

## The Philosophy of Austrian Economics

*The Philosophical Origins of Austrian Economics.* By David Gordon. Auburn, Alabama: Ludwig von Mises Institute, 1993.

Barry Smith

This is a useful, clearly written study of the philosophical origins of Menger's theorizing in economics. As the author points out in his conclusion: philosophy has been an accompanying presence at every stage in the development of Austrian economics. Moreover, "Action, that leitmotif of praxeology, has in the Austrian tradition received a distinctly Aristotelian analysis. Austrian economics and a realistic philosophy seem made for each other."

Gordon packs considerable material into a short span, and inevitably some simplifications arise. Thus in defending a view according to which Austrian economics arose in reaction to the "Hegelianism" of the German Historical School, he ignores the differences which existed between the views of Knies, Roscher, Schmoller and other members of the German school, as he ignores also recent scholarship which points to hitherto unnoticed similarities between the work of some of these thinkers and that of Menger.

Underlying Gordon's treatment of nineteenth-century philosophical thinking in the German-speaking world is the idea of a division into two camps. On the one hand (and here I, too, am guilty of some simplification in expounding Gordon's views) is the camp of German philosophy, which Gordon sees as being Hegelian, anti-science, and organicist. On the other hand is the Austrian camp, which he sees as Aristotelian, pro-science, and individualist in its methodology. The members of the Historical School are placed in the former camp and

are described as having embraced a Hegelian position inimical to the development of economic science. Menger, in contrast, falls squarely in the latter camp, and is presented as having shown the way towards a genuinely scientific theory of the "principles" of economics, a theory capable of being applied at all times and to all cultures.

The simplification involved in this two-camp hypothesis can be seen already in the fact that Brentano, normally and correctly regarded as the Austrian philosopher (and as the philosophical representative of Austrian Aristotelianism) *par excellence*, was in fact born in Germany, and his Aristotelianism was decisively influenced by the thinking of the German metaphysician F. A. Trendelenburg. What is more, Hegel himself was seen by his contemporaries as having been responsible precisely for a *revival* of Aristotelianism, and Aristotelian elements are quite clearly present in the thinking of those whom he influenced (not least, as Meikle and others have shown, in that of Marx).

Interestingly, the two schools of Brentanian philosophy and of Mengerian economics were in a number of ways intertwined—to the extent that the Brentano school was dubbed the "second" Austrian school of value by analogy with the "first" school of Menger. It is difficult to establish the degree to which Brentano influenced Menger (the history of philosophy is, as Gordon himself points out, not an apodictic science), and in my own writings on this matter I have preferred to leave this question open. Gordon writes (p. 27) that Brentano revived the study of Aristotle in Austria; this, too, is a simplification: a certain institutionalized Aristotelianism had survived in Austria (a Catholic country), as it had not survived in those Protestant parts of the German-speaking world influenced by Kant and by the Kantian criticism of all "metaphysics." Both Menger and Brentano were able to flourish in Austria in part because of this Aristotelian background, but all of this makes still more urgent the question as to the precise difference between the "Aristotelianism" of Hegel, Marx, the German Historical economists, and the "Aristotelianism of the Austrians.

Both groups embraced a suspicion of mathematics. And both groups embraced a form of essentialism: they saw the world as being structured by "essences" or "natures" and they awarded a central role to the necessary laws governing these. (The propositions expressing universal connections amongst essences are called by Menger "exact laws." It is such laws which constitute a scientific theory in the strict sense, as Menger sees it. The general laws of essence of which such a theory would consist are moreover subject to no exceptions. In this respect they are comparable to the laws of geometry or mechanics,

and contrasted with mere statements of fact and with inductive hypotheses.)

Both groups held that we can know *what the world is like* in virtue of its conformity to laws, so that the laws are in some sense intelligible, a matter of what is accessible to reason. And both held further that general essences do not exist in isolation from what is individual. Thus they each embraced a variety of immanent realism: they were interested in essences and laws as these are manifested in *this* world, and not in any separate realm of incorporeal Ideal Forms of the sort which would absorb the attentions of philosophers of a Platonistic bent.

Both groups would thus stand opposed to the positivism which has been dominant in philosophical circles for the bulk of the present century and serves as the unquestioned background of almost all contemporary theorizing among scientists themselves. For positivists the world consists of elements that are associated together in accidental and unintelligible ways; all intelligible structures and all necessities are the result of thought-constructions introduced by man, and the necessities involved can accordingly be exposed without remainder as matters of logic and definition. The positivist sees only one sort of structure *in re*, the structure of accidental association. The two groups of Aristotelians, in contrast, see also non-trivial yet intelligible and law-governed worldly structures, of a sort that one can understand. Hence where the positivist sees only one sort of change—accidental change (for example of the sort which occurs when a horse is run over by a truck)—the Aristotelian sees in addition intelligible or law-governed change, as, for example, when a foal grows up into a horse (or when a state-managed currency begins to lose its value in relation to other goods). The presence of intelligible change implies, moreover, that there is no "problem of induction" for either group of Aristotelians. When we understand a phenomenon as the instance of a given species, then this understanding relates also to the characteristic patterns of growth and evolution of the phenomenon in the future and to its characteristic modes of interaction with other phenomena.

In what respects, then, do the German and Austrian Aristotelians differ? First, we mention one minor point (which plays too central a role in Gordon's exposition): the two groups differ in their respective estimations of the role and potentialities of scientific theory, and offer different accounts of the relations between history and philosophy, and also between both of these and "exact" and empirical science. Yet these differences are a matter of emphasis only. Thus Marx himself embraces the assumption that science is able to penetrate through

the ideological obfuscations by which the commonsensical mind (as he conceives things) is of necessity affected. Other German philosophers saw philosophy itself as a science, indeed as a rigorous science in something like the Mengerian sense.

The first major difference between the two groups concerns the account they give of the degree to which the laws of a science such as economics are *strictly universal*. For Menger and Brentano (as for Aristotle before them) strict universality is the necessary presupposition of any scientific theory in the genuine science. Such universality is however denied by Marx, for whom laws are in every case specific to *a given social organism*.<sup>1</sup>

The second such difference concerns the issue of methodological *individualism*—a feature which is of course characteristic of Menger and his school. Note, however, that Menger was opposed not only to the holism or collectivism of the sort that was propounded by (among others) Marx, but also, at the opposite extreme, to atomistic doctrines of social organization. For methodological individualism deals with individuals not as isolated, independent atoms, but as nodes in different sorts of complex cross-leaved relational systems. Society and its institutions (including the market) are not merely additive structures; they share some of the qualities of organisms. The behavior of such structures is, for the methodological individualist, to be understood in the last analysis entirely in terms of complex systems of desires, reasons, and motivations on the parts of individuals; but the institutional structures themselves are for all that real, and the desires, reasons, and motivations—and thus also the actions—of the constituent members of such structures exist and have the texture and content that they have only in virtue of the existence of the given institutional surroundings. We may recall, in this connection, Aristotle's view of the city-state as an organic entity: these and other organicist elements in Aristotle's thinking were, I want to suggest, taken over by Menger, too, though mediated through the latter's theory of the essential laws governing the world of economic and other social phenomena. Economics is methodologically individualist when its laws are seen as being made true in their entirety by patterns of mental acts and actions of individual subjects, but economic phenomena are then grasped by the theorist precisely as the results or outcomes of *combinations and interactions* of the thoughts and actions of individuals.

<sup>1</sup>Cf. S. Meikle (1985), p. 6, n. 4.

The third major difference turns on the fact that, from the perspective of Menger, the theory of value is to be built up exclusively on "subjective" foundations, which is to say exclusively on the basis of the corresponding mental acts and states of human subjects. Thus value for Menger—in stark contrast to Marx—is to be accounted for exclusively in terms of the satisfaction of human needs and wants. Economic value, in particular, is seen as being derivative of the valuing acts of ultimate consumers, and Menger's thinking might most adequately be encapsulated as the attempt to defend the possibility of an economics which would be at one and the same time both theoretical (dealing in universal principles) and subjectivist in the given sense. Among the different representatives of the philosophical school of value theory in Austria (Brentano, Meinong, Ehrenfels, etc.) subjectivism as here defined takes different forms.<sup>2</sup> All of them share with Menger however the view that value exists only in the nexus of human valuing acts.

Finally, the two groups differ in relation to the question of the existence of (graspable) laws of historical development. Where Marx, in true Aristotelian spirit, sought to establish the "laws of the phenomena," he awarded principal importance to the task of establishing *laws of development*, which is to say, laws governing the transition from one "form" or "stage" of society to another. He *treats the social movement as a process of natural history governed by laws*,<sup>3</sup> and he sees the social theorist as having the capacity to grasp such laws and therefore also in principle to sanction large-scale interferences in the social organism which is the state. Marx himself thereby saw social science as issuing in highly macroscopic laws, for example to the effect that history must pass through certain well-defined "stages." The Aristotelianism of the Austrians is in this respect more modest: it sees the exact method as being restricted to essences and to simple and rationally intelligible essential connections only, in ways which set severe limits on the capacity of theoretical social science to make predictions. It is in this connection that the methodological individualism of the Austrians has been criticized by Marxists as a form of atomism, though such criticisms assume too readily that methodological individualism trades in mere "sums."

What, now, of the German historical economists? As already noted, Aristotelian doctrines played a role also in German economic

<sup>2</sup>See, on this, the papers collected in Grassl and Smith, eds. (1986).

<sup>3</sup>Passage cited by Marx himself in the "Afterword" to the second German edition of volume 1 of *Capital* and adopted as a motto to Meikle 1985.

science, not least as a result of the influence of Hegel. Thus for example, Roscher, as Streissler has shown, developed a subjective theory of value along lines very similar to those later taken up by Menger. Such subjectivism was accepted also by Knies. Moreover, Knies and Schmoller agreed with the Austrians in denying the existence of laws of historical development. In all of these respects, therefore, the gulf between Menger and the German historicists is much less than has normally been suggested. The German historicists are still crucially distinguished from the Austrians, however, in remaining wedded to an inductivistic methodology, regarding history as providing a basis of fact from out of which mere empirical generalizations could be extracted. (Schmoller, especially, attacked the idea of universal laws or principles of economics.) For an Aristotelian such as Menger, in contrast, sheer enumerative induction can never yield that sort of knowledge of exact law which constitutes a scientific theory. For this, reason and insight are indispensable to the science of economics as the Austrian conceives it; and (as Mises has stressed) a knowledge of the science of human action is in fact an indispensable presupposition of that sort of fact-gathering which is the task of the historian.

### References

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- Streissler, Erich. 1990. "The Influence of German Economics in the Work of Menger and Marshall." In *Carl Menger and His Economic Legacy*, Bruce Caldwell, ed. Durham, N. C. and London: Duke University Press.

## Second Thoughts On *The Philosophical Origins of Austrian Economics.*

David Gordon

Professor Barry Smith's characteristically erudite remarks about my pamphlet provide me with a welcome opportunity to offer some additions and corrections. I have no major disagreement with Smith's comments, but he has at one place ascribed to me a much more ambitious thesis than I intended.

He thinks I wish to divide "nineteenth-century philosophical thinking in the German-speaking world" (p. 125)<sup>1</sup> into two camps: German, which I see as "Hegelian, anti-science, and organicist" and Austrian, which in contrast is "Aristotelian, pro-science and individualist" (p. 125-26). Against this view, Smith maintains that Hegel, Marx, and the German Historical School display marked affinities with the Austrians: both groups, in particular, count as Aristotelian.

I meant to advance a much more limited conjecture than this: Hegel's stress upon organic unity may have influenced the aversion toward a universal science of economics found among Schmoller, Sombart and other members of the German Historical School. I also had a little to say about Hegel's politics, but I did not intend a full characterization of Hegel's philosophy, much less nineteenth-century German and Austrian philosophy as a whole.

Smith's emphasis on the Aristotelian elements in Hegel seems to me entirely well taken and supported by longstanding scholarly opinion. As an example, one outstanding British authority on Hegel, G. R. G. Mure, in his *Introduction to Hegel* (Clarendon Press: Oxford, 1940) devotes his first few chapters entirely to Aristotle before so much as mentioning Hegel. But I venture to suggest that

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<sup>1</sup>All references to *The Philosophical Origins of Austrian Economics* (Auburn, Ala.: Ludwig von Mises Institute, 1993) and to Barry Smith's review, which appears in this volume, are by page number in parenthesis in the text.

the similarities between Aristotle and Hegel leave my suggestion untouched. For Hegel, "the Truth is the Whole" in a way that inhibits the elaboration of separate sciences. Like Aristotle, Hegel favored teleological explanation; but if, as Hegel thought, everything is organically related to everything else, how can one develop a distinct discipline of economics with universal laws?

Or so at least it seemed to me in 1988, when I gave the lecture on which the pamphlet is based. I did not then know that an important study had challenged the view of Hegel's doctrine of internal relations which I presented. R. P. Horstmann, in *Ontologie und Relationen* (Koenigstein: Atheneum, 1984) argues strongly that Hegel did not support a doctrine of internal relations in the style of the British Idealists. Further, Robert B. Pippin, in *Hegel's Idealism* (Cambridge: Cambridge University Press, 1989), sees Hegel as a "conceptual holist" rather than the advocate of a metaphysical thesis.

But it is exactly here that Hegel's philosophy poses a problem for a science of economics. If one believes that our categories generate contradictions that can only be resolved by resort to a "higher" standpoint, and that this overcoming or "sublation" is continually repeated, will it not be difficult to construct independent scientific disciplines? Even, then, if my statements about internal relation in Hegel need to be changed, my suggestion is still in the running.

To turn to a few details, Smith with complete justice notes that my picture of the German Historical School ignores the views of the earlier Historical School (his term, "simplifications" is much too kind). My remarks on the group should be taken as limited to the later Historical School, as I note at page 43 of the pamphlet. When I gave the lecture, I did not know the material on the earlier group to which Smith refers.

Smith notes that Brentano was "decisively influenced by the thinking of the German metaphysician, F. A. Trendelenburg" (p. 126). Certainly, this makes it difficult to assert a complete polarity between German and Austrian philosophy; but, once more, this is not my thesis. I do not think that Trendelenburg's influence can be used to show a similarity between Hegel and Brentano, since Trendelenburg, far from being a Hegelian, sharply criticized Hegel's *Logic*. But Smith does not use Trendelenburg for this purpose.

I think it doubtful that the "presence of intelligible change implies . . . that there is no problem of induction for either group of Aristotelians" (p. 127). It is of course right that if one grasps a law-governed change, one is not restricted to induction by simple enumeration. But does this solve the problem of induction? Does it logically

follow from the existence of an intelligible change at a particular time that the law will continue to hold in the future? Or are these doubts merely an undue Humean skepticism? (I am not sure whether Smith intends only to give the view of the Aristotelians or also to endorse it.)

Smith's review has a fundamental failing I have so far ignored: he is entirely too easy on me. Before I turn from Smith to my own corrections, however, may I say that I hope the rumor is true that Smith has forthcoming a book on the philosophy of the Austrian School. He is one of the world's foremost authorities on nineteenth and twentieth century Austrian philosophy.

And now for my "second thoughts." At page 7, it would be better to say that Sombart knew Mises rather than that the two economists were friends.<sup>2</sup> At pages 10–11 I describe the doctrine of internal relations in a grossly mistaken way. A supporter of internal relations thinks that any property of an entity is essential to it. But it does not follow from this that any change in a property will affect every other *property* of an entity. Someone might hold that internal relations connect only properties and substances, not properties by themselves. (A more exigent version of the doctrine *would* hold that every property is internally related to every other property of the substance it modifies. A still more demanding version would hold every property is internally related to every other property of *any* substance). And the first sentence on p. 10 should read: "the person who has met the President is an *essentially* different person from the one who has not."

At p. 27, when I claim that for Aristotle "[e]mpirical science exists as a placeholder for true science, which must work through deduction," this wrongly suggests that a deductive science for Aristotle is non-empirical. "Empirical" must be understood in the sense of "mere empirical hypotheses" of the preceding paragraph. For Aristotle, the evident principles of a deductive science come from observation of the world.

Much more serious is the confused discussion of self-evident axioms on pp. 27–28. The regress argument of the *Nicomachean Ethics* is used to establish the existence of a highest end. I should have explicitly stated that the regress argument that I discuss is a generalization of the argument of the *Ethics*, not given there in the form in which I present it. An objection to my discussion which I overlooked is this: I claim that a science can have several basic axioms: justification need not proceed from a *single* self-evident

<sup>2</sup>I am grateful to Ralph Raico for this point.

axiom. But if there are several axioms, can't they be combined into a single axiom through conjunction? I ought to have specified that the argument is restricted to axioms that are not logical parts of other axioms. Further, it is not clear that the discussion is needed: has anyone claimed that a science is derived from a single axiom? Perhaps Mises hints at it; but even he allows subsidiary postulates.<sup>3</sup>

The discussion of the verification principle at p. 36 is seriously mistaken, and I am greatly indebted to Matthew Hoffman for pointing this out to me. First, I ought to have made clearer that I make two assumptions *not* part of the verification principle, on which my argument depends: if a statement is verifiable, its negation is verifiable; and any logical consequence of a verifiable proposition is verifiable. The argument then proceeds as follows: "From p, we derive (p or q). But suppose that p is false—then we have:

$$\begin{array}{l} p \text{ or } q \\ \text{not-}p \\ \hline \therefore q \end{array}$$

By hypothesis, p is verifiable; then (p or q) and (not-p) are verifiable, by our assumptions. Then q is verifiable, since it is a logical consequence of verifiable propositions." This should be substituted for the erroneous argument at p. 36.

<sup>3</sup>I am grateful to Murray Rothbard for this objection.

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