

The Philosophical Origins of Austrian Economics

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The Austrian School started with Carl Menger's opposition to the German Historical School that included among others Adolf Wagner, Karl Knies and Gustav Schmoller. The HS started in the 19th century and actually lasted until well in the 20th century.

The methodology of the HS, seeing economics as a historical and practical discipline, differed from both AE and classical economics. They saw economics as the science of state management (thereby continuing Mercantilist tradition), being less interested in economic theory than in advancing (the Prussian) state power.

The main philosophical influence on the HS may have been Hegel, who was actually quite well-informed about economics and who held that to become self-determining a person needs to have property, and needs to be able to make decisions. Exchange is then perfect for this. But Hegel's work bars the way to economic science:

1. One of Hegel's main philosophical doctrines was *the doctrine of internal relations*, which held that everything that exists is bound together in a tight unity. A relation generates a relational property that is part of the essence of the bearer. Since this means that all things are connected full knowledge of anything requires full knowledge of everything, which is quite the consequence for science. So the economic method of isolating certain factors is illegitimate in this view. Instead economics should be studied together with all other sciences of society (*organic unity*). This in turn implies that at most economic laws are confined to particular kinds of societies. There are no universal laws of economics.

2. Hegel doubted whether the particular future was predictable (like e.g. the law of demand would predict, all else being equal, an increase in prices with an increase in demand) Philosophers could only describe past events.

But although Hegel's ideas were *philosophical* and thus did not necessarily say something about a *science* of economics, the HS (probably not consciously) applied them to economics. Moreover, the HS shared with Hegel some specific economic doctrines:

1. capitalism supposedly neglects agriculture, the backbone of society that needs preservation
2. the state should direct the economy to enhance state power

Given the fact that AE stood in direct opposition to the HS one might expect different philosophical influences. And this is true. Carl Menger was mainly influenced by Brentano who rejected the doctrine of internal relations and the rest of the Hegelian system (and Kant). Brentano then held that things *could* be studied separately, in particular the mind was sharply distinct from the external world. Acts of consciousness are distinct from their objects.

Brentano's *Psychology from an Empirical Standpoint* applied his general notion of mind to the concept of *value* and overthrew the prevailing notion of the mental common to almost all philosophers since Descartes, especially that of British empiricism which held that ideas are pictures impressed on the mind by external object and once accumulated these ideas are connected by laws of association, which means that in that sense the mind is *passive and automatic*. Brentano on the other hand maintained that thinking is an *action* (intentionality: mental grasping of an object, either physical or mental) Thinking of e.g. a chair doesn't mean there *being* (passive) a picture of a chair found in my mind, but *thinking* (action) of an object.

Menger applied the concept of intentionality to economic value: value is not a *feeling* that comes into the mind automatically, but an *act of preference*, a *ranking on one's value scale*. This is what separated Menger from the supposed co-creator of the subjectivist revolution, Jevons, who equated value with utility or pleasure, measurable in units.

Böhm-Bawerk too had philosophical themes in his work, e.g. rejecting the denial of universal economic laws, but was mainly influenced not by Brentano (and through him Aristotle) but by William of Occam, namely re the view that concepts ultimately (not necessarily *directly*) needed to be traced to their origins in perception, their ultimate source. If one cannot do this, the concept must be rejected. (is at least quasi-positivist in an 'operational view of concepts' sense)

With this he rejected HS's ideas of 'spirit of an age'..

Böhm-Bawerk excelled at analyzing and criticizing particular arguments advanced by other economists. He for example undermined Marx' labor theory of value (by showing for example how it wouldn't allow Marx to explain prices of production by labor prices = *transformation problem*)

Menger's and B-B's ideas on method adhered to methodological individualism: only individuals act. Social institutions, groups, classes are reducible into individuals in relation with one another. This too set them apart from the HS (recall doctrine of internal relations)

The philosophical roots of MI lie in Aristotle who in *Nicomachean Ethics* emphasized individual human action. Aristotle also influenced them in terms of his views of a complete science as having to use the method of *deduction* from self-evident axioms. Empirical science is a mere temporary placeholder for such a true science. Self-evidence here does not mean *psychologically* self-evident (for this would make it dependent on an experience).

Mises however seems not to have been influenced by Aristotle and instead uses a distinctively neo-Kantian terminology, esp. re economic propositions as synthetic a priori. The action axiom postulates free choice but for Mises this is but a postulate and says nothing about the noumenal world. Determinism cannot be ruled out. (Mises here reverses Kant who said we were phenomenologically determined, but noumenally free)

Logical positivism (Carnap, Karl Menger, Schlick, Neurath, etc.) attacked synthetic a priori and deductivism. Their influence on American philosophy grew after they fled to the US in the Nazi-era, and American economists rejected praxeology based on LP.

LP says that all empirical statements must be testable. This rules out synthetic a priori statements that are *necessarily* true *and* empirical. LP held that necessarily true statements are meaningless tautologies.

Mises held that this was at best an arbitrary definition of 'meaning' with no other consequences following from it. But LP'ists claimed that their theory is well supported. But there are at least 3 fatal objections to it:

1. if p is a verifiable statement and q supposedly isn't and the negation of p and anything that can be derived from it is also verifiable, then we can say $p \vee q$ and *not* p , thus q . Hence q is also verifiable.
2. Why accept the verification or falsification principle at all? Why see it as more than just an arbitrary definition? No reason has been put forward.
3. If we apply the criterion to itself, it collapses

Popper's influence on Hayek made the latter become more positivist (as he was under the influence of Mach in his university years) and less praxeological. Popper was not a positivist:

1. he saw *falsification* and not *verification* as the criterion
2. he didn't want to give a criterion for meaning, but one for science.
3. he rejects induction (confirming a proposition does not increase the probability of it being true) Mises rejected this skepticism.

Action has in the Austrian tradition received a distinctly Aristotelian analysis and so AE and realist philosophy seem ideally suited for one another.