

# Gadamer, Lavoie, and Their Critics

## The Hermeneutics Debate Revisited

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Don Lavoie’s 1985 paper, “The Interpretive Dimension of Economics,” marked the beginning of what would prove to be a potentially groundbreaking but ultimately unsuccessful development in Austrian economic methodology. Reexamining the importance of this project, this study argues for two basic theses: (1) Professor Lavoie’s appropriation of the German philosopher Hans-Georg Gadamer remains a robust philosophical framework for the Austrian science of praxeology; and (2) the Austrian critiques of his hermeneutical project ironically adopt the same epistemic presuppositions that have historically marginalized the distinctively Austrian methodology of praxeology. Lavoie’s hermeneutical Austrianism represents an unfortunately forgotten, yet important development that is sorely needed in contemporary debates in economic methodology.

## Introduction

Don Lavoie’s 1985 paper, “The Interpretive Dimension of Economics,” marked the beginning of what would prove to be a potentially groundbreaking but ultimately unsuccessful development in Austrian economic methodology.<sup>1</sup> It was potentially groundbreaking insofar as it was a root-level philosophical reworking of a major school of economic thinking. It was ultimately unsuccessful because some of its most respected respondents happened to be outspoken critics—and vigorously so. Upon reexamination of the importance of this project, the present study argues two basic theses: (1) Professor Lavoie’s appropriation of the German philosopher Hans-Georg Gadamer remains a robust philosophical framework for the Austrian science of praxeology; and (2) some of the most important Austrian critiques of

his hermeneutical project ironically adopt the same epistemic presuppositions that classic figures of Austrianism have consistently rejected.

The argument begins with a brief introduction to Lavoie's appropriation of Gadamer within the Austrian framework of praxeology. In this historical sketch, I defend by (1) emphasizing the continuity between Austrian critiques of formalist economic methodologies and Gadamer's critique of scientism as an epistemological paradigm. Special attention is paid to the work of Carl Menger, Ludwig von Mises, and Friedrich Hayek—especially as they contain implicit and explicit pointers to Gadamer's hermeneutic philosophy. After that, I develop by (2) responding to criticisms offered by David Gordon and Murray Rothbard, who mistakenly regard Gadamer's hermeneutics as a naïve relativism about truth claims, opting instead for a problematic foundationalism that illegitimately exempts economic methodology from traditioned rationality.

For these reasons and others, Lavoie's hermeneutical Austrianism represents an unfortunately forgotten yet important development that provides some helpful insight into contemporary debates in economic methodology that might not be available otherwise.

## Lavoie's "Interpretive Dimension"

In an essay entitled, "Hermeneutics as Practical Philosophy," Gadamer remarks, "It is quite artificial to imagine that statements fall down from heaven and that they can be subjected to analytic labor without once bringing into consideration why they were stated ... [n]ot only in theology or philosophy but in any research project."<sup>2</sup> This simple-enough aphorism offers a neat summation of the impetus behind the project of a hermeneutical economics. Because statements and their concepts do not "fall down from heaven" as objects that can be easily appropriated univocally across various historical and cultural contexts, it would be a mistake to analyze them as if they did. Insofar as the discipline of economics employs statements and concepts toward various goals of research, then, it is reasonable to think that economics should be, in some sense, *hermeneutical*. Simply put, this means that economists should have to account for the fact that some sort of interpretive "horizon"—that is, some historically conditioned perspective—is always operative in their work. This task of recognition is part of what hermeneutics calls self-knowledge—a careful uncovering of the different ways in which language works as a tension between universal abstraction and particular appropriation.<sup>3</sup> That is to say, the concepts that social scientists (including economists) rely on in order to form theories arise out of a *process* that is neither a purely detached, objective intuition from data nor an arbitrary imposition of will upon that data.

This process is called “reasoning” or perhaps “knowing,” and it is the task of the hermeneutician to inquire about this process.

In “The Interpretive Dimension of Economics,” Lavoie begins with a lament that might be more familiar to philosophers than economists: “A mere ‘interpretation’ of an historical episode cannot compete effectively for space in our contemporary journals with an econometric test of a specific quantitative model. There remains in economics a strong ‘objective bias.’”<sup>4</sup> What Lavoie calls objective bias is a problem at least for the reason described above, namely, that economic methodology misses something important if it treats statements and concepts about human behavior in the market economy as static, ahistorical, and acultural tools or resources that are somehow directly intuited from economic data. Following Gadamer’s lead, Lavoie attempts to rectify this situation by explaining specifically how hermeneutics is relevant for economics as a discipline. For Lavoie, there are at least two ways: first, “our understanding of the *texts of economics*; and our understanding of *texts of the economy*—that is, the price movements, or monetary institutions, or industrial organization of economies, each of which is a meaningful product of human minds.”<sup>5</sup>

The first of these two ways in which hermeneutics is relevant for economics is perhaps the more obvious one for those familiar with Gadamer’s work. Gadamer begins his *Truth and Method* with such an acknowledgement: “There has long been a theological and a legal hermeneutics, which were not so much theoretical as corollary”—corollary, that is, in the sense that it comes into play only in the reading of written texts.<sup>6</sup> Clearly then, for Lavoie, hermeneutics is relevant for economic texts as well insofar as written works need to be, interpreted, discussed, and taught. Further, the conceptual tools of hermeneutics prove to be indispensable for understanding *real-life* economies as an Austrian economist. In order to see why he makes this twofold claim, it is important to understand his intellectual heritage as an Austrian economist—especially as it pertains to the theories about human reasoning.

Although it would be a difficult and unfruitful task to point out the first Austrian economist, one could do worse than to say that Carl Menger’s insistence on a subjective theory of value marks at least something like a fundamental trajectory for the school.<sup>7</sup> Against objectivist or labor accounts of value that attempt to locate the value of a given commodity in the properties or production of the commodity itself, Menger argues the following:

Value is thus nothing inherent in goods, no property of them, nor an independent thing existing by itself. It is a judgment economizing men make about the importance of the goods at their disposal for the maintenance of their lives and well-being. Hence value does not exist outside the consciousness of men.<sup>8</sup>

Assuming that individual agents in the market economy make decisions based on what they do or do not value, it is easy to see why a theory of value is relevant for understanding market activity as a whole. From this basic idea—that economic value exists only in “the consciousness of men”—it follows that the decisions made by individual agents has a *subjective* or *nonquantifiable* character. Put simply, there is something about decision-making that escapes a “purely quantitative” or mathematical theory. Given this situation, it seems like one of two options is available to the economist: Either there are no purely objective, scientifically verifiable facts to which propositions about the subjective component of economic decision-making could correspond, or there are such objective facts, but they are unavailable to the economist.

Upon more careful reflection, however, it is clear that the philosophical anthropology assumed in both of these options—that there is a definite inside or subjective realm that is to be contrasted with an outside or objective realm—is not the philosophical anthropology assumed by Gadamer’s hermeneutics. At this point, suffice it to say that this apparent quandary for purely quantitative theories of decision-making is already under attack in Austrian economics.<sup>9</sup> It seems that the Austrian subjective theory of value implies what Aristotle notes in the *Nicomachean Ethics*, namely, “politics is not an exact science ... it is a mark of the trained mind never to expect more precision in the treatment of any subject than the nature of that subject permits.”<sup>10</sup>

If there were already an emphasis on the “human element” (that which resists purely quantitative theories) of economics as a science in Menger’s subjective theory of value, such a recognition becomes even more explicit in perhaps the greatest Austrian economist, Ludwig von Mises. It is Mises, in fact, who cements the distinctive methodology of Austrian economics as the science of “praxeology”<sup>11</sup>—or the science of human action, first and foremost. For Mises, whose intellectual context reveals an unmistakably anti-Marxist and antipositivist stance, it is incumbent on the economist to avoid the mistake of relegating the problem of “theory choice” to the metric of empirical verifiability.<sup>12</sup> This is impossible, for Mises, because the principles on which such a metric would rely could not be “arrived upon” empirically.

Nevertheless, the seeds of a potentially hermeneutical methodology are sown in more than just the area of theory choice. According to Mises, praxeology itself—the study of human action—“cannot approach [its] subject if we disregard the meaning which acting man attaches to the situation, that is, the given state of affairs, and to his behavior with regard to this situation.”<sup>13</sup> This is because “[t]here are, in the field of economics, no constant relations.”<sup>14</sup>

Here it is difficult *not* to notice a deep continuity between Mises' praxeological method of economics and Gadamer's hermeneutics. In *Truth and Method*, Gadamer makes the following remarks about the methodology of the empirical sciences and some important differences from his historically conscious hermeneutics: "Whereas the object of the natural sciences can be described idealiter as what *would* be known in the *perfect* knowledge of nature, it is senseless to speak of a perfect knowledge of history."<sup>15</sup> Gadamer's use of the conditional tense here is not an accident. On the contrary, it is essential to his point that the perfection required by the sciences is an abstraction from the concrete reality of history to which the human sciences are supposed to be attuned. Just as Mises decries economists who conduct their inquiries on the mistaken assumption that there are "constant relations" to be found in the realm of human action, Gadamer similarly critiques those who demand that the *abstract* take the place of the *concrete* in the human sciences.

If this is the case, then, there is an obvious sense in which Mises' own development of praxeology anticipates Lavoie's claim about the dual relevance of hermeneutics—both in terms of economic texts (the problem of theory choice) and the economic activity itself (human action). First, in the former case, Mises is clear that the problem of theory choice is a properly *philosophical* problem—one that cannot itself be adjudicated by an already existing metric of mathematical or empirical research. Thus, insofar as we accept the aforementioned idea that the concepts that are constitutive of competing economic methodologies do not fall down from heaven undefiled by historical and cultural context, it is fair to say that the problem of theory choice is a *hermeneutical* problem. Second, in the latter case of economic activity itself, praxeology is a fundamentally hermeneutical science insofar as it investigates the meaning of decisions made by acting individuals in their respective contexts. As Lavoie points out, like Gadamer, Mises argues that "*all* sciences [should] extend in their interpretive dimensions."<sup>16</sup>

If this is true of Mises, the grandfather of Austrian economics, it is truer for Friedrich Hayek—the Nobel Prize-winning foil to John Maynard Keynes and critic of other leading economists in the latter half of the twentieth century. As an Austrian, Hayek follows Mises and Menger in his insistence on the irreducibility of the subjective element of economic activity. Yet there are arguably even more resources for a hermeneutically conscious economic methodology in Hayek than there are in Mises.<sup>17</sup> This is due in part to Hayek's more developed understanding of the social embeddedness of the individual decision-maker.

Now it is obvious that Austrian free-market economics is more individualist than communitarian in its fundamental orientation and policy recommendations. To deny this basic idea would be disingenuous when compared with other schools

of thought. However, it would be equally or perhaps even more misleading to associate Hayek's philosophical anthropology with a naïve atomism holding that human beings are fundamentally isolated subjects and only accidentally social creatures.<sup>18</sup> In fact, he goes out of his way to critique this tendency in what he calls the rationalist tradition of modern political philosophy, represented by John Locke and Jeremy Bentham, among others. For Hayek, the naïvely positive view of the state of nature that is explicit in the work of these two British philosophers operates on the mistaken assumption of an essentially nonsocial capacity for reason in human beings. This leads them to believe that reason is something that human beings have naturally—implying that social institutions are obstacles rather than catalysts for its development.<sup>19</sup> This is very problematic for Hayek because the naïve picture of preinstitutional reason in the rationalist tradition just cannot account for the concrete reality of social institutions and their deep, formative influence on individuals.<sup>20</sup>

For this reason and others, Hayek draws favorably from a different tradition, which he calls “antirationalist.” Represented by prominent figures of the Scottish Enlightenment such as David Hume and Adam Smith, this tradition's approach to the question of reason and the state of nature is more plausible because it does not commit itself to the existence of an occult state of pure reason that is more primordial than what is plainly observable in the daily activity of the market economy.<sup>21</sup> On this line of reasoning, because what is observable in market economies is always already bound up in a complex array of social institutions and their traditions, it is the more rational position to admit the *positive* relevance of those institutions in the development of the acting individual's capacity to reason effectively:

[C]ivilisation was necessary to man's development as a rational being, for “human reason has grown and can successfully operate” only with and within the framework of morals, language and law. It follows that free institutions were not constructed to fit some rational conception of freedom. Free institutions evolved first, and conceptions of liberty came later as these institutions were studied.<sup>22</sup>

Hayek flips the rationalist narrative of “reason first, then institutions” on its head. Precisely the opposite is the case. The state of nature is not a realm in which autonomous subjectivity is the primordial condition of the human being; rather, institutions shape the irreducibly subjective nature of reason and human decision-making.

Vital to this short passage in Hayek's *Constitution of Liberty* is the idea that human reason operates “with and within” its particular moral tradition. Unlike

the subject matter of the natural sciences, which deals exclusively with its objects of study, Hayek acknowledges the true universality of moral reasoning in that it is simultaneously both method and object—both the way and the destination, so to speak. Once again, this insight is strikingly close to what Gadamer says in *Truth and Method*: “[We are] concerned with reason and knowledge, not detached from a being that is becoming, but determined by it and determinative of it.”<sup>23</sup> Although this appropriation of the ancient Greek categories of being and becoming might mystify students of economics, the point here is not difficult to grasp. Simply put, reason *itself* is not something that can be made into a “pure object” of study. Why? Precisely because we have to *use* reason in order to find out *what it is*. This is what Hayek means by “with and within” and what Gadamer means by “determined and determinative.”

To recap, then, we have examined three figures in the tradition of Austrian economics—Menger, Mises, and Hayek—and their relationship of continuity with Gadamer’s (and Lavoie’s) hermeneutics. In the case of Menger, we have seen that the irreducibly subjective element of value is a resource for critiquing the positivist or scientific overreliance on mathematical models for understanding human decision-making. In Mises, we find an outright endorsement of Lavoie’s claim that philosophical interpretation is relevant and even necessary for understanding both economic texts and economic activity itself. Finally, in Hayek we find a concept of reason that is constituted primarily by the traditions of social institutions.

For the purposes of this brief historical sketch, then, it seems plausible to think that proponents of the Austrian School ought not to find the fundamental claims of hermeneutics to be all that foreign or hostile. Yet, as the history of this debate surrounding Lavoie’s “Interpretive Dimension” clearly shows, this is exactly the attitude that was adopted by major figures in the Austrian School in the 1980s and 1990s. We will now observe these critiques and respond to them.

## **Against Hermeneutics: Rothbard’s Three Theses and Gordon’s Objectivism**

Critiques of Lavoie’s provocative project are numerous, and perhaps understandably so given its implications for the science of economics as a whole. For the sake of clarity and conciseness, though, we now focus on two especially notable papers by Murray Rothbard and David Gordon, respectively. Read together, it is possible to see that Rothbard’s tripartite critique of hermeneutics is fully realized in the latter’s more serious meta-philosophical worry. The present response will deal with both in order.

If the title of Murray Rothbard's 1989 essay, "The Hermeneutical Invasion," were not indicative enough of the author's attitude toward his subject, then the argument that follows is. Asking himself why he would even bother responding to such an apparently illegitimate intellectual movement, Rothbard answers, "Discipline after discipline, from literature to political theory to philosophy to history, have been invaded by an arrogant band of hermeneuticians.... Hence, this article is in the nature of a counterattack."<sup>24</sup> No citations are given to support the claim here; neither is there any help for a reader who wants to know what such a hermeneutical "invasion" might look like concretely. What Rothbard does spell out, however, are three negative characteristics of hermeneutics that, when taken together, reveal insurmountable problems with the entire enterprise. This list of dubiousness is comprised of "incomprehensibility," "collectivism," and "openness."

Rothbard's characterization of Gadamer and other hermeneutic philosophers as "incomprehensible," while perhaps not always unfounded, is the least interesting in terms of argumentative rigor. Instead of citing any particular passages from his targets, which include Heidegger, Gadamer, and Hegel (among others), Rothbard chooses instead to cite unsympathetic readers of his targets at length—all of which come to similar conclusions, that is, that hermeneutics is empty, pseudo-intellectual posturing.<sup>25</sup> Of course, this might be true, but it is difficult to see how the reader is supposed to be able to agree with Rothbard on more intellectually satisfying grounds than just accepting the authority of these particular commentators. Such an agreement would require at the very least a somewhat developed account of what is meant by genuine and false intellectualism. The critique continues with the charge of collectivism, which Rothbard buttresses by reference to the Marxian leanings of many hermeneutic philosophers. He remarks, "I do not believe it an accident that Karl Marx is considered one of the greatest hermeneuticians."<sup>26</sup> Although it is not immediately clear why Rothbard chooses to call Marx a hermeneutician, presumably it is because he thinks that the lack of rigor characteristic of hermeneutics as a discipline matches the "cultist," collectivist conviction that knowledge claims are always constituted at least in part by irreducibly social conditions.<sup>27</sup> If this is the case without further clarification, though, then our analysis of the Austrians above seems to suggest that even Hayek himself could be grouped under such an underdeveloped category.<sup>28</sup>

Upon returning to *Truth and Method*, however, it turns out that even a coherent version of Rothbard's charge of Marxian inclinations—insofar as it is possible—would also fail. Gadamer is no follower of Marx and other "left-Hegelian" traditions in philosophy, as he goes out of his way to explain: "The left-Hegelian critique of merely intellectual reconciliation that fails to take account of the real



transformation of the world, the whole doctrine of the transformation of philosophy into politics, is inevitably the self-abolition of philosophy.”<sup>29</sup> Gadamer does not only distance himself from Marx—he actually accuses him of abolishing his entire discipline! While of course Gadamer’s hermeneutics is suspicious of “speculative thought” that does not recognize its roots in the finite, historical conditions of human consciousness, it is perhaps even more problematic to *reduce* human consciousness to an ontic,<sup>30</sup> finite realm such as the “reality of the relations of production.”<sup>31</sup> This negative disposition in regard to Marxian thought is not accidental to Gadamer’s hermeneutics; rather, it is an unavoidable implication.<sup>32</sup> Whether or not this means he remains a naïve collectivist in any meaningful sense is still unclear—not because Gadamer’s work is murky, but rather because Rothbard fails to offer a substantial criterion by which it would be possible to apply the label as such.

Rothbard’s final critique—that the call for openness in hermeneutics leads to a wild relativism about truth claims—is the most interesting. It even contains a kernel of a concern held by more distinguished philosophers close to the hermeneutic tradition.<sup>33</sup> Because hermeneutics emphasizes the conversation between two or more dialogue partners to such an extent that it gains an ontological status in its own right,<sup>34</sup> there is a real danger of making the conversation an end in itself—without proper reference to a truth standard that the conversation partners may or may not attain. Put simply, truth has to be meaningfully *independent* of the conversation if the conversation is to carry any scientific rigor at all.

It is precisely this truth-independence that Rothbard says is missing from hermeneutics: “Truth is the shifting sands of subjective relativism, based on an ephemeral ‘consensus’ of the subjective minds engaging in endless conversation.... [T]here is no objective way, whether by empirical observation or logical reasoning, to provide any criteria for such a consensus.”<sup>35</sup> If this were true, of course, it would make for a frustrating tyranny of “conversation”—one that cannot distinguish between true and false, right and wrong.

There are several different ways to interpret Gadamer’s response to the objection of relativism, and, in some sense, it is possible to argue that the entirety of *Truth and Method* can be understood as an extended exercise in avoiding the binary of “objectivism or relativism.”<sup>36</sup> It would therefore require a much more thorough analysis than can be accommodated in the present essay to unpack the complexities of Gadamer’s answer. It is possible, however, to offer a brief response that addresses Rothbard’s particular criticism.

It is important to note Rothbard’s apparent misunderstanding of Gadamer’s concept of conversation. Whatever a Gadamerian conversation is, it is *not* merely the spontaneous association of individual, subjective minds that happen to agree

or disagree about something.<sup>37</sup> This would imply exactly the kind of ahistorical, atomistic anthropology that hermeneutics aims to overcome. Rather, “To conduct a conversation means to allow oneself to be conducted by the subject matter to which the partners in dialogue are oriented.”<sup>38</sup> It would be the grossest misunderstanding therefore to think that Gadamer wants to do away with logic or empirical research; for these tools of dialogue provide the conditions of intelligibility for the subject matter to which the conversation partners are supposed to be oriented.

This does not mean, however, that the logic and empirical research used by the partners of a particular conversation can be abstracted from the traditions that produced that particular conversation. Because knowledge is always both knowledge *from* a certain tradition and knowledge *for* a meaningful end, genuine conversations, too, can never lose sight of their situatedness between these mutually constitutive elements of rationality. The wild relativism against which Rothbard rages can never be a reality in a genuinely hermeneutical conversation because it would require the interlocutors to *abstract* themselves from their conflicting traditional understandings in order to declare that their apparently conflicting opinions are equally valid. Once again, this act of abstraction—one that would put two or more truth claims on a third plane of equal validity—is exactly what cannot happen in a genuinely hermeneutical conversation. In fact, far from being a substantive *flight* from the larger project of a purely objective rationality and its penchant for abstraction, the relativism that Rothbard decries might be better understood as an extreme *continuation* of such an epistemological enterprise.<sup>39</sup> As such, (1) it is true that part of what it means to have a conversation is to allow one’s traditional biases to speak, but (2) it is *not* true that this means all traditional biases are equally valid.

These three Rothbardian charges against hermeneutics, though meaningfully separate concerns, come to a head nicely in David Gordon’s more fundamental critique of hermeneutics as an example of fallacious reasoning at the level of methodology. For clarity’s sake, I reproduce the final paragraph of his “Hermeneutics Versus Austrian Economics” in its entirety:

In the Austrian view, [the hermeneuticians] point out, entrepreneurs operate under conditions of Knightian uncertainty. No one has *full* information on what prices will clear the market, and everywhere judgment and tacit knowledge are the order of the day. This is indeed so, but our authors have confused a theory with its subject matter. That the actors studied by a theory used tacit knowledge to deal with conditions of imperfect information need not itself be a proposition known only through subjective hunches. Just as the study of insane people need not consist of mad propositions, the study of actors using

imperfect knowledge need not resemble its subject matter.... [T]he entrepreneur and the economist are two very different persons.<sup>40</sup>

The point here is simple: hermeneutics is mistaken because it fails to demarcate clearly between theory and subject matter. Theories are only useful for making data intelligible—to conflate theory and data is to lose the significance of both. Gordon’s glib example of the study of insane people attempts to show the obvious problem with this situation.

Now, of course, hermeneutics would be problematic in the worst way if it were denying the importance of *any* distinction between theory and subject matter in *all* modes of inquiry. To use a slightly more humane example than the one offered by Gordon, it is obvious that the scientific method cannot be applied to yield results about the proper understanding of *what the scientific method is* in the first place. This would be, of course, a rather egregious exercise in circular reasoning. The scientific method as applied to empirical data only makes sense on the assumption of a long list of pre-established theses (most importantly, that the scientific method itself is a legitimate vehicle for scientific progress). Hermeneutics does not mean to undermine this process—indeed, not even with respect to *social* phenomena.<sup>41</sup> In the foreword to the second edition of *Truth and Method*, Gadamer is clear: “[Hermeneutics] does not in the slightest prevent the methods of modern natural science from being applicable to the social world.”<sup>42</sup>

The hermeneutician’s reply to Gordon, however, must involve the question of whether it is *ever* appropriate to ask, “What is reason *itself*?” In this sort of question, which we have already seen Hayek take up with the discussion of moral tradition, the distinction between theory and subject is anything but clear-cut. Again, as Hayek says, human beings work with and within the moral traditions that constitute reasonableness; as human beings, we must *use reason* (theory) to find out *what reason is* (subject matter).<sup>43</sup> Because hermeneutics is explicitly asking this question of the meaning of reason, there is a uniqueness to the project in that it cannot be properly mapped in terms of Gordon’s clear-cut distinction between theory and subject matter. If Gordon wants to say that economists are exempt from this “hermeneutic circle”<sup>44</sup> in which theory and subject matter bear a mutually constitutive relation to one another, it seems that he is forced to accept one of two difficult consequences: He must say either that (1) the question of the meaning of reason is not a legitimate question at all, or that (2) the “reasonableness” of economic theory is of an entirely different sort than the reasonableness of economic actors.

If he accepts number one, Gordon bears the awkward consequence of aligning himself with some kind of dogmatic reductionism that simply dismisses the

meaningfulness of such questions. If it is true that the clear-cut distinction between theory and subject matter is a necessary condition for all forms of reasonable inquiry, it is difficult to see how any question about *what reason is* in the first place could be meaningful. This is awkward because such a position is formally identical to the aforementioned positions Mises and Hayek explicitly reject.<sup>45</sup> In each of these cases, the Austrian position clearly criticizes the tacit exemption of economic methodology from the concrete reality of traditioned reason. Therefore, while Gordon himself makes a considerable claim about the meaning of reason—that it involves “discover[ing] true propositions about the external world”<sup>46</sup>—it is difficult to see on his own terms how the question of this claim’s truth or falsity could even arise. Again, this is because the process of asking and answering such a question would itself have to operate according to some form of reason. But this would create a problem for the clear-cut distinction between theory and subject matter—the very distinction that Gordon champions.

Yet, number two is equally if not more dubious than number one. Even if “the entrepreneur and the economist are very different persons,” which is no doubt true, does this mean that they operate on the basis of two entirely different concepts of reason? If so, does it mean that entrepreneurs are entirely indifferent to discovering true propositions? Could it not be just as easily the other way around? Ultimately, it seems that Gordon is indeed committed to number two, but silent about what the relevant differences are between the two supposed “forms of reason.” Perhaps this silence is no accident, though, because to ask about the differences between two different concepts of reason is an inescapably *hermeneutical* question. Ironically, it is hermeneutics that ends up providing the universal horizon of understanding—not Gordon’s alternative, which seems to posit two entirely separated realms of reasoning.<sup>47</sup>

## Conclusion

In conclusion, then, I have attempted to defend Lavoie’s appropriation of Gadamer’s hermeneutic philosophy as a philosophical foundation of Austrian economic methodology. My argument proceeded first with a brief sketch of Lavoie’s landmark essay, “The Interpretive Dimension of Economics,” which attempts to counter the “objectivist bias” of economic theory with the more philosophically, historically, and culturally robust framework of Gadamer’s hermeneutics. Gadamer is compelling in this context because he provides an interpretive horizon for both the discourse of economics and the real-life subject matter of economics—thereby preventing a naïve break between the two realms of inquiry.

I then continued with an analysis of important insights from three Austrian economists—Menger, Mises, and Hayek—all of which show at least the potential for continuity with the project of Lavoie’s philosophical hermeneutics. In Menger’s case, the subjective theory of value anticipates a kind of economic hermeneutics when it places what I have called the (unquantifiable) “human element” in economic decision-making at the center of economic inquiry. In Mises, the denial of constant relations in the human sciences is similar to Gadamer’s critique of the idea of a perfect knowledge of history. Both deny the idea that praxeology (the study of human action) is at bottom a study of pure objects that can be isolated from their historical contexts without significant remainder. Finally, Hayek’s critique of the rationalist liberal tradition affirms an understanding of human reason similar to Gadamer’s in that it acknowledges the always-already constitutive role of moral traditions and institutions. The textual support from these three Austrian thinkers and Gadamer seems to support contention number one of the thesis of the present study: namely, there is good reason to believe that Lavoie’s push for a “hermeneutical turn” in Austrian economic methodology is continuous with—not a rejection of—the tradition of the Austrian School.

Finally, the argument concluded with a series of step-by-step responses to two of the most famous critics of Lavoie’s hermeneutical project, Rothbard and Gordon. While the latter’s objection of a theory/subject matter confusion turns out to be more fundamental than the seemingly purposive misreadings of the former, I have attempted to argue not only that the problems raised are well accounted for in Gadamer’s philosophy but also that the two Austrian philosophers’ alternative of objectivist epistemology repeats mistakes of which the Austrian School has traditionally (and correctly) been critical. This situation speaks to contention number two of this study.

For these reasons and many others—including work applying Lavoie’s theoretical work<sup>48</sup>—I want to suggest that the Austrian School is uniquely situated in economics proper to break with the often unrecognized objective bias that continues to plague the discipline at both academic and popular levels.<sup>49</sup> Some have suggested that Lavoie and other proponents of the hermeneutical turn in Austrianism could have been more articulate in answering some of their critics—especially with respect to their distance from any naïve relativism about knowledge claims<sup>50</sup>—I submit that this study and others aptly demonstrate the potential fruits of a renewed interest in hermeneutics among Austrians.

## Notes

1. Virgil Storr, for example, has called the debate “largely a waste of time.” To the extent that this is true, I argue this is the fault of Lavoie’s critics, not Lavoie. See Virgil Henry Storr, “Schütz on Meaning and Culture,” *Review of Austrian Economics* 23 (2010): 147. For a helpful introduction to resources on the debate, see Virgil Henry Storr, “On the Hermeneutics Debate: An Introduction to a Symposium on Don Lavoie’s ‘The Interpretive Dimension of Economics: Science, Hermeneutics and Praxeology,’” *Review of Austrian Economics* 24, no 2 (2011): 85–89.
2. Hans-Georg Gadamer, “Hermeneutics as Practical Philosophy,” in *After Philosophy: End or Transformation*, ed. Kenneth Baynes, James Bohman, and Thomas McCarthy (Cambridge, MA: MIT Press, 1988), 334.
3. Gadamer’s intellectual mentor Martin Heidegger draws on Plato’s *Ion* to explain the role of the hermeneutician as ερμηνες των θεών (interpreters of the gods). The human being is uniquely positioned to perform this task because she exists “in-between” universal and particular. See Martin Heidegger, *On the Way to Language* (New York: Harper and Row, 1982), 29.
4. Don Lavoie, “The Interpretive Dimension of Economics: Science, Hermeneutics, and Praxeology,” *Review of Austrian Economics* 24 (2011): 93. The article was originally published by the Center for the Study of Market Processes in 1985.
5. Don Lavoie, *Economics and Hermeneutics* (London: Routledge, 1990), 2 (emphasis mine).
6. Gadamer, *Truth and Method* (New York: Continuum, 2004), xx.
7. See Henri-Simon Bloch, “Carl Menger: The Founder of the Austrian School,” *Journal of Political Economy* 48, no. 3 (June 1940): 428.
8. Carl Menger, *The Principles of Economics* (Washington, DC: Institute for Humane Studies, 1976), 120–21.
9. For a developed account of the relationship between philosophical hermeneutics and Austrian economic theory, see Randall Kroszner, “On the Microfoundations of Money: Walrusian and Mengerian Approaches Reconsidered in Light of Richard Rorty’s Critique of Foundationalism,” in *Economics and Hermeneutics*, ed. Don Lavoie (London: Routledge, 2002), 248.
10. Aristotle, *Ethics* (New York: Penguin Books, 1976), 1094b.
11. This is not to say that Austrian economics as a school adopts Mises’ method of praxeology “across the board.” On the contrary, as even the hermeneutical turn shows, the proper methodology of Austrian economics is and has been a subject of intense debate. See Bruce J. Caldwell, “Praxeology and Its Critics: An Appraisal,” *History of Political Economy* 16, no. 3 (1984): 363.

12. See R. A. Gonce, "Natural Law and Ludwig von Mises' Praxeology and Economic Science," *Southern Economic Journal* 39, no. 4 (1973): 490.
13. Ludwig von Mises, *Human Action: A Treatise on Economics* (San Francisco: Fox and Wilkes, 1963), 26.
14. Mises, *Human Action*, 55.
15. Gadamer, *Truth and Method*, 285 (emphasis mine).
16. Lavoie, "The Interpretive Dimension," 97n9.
17. Francisco D'Iorio has even remarked that "Hayek and Gadamer's philosophical views on knowledge were identical." Although I am hesitant to make such a strong claim, there is good reason to think that the epistemological orientations of the two thinkers are similar in many important respects. See Francisco Di Iorio, *Cognitive Autonomy and Methodological Individualism: The Interpretative Foundations of Social Life* (Cham, Switzerland: Springer International Publishing, 2015), 12.
18. In *Individualism and Economic Order*, for example, Hayek distances himself from essentialist individualism, which he takes to be the mistaken assumption that human beings in the state of nature are hermetically sealed subjectivities. The true individualism that Hayek endorses understands the individual in terms of a necessary abstraction from her original state of social embeddedness. See Friedrich Hayek, *Individualism and the Economic Order* (Chicago: University of Chicago Press, 1948), 6.
19. The following passage from Locke's *Second Treatise* is a good example of the position Hayek is critiquing: "To understand Political Power right, and derive it from its Original, we must consider, what State all Men are naturally in, and that is, a *State of perfect Freedom* to order their Actions, and dispose of their Possessions and Persons, as they think fit, within the bounds of the Law of Nature, without asking leave, or depending upon the Will of any other Man." See John Locke, *Second Treatise of Civil Government*, ch. 2 in Peter Laslett, ed., *Locke's Two Treatises of Government*, 2nd ed. (Cambridge; New York; New Rochelle; Melbourne; Sydney: Cambridge University Press, 1988), 287.
20. See Eugene F. Miller, *Hayek's Constitution of Liberty* (London: Institute of Economic Affairs, 2010), 43.
21. Although there are places in Hume's *oeuvre* in which he allows for *a priori* reasoning, there is no question that taste or sentiment is the more primordial reality in matters that are relevant for individual decision-making in the market economy: "It is evident that none of the rules of composition are fixed by reasonings *a priori*, or can be esteemed abstract conclusions of the understanding." See David Hume, *Essays: Moral, Political and Literary* (Indianapolis: Liberty Fund, 1985), 231.
22. Friedrich Hayek, *Constitution of Liberty*, 60.

23. It is also important once again to note the influence of Aristotle, from whom Gadamer is drawing in this passage. See Gadamer, *Truth and Method*, 310.
24. Murray Rothbard, “The Hermeneutical Invasion of Philosophy and Economics,” *Review of Austrian Economics* 3, no. 1 (1989): 45.
25. See Rothbard, “The Hermeneutical Invasion,” 47–48.
26. Rothbard, “The Hermeneutical Invasion,” 49.
27. Rothbard remarks,

It seems to me that hermeneutics fits very well into an era that we might, following a Marxian gambit about capitalism, call “late Marxism” or Marxism-in-decline. Marxism is not true and is not science, but so what? The hermeneuticians tell us that nothing is objectively true, and therefore that all views and propositions are subjective, relative to the whims and feelings of each individual. So why should Marxian yearnings not be equally as valid as anyone else’s?

See Rothbard, “The Hermeneutical Invasion,” 49.
28. In a memo about Hayek’s *Constitution of Liberty*, Rothbard calls Hayek’s book “extremely bad, and, I would even say, [an] evil book.” This rather harsh assessment is at least partly due to Rothbard’s distaste for Hayek’s understanding of reason and his aforementioned characterization of the rationalist tradition of liberal political philosophy. See Murray Rothbard, *Rothbard vs. the Philosophers: Unpublished Writings on Hayek, Mises, Strauss and Polanyi* (Auburn, AL: Ludwig von Mises Institute, 2009), 61, 63–64.
29. Gadamer, *Truth and Method*, 339.
30. The term *ontic*—as opposed to *ontological*—takes its meaning from the problem of the “ontological difference,” which is made explicit in Heidegger’s thought. The ontological difference is important insofar as it provides explanatory power for what Gadamer means when he aims to articulate a concept of truth that can do justice to the “whole of human experience.” For both Heidegger and Gadamer, any concept of truth that adequately accounts for phenomena only within the parameters of a *single dimension* of human experience is an ontic concept of truth. The attempt to *conceal* the properly ontological question (what is the meaning of truth itself?) by falsely equating truth with one or more ontic concepts of truth over all others is Marx’s error, according to Gadamer. See Gadamer, *Truth and Method*, xxii.
31. Gadamer, *Truth and Method*, xxii.
32. Further support for Gadamer’s anti-Marxist sentiments can be found in his debates with the German critical theorist, Jürgen Habermas. See Gadamer, *Truth and Method*, 574.



33. Leo Strauss is a good example of a more distinguished *philosopher* who critiques hermeneutics along similar lines. Gadamer, *Truth and Method*, 529.
34. “We say that we ‘conduct’ a conversation, but the more genuine a conversation is, the less its conduct lies within the will of either partner.... [A] conversation has a spirit of its own, and the language in which it is conducted bears its own truth within it—i.e., that it allows something to ‘emerge’ which henceforth exists.” See Gadamer, *Truth and Method*, 385.
35. Rothbard, “The Hermeneutical Invasion,” 50.
36. Hermeneutics scholar Jens Zimmermann puts it this way: “Historicity, for Gadamer, does not at all necessitate ‘historicism’ or relativism. Even though Gadamer rejects grounding things in the ultimate referent of a divine mind, his equal reluctance to embrace a nominalism indicates his preference for a participatory connection between universal and particular.” This participatory connection marks a relational ontology between universal reason and particular historicity that neither a naïve relativism nor objectivism can allow. See Jens Zimmermann, *Humanism and Religion: A Call for the Renewal of Western Culture* (Oxford: Oxford University Press, 2012), 265.
37. For Gadamer, true conversation involves a certain “reciprocity” between interlocutors that can only be developed by way of an explicit rendering of one’s presuppositions, which in turn can only be developed genuinely with what Gadamer calls “historical consciousness.” See Gadamer, *Truth and Method*, 353–54.
38. Gadamer, *Truth and Method*, 361.
39. On this point, see Wilhelm Röpke, *The Moral Foundations of Civil Society* (New Brunswick, NJ: Transaction Publishers, 2002), 65.
40. David Gordon, “Hermeneutics versus Austrian Economics,” published by the Mises Institute in 1986, available at <https://www.mises.org/library/hermeneutics-versus-austrian-economics>.
41. A helpful reviewer pointed out for me that Gadamer recognizes the universal character of aspects of the scientific method: The “theory of trial and error that Popper worked out is not at all confined to the logic of specialized inquiry ... [it] makes plain a notion of logical rationality that reaches far beyond the field of scientific research and describes the basic structure of all rationality, even that of practical reason.” See Gadamer, *Reason in the Age of Science* (Cambridge, MA: MIT Press, 1981), 155.
42. Gadamer, *Truth and Method*, xxvi.
43. Hayek, *Constitution of Liberty*, 60.

44. The hermeneutic circle, for Gadamer, is a “logical metaphor” that emphasizes the situation described above: namely, that human beings as knowledge-seekers are always drawing *from* and appropriating *to* a given horizon of understanding. See Gadamer, *Truth and Method*, 372n3.
45. See especially Mises on “theory choice” and Hayek on “working with and within” in Gonce, “Natural Law and Ludwig von Mises’ Praxeology and Economic Science.”
46. Gordon, “Hermeneutics.”
47. Gadamer argues that the “cultivated consciousness” characteristic of traditioned reason is a *universal* characteristic of human knowing: “Thus the cultivated consciousness has in fact more the character of a sense. For every sense—for example, the sense of sight—is *already universal* in that it embraces its sphere, remains open to a particular field, and grasps the distinctions within what is opened to it in this way. In that such distinctions are confined to one particular sphere at a time, whereas cultivated consciousness is active in all directions, such consciousness surpasses all of the natural sciences. It is a *universal sense*.” See Gadamer, *Truth and Method*, 16.
48. See Tom G. Palmer, “The Hermeneutical View of Freedom: Implications for Gadamerian Understanding for Economic Policy,” in *Hermeneutics and Economics*, 295–315.
49. I take the Christian economists such as Bob Goudzwaard and John Tiemstra to share this view, even if they are otherwise critical of the Austrian School. See Bob Goudzwaard, “A Response to ‘Human Dignity, Personal Liberty,’” *Journal of Markets & Morality* 5, no. 1 (Spring 2002): 122; John Tiemstra, “Notes from the Revolution: Principles for a New Economics,” *Faith & Economics* 54 (2009): 19–29.
50. On this point, see Francisco Di Iorio, *Cognitive Autonomy and Methodological Individualism*, 13.