Nicolaas G. Pierson and Socialism
by
Johannes Overbeek
University of the Virgin Islands
Pierson’s work “is the first important contribution to the modern discussion of the economic aspects of Socialism.” —F. A. Hayek

Life and Work

Nicolaas Gerard Pierson, born in Amsterdam in 1839, was the foremost Dutch economist of the 19th century. During his primary and secondary school years he attended both French and English speaking schools. Pierson never attended any formal university or earned any formal degrees, preferring rather the discipline of self-study. Following this desire for self-study he visited England and then the United States in order to learn more first hand about the cotton trade and the banking crisis that was taking place in Louisiana. His analysis of the 1857 banking crisis was later published (in Dutch) under the title of Trade and Banking in Louisiana. Pierson was married in 1862 at the age of 23 and spent the next several years working in the cotton industry, banking and from 1864-1868 teaching economics to high school students; all the while constantly writing and researching areas of intense personal interest.

In 1868 the president of the Dutch Central Bank wanted to appoint the young Pierson to a management position. This appointment met with objections from some members who thought that Pierson was too young and too radical. In some of his earlier writings, Pierson had been critical of the Dutch government’s “exploitation of the soil” policy in the Indonesian colony; emphasizing instead of “exploitation” the economic and social merits of private landownership and the need for personal initiative in colonial agriculture. Despite these objections he was appointed by a large majority. This appointment stood for 19 years, until 1885 when he was elected as a president of the Dutch Central Bank (1885-1891).

Between 1891 and 1894 Pierson was the Minister of Finance in the newly formed government. This office gave him the opportunity to realize his ambition of making the Dutch tax code fairer and simpler. Many of the antiquated indirect taxes, such as the salt tax and the soap tax, were eliminated and replaced by a modest tax on the income from property and corporate tax. His main purpose was not to increase state revenues but to disperse the burden of taxation.

In 1898 Pierson was elected Prime Minister of the Netherlands (1898-1901), this office was in addition to being the Minister of Finance. Pierson’s emphasis widened and now included social legislation. New laws regarding elementary education, child labor, housing and health were adopted. Pierson’s principal aim was to alleviate some of the evils associated with industrialization and urbanization. (Between 1905 and 1909 he was an elected member of the Dutch House of Commons.)

In 1875 he was awarded an honorary doctoral degree by the University of Leiden, and this made him a recognized part of the academic establishment. Between the years 1877 and 1885 he taught economics at the University of Amsterdam. Both of these honors were bestowed despite the fact he never attended any university. In 1889 he published his two-volume treatise, Principles of Economics.
In 1904 Cambridge University awarded him his second doctoral degree (honoris causa). During this same period the prestigious American Economic Association also made him an honorary member. Pierson died in 1909 at the age of 70.

Pierson defined economics as the "science of exchange" and was one of the very first Dutch economists to embrace marginalism. In his textbook Principles of Economics, Pierson tried to reconcile marginalism with the teachings of the classics. Pierson's five main areas of focus were: methodology, taxation, the international monetary system, socialism and social issues.

At the age 22, Pierson presented a paper on "The Logic of Economics" to a group of economists in Amsterdam where he defended the deductive method. Throughout his life he would remain faithful to this approach although he recognized that factual evidence had to be systematically examined. In fact, as a prime minister he helped set up the Dutch "Central Bureau of Statistics" (1899) still the main fact-gathering agency.

Pierson rejected the "exclusive" use (but not the use itself) of the inductive method as advocated by the German Historical School. He criticized their fondness for the omnipotent state, their protectionist preferences and their cloudy thinking. He believed that a mere jumble of facts without theory was useless. Partially due to Pierson's criticism, the German Historical School never quite made headway in Dutch economics. It was because of Pierson's influence and his criticism of the German Historical School that encouraged the adoption of the ideas of the Austrian School in the Netherlands.

During his entire life-time Pierson defended the idea of a simple and equitable tax code and as Minister of Finance he implemented some of his ideas. He was, in his treatise, one of the first economists to present a comprehensive treatment of the incidence of taxation. During these years he wrote many essays on the silver and gold standards; first defending bimetallism only to abandon it later.

In his treatise, written in the latter part of the 19th century, Pierson rejected the notion that the free market economy promoted injustice and poverty. He observed that no matter what test was applied, the average worker in Europe enjoyed a higher standard of living than ever before. Although he sympathized with some of the concerns of socialists, he took the view that their policy proposals were usually confused and failed to address the key problem: how best to use limited resources to meet the endless wants of individuals and societies.

Pierson was also preoccupied with social issues, such as: rapid population growth, unemployment, distressing housing conditions etc. As he saw it, both private initiative and government had a role to play in coping with these problems. Yet government "involvement", which he did not oppose on principle, should not be allowed to interfere with the production of goods and services.

Pierson, throughout his active career, continuously confronted burning issues and this brought him praise worthy recognition from foreign economists. Carl Menger stated that Pierson's work was important and that because of him, German speaking economists were interested in Dutch economic literature. In 1909, when Pierson was severely ill, Alfred Marshall wrote him a letter in which he said that the world would class him with Adam Smith, the thinker, the patriot and the cosmopolitan, and with Turgot the statesman-economist.

Socialism

In a short article written in 1904, Pierson explained the basic difference between socialists and non-socialists. Socialists, he said, believe that poverty and hardship will disappear if only people will; they see indigence as a consequence of the way society is organized. Change the social organization and destituation will go away. The non-socialists, however, believe that poverty is due to more fundamental causes, such as: rapid population growth or slow capital formation. They do not believe in the reforms socialists propose because such revisions only amplify those basic determinants of destitution.

In his textbook Pierson notices with some surprise the apparent drift of opinion towards socialism in the 1870s, the very moment that living standards are higher than ever before. Socialist criticism, he observed, is usually not directed against some particular aspect of the free enterprise order but against the very foundations of the system itself. At the same time, very few if any, concrete and realistic counter proposals have come forth to replace the market economy. This is especially true of the supporters of the "socialism of hope" or "poetical socialism." Adherents to this kind of socialism believe that the future moral standards will improve considerably and that a radically different-socialist-economic system is therefore bound to emerge. Pierson replies that the two propositions were not necessarily related. It was because people link them without further thought that the socialism of hope arises. Thus it is vaguely felt that the present social order cannot endure and that somehow a "higher" level of social organization will take its place. This new society must be socialist. If, however, one asks how could the new order solve certain concrete problems one is left without an answer.

The more radical socialist writings often consist of condemnations and criticism. Frequently, feelings of hostility are obviously the true foundation of all this faultfinding. Moreover, says Pierson, there is little evidence of genuine scientific thinking in the socialist writings. Works by such authors as Ferdinand Lassalle, Henry George and Karl Marx are full of blunders and errors. "Let us not look for science among these men" notes Pierson, "but rather for expression of feeling which the predominant tone varying with the speaker is either that of enthusiasm for a dimly conceived ideal or of compassion for the lower classes; or that of intense hatred of existing conditions."
Socialist writers, such as Ferdinand Lassalle (1825-1864), advocated the establishment of publicly financed workers cooperatives operating their own means of production. It is argued that this would eliminate the exploitation inherent in the capitalist wage system once and for all. Pierson retorts that this is simply not the case. Competition among cooperatives would still prevail. Some associations would do better than others, while some would not prosper at all and would end up by being dissolved. Moreover, a member of the cooperative who has two sons would not permit a father with ten male descendants to introduce all of them into the association on terms of parity and equal profit sharing. As a result, a growing body of non-members would be formed and these individuals would consider themselves lucky if they could simply be employed (by the association) as wage earners. Thus we return to the wage system so much despised by the socialists. Within the cooperatives, a new class of leaders—hardly distinguishable from the old employers—would probably emerge.

Another important socialist proposal consists in the nationalization of the means of production. If the state intends to nationalize the nation's productive resources it would have to choose between a quick seizure or a gradual one. A rapid take-over seemed improbable to Pierson because the state would not know how to operate such firms and would first have to learn. But a gradual nationalization, supposedly accompanied by some measure of compensation, would lead to the following undesirable results. Resource owners, seeing the day of confiscation come nearer, would stop saving and start neglecting their property. Thus, whatever the state finally confiscated would probably be impaired if not in a state of advanced dilapidation. The smaller the indemnity, the greater the neglect of property would be. No matter what promises state officials could make, some people would have their doubts about the state's willingness and ultimate capacity to fulfill its financial obligations.

Socialism also pretends to be capable of reducing economic inequality substantially. Would it be possible, asked Pierson? The Dutch economist stressed the point that when the means of production was collectivized the former owners would be compensated; there would still be a property class but this time the wealth would consist of government bonds. Second, bitter experience would teach socialist governments that saving and capital formation must be encouraged in all types of economic systems, especially if population keeps growing. In order to generate such savings, government banks would be obliged to pay substantial interest rates on savings deposits while the institution of inheritance, which is known to enhance saving, would have to be maintained. Therefore, Pierson concluded, economic inequality would survive. Moreover, as interest rates would probably vary over time, the market value of government bonds would fluctuate as well and speculation, so much loathed by socialists, would still prevail.

There are also some positive aspects of socialism according to Pierson. By eliminating competition and organizing production in fewer units, some resources would be liberated and reallocated. Total production would then increase. Moreover, entrepreneurial profits would cease to exist because they were a reward for risks which no longer exist in the socialist community. Profits could be redistributed to the rest of the population. The burden of misallocation of resources and overproduction, in particular branches of industry, would be spread more evenly as the government compensated the unemployed with funds taken from those lucky enough to keep their jobs. Finally, in a socialist society, the economically weak and vulnerable would be better cared for than in a more laissez-faire economy.*

These advantages, Pierson noted, would be outstripped by some severe drawbacks. Economic progress—without competition—would be much slower than in a free enterprise society. The bureaucratic world of socialism consists of the controllers and the controlled; an environment where individual initiative would be stifled as it always is in bureaucratic organizations.

In order to foster creativeness, a considerable amount of freedom of action could be left to the managers of government enterprises. Partaking in the firm's profit might also be permitted; however, to avoid abuse of freedom, managers would have to share in the losses, too. This situation would probably lead to a "safety first" policy resulting in little or no inventiveness in the final product. In addition, after a relatively short period of socialism it would become increasingly more difficult to find anyone from the old entrepreneurial class who once had managed their own firm. Thus all enterprises would be conducted by bureaucrats and government officials and it is well known that government offices are not fertile grounds for creative ideas.

Another problem socialism would have to face is that of capital formation. In a free enterprise society large profits and high rents are usually invested and thus converted into productive equipment. This capital formation makes large scale production, low prices and rising wages possible. Even if a socialist state rewarded savings, profits and rents as sources of capital formation would disappear and it would, according to Pierson, remain to be seen whether individual savings would permit the steady increase in living standards witnessed in market economies. In order to speed up capital formation socialist governments might find themselves obliged to set a wide margin between wages paid and the prices of products posted in government stores. In other words, socialist governments would pay workers wages which are less than the value of their product, which amounts to the very essence of "capitalist exploitation" in socialist criticism. Finally, (here Pierson is a predecessor of Lionel Robbins) patterns of international trade and finance would degenerate into international rivalry.5
Academic Socialism

Before we enter into Pierson's views on "academic" or state socialism a few words of introduction are in order. Between 1843 and 1883, the so-called "Historical School" was the most influential circle of economic thought in Germany. This school assigned overwhelming importance to historical studies in the examination of economic processes while neglecting the deductive method. Analytical economic theory was virtually ignored in Germany between 1870 and the early 1920s, so that most German economists were unable to understand the great inflation of the 1920s and the depression of the 1930s. This influence was due to Gustav Schmoller (1838-1917) and other members of the later period of the Historical School.

The older "Historical School" had been influenced by the so-called "Romantic Movement" and characterized by strong anti-individualistic intellectual tendencies. Thus, the Historical School had accustomed men's minds to the idea that the analytical apparatus of classical economists was of minor importance. They also prepared people for state intervention in the economy.

During the latter part of the nineteenth century there arose in Germany a reformist movement known as "Socialism of the Chair," "State Socialism" or "Academic Socialism" (Katheder-sozialismus) because of the large number of university professors supporting its views. One reason for this new interest was Gustav Schmoller, a member of the Historical School. Schmoller was an academic socialist and an all-powerful figure in the social sciences in Germany, and had become so influential that for decades hardly any chair of economics was filled without his approval. His endorsement of a candidate required commitment to his approach to economics; German adherents of the Austrian marginalist school were systematically excluded from university positions.

Academic socialists supported the following agenda which was characterized by a far reaching extension of government action: (1) redistribution of income through a progressive income tax and inheritance taxes; (2) encouragement of trade unions and workers' cooperatives; (3) extension of social insurance programs and minimum wage legislation; (4) extension of public ownership of industry; and (5) protective tariffs.

In the last decades of the nineteenth century a number of university professorships in the United States were filled by young scholars who had studied economics in Germany and had come under the influence both of the Historical School and State Socialism. The American version of the Historical School came to be known as "Institutional Economics." Actually many of the founders of the American Economic Association, such as historicist Richard T. Ely, were familiar with and sympathetic to this historical approach.

Pierson emphasized that the scientific quality of the publications by the "socialists of the academic chair" left much to be desired. Some works merely justified the ideas of earlier schools of thought. Others attempted to discredit scientific economics in order to facilitate vindication of prejudices and erroneous policies being advocated by representatives of the working class. Pierson added, that such writings always end up glorifying the laboring class. Comprehensive criticism of State Socialism could, according to Pierson, be summarized in six points:

1) State Socialists return to an old-fashioned simple-minded distinction which divides economists into two categories, those who live in darkness—those who adhere to the teachings of the classical school—and economists who have been "enlightened" by prophets of the Historical School and Academic Socialism. These socialists of the chair, says Pierson, completely ignore the evolution of classical economic theory as witnessed in the writings of such authors as John Stuart Mill, John E. Cairnes and even Johann H. von Thunen. They merely confront simplified versions of the ideas of classics such as Adam Smith, David Ricardo and Thomas Malthus which are supposedly "outdated" compared with those of the "modern" writers like Schmoller and Wagner. They keep arguing that science should be on the move. Pierson retorts that this is a fine idea as long as science moves forwards. Judging from the writings of the academic socialists, which are full of the most elementary errors, economic science seems to be moving backwards. Examples of basic mistakes quoted by Pierson are: a) low wages only exist because collective bargaining is lacking; b) when two countries exchange goods and services one of them can increase its demand and/or supply without causing a change in the terms of trade; c) David Ricardo was the only source of Karl Marx's ideas.

2) Pierson admits that the existing body of economic theory has sometimes been used to rationalize and defend the existing status quo as some academic socialists claim. However, some of these armchair socialists go to the other extreme and employ economic concepts to rationalize and to justify their own prejudices; one being that trade union activity always benefits the factory workers. Another one consists of claiming that the economic conditions of the working class can easily be improved by more state intervention. Such assertions show that among academic socialists independent scientific research has ceased to exist. According to Pierson such writing merely demonstrates the misuse and even the "prostitution" of science. These state socialists do not help the working class, but merely raise unrealistic expectations which cannot be fulfilled and end in frustration and unhappiness. Pierson cites other examples of wrong ideas, such as the claim that the middle classes are disappearing, the notion that social mobility is becoming increasingly difficult for factory workers. These are intentional distortions of fact.

3) The socialists of the chair equate the economic laws of the classicals with physical laws which cannot be altered or influenced. But as the academic socialists say, "man" has a free will and has the ability to modify his environment. Therefore, he is not subject to economic laws. Pierson insists that this distinction is misleading. Physical laws, he says, describe natural phenomena, "man" does not participate in the outcome. With economic laws one economic magnitude (continued on page 8)
Hermeneutical Integrity

by

Jonathan Barnes

Balliol College, Oxford University

Review of Gadamer’s Philosophical Apprenticeships and
The Idea of the Good in Platonico-Aristotelian Philosophy

Hans-Georg Gadamer ranks as one of Germany’s foremost philosophers. He occupied a chair at Heidelberg for a quarter of a century, during which time his lecturing skills and steady flow of publications brought him a reputation and a following second to none. Since his retirement he has divided his time between Germany and North America. Many of his writings have been translated, and the English version of his major work on Truth and Method has helped to extend his fame. His thought now enjoys a considerable vogue in the English-speaking world.

Gadamer was born in Breslau at the turn of the century. His father was a chemist and a philistine who despised the more speculative disciplines. But it was his father’s paperback copy of Kant’s Critique which first introduced the young Gadamer to philosophy, and in 1919 he went to study the subject at Marburg, the centre of the dominant neo-Kantian school. He was taught by Paul Natorp and Nicolai Hartmann. In addition, Stefan George had a hidden importance, Max Scheler was a strong influence, and Paul Friedländer later supplied a training in Classical scholarship. But the mystagogue of Gadamer’s philosophical initiation was Martin Heidegger. He first met Heidegger in 1923 and was captivated. Heidegger’s seal—to change the metaphor—was pressed deeply and firmly into the soft wax of Gadamer’s mind.

Philosophical Apprenticeships, a book of memoirs interspersed with brief biographical sketches, gives vivid and amiable accounts of those early years and early influences. There are humorous touches. Scheler “was always a lover of beautiful women (but only three times married).” Gerhard Krueger “could say the most amazing things to your face while simultaneously and carefully probing himself.” Rudolf Bultmann made scholarly compilations of the jokes his pupils were required to tell him. Heidegger himself was at least once involved in a joke—a joke about hermings which remains, alas, as incomprehensible as the rest of Heidegger’s jovial philosophy.

Intellectually, life was intensely stimulating. It was also exacting—the more so in that Heidegger would lecture at seven in the morning, while Hartmann never rose before midday and only flourished after midnight. Moreover, the circumstances of young Privatdozenten were severe: a meagre salary had to be eked out by tuition money, and tuition money depended wholly on the skill of the tutor in attracting pupils. In any case, the Weimar years in Germany were economically grim.

The Third Reich brought a turn for the better. Although “our circle thinned and our situation became difficult,” Gadamer and his friends were determined to survive. “It remained difficult to keep the right balance, not to compromise oneself so far that one would be dismissed and yet still to remain recognisable to colleagues and students. That we somehow found the right balance was confirmed for us one day when it was said of us that we had only ‘loose sympathy’ with the new awakening.” This “loose sympathy” with the Nazi regime amounted, in concrete terms, to this: Gadamer declined to “spout Nazi nonsense from the podium,” but he was prepared to give the Hitler salute.

A long-standing friend of Gadamer’s, Richard Kroner, taught philosophy at Kiel. In 1934, Gadamer reports, “fate intervened to throw Kroner off track”: that is to say, Kroner was sacked because he was a Jew. Gadamer took his job.

Despite this little success, further balancing acts were still required, and in 1936 Gadamer voluntarily registered at a Nazi “rehabilitation camp.” Doctrinally, life in the camp was mild and undemanding, and Gadamer satisfied his examiners without difficulty. He was also able to join in the “gymnastics, competitive games, and marches with nationalistic singing,” which enriched the emotional life of the inmates. During his training, he was fortunate enough to catch a glimpse of the Fuehrer himself, who impressed him “as being simple, indeed awkward, like a boy playing the soldier.”

The rehabilitation paid off. In 1937 Gadamer attained the rank of professor. In 1938 he was called to a chair in philosophy at the University of Leipzig. “The new beginning in Leipzig” happily “pushed the gloominess of the world situation into the background,” and Gadamer could concentrate on his philosophy. The war came. The gloom thickened. Leipzig was bombed to rubble. Gadamer lectured on. He survived. And when the Americans occupied Leipzig in 1945 they made Gadamer what in another context would be called a trusty. He was, after all, “uncompromised” (the description is his own), and he came to play a major role in the post-war reorganisation of the university.

But Leipzig was in the Eastern zone, and in the autumn of the year the Russians took over from the Americans. Plus ça change. Gadamer soon discovered that he “belonged to the political ‘elite’ of the Soviet Zone.” He was appointed Rector of the university. The position was delicate. He had to be “constantly on his toes”—so much so that “it soon proved necessary to reserve to myself the opening and distribution of incoming mail.” But by his deftness and sagacity he won “the special esteem of the Russian cultural authorities”: “the Russians could at least be certain that I would carry through their directives exactly, even against my own convictions.” Nonetheless, Gadamer wanted to migrate to the West. He received an offer from Frankfurt but feared that he might not be let out: the issue of his departure “was quite possibly a prestige operation for East German
cultural politics." Eventually, in the winter of 1947, he
and his books were freighted westward, a prudent supply
of alcohol and nicotine ensuring that he had no trouble
with the railway authorities or the border guards. A year
later he was called to Heidelberg.

So much for the man, as he has portrayed himself. What of the philosophy? "Hermeneutics" is its name. It was not invented by Gadamer himself—on the contrary, Gadamer stands at the end of a long German tradition which goes back at least as far as Schleiermacher at the beginning of the 19th century. Gadamer's own version of hermeneutics is closely connected to the later thought of Heidegger. But what, precisely, is the hermeneutical tradition?

The word "hermeneutic" is a posh term meaning "to do with interpretation," while "interpretation" is a vogue term meaning everything and nothing. Appended to Philosophical Apprenticeships is an essay "On the Origins of Philosophical Hermeneutics," which allegedly gives a "succinct and comprehensive" account of Gadamer's thought. For example:

The hermeneutic task of integrating the monologic of the sciences into the communicative consciousness includes the task of exercising practical, social and political rationality.

More elaborately:

The model of practical philosophy must take the place of a theoria whose ontological legitimation may be found only in an intellectus infinitus that is unknown to an existential experience unsupported by revelation. This model must also be held out as a contrast to all those who bend human reasonableness to the methodical thinking of "anonymous" science. In opposition to the perfection of the logical selfunderstanding of science, this seems to me to be the authentic task of philosophy and is so precisely in the face of the practical meaning of science for our life and survival.

I do not myself understand much of this, and so it may be appropriate to apply here what Gadamer calls "the hermeneutical principle that understanding must be a translation into one's own language if it is to be real understanding." Here, then, is an English translation. The hermeneutical philosophy, I guess, has four chief and interconnected characteristics. It holds, first, that philosophy is essentially practical: philosophy is, or should be, primarily and intimately concerned with moral, social, and political issues; the idea of the Good is the highest object of philosophical contemplation, and practical reason is the model for philosophical method. Secondly, philosophy is essentially humanistic: it rejects the aspirations of the natural sciences, regarding their search for objective, impersonal and anonymous truth as the vain pursuit of an ignis fatuus; and it subscribes instead to anthropocentric notions of value and truth. Thirdly, philosophy is necessarily historicist: we are all determined, intellectually, by our historical circumstan-

ces and are bound by the "prejudices" of our age; as philosophers, we must start from these prejudices (we could start nowhere else), and although we may examine them, we should not suppose that we can step beyond them and reach some timeless and objective truth. Fourthly, philosophy is linguistic: the ideas it advances and the prejudices it examines are inseparable from their linguistic form—thought and language are one, and all understanding is linguistic understanding.

The hermeneutic programme thus appears to demand a scholarly approach to philosophical questions: hermeneutics is interpretation, and, in particular, interpretation of the philosophical texts of the past. All this will remind English philosophers of the ideas of R. G. Collingwood, who believed that philosophy was a branch of history—the history of the prejudices and presuppositions of the human mind. It will remind Classicists of Seneca's sarcastic quip: ".lua philosophia fuit facta philosophia est. And Gadamer's own practice appears to fit this picture: most of his early writings were, in fact, of a scholarly and exegetical nature—they were mostly concerned with elucidating aspects of thought of Plato and Aristotle. And Gadamer's own conception of practical philosophy derives from Aristotle, while of Plato he says that "insofar as they are my constant companions, I have been formed more by the Platonic dialogues than by the great thinkers of German Idealism."

Many philosophers will be unhappy with this state of affairs: can they, or should they, really do no more than interpret the past and examine the standing prejudices? Is there no room for pure thought or for free speculation? Indeed, is there not a whiff of self-contradictoriness in the notion that philosophy is merely the study of its own history? Students of the history of ancient philosophy may add a further complaint; for the scholarly studies of Gadamer and his disciples have received only sporadic acclaim outside the hermeneutical school itself. Gadamer's reflections on The Idea of the Good in Platonic-Aristotelian Philosophy seem—to me at least—flat and unprofitable. As an essay in interpretation the book says little, and it says it at length.

Yet in a sense these doubts are misconceived: for Gadamer does not in truth stand in the tradition of philological philosophy. He is not an historian of thought, and he is not an exegete. In what may be seen as a criticism of the Anglo-American approach to ancient philosophy, he writes:

One can win a certain clarity by analysing the argumentation of a Platonic dialogue with logical means, showing up incoherence, filling in jumps in logic, unmasking false conclusions, and so forth. But is this the way to read Plato, to make his questions' one's own? Can one learn from him in this way, or does one simply confirm one's own superiority? What holds for Plato hold mutatis mutandis for all philosophy.
The answer to Gadamer's two questions are plainly these: "Yes, this is indeed (part of) the way to read Plato—if your aim in reading him is understand what he meant," and "Yes, you can learn from him in this way—at any rate, you can learn about him." Gadamer will find these answers unsatisfactory—because he himself has no wish to learn about Plato.

And in fact, according to Gadamer, "philosophy has no history." Philosophy is in some fashion textually-based and interpretative: but it is not, in any straightforward sense, exegesis or history. What, then, can it be? In Gadamer's view, the "peculiar character of historical scholarship" is found in the fact that "the cognition of its object entails and presupposes as an ultimate hermeneutical principle a recognition of the self." The principle was learnt from Heidegger. "In Heidegger's lectures we were often so personally touched that we no longer knew whether he was speaking of his own concern or of that of Aristotle. It is a great hermeneutic truth that we then began to experience personally and that I was later to justify in theory and to represent." The hermeneutical approach to philosophical texts is thus wholly egocentric: we read Plato in order to "learn from him," in order to "make his questions our own," when we talk nominally about Aristotle we are really talking about ourselves. We do not particularly wish to learn about Plato. We are not interested in the fact that Aristotle's concerns were utterly different from our own.

This "recognition of the self" is not, pace Gadamer, a feature of historical scholarship: it is a feature of unhistorical anti-scholarship. Hermeneutics is not, despite its claims, a historical science. Nor, despite its name, is it an interpretative science. Interpreters look at the sparkling surface of Plato's text in the hope of gauging the depth and the movement of the waters beneath. The hermeneutical philosopher looks at the surface in order to contemplate the reflection of his own more lovely features. Perhaps this explains why Gadamer's portraits of Plato and Aristotle sometimes look a little Germanic.

There is nothing in the least wrong or disreputable about his way of doing philosophy. Philosophers are at liberty to hobble along on whatever crutches they can find. Some sit and think by themselves, some read novels, some read Scientific American—and many read the works of their own dead predecessors. If a quick flick through Aristotle inspires a thinker to new thoughts, that is nothing but good: what matters is the content of the inspiration, not its source. And if treating Aristotle in this way be deemed a sort of exploitation, then let him be exploited. But you may not call it scholarship, and you may not call it history, and you may not call it interpretation.

Nor is it peculiar to the hermeneutic men that they seek inspiration in this way. What, then, are the characteristic features of the hermeneutical philosophy? Its enemies will wade in with adjectives like "empty," "vapid," "dreamy," "woolly," "rhetorical." Gadamer himself tells an uncharacteristic story. At the end of a seminar on Cajetan, Heidegger once startled his devoted audience by posing the question: "What is being?" "We sat there staring and shaking our heads over the absurdity of the question." Quite right too, say the enemies of hermeneutics: the question is perfectly absurd. But Gadamer has only a frail sense of the absurd, and his own reader ought to react as he once—but alas, only once—reacted to Heidegger.

Gadamer is prepared to admit that his thought has sometimes been less than pellucid: "Certainly I sometimes spoke over [my pupils] heads and put too many complications into my train of thought. Even earlier my friends had invented a new scientific measure, the 'Gad,' which designated a settled measure of unnecessary complications." Some may prefer to this self-congratulatory little story a remark which Gadamer makes of his younger self: "Despite my title of doctor, I was still a 22-year-old who thought rather murkily, who reacted portentously to murky thinking, and who still did not really know what was going on." Did the boy ever grow up? Or was he, too, always a little awkward, like a boy playing the soldier?

The proponents of hermeneutics will accept none of this waffly criticism. What to me is impenetrably dark or pompously inflated is to them lucidly refugent and heavy with sense. And the particular illumination of hermeneutics streams, they may perhaps aver, from a determined opposition to any fixed and static dogma. Hermeneutics stands above all for a staunch anti-dogmatism, a "negative" dialectics which sails close to scepticism. Gadamer puts it as follows:

Hermeneutic philosophy understands itself not as an absolute position but as a way of experience. It insists that there is no higher principle than holding oneself open in a conversation. But this means: Always recognise in advance the possible correctness, even the superiority of the conversation partner’s position. Is this too little? Indeed, this seems to me to be the kind of integrity one can demand only of a professor of philosophy. And one should demand as much.

The anti-dogmatism enjoined and espoused by the hermeneutical tradition has, so far as I can see, no connection with its claim to be a historicist and an interpretative philosophy: but anti-dogmatism is directly tied to the second characteristic of the tradition—its rejection of the objective aspirations of science.

(continued on page 11)
changes as another varies, but this always occurs via a psychological decision-making process. If the price of coffee rises in Amsterdam, it will, with a lag, also increase in Hamburg. The second event results from the first. As merchants in Hamburg observe the price increase in Amsterdam they realize that coffee in Hamburg is relatively cheap. Thus the demand for the latter kind of coffee would increase and the price rise. This simple event, says Pierson, is the result of a process which links one variable to another. If the interest rate rises, entrepreneurs are less inclined to borrow and capital formation slows down. Man always stands between one economic event and the next. Yet there will still be a decision making process and economic regularities.

4) Socialists of the chair also misunderstand the economists’ basic assumption about human behavior, that individuals normally tend to follow the dictates of their own interests or desires. As Pierson states, each act of choice entails a benefit and a cost. Individuals will normally choose that course of action which yields the highest level of satisfaction given the cost. Academic socialists misrepresent this idea by arguing that if the above basic postulate were valid all societies would consist of petty tradesmen obsessed by a quest for pecuniary gain. Then they assert that in reality people are not exclusively self-seeking so that classical economists and their followers work with unrealistic premises leading to erroneous conclusions.

In reply Pierson argued that for an economist to be useful he must concentrate on the essential. People differ in significant ways but their economic behavior is sufficiently uniform to permit some important generalizations. Imagine a man of learning who prefers to be alone with his books and has little interest in luxuries. Even he will be involved in a number of strictly economic actions. Basic supplies will have to be bought and on occasion he may want to invest a small sum of money. What will be his motivation if not self-interest? This simply evidences a normal psychological process which the economist assumes to exist because he knows from observation that it is a fairly good approximation of reality. Experience shows that human behavior displays rather stable and predictable responses to various economic stimuli which contributes to the relative universality of economic laws.

5) Academic socialists repeating the arguments of the Historical School also maintain that economic events are not predictable because institutions, preferences and knowledge constantly change over time. In reply Pierson puts forward the view that amidst all change many fundamentals remain. Agriculture, he says, has made great progress; yet there are still more and less fertile lands so that the Ricardian theory of rent, which predicts relatively high rents on the more fertile lands, is as valid as it used to be in the past.

6) The last charge levelled by Pierson against the proposition of the academic socialists relates to their unmitigated enthusiasm for state intervention. Pierson notes that only recently did we manage to free ourselves of the interventionist (mercantilist) framework of policies. Now we are in danger of returning right back to it again. Total laissez-faire may not be ideal but does that mean we have to go to the other extreme? For centuries we have lived in “paternal” states characterized by widespread government interference. From the paternal state we moved to the idea of government acting merely as a policeman or watchman which involves the establishment and enforcement of a legal framework. As Pierson puts it, the latter form of government existed longer in the literature than in the real world. However, if the state socialists would have their way, the old evil would return to us in a new form. The socialists of the chair, says Pierson, oppose “laissez-faire” and apparently want to replace it with “ne laissez-rien faire” (allow nothing to happen). Pierson warns that big government inevitably kills private initiative, while weakening feelings of individual responsibility.

Finally, Pierson inquires how the socialists of the chair can reconcile their enthusiasm for government interference with their rejection of economic laws. If one denies the existence of economic regularities and predictability one has to admit that the implications of state intervention cannot be foreseen either. Therefore, those who repudiate the existence of economic rules and generalizations should perhaps favor laissez-faire. Logically speaking one cannot advocate something if one believes that its consequences are unpredictable.

Economic Calculation in a Socialist Society

Pierson was the first economist to draw attention to the so-called problem of economic calculation in a socialist society; he did so in a paper written in 1902 entitled “The Problem of Value in the Socialist Community.” In a socialist community, just like in other types of communities, consumer goods as well as factors of production have to be priced if meaningful price and cost comparisons are to be made by consumers and producers, but prices only emerge in markets! If socialism abolished markets, as it intends to, there is no mechanism to determine the value of consumer goods and resources. Comparisons cannot be made. Although Pierson was first, as is well-known, it was Ludwig von Mises who developed the argument in great detail, demonstrating that in the absence of market determined prices, economic planning in a socialist society leads to chaos.

It is interesting to note that Pierson stressed the international aspect of the problem. Developing his earlier argument about the politization of international trade, he emphasized the fact that international trade requires credit. In free market economies the price of such credit, the interest rate, is determined by the demand and supply of loanable funds. Countries with abundant loanable funds (England in Pierson’s time) have the lowest interest rates and almost automatically become the international financiers of world trade because they can provide credit on the best terms. But if in the future two socialist countries trade, how and where asks Pierson, will interest rates be set, especially if the practice of discounting bills of exchange is interrupted?

The international movement of capital raises similar questions. Saying that capital moves from low-priced

(continued on page 12)
Review of *The Gold Standard: An Austrian Perspective*

by  
Steven Horwitz

Of all the areas of economics in which Austrians can make distinct contributions, monetary theory is perhaps the most important. As Austrians and many non-Austrians realize, a properly functioning monetary system is vital to a sound economy because money pervades all markets. As Roger Garrison put it in his excellent survey of macroeconomics, "Time is the medium of action; money is the medium of exchange." All action takes place through time and all exchange takes place through money. Anyone wishing to influence the pattern of exchanges need only have control over the monetary system. With the recent problems in the United States monetary system and the general economic malaise they have led to, the time seems ripe for some fresh ideas.

One source for new ideas is the recent collection of essays entitled *The Gold Standard: An Austrian Perspective*. The contents are a selection of papers presented at a November 1983 conference in Washington sponsored by the Ludwig von Mises Institute. It is an excellent collection of articles covering money and banking and the dynamics of monetary theory. As one reads through it though, one realizes that perhaps it is mistitled; what the book contains is Austrian perspectives. The essays reflect the diversity of Austrian thought and approaches to monetary theory. Through the comparisons and contrasts within the framework of the book, we develop a richer understanding of Austrian theory. Each of the approaches illuminates features of the others.

The first of the essays is Murray Rothbard's "The Case for a Genuine Gold Dollar," which is the standard Rothbardian defense of a 100% reserve gold dollar. Rothbard reminds us that any monetary theorist must consider Mises's regression theorem when proposing any reforms. The regression theorem states that any current medium of exchange must have once had a pure use value in order to establish a trading ratio between it and other commodities. If it did not, we would have no way of originally gauging prices in terms of that commodity. This implies that one cannot simply impose a medium of exchange on a populace, such a commodity, by definition, has to be a historically evolved choice. This of course does not mean that the given commodity will continue to be the medium of exchange, but for the present we cannot ignore the past.

Rothbard makes this criticism in light of Hayek's plan for the denationalization of money. Hayek argues that anybody could issue notes in his scheme so Hayek himself might issue "Hayeks". Rothbard counters that this ignores the regression theorem in that the "Hayek" notes would never have had any use value to base its exchange value upon. If this were what Hayek meant the criticism would be correct, but it is not so clear that this is the case. Multiple note issuers might name their notes "Hayeks" or "Rothbards", but such notes would still need to be denominated in terms of the current monetary unit. The "Hayek Bank" might issue "Hayek" notes (like "Federal Reserve" notes), but they would have dollar (or whatever) denominations. If this interpretation is correct, then the regression theorem has not been ignored. In any case we should take to heart Rothbard's reminder of one of Mises's greatest insights.

Hans Sennholz's contribution sheds light on one of the most important insights in Austrian theory, Menger's story of the origin of money. A deep understanding of this story is the fundamental Austrian criticism of constructivist attempts at monetary policy. Menger describes money as a spontaneous order that by its very nature cannot be effectively tampered with.

The importance of Menger's story is that the whole process does not need any central direction. As Sennholz paraphrases Menger, "Without any agreement, without legislative compulsion, in fact, even without any consideration of public interest and the public good, individuals are persuaded to exchange their goods and services for more marketable goods, even if they are not needed for immediate use." (p. 21) As in the Rothbard article, Sennholz reminds us of the danger of attempting to force a money on people. By its very nature money cannot be "created" in this way. To be a medium of exchange, a commodity needs to be accepted voluntarily and be imbued with the trust that this brings. Any attempt at monetary reform has to recognize the futility of constructivist changes imposed on an evolved choice in money.

Perhaps the greatest benefit of Sennholz's article is a continuing renewal of interest in Menger's works. Over 100 years later, Menger's *Principles* still stands as a true masterpiece and his methodological writings are crucial to comprehending the truly radical challenge that Austrian economics poses to historicism and positivism. An understanding of where Austrian economics is today must include an investigation of where it came from. There is no better place to start than Menger.

In his discussion of "Ludwig von Mises and the Gold Standard," Misesian scholar Richard Ebeling indicates the implications of an improper monetary system, as he discusses Austrian business cycle theory. The key to the Mises-Hayek theory of the cycle is the non-neutrality of money. The usual Friedmanite/Rational Expectations story assumes that money is neutral in the long run, in that increases in the money supply increase only the absolute level of prices and income without affecting the
relative values. Rothbard has called this the "Angel Gabriel" model because it is as if the Angel Gabriel magically multiplied all prices and cash balances by the same constant.

The problem with this view of inflation is that it ignores the importance of where and how the new funds are actually injected into the system. Realizing that money comes in at certain points implies that certain people have it before others and can spend it before prices begin to rise. Those who receive it later face prices that have already risen and therefore these people are worse off than they were before. Even more important, according to Ebeling, is that all prices do not rise uniformly. These relative price effects shift the allocation of resources away from the previous pattern toward the new one induced by the injection of new money.

As for how the new funds come in, the usual Austrian story is that banks increase commercial credit and thereby lower the interest rate in the credit market. This makes previously untenable projects look profitable and encourages investors to start longer term projects. The problem is that savers' true time preferences have not shifted and the new projects cannot be sustained by these underlying true preferences. At some point the flow of credit stops and the real preferences reassert themselves, revealing the misallocations of the injection. Once this malinvestment has been discovered it can be washed out and profitable investments can again be undertaken.

Of course the culprit in this story is the central bank. As Ebeling notes, unwanted injections of credit only occur when central bankers inflate and get away with it. A gold standard and/or free banking system, on the other hand, would self-regulate the supply of money and credit so that they corresponded to the real demand for money and loanable funds. Money, like any other good, would be supplied to the extent it is demanded. This idea, known as monetary equilibrium theory, has been forgotten in the rush to stabilize purchasing power and manipulate the money supply for macroeconomic goals. The ability of the gold standard, or free market money to equalize the supply and demand for money severely limits macroeconomic distortions.

As Leland Yeager points out in his introduction, gluts and shortages of money have more drastic implications than other goods because money is one side of all exchanges. Chaos in the money market means chaos in all markets. While most economists would count money as the first good that government should produce and control, Ebeling and Yeager question why such a crucial good should be left to political manipulation when the market can effectively do the job. As many of the contributions indicate, hundreds of years of destructive business cycles attest to the inability of government to get the job done.

Roger Garrison has a number of insightful points in his article on the costs of a gold standard. Garrison begins by saying that he is using the term gold standard "to denote the outcome of a market process." (p. 62) He elaborates that, when left to themselves, people will develop a medium of exchange with certain characteristics, and the commodity best meeting those characteristics has been gold. The important point here is, as Mises pointed out in 1912, that we, again, cannot impose a monetary system on people, we must simply remove all obstacles to them choosing the one they desire. The quickest way to do this is to abolish all legal tender laws and remove the FED's privileged position as a monopolist in money, by stopping open market operations, closing the discount window, and making the dollar convertible into a fixed amount of some commodity. By allowing the market process to work we can discover the public's true preferences for a monetary system.

In his critique of the Friedman analysis of the costs of a gold standard, Garrison nicely integrates Austrian price theory into his discussion. The neoclassical analysis is a long-run one where all supply curves are perfectly elastic. But, Garrison claims, this is a wrong assumption for the present analysis. The gold supply is inelastic in any run due to increasing costs of extraction and natural scarcity. The Austrian concern with realistic assumptions and the process of the market, not its results, leads to a far better analysis, i.e. recognizing that the costs of a gold standard are not as steep as Friedman concludes.

Lawrence White presents his case for free banking and its relation to the gold standard in his essay in the collection. White raises a number of interesting questions, all of which are crucial to the issues at hand. First and foremost, he reminds us that for money, as for any other good, the task the market faces is to ensure a correspondence between supply and demand, and to provide the kinds of goods and services that people demand. Again, as other contributors have said, a monetary system has to evolve out of the free choices of market actors. White also notes that gold has historically been the choice for the monetary base and there are theoretical reasons to believe that it would continue to be so under free banking.

Many proponents of monetary reform, and many defenders of current policy, think that monetary policy should aim at the stabilization of the purchasing power of the monetary unit. Regardless of all else, they claim, the monetary authority should adjust the supply of money to keep its purchasing power stable. But White, in the tradition of the monetary equilibrium theorists, has shown a fallacy here. Should it any more be the government's responsibility to stabilize the price of butter by manipulating its supply? The whole marvel of the market is that it allocates resources, matching supply
and demand, through price adjustments. In fact, attempts to fix prices (and controlling the money supply is a way of fixing all prices) frustrate this process and cause unnecessary harm. Should not the same reasoning apply to money, especially given that money is one-half of all exchanges, and is that much more crucial to a properly functioning economy?

White also discusses two theoretical points pertaining to the workings of a free banking system. On p. 118 he argues that competition among multiple note issuers will guarantee quality. Many opponents of free banking worry about a bank issuing inferior notes in huge quantities as a way of turning a quick profit. White argues that no single bank has an incentive to expand note issue beyond the demand of its noteholders. If the bank attempts to do so, it will face adverse clearing at the clearinghouse as noteholders dump the unwanted notes at other banks. This will cause an unprofitable drain on reserves, forcing the bank to scale back note issuance.

In addition, since the defining characteristic of a money is its acceptability in exchange, banks have a large incentive to have their notes accepted by depositors and local merchants. Banks would probably advertise how widely their notes were accepted (as banks did with substitute currency during the panic of 1907). Banks would (and did) advertise their financial situation much more freely in a system that did not have mandatory insurance programs.

This whole discussion leads into the current debate among Austrian economists. Rothbard contends that fractional reserve notes are fraudulent since they are a promise to pay a specific amount that the bank may not be holding at the time. White counters that a typical bank note only claims to pay a specified amount on demand; it says nothing about the reserve behavior of the bank. (p. 120) Of course the note is a contract, in that a failure to redeem is a breach of contract and the note holder still has a legal claim to that contract. In a free banking system, depositors would be free to negotiate any reserve arrangements (including 100% if they so desire) that are voluntarily agreed to.

Banks, of course, would have every incentive to meet consumer demands for reserve assets. One can imagine banks catering to the risk preferences of depositors, with some banks advertising their 100% reserve policy as a selling point. The crucial point of the debate, and the whole book, is that all Austrians do agree on the elimination of the government's monopoly on money via the Federal Reserve System. Regardless of what happens in a deregulated monetary system, the book makes clear that the abolition of that monopoly is the key to a sound monetary system. As a theoretical starting point to that end, this collection is both useful and enjoyable reading.

---

1Roger Garrison, "Time and Money: The Universals of Macroeconomic Theorizing" (Journal of Macroeconomics v.6 no. 2, Spring 1984).

Steven Horwitz is a Claude Lambe research assistant at the Center for the Study of Market Processes at George Mason University. He is currently working on his Ph.D. in economics and is specializing in Austrian economics. The views expressed here do not necessarily represent those of C.S.M.P or G.M.U.

(Barnes continued from page 7)

Now anti-dogmatism is no doubt a Good Thing, and every wise man is something of a sceptic. You need not, it is true, indulge in hermeneutics in order to be wise in this way: even analytical philosophers can be—tend, in fact, to be—modestly sceptical. But modest scepticism is not quite the same as "openness," and perhaps in the end it is "openness" which is the key to Gadamer's philosophy.

A sceptic recognizes that he himself may always be wrong. Gadamer's "open" philosopher allows that his opponent may always be right. A modest sceptic may have little hope that he has discovered the true answer to any question: but he may for all that be sure that he has uncovered several false answers. He may, indeed, in his modest way regard the history of philosophy as a ceaseless campaign, marked by frequent defeats and occasional triumphs, against the ever powerful forces of fallacy and falsehood. He will not set up his own standard with any great conviction. But with some opponents he will not be "open": he will be quite sure that they are wrong.

Hermeneutic openness is something more than a wary scepticism. Is it also always virtuous? In particular, is it virtuous in the practical sphere, where false beliefs may ground foul actions? The question should be asked, since Gadamer's philosophy is, in intention at least, practical. And it might even be conjectured that the idea of openness is the point of contact between Gadamer's life and Gadamer's thought. For the accommodations of Gadamer's life seem to illustrate nicely the openness which his philosophy applauds. Then shall philosophers admire that openness which in hard reality conducted Gadamer safely from Marburg to Heidelberg? And shall we see here "the kind of integrity one can demand only of a professor of philosophy?"

This article originally appeared in the London Review of Books of November 6, 1986. The Austrian Economics Newsletter wishes to express its appreciation to Professor Barnes and the LRB for their permission to reprint.
locations to higher-priced ones amounts to stating that it moves from areas where its value is relatively low to areas where its value is relatively high. In Pierson's day capital moved from Europe to "overseas" areas. Interest rates served as guides and they tended to be low in the capital abundant regions and relatively high in the capital scarce nations. Pierson wondered how capital flows were to take place in a socialist world without interest rates.

A final issue was that of the terms of trade. Let us suppose, that prices are no longer allowed to be determined in the usual way. And let us suppose further that the value of goods were set by such socialist criteria as the amount of labor expended on them. In that case a relatively inefficient country spending many hours of labor on the production of an item would end up with higher prices than a more efficient nation. This could lead to the curious conclusion that the incompetent nation may experience better terms of trade than the more skillful country. If the inefficient community were somehow allowed to impose its prices upon others, international trade could degenerate into organized plunder. Ironically, "exploitation" could become the leading principle of international trade among socialist nations.

**Conclusion**

Nicolaas Pierson was undoubtedly a most versatile economist blessed with a fertile mind. Few people can, as he did, combine the career of an academic economist with that of a central banker and statesman. Following in the footsteps of Menger, Jevons and Bohm-Bawerk he brought single-handedly the "marginal revolution" to the Netherlands. Pierson fits into the Austrian tradition in other ways as well.

(a) Throughout his life he defended the deductive method as being the most appropriate to economic analysis. Yet he recognized the importance of empirical work and historical knowledge.

(b) Pierson always opposed state intervention in the economy as a matter of principle. He knew that it could not always be avoided but he kept believing that government is best when it governs least.

(c) Like Bohm-Bawerk and von Mises, the Dutch economist was very critical of revolutionary and Academic Socialism which, as he saw it, would create far more problems than it would solve.

(d) Pierson strongly believed that real improvements in living standards would not come from the redistribution of income but from capital accumulation, increased output and a slowdown of population growth.

(e) Pierson constantly defended free trade with all his might and opposed protectionism whatever the motives. In 1896 when countries such as Germany and France began to move towards protectionism Pierson founded an association in the Netherlands named "Free Trade."

**Bibliography**

Aulnis de Bourguill, J.D. "Nicolaas Gerard Pierson," Jaarboek van de Koninklijke Academie van Wetenschappen, Amsterdam, 1911.


Hoekstra, M.W. "Van Teraubliek op Dr. N.G. Pierson," De Economist 126, Number 4, 1976.


**Endnotes**


6. Pierson expressed his views on academic socialism in a 36 page article published in 1878 in a Dutch periodical entitled De Gids (The Guide). In 1910, this article was published again in the above mentioned collection of Pierson's writings edited by C.A. Verrijn Stuart. There exists no English translation of this paper.

7. Institutionalism greatly influenced the thinking that was at the foundation of the New Deal in the 1930s.

8. When Gustav Schmoller and V. Pareto met in Bern (Switzerland) Schmoller argued that there were no laws of economics. Pareto then asked if Schmoller knew a free food restaurant. Schmoller said "no" but added that he did know some really cheap ones. Pareto's answer was that there existed economic laws after all. In reality Schmoller did not grasp the very nature of theory.

9. History has shown that after Pierson's death we did exactly that.

10. Pierson could watch the contemporary welfare state acquire and its consequences he would realize that his worst fears have been abundantly verified.


12. It is certainly interesting to note that the trade pattern between the Soviet Union and Eastern European countries resembles Pierson's exploitation hypothesis.

13. Editor's note: Mises showed these concessions were wrong in theory.

Johannes Overbeek is Associate Professor of Economics at the University of the Virgin Islands.