The Philosophy of Austrian Economics

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

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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

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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 commonsenical 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.*[1]

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.

[1]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.[2] 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*,[3] 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

[2]See, on this, the papers collected in Grassl and Smith, eds. (1986).

[3]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.

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