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HEGEL’S “OBJECTIVE SPIRIT” AND ITS CONTEMPORARY RELEVANCE FOR THE PHILOSOPHY OF ECONOMICS

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This paper explores the implications of the recent revival of Hegel studies for the philosophy of economics. We argue that Hegel’s theory of Objective Spirit anticipates many elements of modern approaches in cognitive sciences and of the philosophy of mind, which adopt an externalist framework. In particular, Hegel pre-empts the theories of social and distributed cognition. The pivotal elements of Hegelian social ontology are the continuity thesis, the performativity thesis, and the recognition thesis, which, when taken together, imply that all mental processes are essentially dependent on externalizations, with the underlying pattern of actions being performative. In turn, performative action is impossible without mutual recognition in an intersubjective domain. We demonstrate the implications for economic theory in sketching an externalist approach to institutions and preferences.

**Keywords:** Hegel, performativity, extended mind, recognition, institutional economics, preferences.

**JEL classification:** B40, B49, B52, D03.
1. Introduction: Hegel’s contemporary relevance for clarifying foundational issues in economics

The foundations of the theory of institutions are today subject to constant rethinking. One core issue is whether institutions are only a separate analytical category, such as when distinguishing the ‘state of nature’ and social contract analytically or when treating general equilibrium independent from the institutional framework, or whether institutions are the foundational category in understanding human action. Philosophers, social, political and legal theorists, and economists are engaged in discussions on various basic questions about the nature and structure of institutional reality. The concept of institutions has enjoyed a particularly remarkable renaissance in recent interaction between philosophy and economics, thus reviving the analytical stance of early institutionalist thinkers who had thoroughly elaborated on the latter. These discussions are methodologically important because the answers to those basic questions guide research strategies in various fields of social sciences, including economics. An essential philosophical concern regarding these efforts seems to be to grasp the dimension of creativity of human institutions, in the sense of the human capability to create social systems that are not directly determined by any kind of biological or other physical causality, and yet reach beyond the scope of human intentionality (in Hayek’s famous phrase, being a product of human action, but not of human design). This is reflected in the emergence of institutions: there is no direct physical cause that transforms paper slips into ‘money’. Human social life is artificial to a large, if not essential degree. Yet, many contributions to this literature, including Searle (1995, 2010), adopt a naturalistic attitude to institutions. At first sight, this would imply treating institutions just as epiphenomena of ‘natural phenomena’, such as genetically embodied dispositions to social actions. But this would fail to recognize the dual meaning of naturalism, which also can imply that institutional facts possess their own nature, in the sense of being independent causes in the physical world (Bhaskar 1989; for a related Hegelian view on ‘normative essentialism’, see Ikäheimo 2011). In Searle’s parlance, observer-relative (or, in his more recent terminology, intentionality-relative) facts are facts after all, and thus are part and parcel of ‘social ontology’, which is in turn understood as part and parcel of general ontology.

In this paper, we wish to show that naturalism in this sense has been anticipated to a significant degree by Hegel in his concept of ‘Objective Spirit’. In fact, in his Philosophy of Right, Hegel famously characterized the institutional reality of objective spirit as a “second nature”: The basis [Boden] of right is the realm of spirit in general and its precise location and point of departure is the will; the will is free, so that freedom constitutes its substance and destiny [Bestimmung] and the system of right is the realm of actualized freedom, the world of spirit produced from within itself as a second nature. (par. 4, Hegel 1991, 34)

Hegel’s notion of ‘spirit’ includes both the individual minds and their products in what is essentially the inter-subjective domain. Recently the claim has been made that

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4 The first issue of the new Journal of Institutional Economics was launched with the contribution of a leading modern philosopher, John Searle (2005), venturing at providing an answer to the question ‘What Is an Institution?’

5 Hegel (1991) further argues: “[T]he ethical [das Sittliche]… appears as custom [Sitte]; and the habit of the ethical appears as a second nature which takes the place of the original and purely natural will and is the all-pervading soul, significance, and actuality of individual existence [Dasein]. It is spirit living and present as a world, and only thus does the substance of spirit begin to exist as spirit (par. 151, p.195).
“whereas elaborations on the nature of freedom, especially with regard to the question how institutions can actualize freedom, are a distinct strength of the Hegelian theories, the ontology of institutions is often not developed in detail in contemporary Hegelianism” (Ikäheimo and Laitinen 2011, 7).

Our paper is a resolute step in this direction and reaches towards possible implications for economics. While there is little doubt that contemporary thought cannot be “Hegelian” in the orthodox sense of his system, there is also widespread agreement that Hegel’s philosophy and social theory can be a source of inspiration for various disciplines, including the social sciences. The appreciation of Hegel’s ideas does not entail making everyone a true Hegelian, but for us it does mean that Hegel has much to say in the current debates on the nature of institutions.

In this context, there is a special problem in the modern reception of Hegel, which is the conceptual distinction between ‘mind’ and ‘spirit’ in the English language. Hegel’s literature apparently hinders the inclusion of recent advances in both cognitive science and neuroscience, which focus on the products of the mental processes and their feedback on the capacities of human cognition and which rally around the extended mind program. Thus far, this modern literature mainly focuses on technological artifacts in the broadest sense, as in the classic paper by Clark and Chalmers (1995). However, right from the beginning, researchers on the extension of human cognition into the outer world also included patterns of social interaction into their focus (Hutchins 1995). These patterns can be seen as pertaining to ‘institutions’ in our context.

We argue that these recent developments are of utmost significance for economics, and that the conceptual framework for integrating them into economics can be built on Hegelian groundwork.6

In this paper we will explore the contemporary relevance of Hegel’s ‘Objective Spirit’ in the context of recent theorizing about the extended mind and social cognition, and attempt to draw conclusions for economics. With regard to economics, we present what we regard to be a challenging litmus test of our position, namely to demonstrate the institutional nature of preferences by expanding on earlier attempts at establishing an externalist framework for economics (Herrmann-Pillath 2012a). This is because in a Hegelian approach we can synthesize two seemingly conflicting foundational positions in current economics, namely the radical subjectivism of the theory of value and the behaviorism of the revealed preference approach to explaining choice. Currently, this methodological tension in contemporary economics erupts at the interface between neuroeconomics and utility theory, and affects basic assumptions such as the notion of consumer sovereignty. It is widely recognized that the modern theory of preferences does not make any statements about processes internal to human subjects, but only about observed actions, i.e., revealed preferences (Gul and Pesendorfer 2008, Bernheim 2009). In this regard, economics is strictly externalist (Ross 2005, 2012). However, this externalism meets with the emphasis on internalist subjectivism in the theory of value, which connects with the normative dimension of economics, such as welfare economics, in the sense of choice and individual freedom. We argue that this tension can only be resolved by taking a radical step, namely to treat preferences as expressions of human institutions, and we show that this view can be systematically grounded in a Hegelian approach to the individual and ‘spirit’. In a nutshell, this is because Hegel has already offered a solution to the contradiction that haunts the philosophy of mind to this day, which is the tension between the fact of subjectivity, like first-

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6 This connection to Hegel is rarely made even in the analytical philosophy of mind, presumably because his Objective Spirit is misunderstood as the extension of what today is conventionally seen as ‘mind’ into the domain of human society (compare Robinson 2009). There are only few first steps towards re-interpreting Hegel in terms of the recent literature on the extended mind (Crisafi and Gallagher 2010).
person experience, and the possibility to explain human action in terms of causal interactions with the external world.

Hegel’s philosophy of mind is externalist in a radical sense, namely equating the mind with the ‘objective spirit’, with the latter denoting those structures of the external world that emerge from human action (Quante 2008). This is a fundamental transformative process that is analyzed in great detail in such classical works as the ‘Phenomenology of Spirit’. We think that these contributions are highly relevant for the modern Philosophy of Mind, especially in relation to economics, if we take the notion of institution as a bridging concept. The Self, then, is by no means an internal phenomenon inaccessible to other minds, but it is established via those external structures, precisely if we consider autonomy as a defining feature of the Self. One of Hegel’s core ideas is that individual autonomy and freedom are not a presupposition of analysis, but actually an outcome of the transformations that lead from ‘Subjective’ to ‘Objective Spirit’. If we refer this idea to the economic concept of preferences, we would envisage that preferences would turn out to be facts that are external to the individual in the same way, namely structures of ‘Objective Spirit’. The straightforward way to reach this conclusion is to take the concept of revealed preferences seriously in the Hegelian sense, namely that preferences would be seen only as facts in terms of being actions taken by people. In a Hegelian view, there are no preferences ‘behind’ the actions that take place in the external world. However, as we shall see, the Hegelian view also transcends the standard approach to preferences in a very substantial way, namely showing that preferences, though being actualized in individual actions, can only be possible as collective level phenomena. This does not amount to a simple theory of social determination of preferences (in the sense of opposing homo sociologicus to homo economicus), but builds on the idea that preferences are performative in the same sense as institutions are performative. This notion of performativity relates to one essential aspect of Hegel’s philosophy, specifically the expressivity of mental phenomena (Taylor 1985).

Performative actions imply collective intentionality in an essential way. If we ask how collective intentionality is established in the first place, we are back with recognition, another central Hegelian term. We will show how all these different aspects can be conceptually unified in a distinction between the individual and the person, and the pivotal role of the notion of identity that both separates and intermediates between the two. Then, the standard economic conception of the stability and uniqueness of preferences can be vindicated in a strictly externalist way.

This paper proceeds as follows. In section two we present a brief introduction into the basic elements of Hegelian philosophy, building on the recent revival of international Hegel studies that establishes close connections with the Anglo-Saxon tradition of analytical philosophy. For us, this new development gives the opportunity to merge recent developments in cognitive sciences and the philosophy of mind with Hegelian positions. The central Hegelian insight is that mental phenomena, in terms of the ‘spirit’, are institutional facts. In section three we further scrutinize this insight in highlighting three pivotal elements of a Hegelian approach: 1.) The continuity thesis, which establishes the unity of internal and external mental phenomena; 2.) The performativity thesis, which claims that mental phenomena and institutions coalesce into one process of expressive actions; and, 3.) The recognition thesis, which posits that performative action is only possible when based on the collective intentionality that emerges from mutual recognition. In section four we show how these propositions can be applied to the economic theory of preferences. Section five concludes this paper.
2. Hegelian ‘Spirit’ and Institutions: Some General Remarks

While it is commonly held for economics and for some parts of sociology that institutions are essential for understanding ‘the social’, it is also quite clear that the general strategy of understanding the nature of sociality is indispensable for any insightful work in institutional theory since the agreement on fundamentals inevitably structures any further research. Hence, it is no wonder, that philosophers, economists, and social, political, and legal theorists are engaged in discussions on various basic questions. What are institutions? What is the nature and structure of institutional reality? How can one make sense of “institutional facts” (Searle)?

For us, at the heart of this theoretical juncture lies the long-standing debate on the nature of institutions and institutional reality in economics to which we hope to contribute by coming back to Hegel. Our primary aim is not exegetical; rather, we evaluate the heuristic potential of Hegel’s ideas for contemporary institutional theory and show how his approach can be reinterpreted in light of recent contributions.

In fact, to link Hegel’s social theory and the theory of institutions seems quite obvious since the claim that ‘institutions matter’ is immediately associated with a holistic stance adopted by Hegel, who suggested an approach to individuality as a product of a specific social formation (and was followed by Marx in this respect). The importance of institutions was quite obvious for Hegel in a sense that “the most important condition for actual freedom [is] another’s freedom and therewith necessarily the objective social conditions wherein subjects could properly experience another’s freedom as condition of their own and so act as such social agents and as subjectively rational” (Pippin 2001: 10).

As is well known, Hegel advanced a philosophy of the Absolute Spirit that comes to itself in a historical process of self-articulation, with the steps taken from the subjective to the objective spirit. The Spirit (Geist) comes to know itself and this knowledge is identified with its freedom, understood to be the appropriation of its own norms, laws, and principles within itself. The more that the world becomes the spirit’s own, the more freedom it gets and, since freedom is the essence of spirit, its historical unfolding becomes the realization of freedom. What is important for Hegel is precisely the realization of various forms of spirit (Heidemann 2008). The gradual unfolding, ripening of its successive levels marks for Hegel the necessity of the spirit’s movement.

Contemporary Hegel scholarship is extremely vast in scope and multidimensional (Beiser 2008). However, we would like to point out one line of research that seems to be particularly promising for our purposes. This is the work of Terry Pinkard (1994) and Robert Pippin who tried to reinterpret Hegel’s philosophy of spirit and fit it into the contemporary discussion. We will make a rough presentation of this line of research to show how it overlaps with institutional theory and in particular with the idea of performativity.

These scholars regard Hegel’s philosophy as a continuation of the Kantian project. Kant’s transcendental method famously implied the rejection of the simple subject-object relationship in the theory of knowledge. The Kantian subject gets its legislation not from some external sources, but from itself. It draws from itself the norms that structure and govern its experience. Fichte took over Kantian insight and pushed it to the extreme form. For him, the free activity (Tathandlung) of the ‘I’ became the only source of objectivity and was constitutive of freedom. Here, as well as in Hegel, we find the most important structure of the argument: any grounds and reasons in both the epistemological and ethical sphere are to be found not in some other realms but within this sphere. This is true for the theory of knowledge: no external source of objectivity exists for spirit...
that sets (‘setzt’) the truth for itself. This is equally true in the social realm where only in realizing the activity can we provide an internal basis for judging it correctly – there is no other way of assessing its validity and of achieving real freedom, which was a point of departure for Hegel as well.

The epistemological consequences of this shift were enormous. Hegel’s notions of concept (Begriff), spirit, and their actuality became closely linked with the idea of objectivity. As Pippin (2000, p. 186) emphasizes,

The issue of objectivity, or the problem of actual content, has ceased to be an issue about the correct (clear and distinct) grasping or having of an idea or representation, and has become, most broadly, a problem of legality, of our being bound by a rule of some sort that prohibits us from judging otherwise.

Now, Hegel is credited with the new insight of linking this idealistic philosophy with the socio-historical account of the development of human collectivity (Westphal 2009a). The “institutionalized” epistemological position described by Pippin and inspired in part by Brandom’s (1994) pragmatism is paired with a more general account of spirit as an institutional phenomenon. It is in transcending the limitations of nature and of natural resolution of the human conflicts, Pippin argues, that we get the understanding of spirit as “a self-imposed norm, a self-legislated realm that we institute and sustain, that exists only by being instituted and sustained” (Pippin 2000, 190). Spirit for Hegel is essentially a collective, an intersubjective phenomenon that is established or, we would say, *instituted* as a result of its own development towards freedom. But Hegel understands spirit *both* at individual (as “mind”) and intersubjective levels (as “objective spirit”). It is of utmost importance for us that Hegel in fact proclaims the *continuity* between various forms of spirit and that for him institutional reality is essentially a spiritual reality.

There are some other important features of Hegel’s notion of spirit that are important for our account. Spirit is something that is realized or objectified, but it does not boil down to its various realizations. Rather, spirit is both the activity (mental and practical) and the results of this activity (Quante 2008). It does not merely construct its actuality in an arbitrary fashion. Rather, it *educates* itself in a manner presented in the *Phenomenology of Spirit* conceived as a gallery of successive transformations that allow spirit to realize itself and to comprehend historically which ways of reasoning and organizing its own reality are progressive and which are bound for failure. Spirit thus combines the emergence and establishment of new norms since it is his formation (*Bildung*) that accounts for the adoption and rejection of those norms.

Pippin and Pinkard made an important contribution to this discussion by showing that it is the social and historical nature of spirit that allows Hegel to ground his theory of the spirit establishing its norms for itself. It is straightforward to see in this account of objective spirit a foundation for the theory of institutions. For Hegel, as Pippin (2001) argues, institutions matter in a way that the rational is defined as a proper following of the institutional rules. Moreover, this very rule-following constitutes the essence of the phenomenon in question. Pippin (2001, p. 8) argues:

Hegel... treats the genuinely normative claims for what he calls the "right" of subjectivity and individuality as products of a certain sort of ethical culture, as claims on others that cannot be understood or realized without there being in place a culture in which "others" come to be understood and respected in a certain way. (Thus, in a way typical of many such argument strategies in Hegel, it being "a product of reason" to come to regard others in such a way is not for this way to be the product of moral, especially, deductive reasoning. A claim about a certain sort of development, not deduction, bears the weight of the claim for rationality.) The general
thesis is stated in the Addition to § 141, where Hegel claims that "the sphere of right and morality cannot exist independently [für sich]; they must have the ethical as their support and foundation”.

In fact, in the Philosophy of Right Hegel criticizes a formally objective stance of abstract right and a subjective view of morality as one-sided and grounded in the intersubjective ethical life (Sittlichkeit). The reasons for such a holistic perspective are important here. Presently, we may easily recognize in such an account a lot of contemporary theories of institutions as the versions of one position or another. Institutions are regarded as functionally determined ways of achieving some abstract objective (e.g. maximizing utility or social welfare) or as the results of intentional actions of individuals that pursue their own aims (e.g., equilibria in games). A Hegel-inspired answer given by Pippin may be rendered more precise: Hegel does not adopt a deductivist perspective (which, in his day, was embodied in the theories of natural law\(^7\) and which today is represented by a vast array of theories dealing with some abstract criteria for institutions, like social welfare or even happiness), seeking instead a historical explanation of institutional evolution. We may adopt a fruitful distinction proposed by Sen (2009) between “transcendental institutionalism” of Kant (also represented earlier by Hobbes, Locke, and Rousseau) on the one hand and the realization-focused comparison of institutions on the other. While Sen counts Smith as one of the obvious representatives of the latter approach, if we focus on the real development of institutions, then we may equally well add Hegel to this list.\(^8\) Hegel’s concept of rationality in general is to be conceived not in a normative way that treats rationality as a norm imposed from external authority, but in a way of the historical progression, whereas rationality evolves together with the spirit and freedom. For Hegel:

practical rationality, the exercise of which constitutes freedom and establishes the condition under which I can experience my deeds as truly my own, is always "institution bound," that no one can be said to have any sort of effective, practical reason to do anything if conceived just as a “purely rational” self-determining agent. This is true […] even of universal moral obligations to all persons, since [Hegel] understands morality itself as a specific historical institution and […] understands its normative authority developmentally, not deductively. Said another way, according to Hegel there is no "place" to stand, putatively outside such institutions, from which one could be said to have a reason to sign up, anymore than one can be said to have a reason to move a knight or a pawn unless one is playing chess (Pippin 2001, pp. 13-14).

This general view of institutions is grounded in the ontology of the mind. In the next section we will elaborate on these connections.

3. **Objective Spirit, the Extended Mind and the three foundational Hegelian concepts of continuity, performativity and recognition**

The central idea in Hegel’s philosophy is that of conceiving the mind as a developing system that is increasingly mediated by external facts created by the mental process. The necessary conjunction of these inner and outer phenomena embedded in collective structures is what Hegel calls the ‘Geist’ (today mostly translated as ‘spirit’), as opposed to other concepts such as

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7 The role of natural law theories as an intellectual origin of neoclassical economics with its deductivist method was fully recognized by Schumpeter (1954).

8 Indeed, Sen mentions Marx as another proponent of the historical approach, and the links between these two thinkers and Hegel are well known. For an example of a Smith-Hegel relationship, see the summary by Henderson and Davis (1991) and Nuzzo (2010).
‘Verstand’ or ‘Vernunft’ (mostly translated as ‘understanding’ and ‘reason’, respectively). ‘Spirit’ and ‘mind’ could both be translated into German as ‘Geist’. The translation of ‘spirit’ has always been preferred because Hegel’s philosophy seems to be at odds with the standard notion of the ‘mind’ as denoting processes that take place within the human individual, or even within the head, in the sense of the brain/mind congruence hypothesis. Spirit, in contrast, refers to an entity that develops external structures, such as institutions, religion, etc., is embodied in these structures, and seems to be autonomous from individual ‘minds’. We think, however, that this conceptual distinction is highly misleading and hinders the proper understanding of the relevance of Hegel for modern analytical philosophy and institutional analysis. We also think that a reconsideration of this distinction is important for further clarifying the conceptual role of institutions in economics. For this reconsideration to make sense, it is important to note that Hegel is indeed talking about ‘mind’ in the modern sense, even when referring to structures of ‘objective’ or ‘absolute spirit’.

There are two major reasons why we think that this argument is valid. Firstly, modern cognitive sciences and brain research have clearly demonstrated that the linkage between neuronal processes and concept formation can only be established via external feedback loops that relate the Ego’s actions with the Alter’s actions, especially from the ontogenetic point of view (Hurley 2008). We claim that this approach to the sociality of cognition directly corresponds with Hegel’s analysis of subjectivity (i.e. ‘subjective spirit’ in traditional parlance). Secondly, a new strand in cognitive sciences further elaborates on this externalist approach to mind in positing the concepts of ‘extended mind’ and ‘distributed cognition’, which refer to the substantial externalization of human cognitive performance into physical structures which interact with the human individual, such as artifacts, but also regularized behavioral patterns of other individuals (Hutchins 1995, Clark 2011). In other words, we claim that combining social cognition and extended mind we derive an approach to the philosophy of mind that directly corresponds with Hegel’s view, such that the conceptual distinction between ‘spirit’ and ‘mind’ becomes obsolete, thus vindicating the original Hegelian fusion of the internalist and externalist conceptions.

One of the most fundamental achievements of Hegel was an attempt to reconcile the fact of first-person experience with the fact of the external world (for a modern approach to this issue, see Strawson 2009). Hegel is one of the towering intellectual figures of German idealism, and certainly Marx aimed at putting him right on his feet to establish a materialist philosophy. But this opposition is misleading to a large degree, because Hegel himself was clearly aiming at a philosophical system that fully integrates the insights of the natural sciences of his days (Westphal 2008, Ferrini 2009). Therefore, we argue that the 19th century opposition between idealism and materialism needs to be overcome by recognizing the fact that Hegel adopted a naturalistic approach to the human mind. In contrast to many modern versions of naturalism, Hegel already took the fundamental difficulty of naturalism head on and proposed a solution: namely, that naturalism might not be able to account for the fact of human freedom and creativity, which rests upon the autonomy of the first-person experience. Hegel’s solution to this problem is still unique: He asserted that it is precisely the externalized processes that ultimately establish this freedom in full extent.

In Phenomenology Hegel introduced the notion of spirit as an ‘ethical actuality’:

Spirit is the self of the actual consciousness which spirit confronts, or rather which confronts itself as an objective actual world, a world which has likewise lost all its significance as something alien for the self, just as the self has lost any sense of being a dependent or independent being-for-itself separated from that world. Spirit is the substance and the universal selfsame persisting essence – it is the unshakable and undissolved
ground and point of origin for the activity of each and all – it is their purpose and goal as the in-itself of all self-consciousnesses. This substance is equally the universal work, which engenders itself through the activities of each and all as their unity and their selfsameness, for this substance is being-for-itself, that is, the self, activity. As substance, spirit is unwavering, even-handed selfsameness. However, as being-for-itself, it is the essence which has been brought to dissolution, the benevolent essence which sacrifices itself, within which each achieves his own piece of work, where each rends something from the universal being and takes his own share from it. (Hegel 2012, Par. 438).

As we see, the spirit here is conceived as something that is distributed among individuals (Hegel further speaks of ‘dissolution’), that is not alien to them, and that constitutes their ‘work’ – it is the activity, the performance and the aim of their selves. Let us go a bit further and formulate some more specific insights that the Hegelian doctrine of spirit may entail. We will further show how these insights support and reinforce each other. This we do in highlighting three pillars of the Hegelian approach to mind and institutions, specifically the continuity thesis, the performativity thesis, and the recognition thesis.

**Continuity thesis**

This thesis implies that continuity persists between the aspects of the mind (‘subjective spirit’) and human sociality (‘objective spirit’). Moreover, it states that there are mediations between the natural world of things and the spiritual world of ideas that preclude us from separating these domains. In particular, Hegel claims that the material world (nature) is a moment in the development of spirit and that the spirit somehow extends itself and “covers”, or “incorporates” the material aspects of nature and human beings.  

To illustrate this principle, let us imagine a simple situation of driving a car. To what extent can we consider driving a car as a “spiritual” phenomenon in the Hegelian sense? And, further, how do these institutions come into play?

When I drive a car, I employ various physical, emotional, and intellectual resources coming from my natural bodily reactions, my brain, and my habits, which enable me to drive smoothly and to avoid critical situations while on the road. The physical-mental continuum of my practical abilities makes it possible for me to drive “automatically”, but unintentionally realize correct behavioral reactions that are always adequate to the situation at hand. Thus, my “subjective spirit”, which has my natural body as a “sublated” element, is clearly a part of this activity. Moreover, my thoughts – my intellect – are involved in analyzing the environment and in quickly making adequate decisions.

But while driving a car, I also make use of the physical and mental activities of others. These are, for instance, the ideas of physicists and engineers that helped to construct the car that I am

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This is the essential reason why Hegel’s naturalism counts as idealism. This is rooted in Hegel’s conception of the Begriff as something that straddles subject and object. Important statements include Enz. § 381: „Der Geist hat für uns die Natur zu seiner Voraussetzung, deren Wahrheit, und damit deren absolut Erstes er ist. In dieser Wahrheit ist die Natur verschwunden, und der Geist hat sich als die zu ihrem Fürsichsein gelangte Idee ergeben, deren Objekt ebensowohl als das Subjekt der Begriff ist. Diese Identität ist absolute Negativität, weil in der Natur der Begriff seine vollkommene äußerliche Objektivität hat, diese seine Entäußerung aber aufgehoben und er in dieser sich identisch mit sich geworden ist. Er ist diese Identität somit zugleich nur als Zurückkommen aus der Natur.“ §384: „Das Offenbaren, welches als die abstrakte Idee unmittelbarer Übergang, Werden der Natur ist, ist als Offenbaren des Geistes, der frei ist, Setzen der Natur als seiner Welt; ein Setzen, das als Reflexion zugleich Voraussetzen der Welt als selbständiger Natur ist. Das Offenbaren im Begriffe ist Erschaffen derselben als seines Seins, in welchem er die Affirmation und Wahrheit seiner Freiheit sich gibt.”
driving and that are objectified in the concrete forms taken by, say, an engine, a transmission, or an air-conditioning system. I am, therefore, embedded into various nets of ideas, concepts, laws, and regularities. For the car driver, no gaps persist between his or her mental world and the mental world of others. They are mediated by technology and, of course, by social interaction itself because, when I am driving, I constantly interact with others (or “with the wills of others”, as Hegel would say), who follow the same rules.

The continuity thesis gives the Hegelian account of spirit and its development an interpretation that seems – at least in some aspects – to be in line with modern developments in the theory of consciousness and its interpretation in the philosophy of the social sciences. That the spirit embraces all the spheres of being means that, firstly, material, physical, and neuropsychological moments must come into play if we speak of institutions since they are an integral part of this larger picture, and, secondly, there are no “holes” in the spiritual (or institutional) “tissue” – it is continuous and covers every aspect of human life.

As Michael Inwood (1992, p. 277) puts it,

Hegel’s claim that Geist is the absolute does not mean that everything is mental or the product of one’s own mind, but that: (a) the unified system of thoughts and rational structures that form the core of the (subjective) Geist are immanent in nature and in the development of Geist itself; and (b) spirit/mind 'overreaches' (übergreift) and idealizes what is other than spirit, by its cognitive and practical activities.

Hegel argues that mental operations are impossible without the externalization of actions, which feeds back to the further development of the mind. This is particularly obvious at the decisive point of transition between ‘subjective’ and ‘objective’ spirit in his discussion of ‘psychology’ in Encyclopedia, where he develops an analysis of signs and language (§ 458–459) as externalized phenomena that help transform representational mental activity into thinking. Although Hegel does not argue in terms of cognitive ontogeny, in fact his analysis comes very close to modern views. For example, Hegel’s idea of developmental steps in constructing the mind anticipates modern theories of grounded cognition that focus on the sensorimotoric feedback loops that underlie concept formation (Garbarini and Adenzato 2004, Pecher and Zwaan 2005).

Hegel’s naturalism differs fundamentally from Kantian idealism, and, to a certain extent, Hegel anticipates modern positions in evolutionary epistemology, especially with regard to the rejection of foundationalism, which is the effort to find an Archimedean point on which knowledge can rest with certainty, such as the Cartesian procedure of radical doubt (Heidemann 2008). Hegel’s philosophy is Pre-Darwinian, yet he clearly adopts a developmental perspective that actually unifies views on development and evolution. Therefore, Hegel solves the ‘Ding an sich’ quandary in Kantian idealism in the same way as modern evolutionary epistemology proposed to do. Whereas transcendental idealism argues that mental categories are the necessary preconditions for making any sort of knowledge about the world possible, hence resulting into some ultimate limits to approach the world ‘as it is’, Hegel’s approach implies that the world is already constitutive of the human mind, such that external structures of the ‘Ding an sich’ are already part and parcel of the mental operations. Continuity implies that there is no gulf between the mental world and external reality ‘in itself’. This is a most general aspect of naturalism which

10 The role of objectification (or Hegelian ‘Entäußerung’) and practice for cognitive activity has been emphasized by many scholars in various fields ranging from psychological theories dating back to Vygotsky (who, in fact, was inspired by Marx) to the modern philosophy of science (see, for example, Giere 2002). Today, there is a broad range of theoretical positions that adopt a related approach, such as Callon’s (2008) approach to ‘agencement’ and the corresponding research in economic sociology (see the volume edited by Callon et al. 2007).
is highly significant for the analysis of institutions, and makes clear why Hegel treats those fundamentals as matters of ‘logic’. That being said, however, Hegel’s naturalism remains an idealistic position in the specific sense that the world depends in an essential way on the mind (Robinson 2009), with the new and radical twist to regard mind as being externalized into that world.

So, the development of the mind rests upon the evolution of external structures, as clarified in the modern approaches to distributed cognition. In his treatment of this interdependence, Hegel moved towards a naturalistic approach to these external structures, which is his concept of the ‘Objective Spirit’, which we straightforwardly interpret as the ‘extended mind’ (see also Crisafì and Gallagher 2010). Hegel’s naturalism just finds these structures ‘out there’, and so presents historical accounts of their evolution. Given the limitations of knowledge in his day, this creates the reservation by which Hegel is treated today outside the domain of Hegel scholarship (for example, his value-laden preference for the Protestant state). However, if we blank out these aspects, there remains an essence of linking development and evolution: There are external phenomena that induce qualitative differences in the way how mental operations take place. Whereas the complexity of internal mental operations as embodied in neuronal processes is limited by the physical properties of the brain system, the external processes can leverage and even change the nature of these processes, and follow an independent evolutionary causality (Aunger 2002; Clark 2011). This could be a plausible interpretation of the process that, for Hegel in *Encyclopedia*, amounts to a transition from “Intuition” and “Presentation” to “Thought” and to the free and then practical spirit that realizes its full potential in institutional structures.

One may add to this account that in order to grasp the spirit we have to grasp its dynamics as conceived teleologically. Physical and cognitive phenomena, as well as the thing-idea nexus, are “moments” of spirit, which evolves by “positing” them. Hegel's method may be somewhat roughly described as a retrospective move that is undertaken in order to see how various phenomena came to be connected as moments of a single totality of spirit – a totality visible to us at the end and visible to it in general, but not to its isolated moments that just render it intelligible for a diachronic and historical presentation. No doubt that Hegel's own analysis of institutions in his *Philosophy of Right* largely followed the same path.

It is important to note that the physical and mental life of individuals occupied a subordinate place within Hegel’s later system of subjective spirit. Hegel never wanted to *deduce* the spiritual from the natural. Rather, he emphasized another feature of spirit – the ability to *overcome* natural predispositions and inherent *creativity* (see § 442 of the Encyclopedia, Addition, Hegel 1978, 93).

But what could be the sources of creativity of spirit by which it finds rational structure within the world and “overreaches” the reality external to it, thereby becoming free? One of the most important mechanisms is language, which is now being invoked by Searle in his analysis of institutions. Already in the Jena lectures Hegel praises language as “the name-giving power” and contends that this power is

The primal creativity exercised by Spirit. Adam gave a name to all things. This is the sovereign right [of Spirit], its primal taking-possession of all nature – or the creation of nature out of Spirit [itself].” (Hegel 1983, p. 89)
This creative power of language is first and foremost its performative power. Hence, our second thesis is on performativity.\footnote{Language in \textit{Phenomenology} is a form of ‘the existence of spirit’. It is ‘self-consciousness existing for others… which as such is immediately on hand, and as this self-consciousness, it is universal. Language is the self separating itself from itself, the self which, as the I = I, becomes objective to itself and which in this objectivity likewise sustains itself as this self, coalesces with others, and is their self-consciousness. The self likewise takes itself to be as it is taken to be by others, and this act of taking is precisely \textit{existence which has become a self’} (Hegel 2012, par. 652). Apparently Hegel is interested in the universality of language that precisely by this feature is able to perform and to communicate identity of the self.}

\textit{Performativity thesis}

The core notion in linking Hegel’s approach with modern institutional theory is ‘performativity’ (see Herrmann-Pillath 2010, 2012b). What is meant by the performativity thesis when we talk about Hegelian notion of spirit? The most general idea is that spirit itself determines the rules of its own development – the laws to which it complies, in short, its own mode of existence. Since spirit is essentially a collective (intersubjective) activity, spiritual reality is determined by various performances. In place of the Kantian account of institutions as external norms, Hegel looks at institutions as historically immanent and collectively grounded in performances/realizations of spirit on the way of its unfolding. The general structure of the argument is that it is a historical and dialectical development of a thing that makes it what it really is. Moreover, the thing itself is nothing else other than what it is at this very movement.

We argue that Hegel’s insight is to posit that the individualism of persons is only possible via the domain of intersubjectivity, thereby relying on structures – especially other persons – that are external to the body in which the person is literally ‘embodied’. Hegel’s notion of individual freedom can be seen as a precursor of modern conceptions of performativity because performativity implies a mind-to-world direction of fit: Performative action is ontologically creative in bringing certain facts into existence that are observer-relative. This goes beyond the simple statement that there are observer-relative facts. For example, the qualium of ‘pain’ is an observer-relative fact that directly reflects the workings of the human neuronal system, including the brain. If I use language to express a commitment, for example agreeing to marry another person, then this is another observer-relative fact that is essentially dependent on collective intentionality, which ontologically transcends the boundaries of the body.

Of course, in Hegel's account of institutional reality, performative acts also play an important role \textit{sensu stricto}. As an example, one could invoke the analysis of sovereignty in the \textit{Philosophy of Right} (par. 275-279). For Hegel, the monarch's “simple self” that embodies the state in a person “cuts short the weighing of arguments [Gründe] and counter-arguments [...] and resolves them by its 'I will', thereby initiating all activity and actuality” (Hegel 1991, p. 317). Furthermore, “the very concept of monarchy is that it is not deduced from something else, but \textit{entirely self-originating}; [...] without its monarch and that \textit{articulation} of the whole which is necessarily and immediately associated with monarchy, \textit{the} people is a formless mass” (pp. 318-19, emphasis in the original). To be rational is to be intersubjectively articulated, or performed, which is the idea behind his notion of the will's self-determination. In the case of the sovereign “I will”, it is the absence of any external cause that is so characteristic for the structure of performative acts. A performative act affirms itself by its own activity, and it is small wonder that the same structure
appears again and again in Hegel's *Philosophy of Right*. In fact, it is an important characteristic of the free will to not be determined by anything else alien to it. The development of freedom that is identified with the dialectical unfolding of the objective spirit is for Hegel the spirit's dialectical appropriation and internalization of various phenomena that are initially alien to it. This appropriation prevents the monarch's decision from being arbitrary. That is why Hegel takes pains to distinguish constitutional monarchy from mere lawlessness, one-sidedness and particularity of despotism.

Thus, the essence of performativity lies in the synthesis of individual freedom of creativity, i.e. expressivity, and the necessity of following rules that are external to this activity. Hegel uses the very general and abstract account of mutual recognition to show how desire, struggle, and violence form intersubjective structures that afterwards form the more stable entities such as civil society and state. This description is valid both in historical terms and on a most abstract theoretical level. However, for a proper understanding of Hegel today, it is necessary to separate these two perspectives in order to get rid of the burden of Hegel's own embedment in the political and social values of his times.

We think that on the most abstract level, the tension between individual creativity and rule-boundedness can be resolved in a proper synthesis between the two notions of individual and collective intentionality. This reference to intentionality has stood at the center of attention in recent philosophical approaches to institutions, in particular Searle. We claim that the emergence of individual intentionality is dependent on collective intentionality, as far as the context of institutions is concerned. Although this role of collective intentionality is already clearly recognized in Searle (1995), there is a gap between this role of collective intentionality in institutions and its role in establishing the fundamental ontological context. In this, we follow Tuomela’s (2007) approach and his recent criticism (2011) of Searle (2010). We add to his argument the important observation that Hegel achieved this deduction of the individual from collective intentionality in his notion of ‘recognition’. Thus, our argument rests upon the thesis that performativity and recognition are essentially related terms, as only persons can realize performative acts, and persons emerge in processes of mutual recognition (for a related view in the literature on Hegel, see Stahl 2011).

**Recognition thesis**

Hegel posits that, in the externalization process characteristic for activity of the mind, the interaction between Ego and Alter plays a crucial role both recurrently on different levels regarding the fundamental needs of mutual recognition in the development of self-consciousness, and on the level of moral communities that need to transcend the stage of ‘natural harmony’ in which ethical life does not reflect individual freedom, as in the classical analysis of the Greek

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12 This is based on principled conceptual analysis which we cannot pursue in the current context. Essential thoughts are in Philosophy of Right §21 and §27: “The truth […] of this formal universality [of education applied to human drives and aspirations] is self-determining universality, the will, or freedom” (…) “The absolute determination or […] the absolute drive, of the free spirit […] is to make its freedom into its object […] - to make it objective both in the sense that it becomes the rational system of the spirit itself, and in the sense that this system becomes immediate actuality […]. This enables the spirit to be for itself, as Idea, what the will is in itself. The abstract concept of the Idea of the will is in general *the free will which wills the free will* (Hegel 1991, p. 52, 57). On this, compare Enz. §§481, 484. This generic status of the state as an expression of more fundamental principles can also be found even with reference to ontological basics, see Enz. § 198. 
There are two dimensions to this insight. The first is straightforward in the context of modern theories of social cognition (Lewis and Carpendale 2002; Tomasello et al. 2005). For example, observations of others play a constitutive role in the sensorimotoric feedback loops that ultimately create mental structure, even to the degree that the distinction between Ego and Alter is not established initially (Hurley 2008). Based on these primordial mechanisms, human behavior is fundamentally shaped by unique capacities of imitation beyond mere mimicry and contagion (Tomasello 2008). The second is more complex and less obvious to interpret in the context of modern cognitive sciences, which is the core Hegelian notion of recognition. However, we argue that, in its primordial form, this simply means to recognize the distinction between Ego and Alter as persons defined by their autonomous intentionality. This is the most essential step in preparing the ground for the subsequent conceptual development of the notion of an extended mind: The recognition of the distinction between Ego and Alter means both to recognize ‘other minds’ and to recognize one’s own mind as a separate mind (Humphrey 2007). As has been emphasized by many contributions to social cognition, we can even argue that only the recognition of other minds leads to individual recognition that the individual has a mind of its own (Dennett 1991). We think that this is the modern equivalence to Hegel’s famous ‘lord and bondsman’ analysis.

Current Hegel scholarship readily acknowledges the importance of naturalistic foundations in the movement of mutual recognition in Hegel (Honneth 2009): the initial disposition to satisfy one’s needs entails the intention to compel the external world to the conscience’s will. Thus, our continuity thesis holds. However, this project is doomed to failure because consciousness, in fact, cannot achieve full control over the natural world. Moreover, for Hegel, the purely naturalistic attitude is incompatible with freedom.

It was often argued, that the subsequent movement of recognition, in which a person establishes itself as such and then an exemplary asymmetric relationship (that of lord and bondsman) emerges, lies at the heart of human sociality (Redding 2008). So the lesson one could draw is not that violence is the foundation of institutions (although the role of violence is extremely important, see North, Wallis, and Weingast 2007), but instead that only intersubjectivity leads one to transcend the limits of a purely physical, nature-guided point of view (see Enz., par. 435). The natural desire is therefore mediated and realizes itself in the complex institutional systems of the division of labor (Hegel's civil society) and common ethical life (Sittlichkeit). Although the struggle for recognition is a struggle to the death, a logical (hence dialectical) movement lies at its center, which relates with the Wittgensteinian private language problem (cf. Pinkard 2008, again): Recognition by Alter is only valued as recognition by Ego if Ego also recognizes Alter.

Another lesson would be that institutions constitute networks of mutual recognition, and that the processes of recognition are institution-specific. This idea is relevant for the whole normative discussion of recognition in Taylor (1992), Honneth (1996), or Fraser (2000). An individual comes to accept and change institutions in response to the recognition claims from himself and others. This Hegelian foundation of institutions that involves both interpersonal coordination, but

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13 ‘Self-consciousness exists in and for itself by way of its existing in and for itself for an other; i.e., it exists only as a recognized being.’ (Phenomenology, trans. Pinkard. Par. 178). Cf. further on the importance of recognition for institutions: ‘If we start with… the recognized self-consciousness … then …the realm of ethical life opens itself up. For ethical life is …a universal self-consciousness, which, in its own eyes, is actual in another consciousness in such a way that this other consciousness has complete self-sufficiency, that is, is a thing for it, and it is precisely therein conscious of the unity with the other self-consciousness, and it is in this unity with this objective essence that it is self-consciousness. In the abstraction of universality, this ethical substance is merely the law as it has been thought; however, it is equally as much immediate actual self-consciousness, that is, it is an ethos. (Par. 349).
also something that Bowles and Gintis would call “contested exchange”, as well as what various other authors discuss as authority (Stahl 2011) is clearly relevant for today’s institutional theory. One recent volume that stresses the importance of the recognition concept for social ontology is explicit that

Hegel’s concept of recognition is designed to grasp processes and structures that are equally constitutive of persons, their communities and the space of norms and reasons. If contemporary recognition-theorists following Hegel’s lead are able to show how this actually works, then this should be useful for social ontology by providing it with theoretical means to grasp persons not merely as constitutors of social reality, but also themselves socially constituted... It would also make social ontology better equipped to address issues of political and ethical importance to do with how collective and institutional reality structures persons, as it were, from the inside, or how relations of power and authority are always already at play when persons create, reproduce or revise social and institutional reality (Ikäheimo and Laitinen 2011, p. 4).

It is no wonder that this volume extensively uses such terms as “institutional recognition”, which are associated with granting and acknowledging Searle’s deontic powers (Ibid., 9). This point is straightforwardly established if we consider Searle’s (2010) approach of referring status functions to the linguistic category of declarations. As is well known, Searle argues that institutions emerge from status functions of the general kind ‘X counts as Y in context C’. One concern in the original theory was that it seemed to be unable to account for the so-called ‘free standing terms’ where Y is not treated as something else (such as the example of the fictitious corporation). However, Tuomela (2011) points out that this would overlook the fact that single declaration does not make any sense if it is not matched with a sequence of actions by real-word persons who actually make use of the newly created Y. This is a general point that applies to declarations: A declaration can only have real consequences for the person that makes the declaration if there is a sequence of actions of others that converges with the content of the declaration in two senses. Firstly, there must be a shared understanding of the meaning of the declaration and, secondly, the actions of others that follow from the declaration must converge into results that match with the original intention of the declaration. Following Tuomela (2007), we can argue that these conditions can only be fulfilled if the declaration is at least implicitly done in ‘we-mode’, even if uttered individually. So, for example, a fictitious corporation can only come into existence if the intention to use it is somehow shared in a collective of persons who understand the meaning of this freestanding Y term and who act accordingly, thus confirming the original intention of the person who uttered this status function. These actions are the X, whereas Y counts for the status function. Evidently, this utterance could only become possible if these actions have been duly expected, because otherwise the very meaning of the Y term would have been vacuous. Therefore, the original act relies on the mutual knowledge about the collective intentionality underlying it.

Now, Searle (2010) tries to refute one fundamental issue with his theory, specifically that all status functions are linguistic acts, but that language itself is independent from those acts, i.e. it is not an institution. This seems necessary for avoiding circularity. However, this indirectly leads back to a misplaced mentality in institutional analysis, as it implies the possibility of semantics independent from real-world causalities that relate meanings with actions. This seems to revive a

14 The recognition principle seems to be important for Searle as well. Indeed, he claims that a “status function can only work to the extent that they are collectively recognized.” Recognition for Searle “does not imply ‘approval’. Hatred, apathy, and even despair are consistent with the recognition of that which one hates, is apathetic toward, and despairs of changing” (Searle 2010, 8). See a more systematic account in Tesla 2011.
pre-Wittgensteinian approach to language as a medium that could play a merely representational role. But there are two Wittgensteinian insights that seem to show that one cannot separate language and institutions analytically. The first is that language cannot be private, such that language essentially rests upon collective intentionality – hence the ‘shared meanings’ of utterances. The second is that meanings are not autonomous from the actions that are caused by linguistic utterances and that flow back into their exchange between different persons. Both aspects relate to a deontology of proper or accepted meanings, including proper actions. But then the analytical boundary between language and institutions is at best fuzzy, if not impossible to draw.

The Three Theses Taken Together

These thoughts lead us back to Hegelian accomplishments. The fundamental point is that declarations are impossible to make if others do not recognize them as such. A Hegelian approach to status functions would state that status functions are expressions that become valid only by being externalized, which implies that in this very externalization they rely on resources that are outside of the individual body, or the individual mind in the traditional meaning of the mind/brain identity. These resources include the reactions of others to such a declaration, especially in terms of the recognition of its meaning and implications. Hence the strong Hegelian result follows, namely that the person can only establish her autonomy if she can rely on this recognition. This is because the autonomy needs to be performed, and performativity is impossible without recognition.

This is the fundamental reason why Hegel equates ‘mind’ with a whole set of externalized facts, such as language, religion, or customs. We can relate this directly with recent developments in the neurosciences in referring to all those facts as ‘desiring independent reasons for action’ in the Searlian sense. Indeed, one important aspect of individual freedom in Hegel is to become independent from the original biological drives of the somatic individual, a notion that certainly underlies many modern conceptions of the essence of humanity. As is well known, these ideas have been seriously undermined by recent developments in the neurosciences which claim to have shown that human intentionality is an emergent property of human decision making and action which merely reflects causally antecedent neuronal processes in the brain (Dennett 1991, Wegner 2002). Contrary to this view, Hegel argued that there has been an evolutionary process by which human intentionality has become autonomous from this level. The major challenge that we meet here is to view those two positions both as expressions of a naturalistic stance towards human agency. In other words, is naturalistic idealism possible?15

We can make sense of Hegel’s thought in two different senses: developmental and evolutionary. The first relates to the ontogeny of human persons (which, in fact, directly relates to the central role of ‘Bildung’ in Hegel’s approach, see Bykova 2009). It is the neuroscience literature that also accumulated evidence for the primacy of shared intentionality in human actions, with the seemingly paradoxical insight that shared intentionality might even be an essential part of the

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15 There is significant amount of literature that attempts to clarify the meaning of ‘idealism’ with reference to Hegel, because Hegel clearly goes beyond the Kantian position and even posits an ontological primacy of nature. Stern (2008) overviews this discussion and proposes to define Hegel’s approach as ‘conceptual realism’, which we would refer to as naturalism with reference to different kinds of facts, both observer independent and observer relative.
processes that operate in the neuronal system before consciousness of individual intentionality emerges in the child. To put it most simply, there is a developmental sequence that starts out from the merger of Ego and Alter in imitative actions and which only stepwise leads to establishing the consciousness of the Ego’s intentionality by developing the cognitive capacities that are necessary to understand the intentionality of others, thereby gradually enabling the infant to coordinating actions between different individuals (Tomasello and Carpenter 2007; Hurley 2008). In a radical interpretation of these empirical results, we posit that the maturation of the human person therefore essentially depends on the mutual recognition of being ‘persons’ in the intersubjective domain in the sense of the ascription of individual intentionality (i.e., the adoption of the ‘intentional stance’ along Dennettian lines, see Dennett 2009; for a related Hegelian view, see Stekeler-Weithofer 2011). This developmental process can be explained in evolutionary terms: the emergence of mutually recognized individual intentionality was an evolutionary advantage for human groups that had originally built on the collective intentionality that emerged from the primordial intersomatic causal connectivity of neuronal stimulus-response patterns (Tuomela 2007, Chapter 9).

This view on the interaction between the individual and the collective level is Hegelian in essence. In modern cognitive sciences and neurosciences and in conjunction with evolutionary theory, we can lend support to it in a twofold way. The first is that all perception is based on action, which implies that the notion of autonomy also applies for the neuronal system in the sense that it does not simply ‘reflect’ sensory inputs but, first and foremost, creates those inputs by taking action on the world. From this follows the fact that concept formation is driven endogenously and includes a creative aspect in the most general terms, even when referring to the fundamental physical processes in the neuronal system (e.g. Barsalou 1999). The second way is that the emergence of persons from this sort of process may have been conditioned on selective pressures that, during human phylogeny, led towards the emergence of persons as being independent from those very mechanisms. In stating this, we need to be very careful and clear: These persons are not the individual bodies, but are performances themselves, such that the inner core of first-person experience is socially constituted. In other words, individual intentionality appears to be an evolutionary advantage for human groups, with an emphasis on the latter, even in the ontological sense (for a related view, see Sommers 2007). This is the framework within which continuity, performativity, and recognition may be taken together to form a Hegel-inspired ontology of the mind as the basis for a theory of institutions.

4. Hegelian Philosophy of Economics: Preferences and/as Institutions

Hegel’s externalism is of special interest for economics, which has been undergoing a silent revolution as of late, putting its conceptual foundations on the grounds of naturalism, as epitomized in the endeavors of behavioral economics and neuroeconomics. In modern receptions of Hegel, this has been cast into the distinction between the ‘individual’ and the ‘person’ (Pippin 2008). In a nutshell, only persons can be free, whereas individuals are just the physical embodiments that would be governed by biophysical causalities. Persons are established via sociality and institutions; hence human social life is the necessary precondition for individual freedom. This idea is of central significance for all social theories that build on traditional economics, in which the free individual is treated as the a priori of any kind of theoretical construction that explains the emergence of institutions. This is the main reason for the split
between the so-called ‘mainstream’ approaches and diverse ‘heterodox approaches’, which emphasize human sociality in different ways. In the view of Hegel, no individual can freely choose and decide between different institutions because only persons can do that, and persons are already institutional phenomena.

We think that there are several developments in economics for which the Hegelian insight might prove fruitful. We propose to clarify this by discussing the notion of individual preferences. Even if we are aware of the very peculiar methodological construction that underlies the modern mathematical notion of revealed preferences, we can still say that preferences basically reflect a primordial stimulus-response system, in the sense that there is a mechanistic connection between inputs (information about available goods) and outputs (actions in terms of choices). This is most obvious from recent attempts by neuroeconomists to build a neuroscience complement to economic utility theory, even claiming the possibility of reduction (Glimcher 2011). This notion does not include the possibility of individual freedom in choosing the preferences themselves and thus stays in fundamental tension with the normative implications of modern individualism, including the Hegelian one. Glimcher’s reductionism amounts to the specific methodological stance of neuro-internalism (compare Ross 2012). This contradicts the principle both of revealed preferences and of subjectivism (but on different grounds), thus resulting in the serious reservations of many economists as to whether neuroscience can be a part of economics as a science (Harrison 2008; Gul and Pesendorfer 2008). Yet, in a naturalistic approach, this reductionist strategy is only consequential, given standard economic theory. The real issue sits on a deeper level: the ontology of mind. There are several developments in the theory of preferences that seem to point towards a Hegelian restatement.

Firstly, there is the important idea that individual knowledge about preferences presupposes an observation of one’s own actions through time, such that the history of choices establishes the scaffold upon which awareness of the stability of preferences must rest (for a concise overview, see Ariely and Norton 2007). This reflects a large number of apparent ‘anomalies’ in individual rationality that show up in the strong role of contextual factors and dynamic temporal phenomena in human choice. One way to make sense of these results is to posit that individuals actually do not have sufficient knowledge about their own preferences, which would follow from certain neuroscience constructs such as the distinction between a ‘wanting’ and a ‘liking system’, in which the fundamental preferences (the ‘liking’) do not drive the choice process (‘wanting’) which is part and parcel of the ongoing process to learn what to prefer (for a reception of these ideas in economics, see Camerer 2006). Then, individual preferences essentially depend on an externalized system of ‘cues’ or, as posited in Herrmann-Pillath (2012b), signs, which establishes the contextualization. It is important to notice, however, that this role of signs does not necessarily involve higher-order cognitive functions, but can operate on the basis of the primordial neuronal processes. The most important case in point is the theory of addiction and of habitual behavior in general (compare Ross et al. 2008). So, there are good reasons to assume that human individuals do not simply have preferences, but learn about their preferences through the observation of their own behavior within certain contexts of action. This is directly corresponding to Hegel’s position that internal mental states are only meaningful as externalized expressions, in the sense that we learn what we mean when we express our thoughts and by realizing these expressions and their interpretations by others (for a comprehensive Hegelian analysis of this point, see Pippin 2008: 170ff.).

16 One cannot over-emphasize this point, which is even of most fundamental ontological importance in Hegel’s system, see e.g. Enz. § 139: “Das Äußere ist daher vors erste derselbe Inhalt als das Innere. Was innerlich
social determination of preferences, because the origin of the externalized preferences still lies within the individual. But the transformation of preferences into meaningful and effective agency as a person is only possible via the externalization that relies on the interaction with the context, which includes other persons.

Secondly, there is a significant amount of literature on paradoxes of individual rationality in social interaction, especially as being scrutinized in game theory, that has engendered one particular proposal of solution which is not only directly pertinent here, but which also connects with recent neuroscience literature. This is the simple step towards introducing collective preferences as primordial preferences. Here, we observe a convergence between philosophical (Tuomela 2007) and economic approaches, if we consider the exemplary case of Sudgen’s (2000) theory of team preferences. The idea is simple, as it posits the existence of collective preferences referring to some mutually recognized ‘we’ as the subject that includes individual preferences as a special case. This does not mean that collective preferences are always determining action, but that human individuals have the capacity to switch between what Tuomela calls the ‘I-mode’ and the ‘we-mode’. This has been supported empirically by recent neuroscience and economic research on ‘social preferences’ and related phenomena such as empathy, which do not result into an ‘oversocialized view’ of the individual but state that human individuals manifest certain neuronal structures that enable, for example, to take the position of others and even adopt their emotional states (Fehr 2009; Kirman and Teschl 2010).

This implies for economic theory of preferences that we need to consider the possibility of preferences in the ‘we-mode’, even if individual consumption is concerned; no ‘social’ domain is affected at first sight. This view inheres the long tradition in economics to relate the formation of preferences with the process of habit formation in a cultural context, beginning with Veblen (Hodgson 2004), but actually leading back to Adam Smith and his view that preferences for goods are not primarily driven by criteria of efficacy, but by imitation and emulation of others, especially those with high status. This view is supported by recent research into gene-culture co-evolution in human learning about preferences in particular environments, thus further vindicating our previous thoughts about the externalization of preferences (for a survey, see Richerson and Boyd 2005). Taking the two strands of reasoning together, we can conclude that individual preferences build on collective intentionality as mediated by the external setting of artifacts that interact with the choosing persons (Herrmann-Pillath 2010/11). This is a Hegelian view that directly connects the economic theory of preferences with the current literature on the extended mind: The material culture of a society is seen as the extension of the cognitive processes (continuity thesis) that enable individuals to perform their preferences (performativity thesis), thus emerging as persons choosing alternatives in a cultural context and engaged in the process of mutual recognition (recognition thesis).

Thirdly, there is a still small, yet highly productive literature on identity that directly refers to certain lacunae and systematic tensions within the standard economic approach to utility. We claim that the notion of ‘identity’ is the core analytical concept that relates the individual and the person both in the context of neurosciences and economics. With regard to the latter, the central reference is Davis’s (2003) critique of Becker’s (1996) human capital approach to preferences
that in turn could offer an economic approach to the context-dependence of preferences discussed previously. In principle, the Beckerian notion of utility integrates the notion of learning in the sense that preferences include the instrumental dimension of developing the capability to prefer (e.g., the knowledge that enables us to enjoy classical music or certain culinary experiences). However, as Davis has pointed out, this approach manifests a principled flaw, which is that it cannot fulfill the conditions for establishing the identity of a person both through time and with reference to others. As Sobel (2005) has shown, there is a deep formal correspondence between the Beckerian approach to preferences and most basic models of interdependent or social preferences. This reflects the more concrete and pragmatic dimensions of the human capital approach to preferences: After all, the formation of human capital is always actively involving social contexts, and even partly coercive institutions such as education.

One aspect of this is salient when considering another approach to identity that basically builds on the standard economic one, which is Akerlof and Kranton’s (2000) theory of identity. As Davis (2007) has argued, this is a social-identity formalism, in which an individual’s identity is dependent on a web of social categorizations that are continuously negotiated in social interactions, but also lacks an anchor in personal identity. Following Ross (2007), Herrmann-Pillath (2010/2011, 2012b) has proposed, in accordance with Davis (2008), that this personal identity can only be established in the context of narratives in historical time which create deontological commitments to persons, in the sense of authenticity, coherence, and meaningfulness of those accounts. Narratives necessarily need to draw on language resources and hence collectively shared meanings, if only in the sense that individual meanings result from efforts to establish their autonomy.

The consequence of the third consideration is that identity is performative in a fundamental sense and persons are therefore fundamentally different from individuals: Persons are established via narratives and these narratives result into a deontology of commitments as the core of the identity of a person. In the context of our concern for the issue of preferences, identity is reflected in preferences as providing reasons for actions. A preference, in this view, is not simply a stimulus-response pattern linking inputs with outputs. A preference is a reason that can be given to another person, but also to oneself, as to why this alternative was chosen and not another. Reasons are valid if they are recognized by others. This is the sense in which preferences anchor in collective intentionality – in the sense of operating in the ‘we-mode’, as scrutinized previously. This is exactly the position that has been developed in important contributions to recent Hegelian scholarship, particularly in work by Pippin (2008), but including a wide range of related contributions. The gist of this literature is that human social life is the interaction of persons, not individuals, and, even stronger, that both phenomena are mutually constitutive; only persons can maintain social life and social life makes persons possible (for related Hegelian views, see Pinkard 2009 or Brandom 2011). Taken together, both vindicate one of the central tenets of Hegel’s philosophy, namely that persons are historical phenomena that reflect the evolution of institutions.

Returning to our discussion of Searle, we can state that only persons are able to establish status functions, which includes establishing themselves as persons. Linking this with our discussion of preferences in economics, we can now posit that preferences are a special kind of status functions through which persons express their identity. One position in economics that has already adopted a congenial approach to preferences is that deployed by Armatya Sen (for an overview, see Sen 2002, Chapter 1). Sen’s ‘rational fools’ are the individuals who simply act as S-R machines, whereas a human person, in contrast, expresses preferences that are meaningful in a larger
context of both individual development and societal embeddedness and that refer preferences back to more fundamental valuations. Without recognizing this, Sen actually adopts a Hegelian perspective when he argues that an enlightened concept of preferences must include preferences over preferences and fundamental decisions about the meanings of life. This is because Sen’s broader conception of rationality ultimately means to be able to give reasons to oneself and to others about why a certain action is taken – to be open to reflective discourse, in other words. Reasons, however, are inherently universalistic in the sense of Hegelian conceptualizations and therefore require an ultimate reference to communities in which those reasons are recognized as being reasonable.

**Conclusion**

Hegel’s idealism, a seemingly outdated philosophy, especially in an Anglo-Saxon context, turns out to be a clue to recent advances in the ontology of mind and institutions. The continuity between mental structures and their external realizations, the significance of performativity as a process through which this externalization takes place in intersubjective contexts, and the role of recognition as a mechanism by which institutional structures are constituted and reproduced are all principles to be found in Hegel and should serve as heuristics for the ontology of institutions as well as for institutional theory and policy. This heuristic potential has been demonstrated by our discussion of preferences as conditioned by practical and intersubjectively managed articulations of will on the part of institutionally embedded individuals (“persons”). We think that the essential contribution of a Hegelian perspective to modern economics is to present an advanced notion of naturalism in institutional analysis. Naturalism is currently marching forward with the rise of behavioral economics, experimental economics, and neuroeconomics. However, these approaches tend to analyze human action in terms of complex feedback loops that link external stimuli with responses that are often seen as being ‘automatic’, ‘subconscious’, and, in any event, failing to meet the standards of rationality as defined by economic theory. Modern conceptions of ‘libertarian paternalism’ (e.g. Camerer 2006) flow out of these approaches and fall back behind the standard that was already achieved by Hegel. Libertarian paternalism fails to recognize the capacity of human performative action to create, if only unintentionally, externalized patterns of cognition that can result in the transformation of those actions, foremost in the shape of institutions. Thus, a Hegelian view introduces the idea of linking modern approaches of distributed cognition and the extended mind with institutional analysis in economics. In this view, institutions are as natural as neuronal structures and they make up what Hegel has called the ‘Objective Spirit’. So, viewing the human individual as just a single decision maker that is constituted by neuronal mechanisms and internal cognitive resources seems to be fundamentally misleading. That said, the Hegelian view seems to inhere in the notion of ‘Ecological Rationality’, which has been proposed by Vernon Smith (2003, p. 500), one of the founding fathers of experimental and behavioral economics, in his Nobel lecture and which he defined as

an emergent order based on trial-and-error cultural and biological evolutionary processes. It yields home- and socially grown rules of action, traditions and moral principles that underlie property rights in impersonal exchange, and social cohesion in personal exchange. To study ecological rationality we use rational reconstruction – for example, reciprocity or other regarding preferences – to examine individual behavior, emergent order in human culture and institutions, and their persistence, diversity and development over time.
References


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