and thus, related to internal states of mind, for Dewey, *the habit of disposing of the doubtful as if it belonged only to us rather than to the existential situation in which we are caught and implicated is an inheritance subjectistic psychology. The indeterminate situation comes into existence from existential causes, just as does, say, the organic imbalance of hunger. There is nothing intellectual or cognitive in the existence of such situations (...).*<sup>123</sup>

It is important to remember that the individual inquirer always begins in the middle of things; he or she is a social being and a member of a *community of inquiry*. The two types of inquiry, the commonsensical one and the scientific, share, as we noted, similar epistemological basis. *Interactions (...) with enviroing conditions in order to establish objects of use and enjoyment* occur given the *habitual culture of the group* which is *constituted by traditions, occupations, techniques, interests and established institutions of the group.*<sup>124</sup> Somewhat similar cultural conditioning, interests, and institutions prevail in scientific pursuits. The difference between practical inquiry and scientific inquiry is the focus on generality and concentration of attention on relations as the object of inquiry so that scientifically specialised abstractions can be developed. The sociality of being (akin to “thirdness” in Peirce) is also revealed in the fact that the object of inquiry changes as a consequence of the process of inquiry itself.

<sup>120</sup> Hildebrand 2003; Hildebrand 2008.

<sup>121</sup> Dewey 1938, p. 118. Reprinted in “Late Works” 12.

<sup>122</sup> Peirce, *The fixation of belief*, op. cit.

<sup>123</sup> Dewey 1938, pp. 106, 107.

<sup>124</sup> *Ibidem*, p. 115.

Let us end this cursory review of major epistemological and methodological ideas of pragmatism with a note referring back to the dilemma of Milton Friedman. The contribution that pragmatists see as crucial is that pragmatism objects not so much to the fact of construction of the objects of inquiry in empiricism (implications) and idealism (assumptions) but the permanent separation of reflection and its associated abstractions, socially constructed concepts and intellectual manipulations from the further test of experience. In actual practice, such a separation end ups inoculating ideas against critical scrutiny and promotes dogmatism.



# Final comments

The economic methodology became a “respected subject” in the last two decades of the 20<sup>th</sup> century.<sup>125</sup> The flowering of methodological investigation was prompted by slowly accumulating signs of the irresolvable difficulties in the traditional positivist philosophy of science, and the collapse, among the methodologists, of the Received View, i.e. the standard account of the social science methodology (including economics). The slowly emerging consensus on the areas of inquiry, if not on actual “new philosophy of science for economics” can be summarized as follows:<sup>126</sup>

a) Science is fundamentally social and must be understood in social terms. The “sociality” of economics is a very contentious point and discussion on what it implies about scientific knowledge, scientific behaviour, or scientific culture in general and in economic theory and policy in particular, has been and most likely will be acrimonious. It seems, however, that it is finally unavoidable even in the “respectable” field of analytical philosophy of science.

b) Science is not merely the “logical” output of economists’ thought but also their actual practice. Studying the history of science, its great achievements and spectacular failures, anthropological research “on site” of academic, pedagogical, consulting, and public practices, empirical study of economists’ “ethos” and their professional culture are among the possible approaches to account for “what economists actually do.”

c) Science is not a single homogeneous object, but rather a heterogeneous constellation of things. Pluralism is both a characteristic of the cluster of scientific practices and of value in the search for adequate “output.” Once clear demarcation criteria of proper science have been blurred, it becomes possible

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<sup>125</sup> See: Boumans, Davis 2010; Kincaid, Ross (eds.) 2009.

<sup>126</sup> Hands 2004.

and valuable to pursue parallel (or diverging) avenues of research in the spirit of more abstract evolutionary epistemology and more down-to-earth social interests.

d) Science has developed successful methods of inquiry and these can with equal success be applied to the meta-question of epistemology. Hence naturalism emerges as a viable option in the philosophy of (natural and social) science. This might mean, for instance, that biological models of evolutionary change might be applied to the study of the scientific community and the ways scientific beliefs are acquired and settled.

These changes in the contemporary philosophy of science have found, one might formulate a hypothesis, an almost ready response in the form of classical pragmatism, one advanced a century ago.

*In principle, the history of the construction of suitable operations in the scientific field is no different from of their evolution in industry. Something needed to be done to accomplish an end; various devices and methods of operation were tried. Experiences of success and failure gradually improved the means used.*<sup>127</sup> This general comment by Dewey emphasises that pursuit of knowledge in business is not fundamentally different from the research in scientific environments. The pragmatic convergence of scientific and economic rationality<sup>128</sup> has been latent and rarely made explicit.

The social character of science is clear as well: *philosophy held that ideas and knowledge were function of mind or consciousness which originated in individuals by means of isolated contact with objects. But in fact, knowledge is a function of association and communication; it depends upon tradition, upon tools and method socially transmitted, developed and sanctioned. Faculties of effectual observation, reflection and desire are habits acquired under the influence of the culture and institutions of society, not ready-made inherent powers.*<sup>129</sup>

Science is not merely logical output. Says Dewey: *The first distinguishing characteristic of thinking is facing the facts – inquiry, minute and extensive scrutinizing, observation. Nothing has done more harm to the successful conduct of the enterprise of thinking (and to the logics which reflect and formulate the undertaking) than the habit of treating observation as something outside of and prior to thinking, and thinking as something which can go on in the head without including observation of new facts as part of itself. Every approximation to such “thinking” is really an approach to the method of escape and self-delusion (...). It substitutes an emotionally agreeable and rationally self-consistent train of meanings for inquiry into features of the situation which cause the trouble. It leads to the type of idealism which has well been termed intellectual somnambulism. It creates a class of “thinkers” who are remote from*

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<sup>127</sup> Dewey 1960 [1929], p.124.

<sup>128</sup> See: footnote 98.

<sup>129</sup> Dewey 1991 [1927], p. 158.

*practice and hence from testing their thought by application – a socially superior and irresponsible class.*<sup>130</sup>

On the question of assumptions: *It is notorious that a hypothesis does not have to be true in order to be highly serviceable in the conduct of inquiry. Examination of the historical progress of any science will show that the same thing holds good of "facts:" of what has been taken in the past as evidential. They were serviceable, not because they were true or false, but because, when they were taken to be provisional means of advancing investigation, they led to discovery of other facts which proved more relevant and weightier (...). The history of science also shows that when hypotheses have been taken to be finally true and hence unquestionable, they have obstructed inquiry and kept science committed to doctrines that later turned out to be invalid* (Dewey 1938, Chapter VI, p. 142; HdeM, p. 138).

D. McCloskey did liken the economic methodology of mainstream economics as practised in the late 20<sup>th</sup> century to a "3' x 5' card philosophy of science."<sup>131</sup> The question implicit in the present text is: can one formulate a few methodological precepts that respond to the preoccupation of the present-day philosophers of economic science? Either to be derived from classical pragmatism or arrived at independently by practitioners (and possibly theoreticians) of economic methodology? The study of the first option clearly has to wait for another text. The second path was cursorily investigated in the first two sections. We shall not repeat the precepts of "pragmatic methodology" as presented by Williamson and possibly formulated and/or practised by Friedman, but compare tentatively the three approaches: of the two laureates in economics and the philosophy of John Dewey.

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<sup>130</sup> Dewey 1950 [1920], p. 118.

<sup>131</sup> McCloskey 1998.



**Table 2. Comparison of selected ideas of pragmatism in the two essays on economic methodology (classical pragmatism of John Dewey added)**

	Milton Friedman	Oliver Williamson	John Dewey
Experience (induction)	Extensive observation of specific experience as a necessary component in the process of deriving 'good' theory in economics	"a lot is gained by just looking what is going on"	Experience is the fundamental source and test of scientific inquiry (as in life)
Inquiry and time (process)	Inquiry in economics as a continuous process where observation of specific experience and hypothesizing interacts at every stage in the process	Williamson agrees but emphasises interaction during the first stage	Dewey stresses "equal" partnership: at every stage of scientific investigation
'Realistic' assumptions	Does not regard 'realistic' assumptions as either necessary or sufficient to make a theory provisionally acceptable as part of economic science	Realism* is a virtue	A hypothesis does not have to be true in order to be highly serviceable in the conduct of inquiry
Prediction	"the only relevant test of the validity of a hypothesis is comparison of its predictions with experience"	Prediction is not a goal of science but a test, a theory needs to stand up and be counted	Prediction is made at every step of inquiry, as an element of experimentation
Evidence inconsistent with theory (anti-falsificationism)	Theory not (yet rejected) weak version	Theory not (yet rejected) weak version	Theory not (yet rejected) strong version
Theory and practice	Weak continuity: "change in economic theory (...) [due] almost entirely to the force of brute events"	Separation	Continuity of inquiry (knowing and acting), the same logic
Status of theo-retical entities	Realism (not Popperian instrumentalism)	Instrumentalism?	Realism
Formalisation	Unresolved tension: committed to formalisation – (formalized) prediction <i>versus</i> historical analysis	Committed to formalisation: "accurate" mathematics <i>against</i> excesses of sterile formalism	Rebellion <i>against</i> abstract, <i>lifeless</i> formalist, a priori reasoning
Political economy (unrelated to methodology of economics!)**	Extreme liberalism (free markets do not fail either in macro- or micro-scale)	Liberalism (markets may comparatively fail inherently in micro-scale and are replaced by other governance forms)	Social-democratic liberalism (markets fail inherently in micro- and macro-scale and should be helped – but not entirely replaced – by collective action)

\* Mäki insists, correctly in my view, on substituting *realisticness* for *realism* in the discussion of Friedman's views.

\*\* This point does and should raise important questions not only on the work of the two economists discussed but generally. It is a point about coherence of one's views, the importance and possibility of tensions or contradictions.

# Conclusions

- (1) Both authors have revealed affinity to pragmatic thinking. Williamson, one of the founders of neo-institutional economics attempted to build a justification for it within a broadly understood mainstream economic science. For this purpose, he chose to combat (Walrasian) formalism, unrealistic behavioral and environmental assumptions of conventional microeconomics that became obstacles rather than good simplifying devices to advance theoretical progress. Friedman defended neoclassical economics against old institutionalism, socialism (economics of control) and empirically based critiques (Hall and Hitch) of behavioral and institutional tenets of the orthodoxy. He chose to combat both formalism and empiricism.
- (2) Both economists advocate methods that are closer to partial equilibrium to general equilibrium, because of "complexity." Friedman advises us to decompose the economy into "manageable" chunks for purpose of macroeconomic modelling (econometrics) and simplify theories ("most phenomena are driven by a very few central forces"). Solow repeats Friedman while Williamson transfers the approach from macroeconomic modelling to institutional microeconomics (he calls it "microanalytic organisation theory"). Friedman explicitly and Williamson (plausibly) rely on Marshallian approach to economic analysis (partial equilibrium, vision of dynamics in essentially static framework, crucial role of implications rather than assumptions in economic reasoning).
- (3) The methodologies proposed arise from practice. Williamson's is not designed by "certified methodologists." Friedman acknowledges debt to several philosophers of science but his own proposal is original and, some would argue, ambiguous and incoherent, both theoretically (internally) and practically (what Friedman said and what he did).
- (4) Solow's and Williamson's "pragmatic" methodology points to several concepts elaborated previously in philosophical pragmatism. However, these need fuller explication in terms of contemporary philosophy of science. What is even more important, they are in agreement with

important pragmatist themes: they reveal their (partly conscious, partly unconscious, we conjecture) emphasis on practice: in addition to explicit statements (which may or may not be followed in reality), they focus on “correct” behavior of economists which is shaped into “habits.”

- (5) Some possible conclusions have been left out so as to provide material for in-class discussions. The reader will appreciate that the **boldface** applied to certain terms in the previous sections reveals the concepts that have well been explicated by pragmatist thinkers. These are the concepts that need further development by economists if pragmatism Level 3 and 4 is to be a serious contender in contemporary economic methodology.

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reasons for abstaining from putting the title in conventional wording.

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# Key concepts

(to be filled by the student)

## Review Questions and Problems (not all topics are covered in the present text):

1. Have economists and the winners of the Bank of Sweden prize in economics, in particular, devoted much time and effort to economic methodology? Why yes? Why not?
2. Provide a few examples of the "standard" statements of/on economic methodology.
3. Comment on the confession of Robert Solow (quoted in the text): *My own practice may not always conform to my understanding of the right way (or at least a good way) to do economics.*
4. Find examples of "pragmatism" in current economic and political publications (in popular journals or scientific papers). Please, comment.
5. What is the difference between a "pragmatic" and a "pragmatist?"
6. Discuss the application of "pragmatic methodology" to the transaction cost economics as performed by Williamson.
7. *It struck me when I was writing about markets and hierarchies and the role of informal organization that you should not try to quantify everything. If you do, then you may transform the relationship from one of mutual give and take into one of adversarialness* (Oliver Williamson interview in JOIE 3/2007, p. 377). Please, comment.
8. Provide arguments in favour of a pragmatic reading of Milton Friedman's methodology.
9. Which category of use of "pragmatism" is Williamson's and (possibly) Friedman's "pragmatic methodology?" Provide arguments.
10. Which other economist you are familiar with "deserves," in your opinion, to be called pragmatic? Which category of "pragmatism" is it?
11. *Though economic analysis and general reasoning are of wide application, yet every age and every country has its own problems; and every change in social conditions is likely to require a new development of economic doctrines* (Alfred Marshall, "Elements of economics of industry," being the first volume of "Elements of Economics," Adamant Media Corporation 2006, p. 399). Please, comment.