

Published by

# BEHAVIORAL RESEARCH COUNCIL

A division of American Institute for Economic Research,  
Great Barrington, Massachusetts, 01230

# TRANSACTIONAL VIEWPOINTS

Vol. I, No. 1

Winter 2002

Quarterly Letters on the Transactional View, the Sciences and the Arts

## Inquiry and Action: An Introduction to *Transactional Viewpoints*

With this publication the Behavioral Research Council (BRC), a division of the American Institute for Economic Research (AIER), introduces you to its *Transactional Viewpoints*, a quarterly newsletter. The newsletter features a series of essays on inquiry, behavior, and institutions from viewpoints related to the legacy of John Dewey, the main exponent of America's homegrown philosophy, pragmatism. Dewey and his collaborator, Arthur Bentley, chose the phrase "transactional view" to name their mature development of Dewey's earlier views. In this inaugural issue, the newsletter discusses Dewey/Bentley's transactional view and how it may shed light on controversies and tensions in the behavioral and social sciences.

Each newsletter will contain a short essay and an Editor's Corner announcing

workshops, conferences, and other events sponsored by BRC. Scholars will bring originality and careful analysis to a range of topics, which will be written and edited for a general readership. In the next issue, Frank Ryan (Kent State University) will discuss how Dewey reconstructs modern philosophy by rejecting the Cartesian dualism between subject and object. Then, W. Kim Rogers (East Tennessee State University) will elucidate the concept of living being as the unity between the organism and its environment in the works of Dewey, Ortega, Goldstein, and Gibson. Next, Antonio R. Damasio (University of Iowa College of Medicine), author of *Descartes' Error: Emotion, Reason, and the Human Brain*, challenges the Cartesian view of reason as distinct from the realm of the emotions and, in turn, argues for a biological view of cognition.

Another issue will include a discussion of what transactional view has in common with "behavioral economics." Later, Hans Joas (Freie Universität Berlin and University of Chicago) will discuss his action-theoretic social theory, which is inspired by pragmatism in general. Further, Hubert Hendrichs (University of Bielefeld, Germany) will write on the psychological structures of non-primate mammals, whose behavior exhibit intentionality and malleability in light of the environmental context. Moreover, Inna Runova Semetsky (Columbia University) will relate nonlinear dynamics to Dewey's philosophy. Still, later issues will contrast Friedrich Hayek's theory of cognition with John Dewey's, and will evaluate Austrian economics from the standpoint of the transactional approach.

### History and Purpose

In 1960 a number of scholars from various universities founded BRC to further the study of human behavior and institutions. After publishing *A Current Appraisal of the Behavioral Sciences and Useful Procedures of Inquiry* (UPI), edited by Rollo

Handy and E.C. Harwood, 1973, BRC became dormant. In 1984, BRC became a division of AIER. AIER's President, Robert Gilmour, revitalized BRC last July by holding an international conference in Great Barrington, Massachusetts, where over three days some 80 philosophers, economists, and legal scholars debated John Dewey's legacy. Presentations covered pragmatism in light of postmodernism in philosophy, Dewey and Bentley's collaborative work, and the legal, scientific, and moral implications of the transactional view. Selected papers will be published in due course in book form.

Many of the invited speakers were surprised to learn that John Dewey's philosophy and especially Dewey's collaborative work with Arthur Bentley had been for decades part of AIER's approach to the conduct of empirical research. AIER uses Dewey Bentley's *Knowing and the Known* (1949), which long had been unavailable outside of BRC's UPI, as the backbone of its student summer-fellowship program.

AIER's founder, Col. E.C. Harwood, discovered Dewey and Bentley's work more than 50 years ago, at a time when analytical philosophy had supplanted pragmatism in major U.S. philosophy departments:

Only in recent decades have the methods of science been subjected to painstaking study by men seeking to understand what those methods have in common and how they can be applied successfully in all fields where knowledge is sought. Of the many who have inquired into this problem whose work we have studied, one seems to have stood head and shoulders above his contemporaries and his predecessors. This man was John Dewey.

Sometimes when we read what others say about John Dewey, when we hear him accused of abandoning principles and urging that the end justifies the

### Announcements:

**Workshop.** BRC is conducting a workshop on Dewey (**John Dewey and Socio-Economic Theory**) May 19-25, 2002 at AIER, Great Barrington, Mass. Accommodations and some meals (breakfast and lunch) are provided plus \$1,000 to defray incidental and travel costs. Deadline is April 15th. Send a letter explaining your research plus vitae to Elias Khalil, elk@aier.org, or by regular mail to BRC, PO Box 1000, GB, MA 01230.

**Call for papers.** BRC is sponsoring a conference on behavioral economics (**Behavioral Economics and Neoclassical Economics: Continuity or Discontinuity?**) July 19-20, 2002, in Great Barrington, Mass. The conference consists of invited sessions (participants include Gary Becker, Richard Posner, Kevin Murphy, George Ainslie, Jonathan Baron, David Laibson, Xavier Gabaix) and contributed sessions. To attend, register by June 1<sup>st</sup>. To present a paper, besides applying, send by May 1<sup>st</sup> a letter, an abstract, and vitae, to Elias Khalil, elk@aier.org, or by regular mail to BRC, PO Box 1000, GB, MA 01230.

Please visit [www.brc-aier.org](http://www.brc-aier.org) for details.

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means, when we see some of the remarkable educational experiments that claim to be his intellectual offspring, we marvel that the ideas of a single man can be interpreted and misinterpreted in so many different ways. Nevertheless, we think there is growing recognition that his understanding of scientific method, of its underlying principles and general trend of development, exceeded in clarity and accuracy the corresponding understanding of any other philosopher.

—E.C. Harwood (*Speech*,  
Montreal, Canada, July 12, 1952)

The AIER Trustees and staff welcome the recent resurgence in interest in Dewey's work. A 1920 graduate of West Point, Harwood (1900-1980) founded AIER in 1933 in Cambridge, Massachusetts, as a non-profit, educational organization dedicated to publishing for the reading public the findings of its economic research. AIER continues to be wholly supported by its hundreds of contributors, thousands of sustaining members, and hundreds of thousands of book buyers. Also, AIER's by-laws ensure that its empirical research remains free from corporate, foundation, and government funding.

When Harwood started to read the books and pamphlets written by economists in the 1920s, he was struck by how far apart they were in their explanations of such core disciplinary concepts as the nature of money, the business cycle, and economic growth. As he tried to decipher such divergent views, he was surprised by the scant use of empirical findings, not to mention the lack of a common terminology and a common set of procedures for communicating differences in views. In Dewey-Bentley's only major work together, the aforementioned *Knowing and the Known*, he found the transactional view of human scientific inquiry a guiding principle on how to proceed and inquire about the state of the economy. For Dewey-Bentley, one should avoid starting from *a priori* axioms that lead us into force-fitting the world to suit our preconceived attitudes and into taking our truth claims based on this one-sided projection as scientific truth. One should rather temper one's pronouncements as "warranted assertions," subject to revision if further findings call for it.

However, on the face of it, this methodology does not yet point to any particularly unique conclusions. Maxims about verifiable assertions and the centrality of empirical evidence are also entertained by diverse positivist views of inquiry ranging from logical positivism to Popperian falsificationism. For instance, the great majority of economists have read in graduate school Milton Friedman's classic essay

on method.<sup>1</sup> They generally adhere, at least ostensibly, to Popperian or other positivist view of science. They usually qualify their models as approximations whose predictions are subject to testing. They couch the findings of their econometric testing as tentative and subject to change in light of new or better data. So, what differentiates Dewey-Bentley's maxims from positivist maxims about evidence and verification?

### What is the Transactional View?

First and foremost, Dewey and Bentley denied that the aim of verification is a wholly complete, final, and inquiry-independent "reality," even in principle. Positivism was certainly one of the schools of inquiry that upheld the distinction between inquiry and reality. For Dewey and Bentley, a fulfilled hypothesis is *warranted* rather than *verified*—while the hypothesis resolves the problem under focus, it invites indefinite revision and modification. Action is not merely an external implement to the acquisition of "knowledge," regarded as a sheer "beholding" of truth. Instead, action is integral to whatever we claim to know. As Dewey and Bentley put it, the process of *knowing* helps constitute what is *known*; stated otherwise, *inquiry is action*.

### Inquiry as Action

This means that true inquiry cannot take place within an ivory tower, and inquirers cannot pretend to be above the fray of their own interests, beliefs, passions, and imagination. Dewey and Bentley argued that humans gain knowledge by transacting with the environment, an environment that they partly constitute. Knowing is acting with imagination, interests, and beliefs. However, such imagination and beliefs are phases of inquiry that are warranted; they are not immovable starting points as some postmodern and poststructuralist linguistic thinkers suppose. Nonetheless, as part of the process of inquiry, imagination and beliefs are as intrinsic to statements about "reality" as empirical evidence is. Such statements do not simply reflect "reality," but rather mold reality according to the imagination and beliefs that are warranted. As long as the actor is alive, i.e., directed by imagination and beliefs, statements are inherently revisable and thus contingent—contingent even if there is no more empirical evidence to be uncovered or discovered in the world. Thus, as long as imagination and beliefs are warranted as-

sertions and, in turn, constitutive of statements, statements cannot be final by definition.

Statements also cannot be final by the simple appeal to empirical evidence. As long as the actor is alive, i.e., directed by imagination and beliefs, and theoretical constructs, no direct appeal to empirical evidence can univocally determine either the meaning of a statement or the reality it denotes: depending upon the context of use and background of beliefs, even a simple act of pointing at a brown table could indicate, e.g., a table, a rectangular surface, the color brown, or a finger. The noted philosopher W.V.O. Quine had something like this in mind when he later insisted that such statements are invariably *undetermined* by empirical evidence.

In contrast, for positivists, statements are revisable only because of *accidental or hypothetical grounds*: There is always the possibility of a new observation that may upset the current statement. So, the true meaning of a statement is doubted only because of some unforeseen, hidden evidence. If there is a Genie that assures us that there is no such hidden evidence ever to be unearthed, the true meaning of a statement could not be doubted in principle. For positivists, given the element of surprise, it is only out of prudence that the investigator doesn't claim his statement is the final truth about the matter at hand.

In order to perceive surprises, however, an imaginative agent must be on the lookout, ready to capture them, or, to emphasize the transactional quality of inquiry, be captured by them. It is not the phenomenon of accidental surprises—if there is such a thing—that makes statements contingently warranted assertions. Rather, for Dewey, the skeptical element in statements, what Charles Peirce called "fallibilism," arises from the nature of inquiry *qua* action—whereas action involves beliefs and imagination. This means that the products of inquiry, i.e., statements, are as open to revision as one's beliefs and imagination. Put tersely, the positivist philosopher tempers his excitement for a statement because of some possible surprises of hidden evidence. In contrast, the transactionist philosopher tempers his excitement for a statement because it is the product of transaction between the knower (as an actor with beliefs and imagination) and the known (as ends sought in light of the beliefs and imagination). Thus, when the transactionist qualifies statements as tentative, the qualification arises from an understanding of *inquiry as action*, rather than from some possible encounter with new facts.

Aside from the theory of inquiry, what ramifications does Dewey-Bentley's trans-

<sup>1</sup> Friedman, Milton. "The Methodology of Positive Economics." In Friedman's *Essays in Positive Economics*. Chicago: University of Chicago Press, 1953, ch. 1.

actional view have on the theory of action? Dewey and Bentley, in fact, were critical of a host of theories of action in the behavioral sciences. What sets the transactional view apart from such theories is the view of *action as inquiry*.

### Action as Inquiry

In light to this view, inquiry transforms the agent. Action is not mediation between supposedly given ends (the preferences and beliefs of the actor/knower) and supposedly given means (the known or environment). Dewey and Bentley maintained that the preferences and beliefs of the actor/knower are never deposited as data, given independently of the means. If action is inquiry conducted by the actor, that actor's preferences and beliefs are transformed in the process of trying to satisfy them. Dewey and Bentley's theory of action *qua* inquiry undermines secular and religious *foundationalist* views of action. The transactional theory of action entails that there is no absolute rock, some supposed prior structures of thought, upon which the actor stands and determines the unmistakable and clear means to achieve an unmistakable and clear end. While refuting the possibility of such a rock, the transactional view is not an invitation to subjectivism, relativism, or other modes of postmodernism—Transactional inquiry does not proceed as if reality is out there, providing ends that are given, but one cannot determine the proper means because one is hopelessly the slave of passions and prejudices. The transactional view is rather an invitation to see reality as vague and indeterminate, which allows for various specifications of means and ends as one experiences reality. Given that such ends gain greater specificity when the agent acts, we are justified in saying *reality* becomes more specific. So, action does not stand outside reality but rather is partially constitutive of it. In this manner, the transactional view of action is not an invitation to relativism and solipsism, but rather an invitation to careful action, where one realizes that the end is formulated as one transacts with it through varying means.

The task is to study action as inquiry, i.e., a transaction between the knower (actor with beliefs) and the known (environment or incentives). This entails that action cannot be fully explained in terms of ends and beliefs only, as if means or the environment in general does not matter, or in terms of the environment only, as if beliefs do not matter. It is a mistake to view the environment and the actor as separate. If the theory focuses only on the actor and his beliefs, it amounts to appealing to some ingrained dispositions or

instincts, such as cultural or personality traits, while ignoring the environment or the incentives that makes the particular context. Dewey and Bentley called, in *Knowing and the Known*, such an explanation the “self-actional” view.<sup>2</sup> The self-actional view, broadly speaking, reduces behavior to prior structures such as religious creeds, civilizational attitudes, instincts, deep preferences, habits, or, in short, beliefs. To be clear, beliefs do matter. However, they only matter or even mean anything, gain significance in light of a particular current context or incentive that challenges the actor. The self-actional view disregards the context and, in turn, attributes to the belief under focus a separate life of its own.

Modern economics is a triumph over such culturalist, self-actional theories. Many scholars have celebrated the success of modern economics over the past two decades for accounting for actions in terms of incentives, what economists call the set of constraints defined by budgets and prices. The modern economist perspective, what Dewey and Bentley call generally the “interactionist” view, starts with the premise that people may have different preferences and beliefs. While such preferences and beliefs partially account for behavior, they definitely do not account for the change in such behavior. For the modern economist, it would be *ad hoc* to explicate the change in behavior as the result of some change in preferences or beliefs. The change in behavior, as argued by George Stigler and Gary Becker in a famous article,<sup>3</sup> is better elucidated by the change of incentives, or stimuli according to behaviorism, rather than by an appeal to supposed change in preferences or tastes.

Dewey recognized the validity of the interactionist view, a view mainly promoted by behaviorism. But he did not regard it to be a comprehensive description of human action. For one thing, as Dewey noted in his classic 1896 article, “The Reflex Arc Concept in Psychology,” the actor does not sit passively vis-à-vis the incentive or stimulus.<sup>4</sup> The actor actually appropriates his environment with intentionality after an image or a belief. The image is a product of imagination, whereas imagination is not strictly “imagistic.”

<sup>2</sup> Dewey, John and Arthur F. Bentley. *Knowing and the Known*. In Rollo Handy and E.C. Harwood (eds.), *Useful Procedures of Inquiry*. Great Barrington, MA: Behavioral Research Council, 1973.

<sup>3</sup> Stigler, George J. and Gary S. Becker. “DE Gustibus Non Est Disputandum.” *American Economic Review*, March 1977, 67:1, pp. 76-90.

<sup>4</sup> Dewey, John. “The Reflex Arc Concept in Psychology.” *Psychological Review*, July 1896, 3, pp. 357-70.

That is, imagination that shapes the appropriation of the environment is not merely a mirror image or a representation. Rather, imagination involves intentionality in the sense that there is a creative interpretation of the environment and projection of ends-in-view. In this manner, the transaction view involves intentionality, which distinguishes it from the interactionist underpinning of mechanistic, representational theories of the mind. The image, what other disciplines call belief, are formed in light of one's particular standpoint, desires, and goals—all of which are the fruition of an agent's past experience and current intention. So, the incentives presented are not “objectively” defined in the sense of a naïve or direct realism. Stated differently, incentives are not defined independently of the individual's own desires, tastes, or beliefs in terms of a transcendent reality. In fact, only the inquiring agent—while communicating with and learning from the experience of other agents—behaving to overcome obstacles encountered in an environment, can understand such incentives.

This transactional view highlights how action as inquiry is shaped by the transaction or union of the knower and the known: the knower with the particular belief that cannot be alive independent of the incentive and the known as the incentive that cannot be defined independently of the knower. In this light, the transactional view can be seen as a synthesis of the self-actional view entrenched in anthropology and sociology—which stresses beliefs while discounting incentives—and the interactional view entrenched in economics—which emphasizes incentives while treating beliefs as given data. For Dewey, beliefs (the subject) and incentive (the object) cannot be separated from each other. This view resolves the subject-object dichotomy so deep-seated in Western philosophy.

The transactional view can serve as a general theory of human behavior to help transcend traditional boundaries among academic disciplines. In economics, the transactional view may provide a much-needed theory of entrepreneurship and intentionality in general—which mainstream neoclassical economics and interactionist social theories in general cannot explain.<sup>5</sup> In political science, the transactional view may contribute to an explanation of the origin of authority and political order—which political theorists have generally not answered satisfactorily. Political theorists employ

<sup>5</sup> Khalil, Elias L. “Buridan's Ass, Uncertainty, Risk, and Self-Competition: A Theory of Entrepreneurship.” *Kyklos*, 1997, 50:2, pp. 147-163.

interactionist models regularly to get their normative programs off the ground, a tradition as old as Grotius' social contract theory. In psychology, the transactional view may highlight the biological basis of cognition and the emotional aspect of rationality—which most psychologists have ignored. Psychologists usually treat cognition as a representation of some objective reality, basically as a subdiscipline of neurophysiology or as “serial processing” gleaned from early work in artificial intelligence. Only recently have a few psychologists and neurologists become interested in “embedded” cognition, where cognition is seen as the activity of a brain embedded in the life-history of the organ-

ism that is motivated by desires and tastes.<sup>6</sup> In sociology and anthropology, the transactional view may emphasize the contextual nature of action in a more robust and descriptively adequate way than even those empirical accounts of human action that agree with Dewey and Bentley on its contextual nature. Thereby avoiding the pitfalls inherent in the writings of traditional sociologists and anthropologists who usually reduce behavior to some in-

<sup>6</sup> Damasio, Antonio R. *Descartes' Error: Emotion, Reason, and the Human Brain*. New York: G.P. Putnam's Sons, 1994; and Lakoff, Geroge and Mark Johnson. *Philosophy in the Flesh: The Embodied Mind and its Challenge to Western Thought*. New York: Basic Books, 1999.

herited cultural norms or functional roles, supposedly designed (by whom?) to guarantee the stability of the social structure.

## What is Next?

BRC seeks to further scholarship and dialogue across disciplines from the vantage point of the transactional view. BRC aims to provide a forum for students, academics, and independent scholars to debate freely the legacy of American philosophy mainly in the behavioral sciences. If you would like to be part of the BRC forum, and receive the following issues of *Transactional Viewpoints*, please fill out the enclosed form to let us know that you want to stay on BRC's mailing list. □

## Editor's Corner

### BRC Events, Past and Future:

With its first conference, **John Dewey: Modernism, Postmodernism and Beyond**, held last July, BRC hoped to advance the relevance of pragmatism to the study of human action, institutions, and organizations. This symposium focused on Dewey's theory of inquiry—on whether it is distinguishable from post-modernism and modernism and how it can inform economic methodology. Keynote and invited speakers delivered twenty-one papers:

#### Keynote Speakers

- Richard Bernstein** (New School University) *John Dewey and The Pragmatic Century*  
**Stanley Fish** (University of Illinois—Chicago) *There is No Such Thing as an Orientation to Mutual Understanding: Why Normative Schemes Are Good For Nothing*  
**Isaac Levi** (Columbia University) *Corrigibilism Without Solidarity*  
**Richard Posner** (US 7<sup>th</sup> Circuit Court of Appeals) *John Dewey and the Intersection of Democracy and Law*  
**John E. Smith** (Yale University) *Dewey on Inquiry and Language – After Bentley*

#### Invited Speakers

- Peter Boettke**, (late) **Don Lavoie**, and **Virgil Henry Storr** (George Mason University) *The Subjectivist Methodology of Austrian Economics and Dewey's Theory of Inquiry*  
**Tom Burke** (University of South Carolina) *The Logical Necessity of Ideologies*  
**Vincent Colapietro** (Pennsylvania State University) *Toward a Truly Pragmatic Theory of Signs: Reading Peirce's Semeiotic in Light of Dewey's Gloss*  
**D. Wade Hands** (University of Puget Sound) *Pragmatism, Knowledge, and Economic Science: Deweyan Pragmatic Philosophy and Contemporary Economic Methodology*  
**Peter H. Hare** (State University of New York at Buffalo) *Dewey, Analytic Epistemology, and Biology*  
**Larry A. Hickman** (Southern Illinois University—Carbondale) *Pragmatism as Post-Post-modernism*  
**David L. Hildebrand** (Christian Brothers University) *Avoiding Wrong Turns: A Philippic*

- Against The Linguistification of Pragmatism*  
**Michael S. Lawlor** (Wake Forest University) *Dewey and Economic Reality*  
**Joseph Margolis** (Temple University) *Dewey and/or Rorty*  
**William Milberg** (New School University) *After the "New' Economics," a Pragmatist Turn?*  
**Sami Pihlström** (University of Helsinki) *Putnam and Rorty on Their Pragmatist Heritage: Re-Reading James and Dewey*  
**Sandra Rosenthal** (Loyola University) *Pragmatic Naturalism, Knowing the World, and the Issue of Foundations: Beyond the Modernist-Postmodernist Alternative*  
**Frank Ryan** (Kent State University) *Five Milestones of Pragmatism*  
**John J. Stuhr** (Pennsylvania State University) *Pragmatism as Criticism*  
**Alex Viskovatoff** (University of Pittsburgh) *A Deweyan Economic Methodology*  
**James Webb** (University of Missouri—Kansas City)—*A Deweyan Perspective on the Progress of Economics: The Relevance of Calibration and Other Episodes*

Among the issues that the participants debated were the professionalization of philosophy and how it has become removed from everyday life. Further, Dean Stanley Fish rejected two common errors of the modernist program of Jürgen Habermas. The first error is the idea that one's basic metaphysical belief is in any way related to one's actual, every day mundane decisions. The second error is the assertion that there is a common rational or moral ground upon which people with different views can appeal to in order to resolve their basic beliefs about God or individual rights or abortion. Professor Bernstein and other philosophers rejected these arguments as too extreme.

In addition, Judge Richard Posner criticized Aristotle/Arendt/Dewey's notion of deliberative democracy, where citizens are supposed to reach self-fulfillment by participating in pub-

lic debates. Judge Posner argued that such a notion is romantic if not dangerous. It is better, to avoid strife and probably civil wars, if people stay busy with their private pursuits and stay apathetic, and only exercise a check on politicians at elections in order to prevent the abuse of power by “rascals.” Professor Vincent Colapietro, in response, argued that apathy is a cultural failure. Professor Bernstein attacked more directly Judge Posner's notion of democracy by citing how public debates, such as the civil rights movement, can be in removing social injustices.

At the January 2002 meeting of the Allied Social Science Associations (an umbrella group of 55 economic associations) in Atlanta, GA, BRC organized a session on the ramifications of Dewey's theory of inquiry, **John Dewey and Economic Methodology**. Presenters delivered four papers, followed by commentaries from discussants and questions from the audience:

#### Presenters

- Arjo Klamer** (Erasmus University of Rotterdam) *A Pragmatic View on Values in Economics*  
**Mark D. White** (College of Staten Island/CUNY) *Homo Economicus and Dewey's Man*  
**Shabnam Moussavi and Jim Garrison** (Virginia Polytechnic Institute and State University) *Inquiry and Choice: A Deweyan Approach to Economic Theory*  
**Elias Khalil** (BRC, American Institute for Economic Research) *Uncertainty, Anxiety and Dewey's Transactionism: A Theory of Entrepreneurship*

#### Discussants

- Frank X. Ryan** (Kent State University)  
**James L. Webb** (University of Missouri, Kansas City)  
**Mathew Forstater** (University of Missouri, Kansas City)  
**Kenneth Stickers** (Southern Illinois University at Carbondale)

*TRANSACTIONAL VIEWPOINTS* is published quarterly by the Behavioral Research Council ([www.brc-aier.org](http://www.brc-aier.org)), a division of American Institute for Economic Research, a nonprofit, scientific, educational, and charitable organization, P.O. Box 1000, Great Barrington, Massachusetts 01230.