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Wieser's *Social Economics*: A Link to Modern Austrian Theory?

by
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The influence upon economic theory exercised by von Wieser's formulation lies more in the future than in the past.

W.C. Mitchell (in Wieser, 1927, p. xi)

Introduction

Few works in general economic theory have had as checkered and interesting a record as Friedrich von Wieser's *Social Economics*. Everyone hails Wieser's contributions to the theory of input valuation from *Natural Value*, but many Austrian economists, in the libertarian tradition of Hayek and Mises, cringe at the mention of *Social Economics*, believing it to be radical and "sociological" in nature. Written before World War I in 1914 and scarcely noticed until Wieser reissued it in 1924 and Wesley C. Mitchell had *Social Economics* translated in 1927 (the translation appearing after Wieser's death in 1926). Economists have either praised the book's so-called institutionalist-interventionist proposals (Mitchell, 1917; 1969, pp. 345-374), characterized some of its tenets as "enlightened absolutism" (Bohm, 1985, p. 256), or declared as "incomprehensible" its origins in the concept of "natural value" (Stigler, 1941, p. 158, n.2).

In the late 1960s, at the encouragement of Oskar Morgenstern, I undertook a careful study of Wieser's grand opus (Ekelund, 1970) concluding that Wieser was schizophrenic on the nature of property rights abrogation and welfare reform proposals. Morgenstern read my paper with sympathy, proclaimed it descriptively accurate and, continuing to extol the breadth and power of Wieser's ideas, urged me to do further study some day. Morgenstern, after all, had been Wieser's graduate assistant at the time of the reissue and the English translation of the work and had been chosen to write Wieser's obituary in the *American Economic Review* (1927). My recollections of Morgenstern's opinion of Wieser and his 1914 treatise is that the former was far more sympathetic and admiring than indicated by Earlene Craven in her recent "oral history" of the Austrian migration to America (1986, pp. 8-9, note 28). At

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some distance from merely being interested in sociology (exemplified in his 1910 work *Recht und Macht* and enlarged in *Das Gestz der Macht* in 1926) Wieser was, in the 1920s, merely extending an integration of institutions and economic theory suggested in *Natural Value* and substantially completed by 1914 in the original version of *Social Economics*.

Craven's recent assessment jarred my memory of Morgenstern's sympathetic view of the work and a rereading has convinced me that, contrary to both Mitchell's and

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Stigler's views, the *Social Economics* is nothing less than a bridge to many of the concerns of contemporary Austrian economics. Specifically, I argue that the book contains prescient discussions of how human action creates and alters property rights, of the role of rivalry in a competitive process, and of the key position of the entrepreneur in a system characterized by economic disequilibrium. In an initial section, I discuss the model through which Wieser arrived at these inventions and in the following section I discuss the inventions themselves. In a concluding section, I argue that, though some anomalies remain, it is possible to view Wieser's late work in a new and far more sympathetic light than commonly held by a number of modern economists.

Wieser's Model of Natural Value

Wieser's view of economic theory, from the outset of his major scientific work on the subject, was broader than that proposed by Menger and the other early marginalists. While his reputation is firmly established in contributions to the opportunity-cost based theory of input valuation (Stigler, pp. 159-60), the inventive character of his thought relates to value theory. Indeed, the very foundation of Wieser's economics is a normative utility-based idealized model of economic functioning called natural value. *Natural Value*, according to Wieser, is "that value which arises from the social relation between amount of goods and utility, or value as it would exist in the communist state" (1889, p. 60). Admitting to the double meaning to the word "natural," Wieser further characterized his idealized model as one in which all market participants had the same marginal utility of income (or money), similar or identical tastes, functioning in an idealized system of completely decentralized institutions unaffected by distributional considerations. This model, which Wieser compares to those constructed by the classical economists, is an explicitly idealized one—one through which the impact of specific institutions can be compared. He writes of the model that

> In its simplicity, purity, and originality it is so attractive, and at the same time so contradictory to all experience, that it is doubtful whether it can ever be more than a dream. So too we shall think of the communistic state as the perfect state. Everything will be ordered in the best possible way; there will be no misuse of power on the part of its officials, or selfish isolation on the part of its individual citizens; no error or any other kind of friction will ever occur. Natural value shall be that which would be recognized by a completely organic and most highly rational community (1889, p. 61).

The important point is that Wieser's model is a perfectly "neutral" origin from which to evaluate the workings of all systems. He clearly anticipates, for example, the essence of the Lange-Lerner-Mises discussion over socialist calculation in arguing that communism does not change the fundamental (marginal) laws of economics. Opportunity cost and economic efficiency—given individual evaluations of goods—requires that resource allocations be directed to highest valued use.[1]

More importantly, in my view, he recognizes, long before the elaborations in the *Social Economics*, that institutions, including those associated with property rights surrounding the market place itself, evolve and are changed by a multitude of factors including power, an uneven distribution of utilities, fraud, political rent-seeking and other factors. The Wieser of *Natural Value* is the same Wieser of *Social Economics* as he contrasts the elements underlying objective exchange value (price) to those supporting natural value:

> The relation of natural value to exchange value is clear. Natural value is one element in the formation of exchange value. It does not, however, enter simply and thoroughly into exchange value. On the one side, it is disturbed by human imperfection, by error, fraud, force, chance, and on the other, by the present order of society, by the existence of private property, and by the differences between rich and poor,—as a consequence of which latter a second element mingles itself in the formation of exchange value, namely, purchasing power. (1889, pp. 61-62)

In my view Wieser made a number of elemental and profound observations in his earliest theoretical work. First, he recognized the radical implications of utility theory: Utility and price are not one (except in idealized conditions) and, even if they were, an antinomy might exist between the aims of entrepreneurs and the maximization of consumers' utility. Second, Wieser recognized that the real world of institutionally-cum-utility-determined valuations would always diverge from some highly idealized model of utility maximization.[2]

Most importantly in my interpretation, Wieser leaves the implication—largely undeveloped until the *Social Economics*—that any given set of constantly evolving property rights are essentially the product of past free choice and that property rights within a free competitive system are closest to the ideal model of natural value in production, distribution, and consumption. He notes that "it will be of interest to investigate closely to what extent the phenomena of exchange value are of natural origin, and how great, accordingly, is the formative power of natural value in existing conditions of society. I believe the sequel [presumably, *Social Economics*] will show that it is enormously greater than is usually supposed" (1889, p. 62). And, reaffirming the benefits of a generalized competitive system, he states that

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Why Read Adam Smith Today?

by

Ludwig von Mises

A popular legend calls Adam Smith the Father of Political Economy and his two great books—*The Theory of Moral Sentiments*, first published in 1759, and *An Inquiry into the Nature and Causes of the Wealth of Nations*, first published in 1776—epoch-making in economic history as well as in the evolution of economic thought. However, this is not quite correct. Smith did not inaugurate a new chapter in social philosophy and did not sow on land hitherto left uncultivated. His books were rather the consummation, summarization, and perfection of lines of thought developed by eminent—mostly British—authors over a period of more than a hundred years. They did not lay the foundation stone, but the keystone, of a marvelous system of ideas. Their eminence is to be seen precisely in the fact that they integrated the main body of these ideas into a systematic whole. They presented, with admirable logical clarity and in an impeccable literary form, the essence of the ideology of freedom, individualism, and prosperity.

It was this ideology that blew up the institutional barriers to the display of the individual citizen's initiative and thereby to economic improvement. It paved the way for the unprecedented achievements of laissez-faire capitalism. The [illegible] population figures and secured, in the countries committed to the policies of economic freedom, even to less capable and less industrious people a standard of living higher than that of the well-to-do of the "good old" days. The average American wage-earner would not like to dwell in the dirty, badly lighted and heated palatial houses in which the members of the privileged English and French aristocracy lived two hundred years ago, or to do without those products of capitalist big business that render his life comfortable.

The ideas that found their classical expression in the two books of Adam Smith demolished the traditional philosophy of mercantilism and opened the way for capitalist mass production for the needs of the masses. Under capitalism the common man is the much-talked-about customer who "is always right." His buying makes efficient entrepreneurs rich, and his abstention from buying forces inefficient entrepreneurs to go out of business. Consumers' sovereignty, which is the characteristic mark of business in a free world, is the signature of production activities in the countries of Western Civilization.

This civilization is today furiously attacked by Eastern barbarians from without and by domestic self-styled progressives from within. Their aim is, as one of their intellectual leaders, the Frenchman Georges Sorel, put it, to destroy what exists. They want to substitute central planning by the government for the autonomy of the individual citizens, and totalitarianism for democracy. As their muddy and unwarranted schemes cannot stand the criticism levelled by sound economics, they exult in smearing and calumniating all their opponents.

Adam Smith too is a target of these smear campaigns. One of the most passionate advocates of destructionism had the nerve to call him—in the Introduction to a cheap edition of the *Wealth of Nations*: "an unconscious mercenary in the service of a rising capitalist class" and to add that "he gave a new dignity to greed and a new sanctification to the predatory impulses." Other leftists resort even to still ruder insults.

As against such shallow opinions it may be appropriate to quote the verdict of wiser judges. Buckle declared "that this solitary Scotchman has, by the publication of one single work, contributed more toward the happiness of man than has been effected by the united abilities of all the statesmen and legislators of whom history has presented an authentic record." Walter Bagehot said about the *Wealth of Nations*: "The life of almost everyone in England—perhaps of everyone—is different and better in consequence of it."

A work that has been praised in such a way by eminent authors must not be left on the shelves of libraries for the perusal of specialists and historians only. At least its most important chapters should be read by all those who are eager to learn something about the past. There can hardly be found another book that could initiate a man better into the study of the history of modern ideas and the prosperity created by industrialization. Its publication date—1776, the year of the American Declaration of Independence—marks the dawn of freedom both political and economic. There is no Western nation that has not benefited by policies inspired by the ideas that received their classical formulation in this unique treatise.

However, a warning must be given. Nobody should believe that he will find in Smith's Inquiry information about present-day economics or about present-day problems of economic policy. Reading Smith is no more a substitute for studying economics than reading Euclid is a substitute for the study of mathematics. It is at best a historical introduction into the study of modern ideas and policies. Neither will the reader find in the *Wealth of Nations* a refutation of the teachings of Marx, Veblen, Keynes, and their followers. It is one of the tricks of the socialists to make people believe that there are no other writings recommending economic freedom than those of eighteenth-century authors and that in their—of course, unsuccessful—attempts to refute Smith they have done all that is needed to prove the correctness of their own point of view. Socialist professors withheld from their students—not only in the countries behind the Iron Curtain—any knowledge about the

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existence of contemporary economists who deal with the problems concerned in an unbiased scientific way and have devastatingly exploded the spurious schemes of all brands of socialism and interventionism. If they are blamed for their partiality, they protest their innocence. "Did we not read in class some chapters of Adam Smith?" they retort. In their pedagogy the reading of Smith serves as a blind for ignoring all sound contemporary economics,

Read the great book of Smith. But don't think that this may save you the trouble of seriously studying modern economic books. Smith sapped the prestige of eighteenth-century government controls. He does not say anything about the controls of 1952 and about the Communist challenge.

This essay appeared as the introduction to a now out-of-print 1952 edition of *Wealth of Nations*. (Henry Regnery Company, Chicago, Illinois.)

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> Under free competition, social utility will be—as it ought to be—the first principle of economic life. Here each of the competing undertakers is bound to strive to widen to the utmost the compass of his undertaking. The increase of supply which the individual producer causes is, in relation to supply as a whole, too trifling to have any material effect in lowering prices, while it materially increases the amount which the individuals have to sell. Thus every one calculates, and, on the strength of this calculation, production is stretched to the utmost possible extent. The economic history of our own time is rich in examples which prove that competition can press prices far on the down grade of exchange value. (1889, pp. 55-56)

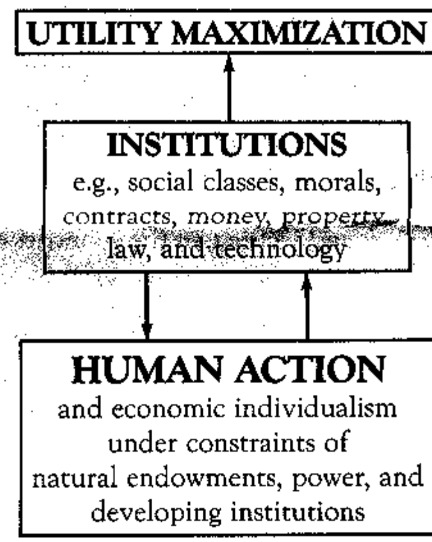
The working out of this view within an evolving institutional process was the topic of *Social Economics*. How, in other words, was value the product and the producer of institutions?

Individualism, Institutions, and the Economic Process

It is significant that Wieser's first intellectual romance was with history. But his early enchantment with mass historical movements, exemplified in Virgil, Homer, the Niebelungenlied, and Tolstoy's "history of the anonymous masses," could seriously mislead scholars into believing that Wieser's unit of social analysis was collective in nature.[3] It is far more likely that Herbert Spencer's Darwinian individualism, and its critical insight that any social state must be examined in order to understand the institutional forces underlying culture, was the controlling factor in Wieser's thought. Wieser steadfastly maintained that the ground of society was economic and individualistic:

> What valid substitute may we offer for the individualistic theory of society? In its naive formulation it has become inadequate. But one cannot get away from its fundamental concept, that the individual is the subject of social intercourse. The individuals who comprise society are the sole possessors of all consciousness and of all will. The "organic" explanation {Marxian-Hegelian}, which seeks to make society as such, without reference to individuals, the subject of social activity, has patently proved a failure. (Social Economics, p. 154)

The modified individualism of which Wieser speaks is nothing but the classical (or Mengerian) conception joined to Veblenian-Spencerian institutional and sociological theory. In Wieser's view man is a maximizer but within constraints developed within ever-changing institutions—the collective results of individual human action. Individual economic actions under constantly developing constraints created institutions under which some level of utility maximization was possible as in the Figure.



This schema describes the dynamic nature of Wieser's depiction of the socio-economic system as I interpret it (Wieser, 1927, pp. 149-348). Man creates (at bottom) and destroys institutions through individual actions, economic individualism, and through his or her nature. The long evolution of the institutions of any real society (as opposed to one in which natural value prevailed) began with individuals diverse in abilities and natural powers and endowments. These individual actions give rise to institutions, economic and otherwise, that begin to have "power" or to constrain individuals in recognized and unrecognized ways. These are the natural controls (Freiheitsmachte) and the institutions that individuals initially create and, in later generations, are born into. Property rights systems and contracts, law, a moral system, a financial system (see the discussion of money below) are some of these creations, as

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Hermeneutics: a Conference Report

by Sven Thommesen, John McCallie, and Dipesh Shah

On Friday, March 28, approximately 100 students and professors from all over the country met at George Mason University in Fairfax, Virginia to participate in a conference on Interpretation, Human Agency and Economics. The conference was sponsored by the Society for Interpretive Economics (SIE) and the Center for the Study of Market Processes (CSMP) at George Mason University (GMU), who wanted to bring together Austrian economists and Hermeneutical philosophers to exchange views and perhaps discover common ground. The following is a report on what was presented at the conference and some of our thoughts on the extent to which the philosophy of Hermeneutics might contribute to Austrian economics.

The Conference

In his opening remarks, Professor Jack High (director of the CSMP) said that Hermeneutical philosophy has had an influence on Austrian economics for many years. He stated that Ludwig von Mises and Ludwig Lachmann were both heavily influenced by Wilhelm Dilthey and Max Weber, and Professor Don Lavoie and his students at GMU are influenced by both Mises and Lachmann. High stated that the SIE hopes to make Hermeneutics more widely understood and accepted in the economics profession as an alternative to the methodological positivism now in fashion.

The first major talk was given by Thelma Z. Levine, Professor of Philosophy at GMU, who gave an historical account of what she called the "Interpretive Turn" and an overview of the current status of Hermeneutics. In describing the four stages of the philosophical evolution of Hermeneutics, she started with Immanuel Kant, who tried to mount a defense of reason against Humean skepticism. Kant held that yes, there is a real world out there, and we can have true knowledge of it because we are born with certain "categories" of interpretation built into the mind.

The next step was introduced in the early 20th century by Wilhelm Dilthey, who applied the techniques and categories of Biblical exegesis (textual interpretation) to the study of history and sociology. Edmund Husserl (the father of modern phenomenology), who had failed in his efforts to demonstrate that we can have absolutely certain knowledge, introduced the concept of 'Life-World' (Lebenswelt) into sociology. (Later developments were provided by Martin Heidegger and Hans-Georg Gadamer.)

The third stage came when World War II forced many European scholars to emigrate. Some of them came to the US bearing philosophical gifts in the form of methodological theories opposed to the then reigning positivism. Over the years their ideas were slowly injected into US intellectual life, but their real breakthrough did not come until the rebellious 1960s. The latest stage is the development in France (by Michel Foucault et al.) of "Deconstructionism"—a school which undermines all the previous ideas and which emphasizes the primacy of consciousness rather than the primacy of external reality.

Levine then went on to describe 10 different historical and current offshoots or branches of Hermeneutics in philosophy:

- Weberian Sociology ("Interpretive Understanding").
- The Phenomenology of Edmund Husserl, Martin Heidegger and Alfred Schutz, which introduces the "Life World" concept of Husserl (II) into sociology.
- The "Sociology of knowledge" school of Berger and Luckmann, which holds that reality itself is a "social construct."
- Hermeneutics as textual interpretation, which has led some philosophers to see reality itself as a "text" to be interpreted.
- The "Ethno-methodology" of Harold Garfinkel, which claims that there are different situational modes of knowledge.
- Radical Historicism, which views history as a series of radical discontinuities, and hence holds that it is illegitimate to speak of historical "periods."
- British Action Theory, which distinguishes reflexive "behavior" from purposeful "action." Social sciences are sharply distinguished from the natural sciences and positivism.
- The "critical theory" of the Frankfurt School (Herbert Marcuse, Erich Fromm, Jurgen Habermas) which tries to integrate the theories of Marx, Weber and Freud.
- Thomas Kuhn's theory of discontinuous paradigm shifts in science, which "deconstructs" the history of science by showing that there is no constant accretion of knowledge.
- The Deconstructionism of Michel Foucault, which emphasizes textual interpretation and which attacks as "logocentricity" any effort to establish logical methods for acquiring knowledge.

Next, Professor Don Lavoie from GMU spoke on "The Present Status of Interpretation in Economics." He lamented that economics is perhaps more positivistic than any other social science today. [Though that may, as Donald McCloskey has pointed out, be more a question of what economists say they do than what they actually do.] He pointed out the degeneration of interpretive skills that has taken place over successive generations of economists, citing as an example the development of the Chicago school from Frank Knight down through Milton Friedman and Robert Lucas to the current crop of "Rational Expectations" model-builders.

Lavoie identified two brands of positivism extant in the profession today: the "Euclideans" (General Equilibrium, Game Theory) who build elegant, formal models that are becoming more and more removed from reality; and the "Naive Falsificationists" (Popperians) who seek predictive power in empirical investigations that are becoming more and more limited in scope. Both are in his opinion methodological dead ends.

How might an economics based on Hermeneutical insights be different? "Climbing out on a limb," Lavoie identified three possible ways:

1. Perspectives: As students of Hermeneutics, we would realize that to fully understand someone else's theory we need to "learn his language" instead of translating his ideas into our own framework. We would see more dialogue between different schools of thought in economics.
2. History: Instead of cranking out mathematical growth models or collecting reams of UN statistics, a Development economist might investigate the development of the concept of development in the History of Thought, as well as the ideological history of various countries. Historical evidence becomes relevant when we want to investigate the meaning of actions.
3. Language: the use of plain English has advantages over the use of mathematics, because natural language has greater "evocative power"—we always mean more than we say or write; there are always more insights in a text than what the author meant. Hence we would see a shift toward more "literary" economics.

Lavoie identified three schools in which he sees hopeful signs of interpretive ideas being adopted: the Marxists, the post-Keynesians, and the Austrians. Unfortunately, all three are "too radical" for the neoclassicals, making the introduction of Hermeneutics into the mainstream difficult. Lavoie suggested that we need to follow Donald McCloskey and Arjo Klamer: economists need to "talk to each other" instead of just writing scholarly monologues for the journals.

The keynote address entitled "Economics as a Hermeneutical Discipline" was given by Professor Ludwig Lachmann from New York University. Professor Lachmann pointed out that Hermeneutics and Austrian Economics are not synonymous. Hermeneutics is a valid method in the social sciences, but not the only method. It is, however, a particularly appropriate one for economics.

The natural sciences try to establish (find) order only, while the social sciences also try to establish meaning. The meaning of a human act is the meaning of that act to the actor. In the natural sciences, effects always follow causes in time, whereas in human action the "cause" of an action lies in the future: the actor expects the act to have certain consequences. We must therefore interpret actions (the observable phenomena) in light of the plans (the "web of thought") which sustain them. (A problem occurs in analyzing actions in which different actors have different meanings, e.g. in conflict situations.)

The natural sciences strive for as high a level of abstraction as possible in order to gain generality; so should the social sciences—but they must not go so far as to abstract from meaning! This is the main problem of Neoclassical economics today. As an example, in Consumer Theory we take "tastes" as given; in doing so we are abstracting from the plans and intentions of the actors.

In an historical perspective, Lachmann saw the triumph of subjective value theory 110 years ago as a success for the interpretive method. During the 1930s, the realization that diverging expectations could be a problem was another successful application of Hermeneutics. Unfortunately, a whole generation of economists have been brought up since without any interpretive skills.

Professor Lachmann identified three "destroyers" in economics: Vilfredo Pareto, Joseph Schumpeter and Paul Samuelson. He also identified three "heroes" of this century : Frank Knight, J.M. Keynes and G.L.S. Shackle. (He lauded Shackle as "the really great hermeneutical thinker of this century.") Lachmann suggested that we should tie our advocacy of Hermeneutics to the work of the three "heroes" in our efforts to make economists aware of Hermeneutics as an available alternative.

The next speaker was Professor Richard Ebeling of the University of Dallas, who gave an example of the Hermeneutical approach to economic reasoning. His topic was "What is a Price? Explanation and Understanding." The first part of Professor Ebeling's talk focused on interpretation as a search for meaning. He pointed out that in verbal communication we are able to convey meaning accurately through an iterative process aided by feedback, whereas in written communication we have only an "intention to say" which must be interpreted by the reader. The reader must look for "intentionalities" by looking at the text as a narrative, empathizing with the authors. As observers of human behavior, we have the same problem of interpreting the intentions of the actors; only by doing so can we understand the meaning of the actions.

Turning to economics, Ebeling pointed out that our explanations must start from the Logic of Choice. The price of an act is the opportunity cost, which is internal and subjective. Mental pictures of imagined possibilities are maps to action; men create their own prices. Exchanges in the market take place only after exchange takes place in the mind of each participant, i.e. "consummation [of exchanges] requires that intentionalities meet." Prices are a means for communicating your intentions to others. But market prices, rather than being signals of what actions to take, are indicators of intentions. The market process is best seen as the competitive rivalry between different interpretations of market data.

Finally, Professor Ebeling discussed the "automated" nature of our interactions with others. We learn as children to see the same meanings in objects and actions as others do. In interacting with the world on a daily basis, we rely on varying degrees of interpersonal intimacy: we build up "ideal types" of others in our minds, from the very specific ("my mother") to very general, depersonalized ones ("the bank teller", "the policeman"). These ideal types guide our expectations of how other people will act and our interpretations of their actions. As market participants, we specialize in gathering knowledge of the particulars of time and circumstance; this process entails building appropriate ideal types of others.

The final speaker of the day was Professor of Philosophy Gary B. Madison from McMaster University in Toronto. His topic was "Hans-Georg Gadamer's Contribution to Philosophy and its Significance for Economics." Professor Madison was highly critical of Professor Levine's Kantianism, and he said among other things that:

- There are no "facts in themselves"; all concepts are "theory-laden". There is no "truth out there" in the social sciences.
- All understanding and knowledge is "intersubjective," dependent on "consensus." Objectivism is "methodological naivete."
- There is no such thing as a "correct" or a "best" hypothesis, even in the natural sciences; at best one hypothesis may be more "persuasive" than another.
- If we have to give up reality and knowledge, so much the better.
- If there were such a thing as "economic reality," there would be no need for entrepreneurship.
- Statistics are not natural, objective data: they are not facts but interpretations of facts.
- Invoking Hayek, he referred to meaning as "a result of human action but not of human design."
- He denied that institutions are merely the total sum of individual actions : "the whole is more than the sum of its parts."
- Man is an interpretive animal who constantly interprets himself to himself.

An Evaluation

Both during the conference and in later discussions, certain questions regarding the nature of Hermeneutical philosophy and its relation to Austrian economics and to economics in general have presented themselves. In the spirit of dialogue we list some of these questions below, in the hope that they will generate debate and perhaps some clarification. We are of course aware that a one-day conference is hardly enough time to "learn the language" of a new and complex subject. We therefore invite comments and criticism of this review.

The first point to be raised must be that no clear definition of "Hermeneutics" was offered at the conference; we had to infer from the presentations that it has something to do with 'a concern with "Interpretation" as a method.' Also, as was evident from Professor Levine's talk, there are several different brands of Hermeneutics available today, some of which do not go well together. We were not told which ones we are to accept into Austrian economics (although at the Saturday discussion, most of the GMU economists present disavowed Deconstructionism).

We appreciate the concern which the sponsors of the conference have for replacing mechanistic, mathematical positivism with a more fruitful approach in economics. However, we are not sure to what extent Hermeneutics provides us with useful insights not already stated by Menger, Mises, or Hayek. Nor is it quite clear to us exactly what the much talked about "interpretive skills" consist of; one could easily get the impression that they are somehow inversely related to the use of mathematics—but surely that is not all?

One distinction that was not clearly made and which therefore confused some of the discussion is the distinction between "meaning" and "significance." The insight that human actions can only be understood in light of the plans of the actors, the "web of thought" that sustains them, is undeniably crucial to economic science. But asking for the "meaning" of a market price is to wipe out completely Hayek's distinction between intended and unintended consequences of human action.

By definition, the "meaning" of an action is to be understood in terms of the actor's plans. Observing an individual act, we can attempt to deduce its meaning in light of what we know about the actor and his possible plans. His act will also have significance to us, in the sense that it may cause us to alter our own plans. Market data, however, cannot have any meaning (unless we posit, with Bishop Berkeley, a God of the Market as the ultimate Actor and provider of Meaning). They do, however, have significance to the extent that they impinge on the plans of individual actors.

If, on the other hand, we are asking for the meaning of an individual price (bid or asked), it is difficult to see how Hermeneutics can give us general economic insights beyond what is already offered by Praxeology (or by Neoclassical economics, for that matter). One can too easily get lost in psychologizing about the mental states of individual actors.

A debate has been going on for many years among Austrian economists over whether the supposed Kantianism of Mises or the Aristotelianism of Menger and Rothbard is the better foundation for economics. But Professor Madison wants to do away with foundations altogether! As the quotes show, he wants to throw reality and knowledge out the window; he held that all knowledge is "intersubjective" and subject to "consensus."

We are puzzled. Are we to understand that truth is to be determined by majority vote, and that reality is something we ourselves create in our own minds? If so, what is left of economics as a science—is science even possible or meaningful under such a view? Furthermore, it is not clear on this view by what standards we can argue that Hermeneutics is "better" than, say, Positivism. Professor Madison's answer was that theories must be judged on their "persuasiveness." But surely this merely begs the question. For what is the standard for persuasiveness when references to the real world are ruled out? We suspect that the field is left wide open for demagoguery.

Common to many Hermeneuticians seems to be the idea that "all is text." Professor Levine warned against the "slippery slope" toward subjectivism to which the epistemological problems inherent in such a view can lead. In her opinion, interpretation of literature is not a good model for economic method. We concur.

At this point, we should perhaps emphasize that we are not finding fault with the methodological subjectivism which is the hallmark of good economics, but rather with the psychological and philosophical subjectivism propounded by some of the speakers.

This philosophical subjectivism has implications for the Hermeneuticians' insistence that more "dialogue" will contribute to better understanding and hence to better theory. As Professor Levine put it, "Are we talking about reality or are we talking about talking?" When objective reality is ruled out, and truth-by-consensus is asserted, we are at a loss to see why dialogue would not degenerate into pointless language games—meaningful dialogue is quite simply impossible. If economics is to amount to more than just talk, to more than sitting around the camp fire telling tall tales to each other, we must have some notion of concepts having referents out there in the real world. But this seems to be what Professor Madison wants to rule out!

It is not clear to us in what sense the use of natural language is more useful or "meaningful," if such language is just as far removed from reality as the mathematical theorizing it is supposed to replace. We find the distinction made between natural language and mathematics to be confusing and unwarranted. It is the quality of the thought expressed, and not its mode of expression, that should concern us. The use of mathematics in economic theorizing has limited usefulness because human action is devoid of quantitative relationships—not because mathematics is "unnatural" because Man invented it, as was suggested at the conference. The utility of natural language, if used properly and with precision, is that it aptly describes economic phenomena—not that it conveys more than the author intended. Natural language has no advantage over mathematics if it is used improperly, as when the author is mistaken in his ideas, or fails to convey them clearly to his readers.

On a more "tactical" level, we were puzzled by the unqualified endorsements which Marx, Keynes, and Shackle seemed to be getting. It may well be that these thinkers have had some valuable insights of which Austrians can make use. But we believe Professor Barry Smith had a valid point when he reminded us that virtually all those who have embraced Hermeneutics have espoused historicism, relativism, or Marxism (or some other brand of collectivism). He suggested that this is no accident—that there is a logical link between these views and the premises of Hermeneutics. Here is another "slippery slope" to watch out for, at least if one's current leanings are toward some form of classical liberalism. Individualism in politics is normally founded on philosophical realism; philosophical subjectivism is apt to lead to collectivist politics. It was, perhaps, no accident that Professor Madison decried "unscientific adherence to laissez-faire doctrines."

In conclusion, let us say that we found the talks by Lavoie, Lachmann, and Ebeling to contain valuable insights. But we believe it would be extremely harmful to the Austrian school if Hermeneutics were allowed to take over, or even sail under, the "Austrian" flag. We are concerned with the lack of clarity of what exactly this alternative method is, and we have strong objections to the philosophical premises and other tenets that were presented. We cheerfully admit to the charge of "methodological naivete"—in our view, metaphysics and epistemology as espoused by Professor Madison must of necessity degenerate into pure nonsense.

The fundamental concern of Positivism is, after all, with reality, even if some of its current practitioners have forgotten Aristotle's dictum that the method of inquiry must be suited to the subject under investigation. We believe the Austrian school has many valuable contributions to offer to contemporary economics. It would be a shame if some Austrians are heard to assert that there are as many truths as there are interpreters. They will be dismissed by serious scholars—and rightfully so.

For those who would like to delve further into the subject matter of Hermeneutics, several working papers on Interpretation and Hermeneutics are available from the Market Process Center at George Mason University.

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are the rigidities, behavior patterns, and habituation of social classes. True freedom consists in the individual's recognition that such controls (read constraints) lead to his or her further development, progress, and preservation. Domination or compulsive controls are, of course, visited on societies from time to time (such as in evil oligarchies or dictatorships); these may not contribute to freedom or to development, but they are initiated by individual decisions as well. (They are "natural controls" gone amuck).

Wieser is explicit that although controls and institutions put a stamp upon any given age and form constraints on individuals, controls are malleable with human behavior and change over time. Leadership, which is equivalent to economic, political, and moral "entrepreneurship," creates change in all institutions and "leadership is impossible without some inequality" (1927, p. 157). Progress, further, is made possible by man's inventive spirit and action (p. 41) and institutions form and change through spontaneous action producing unconscious order. In the Figure these dynamics are represented by the reciprocal arrows from the ground in individual action to the institutional framework which are, in turn, the constraints faced by decision makers at any one time. They "react back" upon decision making as new "controls" over economic and social behavior.

A critical point in Wieser's model is that it is economic theory which illuminates sociology and not sociology which illuminates economic behavior. Individuals are, simply and in all things, maximizers of utility under constraints. Institutions and "controls" at any one time produce some given level of total utility in society. Wieser's whole canon may be interpreted within this central, organizing principle. However, my (admittedly more limited) purpose here is to show that, in working out this scenario, Wieser developed and/or contributed to economic themes which have become the warp and woof of modern Austrian concerns, as close or closer than those of Menger or Bohm-Bawerk. Consider some of these themes.

Neo-Austrian Themes in Wieser's Social Economics

Three interrelated themes in modern neo-Austrian economics have included (a) the emergence of institutions as the result of spontaneous order; (b) the depiction of competition as a rivalrous process opposed to (simply) a static model, and; (c) the key role of the entrepreneur in the economic process. These themes are clearly set out in Wieser's classic.

The Emergence and Alteration of Institutions

The idea of spontaneous order, brought to full flower by Hayek and Mises, finds its origins in the writings of both Menger and Wieser. In his *Untersuchungen* Menger observed that

> . . . natural organisms almost without exception exhibit, when closely observed, a really admirable functionality of all parts with respect to the whole, a functionality which is not, however, the result of human calculation, but of a natural process. Similarly we can observe in numerous social institutions a striking apparent functionality with respect to the whole. But with closer consideration they still do not prove to be the result of an intention aimed at this purpose, i.e., the result of an agreement of members of society or of positive legislation. They, too, present themselves rather as natural products (in a certain sense), as unintended results of historical development (1883, p. 130).

Institutions, both social and economic, are formed as the unintended result of human action. Menger's famous example of this process was a transactions cost explanation of the origin of money (1891; Jones, 1976).

Wieser accepted the kernel of this individualistic explanation but argued that it did not go far enough. With respect to the development of money, he maintained that leader-inventors of money did not dream

> . . . nor could have dreamed of a universal medium of exchange with a binding power that could compel them like all others to make use of it. The tremendous influence of the mass practice which grew up extended the final result far beyond their expectations. None of them would recognize in the final form of money an exact embodiment of their purpose. The final form of money is not a mere resultant; because of the universal social resonance that it awoke it represents a tremendous strengthening of their endeavors. . . . The mass never acts with a clear consciousness of aim. It is not teleological. Rather it follows the path of success opened by the leaders without measuring its operation. In following this course they give it the weight of their mass and release a power which produces results far beyond those set by the masses or desired by the leaders. Only a part of the force that builds social institutions is directed by purpose; the final decisive mass-influence operates beyond the purpose (1927, p. 165).

Wieser did not deny that individualistic behavior creates institutions over time. He goes further, however, to argue that institutions are an unintended presence and form constraints on maximizing behavior at any point in time. Men always make decisions in the context of institutions which are themselves only partially the result of human action. In Wieser's words, "Men always act with diverse emotions. They act under the control of the more or less felt influence of the natural controls or compulsion that give them the power or force them to decision" (1927, p. 165). Social institutions, such as the (Veblenian) interdependent tastes found within classes, constrain individual choice to a greater or lesser extent. Economic institutions, such as contracts (1927, p. 163) or price (1927, pp. 188-189) are created and developed by human action and constrain choice in the same manner. This does not mean, however, that institutions are not themselves altered through time by leadership or through entrepreneurial activity. Indeed, Wieser is emphatic that institutions are changed by new ideas and by enlightened leaders and entrepreneurs (1927, p. 166) under the ideal conditions of market freedom (1927, p. 156). Here the role of competition as rivalry is given a key role in free economic and social evolution.

Rivalrous Competition and Entrepreneurship

In a manner similar in general outlines to Professor Kirzner's recent and interesting studies (1973), Wieser developed a model of the competitive system in which competition is not depicted as a situation but as a rivalrous activity wherein the entrepreneur is the mover of the competitive process.

In Wieser's view, inequality is necessary for society to progress and all gradations of leaders may be found in society. In economic terms, entrepreneurs are those of superior abilities and creativity who are better able to utilize the competitive process to their own ends. They are followed by the masses of imitators within a regime of competition. Smithian atomism was at variance with Wieser's observations of cartel and other economic structures of his day and he sought to provide a clearer explanation. In doing so he invented a very adequate concept of imperfect competition long before Straffa, Chamberlin and Robinson.

These structures, which he called monopoloidal, were unexplainable in the atomistic, static worlds of Adam Smith and Alfred Marshall or within the static theory of monopoly. The process of competition created these intermediate (monopoloidal) structures in disequilibrium. (It is interesting that the whole concept of imperfect competition and, to a large extent, that of industrial organization, was born within the Austrian notion of a disequilibrium process.) Within Wieser's view of industrial organization, static theory was a wholly inadequate explanation of a real world in which entrepreneurial rivalry meant that competitive results are not dependent upon the number of competitors. In Wieser's words, monopoloid institutions

> have in fact traits of monopoly; they confer monopolistic power. But at the same time they are subject, in other directions, to the pressure of competition or are otherwise restricted. They are . . . intermediate forms, lying midway between monopoly and competition. Neither the theory of pure monopoly nor the theory of pure competition . . . will do them entire justice (1927, p. 221).

The significant point is that in these monopoloidal forms—even trusts or cartels—effective competition as rivalry flourishes. The steel trust, for example, was clearly constrained by limit pricing and by cartel-busting entrepreneurs in a dynamic environment of cost and demand changes over time (1927, pp. 226-227 et passim). Indeed, rivalrous competition is the key to understanding the whole market system:

> . . . competition . . . exercises so great an effect as, even under modern conditions, to entitle it to be classed among the most important social economic forces. . . . [I]t performs even to-day the functions of personal selection; peasant against peasant, master-mechanic against master-mechanic, large entrepreneur against large entrepreneur, each is weighed and measured, approved or condemned in the fierce struggle of competitive conflict. . . . No economic order, without suffering very great disadvantages, may dispense with the use, in one way or another, of the supreme power of competition towards social success (1927, p. 211).

What form does this entrepreneurial activity take? Most individuals, according to Wieser, are conditioned by the force of habit—"so long as they are able, they stick to the accustomed place in life, rather than exert the effort required to gain new vantage points" (p. 208). The entrepreneur, in contrast, is one who correctly predicts the prices and activities of input suppliers, who "has properly estimated the conditions of the demand and divined economic changes that still lie in the future" (1927, p. 208). The entrepreneur is a leader who sets the "masses" in motion with "new methods, new products, new territories, new points of departure." Monopoloidal structures are only the temporary result of competitive (i.e., entrepreneurial) activity which, along with constantly evolving technology and market conditions, engenders new rivalry which destroys any temporary advantages that may accrue to the innovating individuals or firms. In this Schumpeterian stance, Wieser more than hints at the fact that a noncoerced competitive system acts more perfectly than any other in creating a fluid environment for entrepreneurship as the modus operandi of economic progress (e.g., pp. 156-159).[4] It is hardly worth mentioning that these views of competition and of the role of the entrepreneur are at the core of certain critical areas of neo-Austrian economics.

Conclusion: Wieser as Visionary

These insights, which have here only been given cursory coverage, lead me to believe that Wieser was much more than a "crank sociologist" in his attempt to blend economic theory with institutions and general social science.[5] I see Wieser's life-work as a quest for an understanding of the origin and development of institutions. The writings of Spencer, Darwin and Veblen only reinforced his belief that institutional change was important to welfare and was in need of an explanation. What better foundation for an explanation than the Austrian theory of subjective value? This theory, when combined with a dynamic theory of competition and entrepreneurship, provided a perfectly adequate description of European institutions, circa 1914.

Wieser's special insight was that self-interested, utility-maximizing behavior created and altered institutions along semi-predictable lines. These institutions, in turn, constrained future economic actors until forward-looking and creative leader-entrepreneurs were able to break out of the mold to alter institutions once more. Wieser's *Social Economics* is nothing less than an elegant intertemporal model, along the lines of that recently set out by North and Thomas (1973), wherein Austrian economic theory—much of it developed by Wieser himself—is set to the task of unifying a disequilibrium discussion of social and economic development. Self-interested, utility-maximizing motives are at the core of the explanation of social and political, as well as strictly "economic" institutions.

Wieser's great work is, in my opinion, one that should be read from the vantage of the above interpretation and, in the sentiments of Wieser's student Oskar Morgenstern, it should be read more than once. Stigler, I believe, failed to appreciate the architecture of Wieser's virgin and perfect state which he used only as a point of reference to discuss institutional change. Likewise, Mitchell preyed upon what seemed to be an "interventionist position" in Wieser's institutional descriptions, a position which ignores Wieser's ever-insistent desire to maintain inherited property rights systems. The solution, I maintain, is to let Wieser speak for himself as a theorist of institutional change. Within this framework, further, Wieser's role as a bridge to modern Austrian economics is evident.

Footnotes

[1]Returns to factors in this system are necessary payments but are not necessary receipts. The market, in other words, must be used in order to arrive at an efficiency calculation (see *Natural Value*, 1889, p. 63).

[2]It goes without saying that Wieser was in part elaborating (from Menger) a utility-based refutation of the labor theory of value (e.g., 1889, pp. 65-66).

[3]It is possible that Wieser's choice of terminology has clouded the interpretation of his work. Consider his use of the terms "leadership" and the "masses"—terms which might seem indicative of a collective interpretation of society or history. Actually Wieser appears to have meant only "innovator" or "entrepreneur" by the term "leader" and "competitive imitators" by the term "masses." His tastes in music paralleled his theory of societal progress. Morgenstern told me that Wieser was an avid opera buff and that he accompanied the Wieser's to performances of Wagnerian favorites (Wagner was also Jevons' favorite composer). Sigfried might well have been a mythological model for Wieser's real-world leader-entrepreneur.

[4]Schumpeter argues (1942, pp. 88-99 et passim) that market forces and private contracting are sufficient to check costly introductions of technology and to promote maximum economic growth (see Boudreaux and Ekelund, 1986). Also see Bohm (1985, p. 255), who suggests a connection between Wieser and Schumpeter.

[5]In addition to discussion of the impact of certain social institutions upon "optimal" economic decision making, there are a number of interesting observations in Wieser's analysis respecting the impact of anthropology and racial traits upon economic outcomes (e.g., 1927, pp. 159-60).

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Murray N. Rothbard on Hermeneutics

Ludwig von Mises—in his person, his politics, and his methodology—was the epitome of principle. His personal warmth did not prevent him from being an uncompromising champion of laissez-faire, liberty, and the absolute truth of economic law. He was therefore criticized as "intransigent," "dogmatic," and "doctrinaire."

His sort of stance is as unfashionable in academia as it is in Washington, and that is why some Austrian economists have sought to lead us away from Mises. Their latest attempt involves the fuzzy-minded Continental horror known as hermeneutics.

In the old days, "hermeneutics" meant the discipline of interpreting the Bible. The meaning has been changed during the twentieth century, largely by the German philosopher Martin Heidegger, his student Hans-Georg Gadamer, and French nihilists Paul Ricoeur and Michel Foucault. It has swept the field of literary criticism as "deconstructionism," thanks to the Yale English faculty, and has penetrated deeply as well in philosophy, sociology, political science, history, and now—some hope—in economics.

The best way to think of this murky crew is that they talk and write like villains in an Ayn Rand novel: "There is no reality," "every man creates his own reality", "there is no truth." However, Randian villains proclaimed their views with clarity. The hermeneuticians are a fetid bog, a miasma of jargon-ridden incoherence. There can be no style worse than the incomprehensible thicket of heremeneutical prose. If, as I believe, the style reflects the thought, and if clarity and lucidity are to be cherished, then we know how to treat hermeneutics.

The definitive word on all such gabble was written by H.L. Mencken in his classic demolition of Thornstein Veblen, in a sense an early hermeneutician and an institutionalist opponent of economic law. What was remarkable about Veblen's ideas, Mencken wrote:

> was the astoundingly grandiose and rococo manner of their statement, the almost unbelievable tediousness and flatulence of the gifted headmaster's prose, his unprecedented talent for saying nothing in an august and heroic manner . . .
>
> Marx, I daresay, had said a good deal of it long before him, and what Marx overlooked had been said over and over again by his heirs and assigns. But Marx, at this business, labored under a technical handicap; he wrote in German, a language he actually understood. Prof. Veblen submitted himself to no such disadvantage. Though born, I believe, in these States, and resident here all his life, he achieved the effect, perhaps without employing the means, of thinking in some unearthly foreign language—say Swahili, Sumerian or Old Bulgarian—and then painfully clawing his thought into a copious and uncertain but book-learned English. The result was a style that affected the higher cerebral centers like a constant roll of subway expresses. The second result was a sort of bewildered numbness of the senses, as before some fabulous and unearthly marvel. And the third result, if I make no mistake, was the celebrity of the professor as a Great Thinker.*

Indeed, one of the hermeneutician's great heroes is Karl Marx. As Professor Barry Smith, an English philosopher and adherent of Austrian economics, pointed out at a recent George Mason University hermeneutics conference, every leading hermeneutician has been a collectivist. In fact, on the Continent, hermeneutics arose in the twentieth century as a fallback position for Marxists.

Since no one could defend the labor theory of value or other "classical" Marxist tenets any more, the "hermeneutical" Marxists declared that the important point is that there is no truth, there is no economic law. Therefore, what counts is every man's interpretation, which create reality, and which is a matter of personal esthetics. Our personal esthetics tell us that capitalism is unlovely, and that socialism will be beautiful!

And if there is no truth or economic law, there is no bulwark from which to resist the State. Martin Heidegger, the father of hermeneutics, found it easy to become an enthusiastic Nazi.

If there is no moral or economic law, what then is the argument against statism? Only one: that no one knows anything, and that government knows even less. Somehow, this strikes me as a weak reed in the defense of liberty. After all, government can also "interpret" and make its own reality.

Unlike Mises, the new hermeneuticists can never be accused of dogmatism (except for the dogmatic view that there is no truth). Their proclaimed strategy is Dialogue With Everyone (except with Misesian dogmatists, of course). Since there is no truth, everyone may as well engage in endless dialogue with everyone else. (But if all truth is subjective to each individual, why bother with dialogue?)

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*H.L. Mencken, "Professor Veblen," *A Mencken Chrestomathy* (New York: Knopf, 1949), 270.