

Hegel's "Objective Spirit", Extended Mind, and the Institutional Nature of Economic Action

by

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Abstract

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

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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. 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 latter (e.g. Searle 2005).

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 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; compare par.151, p. 195)

Hegel's notion of 'spirit' includes both the individual minds and their products in what is essentially the inter-subjective domain, and thus becomes a part of 'nature' as element of the external world. This transformation has been the object of recent theorizing on social ontology; yet the connection with Hegelian thinking is largely unexplored (Ikäheimo and Laitinen 2011, 7). Our paper is a resolute step in this direction and reaches towards 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. We argue that the bridge between Hegel and economics is the concept of 'extended mind' in modern cognitive sciences.

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). Although he is one of the towering intellectual figures of German idealism, 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). In adopting a naturalistic approach to mind, and 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*.

We pose the question: Can the modern approaches to the 'extended mind', which focus on these externalized processes, be fruitfully combined with Hegelian philosophy? In a truly Hegelian spirit, these approaches focus on the products of the mental processes and their feedback on the capacities of human cognition. Thus far, they mainly concentrate on technological artifacts in the broadest sense, as in the classic paper by Clark and Chalmers (1998). 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.

With regard to economics, we approach a core theoretical notion in its edifice and 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 transforming fundamental human drives and needs (compare Witt 2000), 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-person experience, and the possibility to explain human action in terms of causal interactions with the external world. We argue that this tension also inheres in the incompatibility between the externalist revealed preference concept of utility and the internalist emphasis on subjective value and individual autonomy of preferences. Hegel's approach to the dynamic relationship between 'subjective' and 'objective spirit' overcomes this tension.

Hegel's philosophy of mind is externalist in a radical sense, namely identifying the mind (*Geist*) with the trajectory of a developmental system dialectically moving from 'subjective spirit' to 'objective spirit'. with the 'objective spirit' (*objektiver Geist*), 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 the 'Phenomenology of Spirit' and 'Encyclopedia'. 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. The autonomy of the self emerges from subjective spirit, but can only develop through its institutionalized expressions

in interactions with other Selves. 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'. This is not to mean that the subjective factor and critical attitude towards existing institutions are downplayed or reduced to impersonal social structures, but that the individual agency and autonomy itself cannot be void from its social, institutional contexts, they teleologically 'define' it on the higher level of freedom. Otherwise subjective spirit remains abstract and turns into what Hegel in the *Philosophy of Right* calls 'arbitrary will' (*Willkür*, see Hegel 1991, p. 49).¹

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' that transform underlying drives and needs into particular wants that are expressed in social context (consider a need for caloric intake that is transformed into a culturally shaped food preference). 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 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 (one cannot fully reduce the specific appetite for sweets to the need for caloric intake). 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 turned to *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.

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 Hegelian 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 fundamentally mediated via institutions. 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.

¹ One remark concerning Hegel's definitions is in order. One has to keep in mind that they are not to be understood in a conventional meaning of a simple identity (A is B), but should be thought of in conformity with Hegel's theory of 'speculative sentence' that blurs strict differences between the subject and the predicate. In other words, 'A is B' means that A *becomes* B and that we can demonstrate a process of identification and of A's transformation into B. To say that the mind is institutional is, therefore, to say that the mind in its development towards freedom takes up sociality as its essential determination.

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. Against this background, Hegel’s philosophy certainly deserves serious attention as Hegel advanced the idea that the autonomy of the human individual, backbone of economic theory, essentially depends on institutions and interaction with other individuals (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.

Hegel scholarship is undergoing a strong revival recently (Beiser 2008). In important contributions such as Pinkard 1994 or Pippin 2001 Hegel’s philosophy is seen 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*.

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) emphasizes, the issue was no longer about the correct reflection/representation of the given content, but of the actual social and ontological realization of truth by means of free activity. 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 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 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. It is only in the ethical and cultural/spiritual space that the rational norms of right and morality may prosper.

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 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. 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, with rationality evolving together with the spirit and freedom. For Hegel no abstract practical rationality free from historical and institutional context can exist.

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 ‘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 (e.g. Hurley 2008). We claim that this approach to the *sociality of cognition* is to a large degree anticipated in Hegel’s analysis of subjectivity (i.e. ‘subjective spirit’ in traditional parlance) (e.g. Lewis and Carpendale 2002). 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 revives essential Hegelian insights, such that the conceptual distinction between ‘spirit’ and ‘mind’ becomes obsolete.

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. There are 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.²

² 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 and §384:.

To illustrate this principle, let us imagine a simple situation of driving a car. 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. 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 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.

This view of the activity of car driving is increasingly gaining ground in modern approaches to human action, giving rise, for example, to notions such as ‘agencements’ in economic sociology which highlight the distributed nature of agency in networks of individuals and artifacts (Latour 2005; Callon 2008); similarly, human epistemic activity is seen as being distributed in new approaches in the philosophy of science (e.g. Giere 2002). The continuity thesis gives the Hegelian account of spirit and its development an interpretation that is in line with modern developments cognitive sciences 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 (compare Inwood 1992, 277).

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. 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).

Thus, Hegel’s naturalism differs fundamentally from Kantian idealism. His approach implies that the world is already constitutive of the human mind, such that external structures are already part and parcel of the mental operations. *Continuity* implies that *there is no gulf* between the mental world and external reality ‘in and of itself’. This is a most general aspect of naturalism which 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 in toto (i.e. not only institutional reality, but also nature as being conceptualized by epistemic activity) 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 propose to reinterpret and associate with the ‘extended mind’ (see also Crisafi and Gallagher 2010). Hegel’s naturalism just finds

these structures ‘out there’, and 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 (Dennett 1995; Aunger 2002). 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.

Yet, one of the key differences between Hegel’s account and modern extended mind literature seems to be that for Hegel in order to grasp the spirit we have to grasp its dynamics as conceived teleologically. Hegel’s original developmental account is pre-Darwinian, it excludes open-endedness and uncertainty so important for the contemporary analysis of mind-nature interaction in the extended mind literature. However, a modern ‘Hegelian’ position is not bound to adopt teleology. This departure from Hegel’s original view can be reconciled with his fundamental positions in recognizing the pivotal role of creativity – the ability to *overcome* natural predispositions and inherent *creativity* of spirit (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? Which phenomenon bridges Hegel’s views with modern evolutionary conceptions? This is language, such as being invoked by Searle in his analysis of institutions, and which stays at the core of modern conceptions of the co-evolution of human culture and biology (Tomasello 2008; Ross 2007). 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)

Language in *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 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.

The creative power of language is first and foremost its performative power. Hence, our second thesis is on performativity.

Performativity thesis

The core notion in linking Hegel’s approach with modern institutional theory is ‘performativity’ (see Herrmann-Pillath 2010, 2012b; Searle 2010, p. 12, refers to ‘declarations’). 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 with which it reconciles, 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.

Especially, 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 *sensu stricto*. As an example, one could invoke the analysis of sovereignty in the *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 *entirely self-originating*; [...], *without* its monarch and that *articulation* of the whole which is necessarily and immediately associated with monarchy, *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*.³ 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,

³ 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.

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 polis (Pinkard 2008: 124ff.). There are two dimensions to this insight. The first is straightforward in the context of modern theories of social cognition (Carpendale and Lewis 2004; 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 dimension is more complex and less obvious to interpret in the context of modern cognitive sciences; this is the core Hegelian notion of recognition. 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, in the sense of projecting the 'intentional stance' back to oneself (Dennett 1991, 2009).

Current Hegel scholarship readily acknowledges the importance of naturalistic foundations in the movement of mutual recognition in Hegel (Honneth 2008): 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 him and others. This Hegelian foundation of institutions that involves both interpersonal coordination, but 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. The recognition principle seems to be important for Searle, too. 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 Testa 2011).

The role of recognition in institutional theory 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-world 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: He regards all status functions as linguistic acts, but treats language itself as being independent from those acts, i.e. language is not seen as 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 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. This leads back to the original Hegelian position, thus laying the ground for an evolutionary approach to institutions based on linguistic creativity, i.e. performativity.

The Three Theses Taken Together: The hidden Hegelian Leitmotiv in Modern Cognitive Sciences

As a result of these reflections, a complete picture emerges of the interaction between the three Hegelian principles of continuity, performativity and recognition. The fundamental point is that individual agency depends on recognition. A Hegelian approach to status functions would state that status functions are expressions that become valid only by being externalized and in this very externalization rely on resources that are outside of the individual body or the individual mind in the traditional meaning of the mind/brain identity; language is the most powerful resource here. These resources include the reactions of others to an action, 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 in an intersubjective context, and *performativity is impossible without recognition*.

This is the fundamental reason why Hegel associates ‘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 ‘desire 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?*

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 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 (Carpendale and Lewis 2004; Tomasello and Carpenter 2007). 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 (e.g. Gallese and Lakoff 2005). 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 (compare, for example, Damasio’s 2010 focus on the role of shared narratives in constituting the self). In other words, constructing 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 on free will, 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 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. However, these developments stay in tension with the individualistic foundations of economics, which take consumer sovereignty and irreducibility of subjective preferences as pivotal. 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’ individualistic 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*.

The empirical notion of preferences in contemporary economics basically reflects 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 philosophical individualism, including the Hegelian one. Glimcher's reductionism amounts to the specific methodological stance of neuro-internalism (Ross 2012). This contradicts the principle both of revealed preferences (which explicitly rule out reference to internal states and only describe observed choices mathematically) 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 (e.g. Berridge 2009; 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.). Clearly, this does not simply amount to the social determination of preferences, because the origin of the externalized preferences still lies within the individual (in the same way as 'subjective' and 'objective' spirit are dialectically entangled). 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. A purely individualistic 'textbook-like' preferences and utility theory (that still determines an average economist's view of the topic today) thus turns out to be both conceptually and pragmatically outdated.

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 Sugden'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 (Singer and Lamm 2009; 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). To illustrate this point with an example: Moav and Neeman (2012) argue that in poor under-developed economies certain goods such as tobacco are used as status indicators in conspicuous consumption, thus jeopardizing even necessary expenditures on food, because other status indicators (such as formal education) are out of reach. Thus, individual decisions even affecting nutritional states are driven by collective beliefs about relative status and by the availability and nature of the artefacts that serve as status signals (for a related analysis of consumption patterns during the industrial revolution, see De Vries 2008). This beliefs are states in the 'we-mode' as they refer to mutually recognized status indicators.

So, our 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).⁴

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

⁴ Some aspects of this general picture are recognizable, for example, in Hegel's account of economic phenomena in civil society and the global interconnectedness of needs, where the idea of continuity (as pertaining to the nature of spirit) is emphasized: 'Spirit attains its actuality only through internal division, by imposing this limitation and finitude upon itself in [the shape of] natural needs and the *continuum* [*Zusammenhang*] [our emphasis] of this external necessity, and, *in the very process of adapting itself to these limitations, by overcoming them and gaining its objective existence ... within them*' (Hegel 1991, p. 224).

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 (2009), 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. Recently, Damasio’s (2010) neuroscience approach to the Self and its narratives concurs with this analysis and thus closes this naturalistic, though non-reductionist approach to persons, which we identify as Hegelian in essence.

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 Hegel 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 conception, especially in an Anglo-Saxon context of analytical philosophy, can now experience a revival in view of the 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 (both Hegelian and standard-economic one). 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. Whereas Hegel's philosophy could be regarded as a tradition that expounded in its own language the ideas of continuity and performativity. These ideas, paired with Hegelian notion of recognition, prompt one to link 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.

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