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Title: Abduction and economics: the contributions of Charles Peirce and Herbert Simon
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Abstract: A constantly changing social reality means economic theories, even if correct today, need to be constantly revised, updated, or abandoned. To maintain an up-to-date understanding of its subject matter, economists have to continuously assess their theories even those that appear to be empirically corroborated. Economics could gain from a method that describes and is capable of generating novel explanatory hypotheses. A pessimistic view on the existence of such a method was famously articulated by Karl Popper in *The Logic of Scientific Discovery*. He wrote 'there is no such a thing as a logical method of having ideas or a logical reconstruction of this process.' Herbert Simon responded to Popper and argued the opposite, namely, that there is a model of discovery and its name is abduction. Simon acknowledges his debt to Charles Peirce – the first modern logician to explicitly formulate a theory of abduction – and explains that abduction is a model of discovery that works as a problem-solving heuristic encoded in a computer program. Although Simon's account of a model of discovery was prescient, Peirce's description of abduction as loose inference is incompatible with an exclusive algorithmic operationalization. The paper also connects Peirce's abduction to explanation in economics and the economic literature on uncertainty. It is argued that explanation, uncertainty, and abduction complement each other and their combination is valuable to economics.
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