

# ECONOMICS AND ECONOMIC INSTITUTIONS: A NEW APPROACH TO HUMAN ACTION<sup>1</sup>

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## I. Introduction

The economy is always in the process of becoming. I shall here summarize the central themes from my latest book—Sufficient Reason: Volitional Pragmatism and the Meaning of Economic Institutions—in which I offer a theory of how economies become [Bromley, 2006].

As the sub-title suggests, the book concerns volitional pragmatism and the meaning of economic institutions. Volitional pragmatism is a theory of how individuals formulate reasons for action. Volitional pragmatism rejects models of rational choice on the grounds that such models are circular. More critically, utility is not a reason for action. Pragmatism suggests that individuals do not choose what they want. Rather, individuals choose those things (those actions) for which they can, at the time, find the best reasons. Choosing and acting is about formulating particular reasons for acting. Reasons are instrumental for ends as well as for means.

As for economic institutions, these constitute the normative scaffolding of an economy. Institutions are the legal foundations of the market. Here too, we encounter conceptual problems in the standard account. Economists regard prices as decisive for individual action. While prices matter for choice, coherence requires that we look behind the façade of market exchange to understand the institutional ground on which prices rest. Note that prices are both the cause and the effect of choices. Prices are effects of choices recently made by others,

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<sup>1</sup> The Trevor Swan Distinguished Lecture in Economics, Australian National University, Canberra, August 10, 2006.

which were at the time the resultant of yet earlier action—and so on. More importantly, prices are manifestations of the prevailing legal foundations of a market economy. If air pollution is legal, coal-generated electricity will be cheaper than if air pollution is illegal. If surface coal mining can occur without the need to restore the landscape to its prior condition, the price of coal will be less than if restoration were required. If firms are compelled to provide health and unemployment benefits to their workers, products sold by those firms will be more expensive than under a different legal setting. It should be apparent that market prices are simply artifacts of the underlying institutional arrangements of the economy. Those who imagine that prices come from markets reveal themselves capable of believing that milk comes from bottles.

The legal structure of a market economy provides the socially legitimated rules that serve to constitute opportunity sets—fields of action—for individual choice. Within those fields of action, individuals will seek to figure out what they want, and they will seek to figure out why they want what it is they have come to imagine they want. Individuals work out what they want as they go about the task of working out what they seem to be able to get (to have).

The core ideas of Sufficient Reason converge precisely where economics becomes interesting and socially pertinent—in the realm of public policy. I indicated above that the economy is always in the process of becoming. Public policy concerns how an economy shall become. Public policy is collective action in liberation, restraint, and expansion of individual action. Public policy has but one purpose—to bring about changes in individual behavior. Public policy alters what people do by altering the institutional arrangements that define the choice sets for individuals seeking their best advantage from inside of a specific institutional structure. When that structure changes, individuals will make different choices. That is precisely why nation-states have parliaments, administrative agencies, and courts. The

fundamental point of politics and the law is to alter what people do. Politics and the law alter the choices we can and cannot make by redefining what we can, cannot, must, and must not do. Politics and the law also determine which things the collective power of the state will help us to do, and for which things the state declares it has no interest. To have a civil right is to have the ability to compel the state (that is, government agents of the state) to come to your defense in the interest of your personal liberty. To have a property right is to have the ability to compel the state to protect your interest in an asset the state agrees you own.

The point of Sufficient Reason is to bring together a new theory of human action with an account of how individuals and groups of individuals in parliaments (or in the courts) come to believe that their future would be better if they (and others) made different choices. It is here that institutional change enters the picture. The puzzle requiring an explanation is: why (and how) do individuals firmly embedded in an ongoing economic system suddenly come to believe that their circumstance would be improved under a different institutional setup, one in which they (and others) would have different choices available to them?

I was motivated to offer a new theory of human action because of the fundamental circularity and incoherence in models of rational choice. A coherent theory of human action requires that we be able to explain those actions. Meaningful explanation entails finding reasons for human action. When we can explain individual action on substantive grounds, we will be on firmer ground in explaining collective action in the parliaments and in the courts.

## II. The Received View of Institutions and Institutional Change

It is common for “new” institutional economists to regard institutions as constraints on the otherwise efficient working of free exchange among atomistic utility maximizing individuals.

Moreover, the new institutional economists seek to make institutional change endogenous to models of economizing behavior. For instance, Douglass North suggests that by pressing ahead with this endogenization project the new institutionalists can produce that grand synthesis whereby all the social sciences can at last be unified under the reigning doctrine of neoclassical economics. This grand future would reassure the place of economics as the linchpin of the social sciences—psychology, law, history, sociology and economics—all predicated on, and carefully elaborating, the axioms, assumptions, and conclusions of models of rational choice. In advocating this agenda, North has written:

Defining institutions as the constraints that individuals impose on themselves makes the definition complementary to the choice theoretic approach of neoclassical economic theory. Building a theory of institutions on the foundation of individual choice is a step toward reconciling differences between economics and the other social sciences. The choice theoretic approach is essential because a logically consistent, potentially testable set of hypotheses must be built on a theory of human behavior. The strength of microeconomic theory is that it is constructed on the basis of assumptions about individual human behavior (even though I shall argue for a change in those assumptions....). Institutions are a creation of human beings. They evolve and are altered by human beings; hence our theory must begin with the individual. At the same time, the constraints that institutions impose on individual choices are pervasive. Integrating individual choices with the constraints institutions impose on choice sets is a major step toward unifying social science research [North 1990, p. 5].

We see here rather more confidence in the ability of economists to explain choice than we find among those who have devoted their professional careers to this difficult challenge [Akerlof and Dickens, 1982; Bowles 1998; Hodgson 1988, 1998; Lawson 1997; Little 1950; Rabin 1998; Sen 1977, 1982; Shackle 1961, 1992]. Indeed, on the subject of human choice, Shackle offers this observation:

Conventional economics is not about choice, but about acting according to necessity. Economic man obeys the *dictates* of reason, follows the *logic of choice*. To call his conduct choice is surely a misuse of words, when we suppose that to him the ends amongst which he can select, and the criteria of selection are given, and the means to

each end are known...Choice in such a theory is empty, and conventional economics should abandon the word [Shackle 1961, pp. 272-73].

Those who imagine that the standard theory of choice offers auspicious ground on which to build a grand synthesis of institutional change stand alone against a large number of the very best theorists who understand the comprehensive barrenness of “choice theory” in economics. And this brings us to the second problem with the new institutional economics—the wish to make institutional change endogenous in economic models of maximizing behavior. Against this quest, Schumpeter warned that efforts to explain economic phenomena by reference only to economic phenomena introduce a fatal circularity into economic work.

...when we succeed in finding a definite causal relation between two phenomena, our problem is solved if the one which plays the ‘causal’ role is non-economic. We have then accomplished what we, as economists, are capable of in the case in question and we must give place to other disciplines. If, on the other hand, the causal factor is itself economic in nature, we must continue our explanatory efforts until we ground upon a non-economic bottom [Schumpeter 1961, pp. 4-5].

The point here is simple: we have not explained economic phenomena until we encounter one or more non-economic independent variables. This is an unwelcome proposition for those who wish to make institutional change endogenous in economic models. Once something is made endogenous it is no longer capable of being explained by the structure within which it is embedded. By virtue of its structural embeddedness it is now indistinguishable from the system of which it is a part—the “two” things are, in fact, one thing. The rear sprocket of a bicycle is mechanically linked to the front sprocket. One does not explain the turning of the rear socket by appeal to the empirical claim that the front sprocket is turning. The turning of one is the required turning of the other; they are a single entity within the structure of which they are a part. One

would only seek an explanation if the rear socket failed to turn when the front one did. Notice that the link between the two sprockets is pertinent to explanation in the latter case, but not in the former.

One can explain the turning of the rear socket only if one is prepared to look beyond the structure that ties the two events together. An explanation that allows one to escape the trap of mechanical entailment can only be found if one looks for an exogenous source—the application of force to the front sprocket—of the turning of the rear sprocket. This is precisely the same reason why conventional economics does not have an explanation for individual choice. Individual choice is endogenous in economic models and by being endogenous it no longer qualifies as choice. Its endogeneity strips it of any capacity to differ from that which its very structural dependence preordains for it. This is not choice but mere mechanism. The endogenization project of the new institutional economists is correctly understood as an effort to reduce institutional change to nothing but mechanical determinism. Melvin Reder noted the problem here:

Associated with the assumption of stable preferences, but logically distinct, is the “thrust for endogenization.” A leading manifestation of this tendency is Stigler’s attempt to explain—and constrain—the behaviour of political decision makers, but this is not the only one...Successfully to endogenize a new variable is to enhance the explanatory power of economics...However, it must be noted that where variables are made “endogenous,” they can no longer serve as objects of social choice....To the extent that variables are endogenized—choice is explained—“society’s” freedom of choice is seen as illusory. Freedom appears to consist not in power of choice, but (*pace* Hegel) in recognition of necessity. This is not a likely conclusion for followers of Adam Smith, and surely not one they desire, but one from which they can be saved only by failure of this direction of research [Reder 1982, pp. 34-35].

We see that the gain in “explanatory power” for economics comes at the cost of producing plausible explanations of institutional change. Such explanations must be a central

goal of the social sciences. But such explanatory coherence can only be secured if the quest for endogenization fails—as it must.

I now turn to the specifics of my challenge to rational choice models as the basis for individual action, as well as for collective action undertaken by parliaments, the courts, and indeed any group of individuals seeking to work out what should be done.

### III. On Rational Choice and Volitional Pragmatism

Economists borrowed from early philosophy the desire-belief model of human action. It is alleged that individuals have particular desires—we call them preferences—and they hold particular beliefs (presumed to be rational) about how to attain those desires at the least possible sacrifice. The approach is simple and straightforward. Rational individuals know what they want, and they know how to go about getting what they want—as soon as they have undertaken the necessary calculations. The approach is well understood and does not require elaboration here. The important matter for our purposes is that many philosophers and psychologists now register serious concerns about the desire-belief model on the grounds that it is too contrived and mechanistic [Davidson, 1963, 2004; Rorty, 1982]. In essence, the evidence now regards it a mistake to assume that individuals know what they want in the abstract [Raz, 1997]. Moreover, it is very much in doubt that individuals hold coherent beliefs and expectations about how to get what it is they claim to want. I will elaborate this point below.

For now, I want to consider volitional pragmatism as it pertains to individual action.

### A. Volitional Pragmatism and Individual Action.

Pragmatism holds that we do not know what we want until we begin the task of determining—learning about—what we might plausibly have. That is, pragmatism regards all human action as a diagnostic undertaking in the quest for valuable belief—the only category of belief that provides reasons for human action. To quote Hans Joas:

In pragmatism, precisely because it considers all psychical operations in the light of their functionality for action, it becomes impossible to hold the position that the setting of an end is an act of consciousness per se that occurs outside of contexts of action. Rather, the setting of an end can only be the result of reflection on resistances met by conduct that is oriented in a number of different ways. Should it prove impossible to follow simultaneously all the various guiding impulses or compulsions to action, a selection of a dominant motive can take place which then, as an end, dominates the other motives or allows them to become effective only in a subordinate manner...action is teleological only in a diffuse fashion. Even our perception is shaped by our capacities and the possibilities for action [Joas 1993, p. 21].

We see here recognition of the many images of action, and we see that the setting of ends outside of the context of action is psychologically impossible. That is, the prior specification of ends is impossible until those who must act are in a context to act. Action is a diagnostic undertaking, and diagnosis is an example of abduction. Most economists suppose that there are only two ways of fixing belief—induction and deduction. However, Aristotle regarded abduction as essential to understanding and hence explanation. Abduction is also known as diagnosis, the method of hypothesis, or inference to the best explanation. By whatever name, this approach brings observed phenomena in contact with particular known axioms to suggest hypotheses and assumptions that offer plausible reasons for the observed phenomena. An abductive syllogism is of the form:

The surprising fact, **C**, is observed:  
But if **A** were true, **C** would be a matter of course,  
Hence, there is reason to suspect **A** is true.

Abduction starts when particular circumstances and events are encountered and we find ourselves in need of an explanation. That is, human action is animated, *ab initio*, by doubt or surprise. The founder of pragmatism, Charles Sanders Peirce, talked of the “irritation of doubt.” Why is that tree in my garden dying? Which house should I buy? Why am I feeling dizzy? Why did that airplane crash? Why is my car sputtering? Why did that spacecraft disintegrate on reentering the earth’s atmosphere? Why is this camera so much more expensive than that one? Abduction allows us to deploy specific known relations and particular assumptions to formulate propositions (testable hypotheses) with the intent of explaining observed events. If your car will not start on a cold morning, abduction is the process your mechanic will deploy in quest of a reason. If you have a fever, abduction is the process your doctor will deploy as she ponders the reason for your fever. If you are an engineer struggling to explain the destruction of a spacecraft, abduction is your avenue to explanation. The essential purpose of abduction is the production of belief about specific events. To quote from Peirce, “...the action of thought is excited by the irritation of doubt, and ceases when belief is attained; so that the production of belief is the sole function of thought [Peirce 1957, p. 36].”

Abduction is the only form of inference that introduces novel hypotheses into the search for reasons for particular actions or events. In economics, when we can identify reasons for actions or events we have acquired a plausible basis for making predictions about, and for advancing explanations of, those actions or events. When individuals or collections of individuals face the need to choose (to act), abduction is the process they will deploy to get a grip on the reason for the new surprise—that surprise (and its reasons) constituting the necessary precursor to choice and action. Diagnostic thought is deployed for the sole purpose of fixing belief. And a belief is that—and only that—upon which we are prepared to act.

As sapient beings, we continually observe particular settings and circumstances (apprehended “facts”) about the world around us. Coincident with this apprehension is a process of navigating our situatedness in those impressions of that apprehended world. Notice that this navigation is fundamentally a diagnostic (abductive) activity and the observations and interpretations we form about that activity comprise the belief upon which we formulate abductive inferences about those settings and circumstances—and our relation to them. At every turn we are presented with new “impressions”—each of which stimulates assessment, interpretation, and response. We are surprised.

Pragmatists consider our individual comprehensions of the settings and circumstances within which we are situated to be necessarily limited to impressions of the world around us. And most importantly, different individuals necessarily formulate and hold different impressions. There are, to be sure, objects and events “out there” in the world, but there are no universal and objectively “true” descriptions of the objects and events in that world—there are only different impressions formed by different individuals. Pragmatists insist that there is no single true and reliable report to be sent back by earnest observers and reporters who venture out into some singular reality. To put the matter another way, claims of “truth” about the world around us is a property of statements about that world. Truth is not a property of objects and events—the “thing in itself.” Rather, truth is a property of statements about objects and events. Individuals do not discuss and argue about objects and events—they discuss and argue about statements about, and descriptions of, objects and events.

As sapient beings, each of us apprehends settings and circumstances within which we are situated, but especially as we move through new settings and circumstances. These apprehended phenomena become our impressions of those settings and circumstances. Such impressions are

just that—acquired sensory signals (signs) as we contemplate our situatedness in a particular constellation of settings and circumstances. These impressions are the raw material of our understanding of our situatedness, but they are of little value until they have been transformed into coherent stories that we can express to ourselves—and to others. When we describe these impressions, the descriptions (and re-descriptions) constitute our expressions about the world around us. As individuals we create expressions of our situatedness from the impressions we have formed about that situatedness. This idea accords rather well with Damasio’s “autobiographical self” [Damasio 1999]. These expressions are the stories we tell to ourselves and to others. More importantly, these expressions form the mental stage on which we live. This stage constitutes our individually perceived and individually constructed “reality.” It will not be your “reality,” nor will it be my “reality.” This particular reality “belongs to” the individual who created it. We might say that this particular reality is constitutive of the individual to whom it belongs.

As sapient individuals, we spend our lives apprehending impressions and formulating expressions of those apprehensions. Following Peirce, the instigator of our impressions is surprise. Surprise is the necessary condition for us to take notice of the world around us and to process those received impressions. Notice that certain settings and circumstances are either ignored (itself an action that dismisses the impressions without further action because they are not “surprising”) or they are processed as novel impressions. Those novel impressions become new expressions. Why is that car turning toward me? What does that house look like on the inside? I have never noticed those weeds before—why are they so profuse? Why is my roof leaking? We see that surprise triggers mental processes that confront settled habits of mind and induces us to form abductive syllogisms. Individual thought and action is abductively informed

and animated. Surprise confounds our settled belief—our habits of mind—and brings about thought. And the sole purpose of thought is to remove doubt—to fix belief.

As we form abductive syllogisms about our constructed situatedness we are at the same time negotiating our situatedness in the panoply of those impressions. From the conjunction of these impressions and inferences about the world being experienced, and our place in that world—and from the meanings we then attribute to these impressions, inferences, and situatedness—we abductively construct plausible inferences about the need to act, and about the best actions to take in the light of the abductive belief just formulated. It is here that I find helpful Shackle's concept of created imaginings [Shackle 1961]. Expressions are stories we tell ourselves about our present situatedness. Created imaginings are stories we tell ourselves about possible future situatedness.

Notice that the essential function of expressions is to constitute (to construct) the mental stage onto which we might then project our imaginings of future outcomes to see how they will “play out”—plausibly materialize. The idea here is not just the positing of created imaginings in the abstract. It is, rather, our created imaginings projected onto the stage of our emergent expressions. It is here that we formulate the reasons that will come to provide the grounds for choosing among the array of plausible created imaginings. Individual choice and action is a contest between expressions and imaginings. We are necessarily situated in a constructed reality (an expression), and we continually reflect on alternative created imaginings. This deliberation consists in checking these imaginings against our expressions of the present and of the imagined future. We act when we find a feasible created imagining that meets our expectations about situated outcomes in the future. And of course we also act when we reject all created imaginings

(perhaps because they seem infeasible) and stick with our current action trajectory. To do nothing is to do something.

## B. Volitional Pragmatism and Joint Action

With this account of individual action in hand, we may now focus on the problem of action involving more than one individual. The difficulty here should be obvious. The foremost burden in joint action is the necessity to deal with a multitude of contending expressions. It is in the nature of being individuals that we necessarily formulate and hold individualized expressions of the world around us—we are different autobiographical selves. Of course most of us will agree that lamps are lamps, but the more pertinent issues go beyond this superficial identification of what the object appears to be. Is that lamp an antique? Does that lamp give enough light for reading? Why does that lamp tilt? Did that lamp cost as much as it would appear? How can he afford such a fine lamp? Is that lampshade dirty or is that its “real” color? Why would he have such an outrageous lamp in an otherwise tasteful room?

Notice the constituents of expressions in this string of questions—antique, light, tilt, income, cost, ambiguous lampshade, outrageous, and tasteful. We see that a lamp is not merely a lamp. Instead, a lamp is a series of effects constituting expressions to differentially situated observers. As Peirce insisted, the meaning of an object to us is nothing but the sum of its perceived effects [Peirce 1934]. We create our expressions by collecting, sorting, and re-describing to ourselves the sum of our impressions of the effects of the subjects of our apprehended senses. Beauty is not a property inherent in certain objects—the thing in itself. Rather, to paraphrase Louis Menand [2001], beauty is an effect produced by some objects (but not by other objects). And of course this produced effect will strike different individuals quite

differently. Similarly, different individuals will ask themselves quite different questions about that lamp. It is in this sense that the lamp will comprise quite different expressions to different people. Is a lamp just a lamp?

The obvious difficulty in joint action is that everyone else is doing the same thing, although to quite different effect. It follows that each of us will apprehend a slightly different situatedness and thus each of us will have quite distinct expressions about the world “as it is” and about our place in that world. It could not be otherwise since we are, by definition, different sapient beings. In the context of joint action this means that there is not a single stage (expression) upon which our quite independent and disparate created imaginings are to be projected. Instead, there are as many “stages” as there are participants in the community whose task it is to ascertain but a single course of action for the future. And here, recall that the pertinent “community” could be a parliament, a legislative committee, a board of directors, a group of judges, a jury, a family, or a village council. This implies that there is an equally plentiful multitude of created imaginings being projected onto the multiple stages by those holding quite distinct expressions. And we wonder why collective action is contentious? Collective action forces all participants to agree on the many aspects (effects) of the lamp. Specifically, collective action requires a certain degree of convergence of: (1) impressions of the current world; (2) created imaginings about future states of the world; and (3) the epistemic link between where we are and where particular actions (choices) will take us.

We see that the central challenge in collective action is for the pertinent decision group(s) to work out a reconciliation of the multitude of expressions and imaginings about the future. Notice that the issue here is not one of discovering the “right” expression out of the multitude of contending expressions. Nor is the issue to discover the “right” created imagining that fits the

“right” expression. Indeed, as above, the notion of rightness is precisely the wrong description of the process followed by those faced with the necessity of collective choice. The task, instead, is to focus on the various reasons for the disparate expressions, and for the disparate imaginings. Progress in such difficult matters is to be found in reasoned debate. Pragmatists put the matter as the asking for and giving of reasons [Brandom 1994, 2000]. Those who come to the choice problem with their mind made up invoke absolutes where reasons are in order. And for some participants those absolutes are precisely their reasons. However, the only thing to be said for such absolutes is that they give us a moral holiday from having to think hard about the difficult choices we face. Only in pragmatism are individuals forced to do the hard analytical work of figuring out what seems better, at the moment, to do. Absolutists know what is best (not merely better) by way of *a priori* revelations. Pragmatists insist that those who advance absolutist claims share with us the reasons for their convictions.

Joint action is contentious because of the reality of contending expressions. Because joint action must ultimately result in but a single choice (coordinated and coincident action), contending expressions are inevitably confronted by contending created imaginings. Small wonder that collective action—public policy—is so difficult. The participants in that process bring differing expressions about the *status quo ante*, and quite different created imaginings about the prospects for the future.

#### IV. Volitional Pragmatism and Institutional Change

Since the early 1950s, economists have developed a particular way of talking about, and thinking about, human action [Cooter and Rappoport 1984]. The presumption of utility maximization leads us to postulate human action as if choice were predicated on clear notions of outcomes, and clear notions about the requisite pathways to achieve those outcomes. Of course we admit uncertainty, and address this by attaching probabilities to both outcomes and pathways. Notice that the essence of this branch of economics is purposeful (and rational) welfare maximization on the part of individuals. There are few economists who would disagree with the proposition that our subject concerns the making of optimal choice in situations of scarcity. Individuals are said to consider their options and choose the one that is best for them. This much is both axiomatic and circular. It is axiomatic because it follows from general covering laws governing individual choice as we treat that subject in economics. It is circular because we assume rationality before decisions are taken, and once they are taken we assert that they must have been rational (optimal for the agent) or the individual would have done otherwise. Notice that rationality pertains to choices that are consistent with preferences—whatever those preferences may be. And it is precisely here that economics confronts but fails to address the tension—indeed incongruity—between preferences and welfare. For there are many preferences held by individuals that cannot possibly be said to conduce to their welfare—unless one chooses to define enhancing “welfare” as simply that which individuals choose to do after they have consulted their “preferences.” The circularity here is apparent and debilitating.

But institutional change—collective action in restraint, liberation, and expansion of individual action—is not about choosing among competing brands of toothpaste or cheese.

Institutional change redefines realms of choice (fields of action) for individuals, including the chemical content, labeling, and safety of both toothpaste and cheese. Institutional change reallocates income and wealth streams. Institutional change forces some people to change the ways they have been doing certain things. Institutional change liberates some of us from the offensive—or merely annoying—behavior of our neighbors. Institutional change rearranges the signposts in our life that reveal what we can and cannot do, what we may and may not do, what we must and must not do, what we can expect the collective power (the authority system) to help us do, and what we are powerless to do in the face of particular behaviors of others that do not please us.

Institutional change is not about otherwise satisfied people coming together to enter into welfare-enhancing commodity transactions—buying and selling ownership of future benefit streams in the service of improving utility (or “welfare”). Institutional change often modifies what it is that we are able to buy and sell. Institutional change modifies how fast we may drive, what we may eat, what we may do with land we own, perhaps what we must wear when we drive motorcycles, what the safety features must be of the cars we buy, how we must treat those who work for us, and how we must act with respect to those for whom we work. Institutional change modifies how much of our income must be paid in taxes to pay for collective goods and services, how often our garbage will be collected, what we must and must not put in that garbage, and how that garbage must be presented at the curb for the benefit of those whose job it is to collect garbage.

It is the purpose of collective action—and it is the business of the political entities in nation-states—to confront the manifold ways in which we get in each other’s way, and to craft remedies for these emerging problematic settings and circumstances. Whether village councils,

county boards, provincial committees, national parliaments, supra-national bodies such as the European Parliament, or the United Nations, the task of institutional innovation is an ongoing exercise in searching for plausible and acceptable solutions to new awkward and unwanted realities in the human condition. Institutional change is simply the working out of new legal parameters that will define possible realms of individual action.

Institutional change can be seen as an example of what John R. Commons called rationing transactions [1931]. The idea of a rationing transaction is appropriate because institutional change entails the restructuring—the redefinition—of plausible futures for members of a nation-state. Parliaments and courts, through their actions, ration (realign) new income and cost streams for members of society. To Commons, it was the authority system in a nation—its parliament, its courts, and its administrative agencies—that bring about this rationing under pressure from members of the citizenry at large. The citizenry pushes for new institutional arrangements in an act of prospective volition—the human will in action, looking to the future, and forming plausible images of how that future might unfold. Parliaments and courts comprise the locus where this process occurs. Institutional change is the essence of public policy. Public policy is nothing but thinking about, weighing, and ultimately choosing among alternative institutional setups that will give rise to alternative imagined and plausible futures. Rationing transactions—institutional changes—redefine realms of individual action, and thereby redirect income flows. But the futures of central concern to citizens, members of parliaments, and the courts are only imagined futures [Shackle 1961].

To Shackle, actions that can still be chosen or rejected on the basis of their plausible implications for the future have no objective outcomes associated with those available actions. The only outcomes that such actions can have merely exist in the mind—the imagination—of the

decision-maker(s). This means, quite simply, that outcomes of available actions are not ascertained (or discovered) but created. This is a central aspect of volitional pragmatism. Specifically:

**Outcomes of available actions are only imaginable, and in the process of imagining them we do not ascertain those outcomes—rather we create those outcomes.**

Institutional change entails the formulation and implementation of created imaginings. This approach may be easier to apprehend if we start with the idea that all institutional change entails three steps. The first step is recognition on the part of affected individuals that the *status quo* institutional setup induces particular individual behaviors, the aggregate of which gives rise to realized outcomes that are no longer regarded as acceptable—or as reasonable.

Perhaps the health-care system is creaking under excessive demands, a shortage of health professionals, and antiquated facilities. Perhaps air pollution is bad and getting worse. Perhaps schools are failing to meet the expectations that parents and politicians have for them. Perhaps the food supply has come under suspicion for harboring contagious diseases. Perhaps there are concerns about genetically modified organisms making their way into natural habitats and destroying particular ecological settings. These unsettling circumstances do not just materialize out of thin air—nor do they exist without a reason. Rather, they are the products (results) of individual behaviors that are themselves the inevitable and “rational” economizing entailments of the existing institutional arrangements. That is, the health care system is a going concern whose operational parameters—its working rules—give rise to those traits that render its performance either agreeable or a source of widespread individual and collective disgust and agitation. Air pollution exists because factories and automobiles are at liberty to disgorge air pollutants at will.

We see that the existing constellation of institutions gives rise to individual behaviors, the aggregate of which generate acceptable outcomes, or else such behaviors generate unacceptable outcomes. It is the emerging awareness of defective outcomes that is at the root of a growing dissatisfaction with the *status quo ante*, and it is precisely these dissatisfactions that become the essential catalyst of nascent demands for institutional change. One may think of this catalyst from two different perspectives. One possibility is to suppose that institutional change is motivated by the shared desire to generate potential gains from creating new ways of doing things. I prefer an alternative hypothesis. I suggest that institutional change is motivated, in the beginning, by an inchoate yet emerging recognition that something must be done about existing institutional settings and their associated outcomes to mitigate probable harms that would otherwise emanate from a continuation of the *status quo ante* institutional setup. On this view, institutional change is provoked and motivated by a shared apprehension concerning unwanted created imaginings in the future. This perspective accords explicit recognition to the work in prospect theory indicating that humans have a greater distaste for losses from a *status quo* position than for the gains that may arise from changes in that *status quo* [Kahneman and Tversky 1979; Tversky and Kahneman 1987].

Once this galvanizing condition has been met, institutional change still requires two more conditions. The first of these concerns new created imaginings. We may usefully regard these imaginings as families of hypothetical propositions of the sort: if  $\mathbf{X}_i$  **then**  $\mathbf{Y}_i$  where the subscript  $i$  relates to the proposition held by the  $i^{\text{th}}$  member of the community—whether citizen or politician. The essence of created imaginings is that they allow members of a democratic society to create mappings of plausible outcomes (imaginings) from the enactment of new institutional arrangements. Just imagine what the health care system might become if only we could increase

the number of doctors by 20 percent over the next 5 years. Imagine how the wait for elective surgery might be reduced if only we could increase the number of spaces in hospitals by 10 percent over the next decade.

Of course individuals will create different imaginings about possible outcomes. This should not surprise us. We have different imaginings because the available actions are novel events in our lives. We have not done that before, so why should it be supposed that each of us could have definitive data and similar imaginings concerning precisely what will transpire? As Shackle says, “An action which can still be chosen or rejected has no objective outcome [Shackle 1961, p. 143].” This is precisely why there are consultants, parliamentary (legislative) committees, elaborate hearings, independent research organizations (“think tanks”), advisors, experts, and indeed entire sectors engaged in the task of creating plausible imaginings. If the task were easy and straightforward many people would need to find other lines of work.

Once there is an emergence of plausible created imaginings, we begin to approach the final stage of institutional change—policy formulation. Democratic market economies are in continual need of new created imaginings as new problems and new opportunities arise almost on a daily basis. Those who celebrate the dynamic properties of markets are telling us only half of the story. The real dynamism of democratic capitalism is that the existing institutional arrangements are regarded as the indispensable malleable architecture for adaptation. With this idea at hand, it is easy to see that this cacophony of created imaginings will evolve from just that—an inchoate cacophony—into a slowly coalescing and emerging consensus that begins to narrow the range of institutional alternatives and plausible imaginings.

“If only these **X** might somehow be altered in the following ways then we could, within 10 years, reasonably expect to have **Y** doctors entering practice each year. Think what that would do for current backlogs in the health-care system!”

When the process of sifting and winnowing through the various created imaginings reaches the point that several of them have come to dominate the others, the third essential component of institutional change comes in to play. This final stage is the actual process whereby the working rules (or entitlements) of the economy are modified for the explicit purpose of implementing one of these dominating created imaginings. We may properly consider this emergent and now reigning imagining as the reason for the new institutional arrangements. That is, the emergent created imagining is the outcome in the future for the sake of which the new institutional arrangements must be implemented now. This dominant imagining comprises the sufficient reason for the new institutions. It explains the institutional change.

The process is repeated *ad infinitum* in a democratic market economy. That is, such economies are engaged in a continual process of: (1) assessing existing settings and circumstances; (2) searching for plausibly causal (epistemic) connections between those outcomes and the institutional arrangements on which they are plausibly predicated; (3) formulating new created imaginings; (4) working out the political arrangements to discard the most implausible imaginings; (5) searching for and articulating the plausible mappings between surviving created imaginings and the institutional arrangements that are their plausible explanations; and (6) undertaking collective action in the parliaments, the executive branch, and the courts to modify the implicated institutional arrangements from their *status quo* configuration to a new and plausible configuration that will—on the newly accepted emergent imagining—plausibly lead to the desired outcomes in the future.

I have defined public policy as collective action in restraint, liberation, and expansion of individual action. And I have argued that the essence of public policy is that of rationing (redefining) economic settings and circumstances. Public policy is the essence of a rationing

transaction because the actions of the legislatures/parliaments and the courts redirect or reallocate economic opportunities for differentially situated individuals. Public policy necessarily advances the economic and social agenda of some individuals, and it impedes the economic and social agenda of others. Individuals will struggle to have their interests represented in that process, but there can be no doubt that public policy is precisely concerned with such reallocations of relative advantage in the economy.

Institutional change is a central aspect of the modern nation-state precisely because the essence of our existence is the continual adaptation to new settings and circumstances, new opportunities, and new unwanted outcomes. The puzzle is not that institutions undergo reconsideration and alteration. The analytical challenge for social scientists is to understand why these processes look as they do in democratic market economies.

## V. Volitional Pragmatism as a Theory of Settled Belief

*...one may say that truth is a matter of collective judgment and that it is stabilized by the collective actions which use it as a standard for judging other claims.*

Steven Shapin, A Social History of Truth, p. 6

Collective choice is a process of reconciling contending expressions and imaginings, and this is an essential activity leading to the formulation of what seems best, in the eyes of the individual (or of the group), to do. Individuals and groups work out what seems best by working out what seems possible as they work their way toward what they will come to realize seems best. The process entails not only working out the best means but also the best ends. Notice that this account is at odds with the decision process as envisaged by those who adhere to rational choice models. In that standard approach, individuals (and groups) start with a clear end (goal)

in mind, they gather evidence of the costs and efficacy of alternative means for reaching that end, and they then select the most advantageous means for achieving that predetermined end. The “best” means is the one in which the net economic value (benefits of the end minus costs of the means) is as large as possible. Notice here the naïve presumption of a clear distinction between ends and means, and notice that ends and means do not change in the course of calculating the “best” means to reach the pre-determined end. On this account of the choice process, economics is strictly instrumental to optimal choices over ends that remain unexamined and beyond the ambit of economic analysis. This approach is consistent with the insistence of Lionel Robbins (and others who accepted his word for it) that economics is the science of allocating scarce resources among competing and limitless ends—the assessment of which is not an economic matter.

Ironically, this process is not at all about choice—it is about calculation. As we have seen earlier, in assessing this realm of economics, G. L. S. Shackle was moved to comment that:

The escape we have suggested consists not in abandonment of rationality, not in abandonment of the adoption of the means which will lead to the selected end, but in abandonment of the postulate that the available ends are given. The escape from necessity...lies in the creation of ends, and this is possible because ends, so long as they remain available and liable to rejection or adoption, must inevitably be experiences by imagination or anticipation and not by external occurrence. Choice, inescapably, is choice amongst thoughts, and thoughts....are not given [Shackle 1961, pp. 273].”

Choice is choice amongst thoughts, and thoughts are not given but created from impressions and imaginings. Shackle’s theory of choice, elaborated in his Decision, Order, and Time [1961] is consistent with—and a central component of—the volitional pragmatism developed here. What remains is to extend that theory to address the matter of whether or not “correct” and “rational” decisions can be said to emerge. In other words, the problem now becomes one of judging the decisions reached—such judgment being essential before we will

know if welfaristic truth claims can be (or ought to be) relied upon to rectify the allegedly flawed decisions that would otherwise emanate from individuals and groups. Those committed to consequentialist welfarism are quite certain that their prescriptive assertions (truth claims) are necessary to rescue individual and collective action from incoherence and irrationality.

The standard economic approach is to identify the correct decision protocols for reaching the correct decision. The logic here is that if the right decision protocols are followed the resulting decision will, by definition, be correct. That is, correct decision protocols are the cause of correct choices (decisions), and correct decisions are the effect of employing correct decision protocols. While this would seem to resemble Simon's procedural rationality, this protocol is implicated in choice that is claimed to be substantively rational as well [Simon 1987]. Pragmatists would suggest that many economists have cause and effect confused. Rather, pragmatism suggests to us that the identification of the correct decision is something that occurs after a consensus has been reached regarding what seems best to do. Here the cause of the correct decision is not some external truth rule (a "correct" decision protocol) but rather the assiduous working out of—the diligent searching for—what seems the better thing to do in the current setting and circumstances. Once that has been worked out, the emergent choice becomes the correct choice by virtue of having been worked out. After all, would it not be surprising to discover that an individual (or a group) decided to do something that had been identified as clearly not the best thing to do at the time? Peirce insisted that:

The opinion which is fated to be ultimately agreed to by all who investigate, is what we mean by the truth, and the object represented in this opinion is the real. That is the way that I would explain reality [1934, p. 405].

The arrival at a consensus about what is better to do is always predicated upon a clear but evolving notion of the purposes of the future—an outcome in the future for the sake of which action must be taken today. This is what philosophers call final cause. Purpose is central to pragmatism, and settled belief about both purpose and how to get there represent the essence of “correct” thoughts and belief about the appropriate action to be taken. Richard Rorty insists that the right question to ask is: “For what purposes would it be useful to hold that belief? [Rorty 1999, p. xxiv].” He sees this question as rather akin to asking: for what purposes would it be useful to load that particular program onto my computer?

We have here a debate about the true and the quest to justify claims about the true. I have earlier pointed out that pragmatism insists that the word true does not apply to events and objects in the world around us. Rather, the word true applies to statements about events and objects in that world. In other words, truth is not a property of perfect correspondence between propositions (words) and particular events and objects to which those propositions (words) refer—between language and things (signs and objects). Truth is not denotative. Truth is, instead, a property of particular statements (words) about specific events and objects—between contending linguistic claims. Truth is connotative.

With this in hand we can reconsider the truth claims about policies that are optimal, rational, efficient or socially preferred. The pragmatist would ask whether those terms are properly denotative of present or future states in the world? That is, can one stipulate that there is a clear and valid connection between specific descriptive words such as “optimal” and specific events (new institutions) that might be predicated on that prescription? My earlier arguments insist that there is no such correspondence. Such terms of art cannot possibly describe actual outcomes in the “real” world. Instead, these terms (optimal, efficient, rational, socially

preferred) refer to properties of the analytical engines (deductive models) constructed to divine the optimal (or the efficient or the socially preferred) policy. Such truth claims are entirely reflexive—they are self-referential.

## VI. Implications

Human choice and action is properly characterized as prospective volition—the human will in action, looking to the future, trying to determine how that future ought to unfold. As this process evolves, individuals (and groups of individuals) bring contending expressions and imaginings to the task of choice and action. Individuals (and groups) do not know precisely what they want until they begin to work out what they seem able to have. Surprise motivates action. This process of working out plausible futures entails the consideration of plausible imaginings in conjunction with existing expressions about current and future situatedness. Group action is more complicated than individual action because it requires reconciliation of disparate and contending individual expressions and imaginings until a consensus emerges—the properties of which are that this consensus is regarded as: (1) feasible; and (2) the best thing to do at this particular time. This process can be thought of as an exercise in pleading, resistance, persuasion, cautious acquiescence, and eventual emergence of a consensus.

The two properties of that consensus—feasible and best at this time—represent judgments reached by those individuals who are responsible for collective action. Notice that this judgment is something that can only emerge as individuals and groups contend with the need to reconcile disparate expressions and disparate created imaginings. The first step in this process of working out an emergent consensus is necessarily confined to legislators, administrators, and

judges. In a democracy, the second step is to justify this agreement to the political community whose individual actions will be restrained, liberated, and expanded. In the absence of this justification, collective action will lack legitimacy. This justification to the larger political community necessarily entails the giving of reasons for the decision reached. The process of giving reasons must be carefully crafted so that the reasons given match as closely as possible the asking for reasons that is expected from the political community to whom the collective action is directed [Brandom 2000]. This activity is properly thought of justification in the service of emergent consent.

This theory of choice (and action) stands in contrast to the deterministic and linear model that characterizes standard rational choice theory. Given the criticism of rational choice theory [Bowles 1998; Field 1979, 1981; Hodgson 1988, 1998; Rabin 1998], and the failure of coherence in consequentialist welfarism, it cannot be said that there is settled belief in the broader discipline of economics about individual and collective choice. Pragmatists insist that disciplinary belief that fails to satisfy minimal coherence standards from within that particular epistemic community cannot be the source of credible or compelling truth claims emanating from that discipline and subsequently directed at the larger community. Pragmatists further insist that, even if the proffered truth claims are deemed coherent by the discipline from which they spring, the projection of those truth claims into social choice situations is always tentative and contingent unless—and until—there is widespread acceptance on the part of those to whom the truth claims are directed. Sapient individuals retain the authority to reject—for their own reasons—the truth claims from any source. The status of valuable belief is a property bestowed upon assertions and claims by those to whom such assertions are directed. Valuable belief is not a property that can be claimed for disciplinary truths by those who produce that belief and advance correlated

assertions. All that the producers of such “truth claims” can justifiably assert is that this particular belief enjoys wide agreement within the epistemic community out of which it arises. Even then, this warranted belief is a benediction bestowed by the wider members of a discipline, not simply by those responsible for producing those assertions.

We see that prescriptive welfarism applied to public policy fails the pragmatist’s conditions on both counts. First, welfare economics fails the test of coherence within economics; that is, Paretian economists do not bring warranted belief when they prescribe welfaristic claims to problems of collective action. Second, the truth claims about “optimal” or “socially preferred” policies are usually ignored by those to whom they are directed. These truth claims are ignored, I suggest, because decision makers find themselves either dubious or, if not dubious, quite unable to offer sufficient justifications to the broader citizenry to whom they are ultimately—in a democracy—accountable. Decision makers know that citizens demand justifications based on grounds that matter to them—and few citizens are waiting to be told that particular policies are Pareto optimal, or that they can be proven socially preferred by the application of potential compensation tests. To most listeners, this strategy fails the test of sufficient reason.

This does not mean that economic concepts and relations cannot provide valuable information to the process of working out what seems best to do (at this particular time) about specific problematic situations. But it does mean that economists must remain silent concerning what is best to do on the authority of Paretian concepts alone. And it means that economists must resist the temptation to criticize decisions for being irrational, inefficient, non-optimal, or socially inferior to other more “welfare enhancing” policies.

Volitional pragmatism insists that public policy cannot legitimately be held hostage to the prescriptive truth claims imposed on it by economists (or those from any other discipline).

Volitional pragmatism employs abduction to uncover the reasons for particular policy choices. When we find reasons for choices we will be on our way to the development of a theory of collective action and institutional change. That theory will require explicit recognition of the concepts of impressions, expressions, and created imaginings. That theory will require recognition that joint action in the policy arena entails the working out of contending expressions and created imaginings. It will require recognition that human agents cannot possibly articulate coherent and salient wants in isolation from the specific context of choice in which they learn about those wants as they learn about what they can have. Outside of this context, expressions of wants are mere cheap talk.

Public policy seeks to modify individual domains of choice by restraining, liberating, and expanding the opportunities and capacities of each of us to engage in particular activities. Policy is not some alien “intervention” into the otherwise wondrous “free market” of such appeal to some writers. Indeed, what some are pleased to call “the market” is simply the constructed artifact of prior collective action. Policy is nothing but a word we apply to a continual process of redefining—reconstructing—new realms of individual and group action. Public policy has been unnecessarily mystified by virtue of its having been embedded in the fictional logic of rational choice. If we could but see policy as a word that describes the incessant human quest for contending with surprise in the human condition, we would see that policy is not at all mysterious. Policy is simply choice and action in which groups of individuals work out what seems better, at the moment, to do. We do not need welfare economists telling us which of those plausible futures is socially preferred. We will figure that out for ourselves as we go about figuring out how to reconcile our contending expressions and contending created imaginings. Positivism is of no help here. Volitional pragmatism helps by reassuring us that it is perfectly

acceptable—it is quite “natural”—to be confused about what seems better to want and to do. Confusion and surprise are the starting points of working out what seems better, at the moment, to do.

Volitional pragmatism forces us to confront the **Myth of the Other**. In the beginning God was there to define for us what was good and right to do. Modernism pushed God aside and High Philosophy quickly stepped in to provide guidance. Philosophy became our new **Other**. When philosophers became justifiably uneasy with this burden the task was eagerly taken up in the middle of the 20<sup>th</sup> century by welfare economists. Volitional pragmatism suggests that we have now outgrown our need for external truth rules to tell us the better thing to do. The **Myth of the Other** is precisely concerned with the idea that tough choices cannot usefully be turned over to God, or to philosophers, or to welfare economists. There is no **Other**—there is only us. And volitional pragmatism entails the working through of what we think we want by learning about what we seem able to have. Only then will we take responsibility for our decisions. When we have settled our deliberations, we will anoint those settled thoughts with the ultimate benediction—it seemed the best thing to do at this time. And we shall be happy with that decision...until the next surprise.

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