

Entrepreneurship and values in a democratic and pragmatic economics: commentary on ‘A transactional view of entrepreneurship’

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Abstract Entrepreneurship cannot be explained by any economic theory that isolates innovation from ongoing social processes or locates creativity in a space of given, fixed values. Unfortunately, mainstream economics has committed these mistakes, rooted in instrumentalist and antidemocratic notions of consumption and rationality that permits reasoning only about means toward given ends. Genuine innovation is, on Dewey’s pragmatic approach to values, the intelligent modification of both means and ends for experimental action. When joined to an appreciation that consumption is just a phase of production, innovation can be properly seen as productive value-creation. Entrepreneurship is democratic experimentation in the economic realm.

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If entrepreneurship remains as important to the economy as ever, then the continuing failures of mainstream economics to adequately account for entrepreneurship (see Barreto 1989) indicate that fundamental principles require re-evaluation. There are many possible explanations for the neglect of the entrepreneur by neoclassical economics (and by Marxian economics as well). It seems no longer possible to expect that only theoretical refinements and additional peripheral principles can handle this difficulty. Entrepreneurship is such a pronounced and prevalent economic force that a full accounting for its modest role in economic theory, past and present, is long overdue. Khalil’s essay points to several features of John Dewey’s pragmatic philosophy that would assist this accounting.

For example, typical approaches to entrepreneurship have tended to treat entrepreneurs quite individualistically, as relatively aloof and autonomous from ongoing economic systems. Which core premise of dominant economic theory is responsible? Perhaps it is the notion that

novelty is equivalent to individuality, that only by looking beyond established and stable social relationships could originality be explained. This notion has not been unique to economics. Finding the essence of individuality in anomalous behavior instead of predictable norm-abiding behavior is rooted in medieval thought and bequeathed to modern moral and social philosophy. A more sophisticated conception of individuality, closely connected with ongoing social relationships, would reduce entrepreneurship's anomalous and foreign character. In the social psychology of Dewey and George Mead, a person's behavior displays individuality through developing and sustaining multiple social relationships (see Joas 1996). Creatively original conduct like entrepreneurship could be instead regarded as a sustaining factor, not as a disruptive force, of complex and dynamic economic systems. The lone genius or energetic agent would only be one extreme on a range of entrepreneurship activities that extends to a small group and then on to creativity within corporations at the other extreme. Among the many advantages of this shift include blurring the dichotomy between entrepreneur and manager, and redistributing the assignment of risk.

As another example, older approaches to entrepreneurship have had great difficulty properly connecting this phenomenon with the growth of capitalism. It has been all too easy to agree that capitalism requires continual growth at many levels: new products, new modes of production, new methods of delivery, ever-expanding markets, etc. And surely entrepreneurship is somewhere near the heart of this growth. But what is the relationship between them? Perhaps there is another core premise preventing a clear perspective on entrepreneurship: the assumption that either growth explains the entrepreneurship, or vice versa. Maybe this is a misleading assumption, unduly separating what really are organically integrated processes. However, the standard methodology for creating mathematical models must divide and then relate. A model of entrepreneurship must first abstract and isolate the 'entrepreneurial activity' apart from all other social processes. Those other processes thus establish the pre-conditions for entrepreneurship, and only mechanically predictable relations of interaction can be discovered between entrepreneurship and its external environment. This machine metaphor, however, may not be the most effective tool for understanding a dynamic living process. Like any organ of the body, entrepreneurship's own growth and functions cannot be discerned independently from the entire social organism. This suggestive route points towards a more integrative understanding of entrepreneurship, depicting it as an 'emergent' activity arising from technological, political, and social developments. One major consequence of this approach is to locate the origins of a person's capacities for entrepreneurship in her diverse experiences of social participation from childhood on. One's socialization, in which displays of initiative are encouraged and shaped

(or the opposite), and not one's mythical 'inner nature,' 'native talents,' or 'personal motivation,' is where an entrepreneur is created. Another major consequence is that we should view the very phenomenon of entrepreneurship itself as evolutionary, signifying somewhat different activities across centuries and cultures, and changing gradually as all society changes.

There are many signs that recent entrepreneurship studies are re-evaluating the premises mentioned above and many more. Increased respect for the social context of entrepreneurship, and for its dynamic and evolutionary role, will undoubtedly invigorate economics. The tradition of pragmatism in philosophy and social science is distinctly supportive of such efforts. Early pragmatists such as Thorstein Veblen, John R. Commons, and John Dewey all advocated a vision of a relatively holistic social science in which social structures are to be understood functionally and organically. Even philosophy, in this vision, was depicted as a component of this unified social science, to be applied for analyzing and improving a culture under scrutiny. Carrying on this pragmatic vision during the middle period of the twentieth century was Clarence E. Ayres, who extended both the technological and institutional emphases of pragmatism.

Still, the pragmatic recognition that economics must respect the dynamic equilibrium and evolution of economic systems does not fully resolve the problem of progress in general and entrepreneurship in particular (as admitted by Nelson 1995). The most controversial issue that divided pragmatists from their opponents has not yet received mention, however. Bound up with pragmatism's origins, and valiantly defended by Dewey in his later years alongside Ayres, is the basic thesis that values and ends are not subjective and not separate from reason. Pragmatists most clearly defy centuries of modernist inertia on this precise point. Ironically enough, 'instrumentalism' came to stand for the modernist position: reason can only determine appropriate means to satisfying values and achieving ends, because reason cannot criticize, generate, or modify values/ends. Pragmatism is not instrumentalism, in this sense. When Dewey defended 'instrumentalism' he always meant to say that means *and* ends are instrumental and they can be rationally evaluated and modified for their successful use. Pragmatism's theory of values revolutionizes every area of philosophy and every other field dealing with values.

Khalil's essay highlights identified this crucial opportunity. He suggests, in essence, that mainstream economics has rashly assumed the validity of instrumentalism. It is undeniable that economics, like most fields of social theory since the days of David Hume and Adam Smith, has generally held that ends have an origin and life entirely separate from rationality. The dichotomy between two kinds of values, means and ends, was solidified into a concrete ontological division between those activities that help people reach ends, and those accomplished ends that people seek for their own sake. The search for these 'final' ends, ends that are intrinsically

valuable because they are not sought in order to thereby achieve anything else, was philosophical territory. In economics the assumption that there are special 'final' types of human achievements was converted into the assumption that among all economic behaviors there are some which people hold to be intrinsically valuable. The search for such behaviors proceeded, and they received the overarching label of 'consumption,' as the suitable version of the utilitarian's 'happiness.' Everything that happens in an economic system happens for the ultimate sake of consumption. The optimization of consumption, given one's available means, was thus supposed to be the basic economic problem (from the standpoint of the person as consumer). Since the person as producer was also a consumer, and was conducting business in order to increase one's means available for consumption, the question of production did not require a separate theoretical approach. The drive to consume, to satisfy one's preferences towards various ends, was likewise an intrinsic feature of all members of society, and therefore just a given to be held immune from rational inquiry.

Neoclassical economic theory, as Khalil demonstrates, constructs the laws of supply and demand only after objectively defining the available means. This objectification demanded the removal of a huge obstacle. For modern philosophy since Descartes the 'quest for certainty' elevated 'objective' science and demoted values as utterly subjective, in a dual sense: they did not exist outside of each person, and they varied from person to person. Modern economists for the most part were disinclined to remedy the subjective nature of final intrinsic ends, but means were quite another matter. To objectively define the valuable means that a person has, economic theory settled on price and the 'purchasing power' of the consumer. As a corollary, the objects available for valuation by society's members are fixed and independent of those members and their deliberations. Among those given objects are the environment's resources, available capital, and even human labor. The intrinsic value of consumption, the objective value of means as determined by price, and the given fixed status of resources were cornerstones of classical economics, and stood largely unchanged in twentieth-century mainstream economic theory.

Of course, the objective value of means as set by price may not match the actual satisfaction gained, and only that satisfaction can really explain the motivations lying behind people's decisions. Thus, actual economic behavior will inevitably deviate from lawful prediction. This is a notorious embarrassment for theory that became painfully obvious long ago before the question of entrepreneurship arose. Yet only a few pioneering economists highlighted this problem and questioned fundamental principles, including the pragmatist Ayres. What other alternative did economists have, if economics is going to be anything more than empirical studies of monetary flow? Perhaps the problem of values could be shunted off to

philosophy, but then economics could no longer pretend to be relevant to policy decisions (Ayres 1944: 208–9). To return value to its rightful place in economics, the genuine meaning of value must be located somewhere in the actual judgments people make in economic decisions as they attempt to improve their lives. And if this could be accomplished, then economics might make more accurate predictions. Perhaps more importantly, economics would thus be relevant to improving people's lives, and capitalist economics in particular might have a route towards justifying the common faith that capitalism's progress can at the same time be society's progress. But where is economic value if not in price?

The means–ends dichotomy must be responsible for the disappearance of objective value and its replacement by price. If people actually find satisfaction in the employment of means as well as in the enjoyment of ends, and if this means satisfaction influences people's economic decisions, then consumption is not the only locus of value. Khalil accurately points out how economic theory has suffered from a blind spot towards production. The point deserves more elaboration than can be indicated here, but we should not overlook how economics developed in the eighteenth-century's aristocratic political climate. Production, as mere means, was always denigrated as undignified labor and hence only a source of unhappiness. Any sufficiently liberated person, on this political conception, would be liberated from labor, and hence could have the opportunity to achieve a properly human lifestyle of stylish passive consumption and artistic appreciation. Dewey noted how economics was stunted from this aristocratic atmosphere, together with psychology, which also long suffered from antidemocratic notions. The most pernicious aristocratic notion for Dewey was the depiction of the mind's rationality as independent from action so that reason could follow its true destiny of passive contemplation. The pragmatic alternative, consistent with democracy, was to find intelligence in practical action; and so Dewey's (and Ayres's) alternative for economics was to find intelligence primarily in active production, not passive consumption. Ayres's institutionalism need not be adopted to appreciate this point, although pragmatism and institutionalism have deep connections (see Bush 1993). Economics should first understand the nature of intelligent production, and provided that the means/ends dichotomy is eliminated, the pragmatists predicted that economics would discern economic value in intelligent production.

To fully overcome the means/ends dichotomy, Dewey explained how people's judgments of value upon some object or activity are separate neither from the means needed to achieve that thing, nor from the further ends that this thing might serve as a means in the future (Dewey 1988). Exclusive focus on 'consumption' can obscure this two-fold connection between means and ends, since consumption for non-economists usually connotes the destruction of the valuable object (e.g. the consumption of

food, or of gasoline). In any advanced civilization, of course, most of the produced things are not destroyed (just depreciated) in the act of consuming them. The purchase of a refrigerator indeed reflects plans for future consumption, but not just the consumption of the refrigerator. After much of the aristocratic prejudice towards passive consumption was forgotten by industrializing nations, a real opportunity to rethink means and ends was at hand. Production necessarily became more democratic in many senses beyond the obvious recognition that 'the masses' would henceforth drive active consumption. Production is (for the most part) the production of tools, of instruments that are in turn used by people for further aims. When consumers purchase tools, their judgments of value (their 'valuations' in Dewey's terminology) reflect their plans for using these tools. Curious, in Dewey's view, was how economists' grasp of the fact that most consumption is essentially tool use was insufficient to cause questioning of the means-ends dichotomy and the assumption that the value of tools was independent of any future use. Tools have values only because people evaluate them in light of their usefulness. To understand values, we must understand how valuations work.

A person's valuation of a thing, and thus his decision to purchase it, is based on his own valuation of the ends achievable. These two valuations are organically connected and continuous: if a means to an end is unexpectedly expensive, the person's valuation of that end diminishes. Likewise, if a person's valuation of an end increases (because further future ends achievable through that end are envisioned) then his valuations on the means to that end will increase. Furthermore, any achievement of one end eliminates the possibility of simultaneously achieving some other ends, so that valuations are always (to the extent that they are intelligent) the weighing and prioritizing of conflicting activities. Only irrational or very unintelligent people continue to evaluate and pursue an end regardless of the expense of means and regardless of further ends that can or cannot come in the future. Rationality, on this pragmatic theory, comes in degrees, according to the breadth of means and ends taken into account and the stretch of consequences into the future. The assumption that economic actors are perfectly rational can be replaced with a graded range of intelligence for modeling purposes. Perfect rationality is not needed if ordinary intelligence is substituted; economists need not apply perfect rationality but rather supply extra amounts of concentrated intelligence on a greater breadth and stretch of relevant economic factors.

In Dewey's terminology, chosen with the aid of Arthur Bentley in his later writings, the continuity of means and ends displayed by all intelligent people is a prime example of their 'transactional' model of human experience described in *Knowing and the Known* (Dewey and Bentley 1989). Valuations are not rational knowings of independent objective realities, nor are they non-rational feelings of internal origin.

Valuations are transactions that affect both the person and nature, and have quite observable consequences. Valuations are purposeful decisions that will transform the surrounding environment. Valuations have the logical form of predictions, of if-then hypotheses, that have their reality in peoples' actions. Valuations, although proceeding from each person's deliberations, are themselves no more 'internal' or 'subjective' than any action. Precisely because valuations have observable consequences, the validity of valuations can be ascertained, since the ends envisioned can be compared with the ends actually achieved. A purchase is one kind of valuation; more examples of social transactions include production, marriage, and teaching. Because purchases and productions are valuations, they connect 'internal' decisions with 'external' results, overcoming the radical split between subjective and objective, and between ends and means.

Since most purchases are acquisitions of tools for practical labor, 'consumption' is for the most part really a stage of production – even though such productivity may be largely invisible to the traditional measuring instruments of economists. The productivity of the masses results in dramatic transformations of nature and society (with positive and negative results, some foreseeable and other unexpected) over time. If an example is needed, consider that the vast majority of Internet websites have been produced for free by millions of computer users. The real strength of a country is only partially, and perhaps deceptively, measured by gross domestic product figures. Likewise, the happiness of a country is largely invisible to an economist only looking for traditional 'consumption.' The continuity of ends and means nullifies the aristocratic notion that consumption alone brings satisfaction. In real life, laboring can be, and usually is, a mode of satisfactory activity. That is why we typically wish that our jobs were *more* satisfying – instead of wishing in vain that our jobs brought *any* amount of satisfaction. And that is why our choices of 'off the clock' productivity (cuisine cooking, hobbies, home repair, helping neighbors, etc.) during the rest of our waking hours is hardly typified by passive leisure so prized by the upper class. The pragmatic recognition that laboring upon means can bring satisfactions (often as great as the end achieved) is equivalent to the democratization of economic theory. The alignment of pragmatists with socialists with regard to the associated political implications is hardly a coincidence. Democratic control of the economy cannot be well-served by an economic theory blind to the real aspirations of the people, taken individually and collectively. Purchases reflect what people want to become, not what they already are. Production, not consumption, is more central to capitalism's contributions (and detractions) to social progress. Social progress therefore depends on more intelligent production, taking as many factors present and future into account as possible.

Innovation and entrepreneurship are modes of intelligent production. As Khalil argues, innovation is another kind of valuation. To see clearly why innovations are valuations, we must take care to not conceive valuations merely as risks. Khalil rightly emphasizes how risk must be distinguished from genuine uncertainty, which cannot be reduced to probabilities based on prior experiences. When we act in situations of real doubt, we are making novel transactions with our world. Here is the heart of innovation and entrepreneurship. The innovator is the creator of a new valuation, a new judgment upon the value of a tool, which can be publicly confirmed or disconfirmed. No antecedent calculations of probability can be of much help here, and so classical standards of rationality do not apply. Innovation is not just a gamble, but more like an act of faith. William James, another pioneering pragmatist, showed how one's "will to believe" empowers our most significant transactions with the future. The relationship between an innovator and a tool is akin to the relation between a parent and a baby, or between a teacher and a new student. William James would have approved of Khalil's way of making this point, as the entrepreneur also takes up an attitude of faith towards one's future possible self in the process of creating new business opportunities. A society that permits sufficient liberty for this process can rightly be called democratic in spirit as well as in political form. Entrepreneurship is effectively the commercial expression of a democracy seeking progress.

The greatest obstacle to comprehending the inspiration behind innovation is to wrongly suppose that the innovator, unlike everyone else, knows the economic opportunities just waiting for exploitation. Pragmatism's theory of knowledge is hostile to this simplistic way of depicting innovation. On the Deweyan transactional theory, the innovator envisions a different world and then creates that world, instead of simply interacting with a ready-made world. Means are *meanings* – objects imaginatively conceived as means to some end. In the absence of someone's end, an object lacks meaning and cannot be a means. Therefore, innovation cannot be explained by first setting out the pre-existing features that permitted success. Only the innovator, at first, imaginatively makes a valuation and reconceives the environing conditions as means to success – no one else could see, could live in, that world. Of course, after successful innovation and our appreciation for its transformations, we can assume the innovator's perspective and tell a story about why such innovation was sure to succeed (or fail). But that story is fictional, not explanatory, just as a chemistry or physics textbook makes landmark laboratory 'experiments' of geniuses seem so dull and routine to students. The creation of knowledge is an experience of genuine experimentation very different from any post-hoc re-enactment, because new knowledge is the creation of a new world. The process of verifying any prediction follows out a hypothetical inference: if such-and-such conditions are established, then some specified

results will be gained. Verification, knowledge creation, first requires the transformation of the world in some way. Knowledge is always of a transformed world, not of the world as it was prior to the valuation hypothesis. Once the consequences of that transformation are observed, re-evaluation of both means and ends can be made, permitting the growth of reliable knowledge. In the world of technology, inventions spur on further inventions; technological progress depends on finding and testing new uses for things invented for other purposes.

By way of a conclusion, only small gestures can be made toward a couple of further major implications of the pragmatic understanding of value and entrepreneurship for economic theory. In the economic world, the innovator's tool (some service, product, mode of production, etc.) may be already in existence, or the result of recent invention; but the innovator must not be confused with the inventor. Only some inventors also become innovators and entrepreneurs, who (like Thomas Edison) make practical judgments about the utility of an invention and establish the commercial conditions, including public demand, permitting the test of verification. Invention, by itself, does have the sort of extraneous, unaccountable nature assigned by mainstream economics. If innovation, as novel and verifiable valuation, is inserted as a mediating step between technology and production, then organic objective relationships between technological progress, entrepreneurship, and economic progress can be discovered. This would permit the economic and social reevaluation of inventions, and even some degree of thoughtful reflection on society's role for encouraging some inventions rather than others. In this way, entrepreneurship could become more amenable to democratic deliberation. A prominent example today is the public questioning of cloning research, provoked in part by frightening visions of future commercialization.

Another major implication of pragmatic economics is that it overcomes the fact-value dichotomy. Modernism, trapped in this dichotomy, stripped science of the responsibility for values. Values, as ends, were thought to be independent of reason, and hence science's study of objective realities would not discern values there. Could economics aspire to be scientific if it was throughout infected by considerations of private values and public norms? If entrepreneurship were value-based, should a scientific economics avoid it? Pragmatism relieves economics of this worry by exposing the complete interfusion of fact and value and showing how the logic of scientific inquiry can be applied to values, even moral values. Admittedly, chemistry and physics are not assigned the task of discerning values in the world. However, those sciences cannot be the sole judges of reality, and like any science, themselves rely on the epistemic norms of the scientific community that regulate collecting evidence and confirming discoveries (see Putnam 2002). The necessity of objective social norms for conducting science supports pragmatism's view that valuations are as objective, and

as objectively verifiable, as any natural fact. Values, including economic values are observable, because people's decisions of valuation are public, as are their consequences. Experimental results gained in a scientific laboratory are hardly subjective and relative to the experimenter simply because only she at first envisioned and conducted the experiment. Likewise, the status of valuations as experiments permits their scientific study. The scientific use of experimenting only requires repeatable controlled results, and the willingness to revise one's knowledge in the face of results contrary to prediction. A pragmatic economics can scientifically study the values displayed by entrepreneurship attempts as a mode of intelligent production, and after prolonged study, economics could recommend modifications to advance social progress. This pragmatic economics can thus contribute to improving entrepreneurship's methods, and to making policy recommendations about the economic climate for entrepreneurship, without fear of descending into subjectivism or relativism.

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